

OFFICE OF
THE PARLIAMENTARY BUDGET OFFICER



BUREAU DU
DIRECTEUR PARLEMENTAIRE DU BUDGET

Expenditure Monitor: 2014-15 Q2

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The mandate of the Parliamentary Budget Officer (PBO) is to provide independent analysis to Parliament on the state of the nation's finances, the government's estimates and trends in the Canadian economy; and upon request from a committee or parliamentarian, to estimate the financial cost of any proposal for matters over which Parliament has jurisdiction.

This note analyses implementation of the Government's spending plan presented in Budget 2014, over the first half of the year.

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The Bottom Line

- This year, ongoing federal spending cuts jumped \$3.8 billion to \$14.6 billion.
- Spending levels for the first six months of the year reflect this restraint. The broadest measure of government operating spending – Direct Program Spending (DPS) - is 2.3 per cent lower in the first half of 2014-15 compared to last year.
- Notwithstanding ongoing spending restraint, the Government indicates that the overall program performance is slightly improved following the Budget 2012 cuts, with 46 per cent of performance targets being met in 2013-14, compared with 42 per cent in 2011-12.
- Due to the Government’s refusal to share essential data, the PBO is unable to determine if these short-term results are sustainable over the longer term.
- Almost 30 per cent of the Government’s targets, representing \$80 billion of spending, could not be evaluated, due to a lack of quantifiable data/evidence to evaluate against the stated objective.
- The Government reported the greatest change in the first half spending in the area of “International Affairs”, attributable to lower spending on “Global Poverty Reduction”, as a result of delays in transferring money to aid groups.

1 Context

Each year, Parliament endorses the Government’s fiscal and economic strategy outlined in the Budget. This strategy is then implemented through the appropriation bills and other enabling legislation, such as Budget Implementation Acts.

Since 2010, the Parliamentary Budget Officer has monitored the implementation of the Budget and spending among the Government’s roughly 400 programs to analyse:

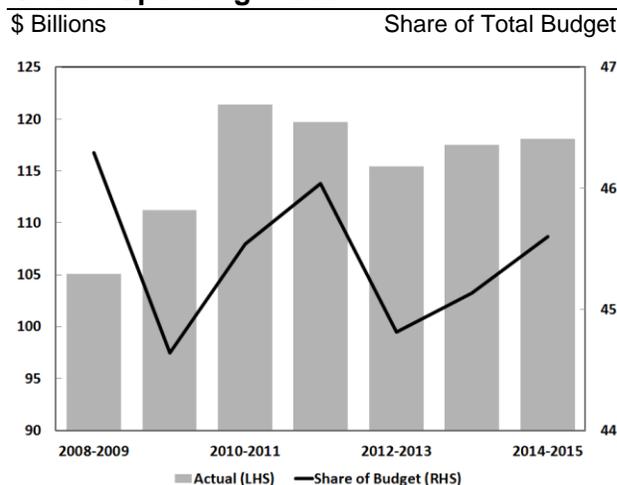
- Whether the Government is on track to implement its overall spending commitments for the current fiscal year; and,
- Where program spending is off track (that is, materially different from the plan originally presented to Parliament).

This analysis of the Government’s Expenditure Plan (also known as the Estimates) supports informed parliamentary scrutiny of spending.

2 Year-to-Date Highlights of 2014-15

Total expenditures in the first six months of 2014-15 were \$118.1 billion, an increase of \$0.6 billion year-over-year. This represents a 0.5 per cent increase compared with the same six months in 2013-14 (Figure 2-1).

Figure 2-1
Overall Spending Rises



Sources: Office of the Parliamentary Budget Officer; Government of Canada.

Note: Includes budgeted and actual spending for the Employment Insurance Account.

The Government spent slightly less than half of its planned budget in the first six months of the year. The rate at which the Government spends the funding approved by Parliament has been increasing over the past three years, as spending cuts force departments and agencies to manage their budgets more tightly.

Federal expenditures consist of four primary components: (1) major transfers to individuals; (2) major transfers to other levels of government; (3) debt servicing costs; and, (4) DPS (Figure 2-2).

Figure 2-2

Direct Program Spending and Debt Interest Costs Down in First Six Months of Year

\$ Billions	2014-15	2013-14	\$ y/y	% y/y
Total	118.1	117.5	0.6	0.5%
Direct Program Spending	41.8	42.8	-1.0	-2.3%
Transfers to persons	32.0	31.1	0.9	2.9%
Other levels of government	31.6	30.3	1.3	4.3%
Debt charges	12.7	13.4	-0.7	-5.2%

Sources: Office of the Parliamentary Budget Officer; Government of Canada.

Note: Figures may not add due to rounding.

The Government's fiscal strategy to return to balanced budgets is the targeted application of spending cuts and restraint on Government operations (that is, DPS), while leaving major transfers to other levels of government and individuals to grow in line with pre-set escalators.

Commensurate with this, major transfers were the only source of spending growth in the first six months of 2014-15, compared to the same period in the previous year. This was partially offset by planned cuts to DPS and lower debt interest charges that reflect a continuing low global interest rate environment.

Direct Program Spending

DPS is comprised of operating and capital expenditures of departments and agencies, as well as other transfer payment programs (for example, business subsidy programs) and payments to Crown Corporations.

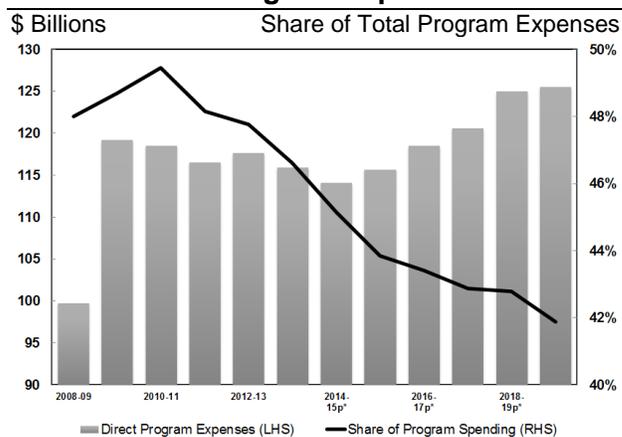
While DPS is less than half of overall federal program spending, it comprises almost 95 per cent of all federal programs. Hence, analyzing whether the Government is on track to achieve its return to balanced budgets and the consequential effect on federal programs requires careful scrutiny of this budgetary component.

According to Budget 2014 projections, total federal spending cuts are expected to grow to \$14.6 billion per year in 2014-15. This includes a further \$3.8 billion in cuts that were implemented on April 1, 2014.

As presented in Figure 2-3, the Government projects that planned cuts will constrain the growth of Direct Program Expenses (DPE) to less than 2 per cent over the medium term, pushing the DPE as a share of total Program Expenses to a historic low.¹

Figure 2-3

Government DPE Falls to Historic Low as Share of Total Program Expenses



Sources: Office of the Parliamentary Budget Officer; Government of Canada.

In the first six months of the fiscal year, DPS was \$1.0 billion lower (-2.3 per cent) compared to the same period in 2013-14 (Figure 2-4).

¹ Direct Program Expenses comprise the same spending as Direct Program Spending, but are presented on an accrual accounting basis (rather than cash accounting).

² Budget 2014. www.budget.gc.ca. Accessed December 2014.

Figure 2-4
Operating Spending Only Source of DPS Growth

	\$ Billions		\$ y/y	% y/y
	2014-15	2013-14		
Direct Program Spending	41.8	42.8	-1.0	-2.3%
Operating	24.8	24.6	0.2	0.9%
Capital	1.7	1.8	-0.1	-5.4%
Other transfer payments	12.8	13.4	-0.6	-4.4%
Payments to Crown Corps.	2.5	3.0	-0.5	-17.9%

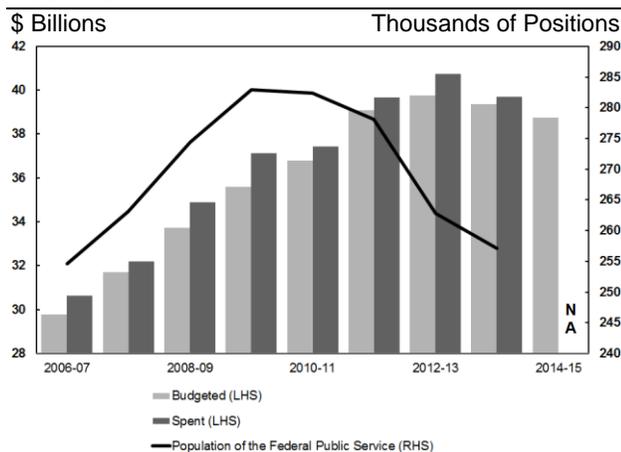
Sources: Office of the Parliamentary Budget Officer; Government of Canada.

Note: Figures may not add due to rounding.

The only source of growth in DPS is operating spending, which is \$200 million higher in the first six months of the fiscal year compared to the previous year.

Operating spending is primarily comprised of public sector salaries and, over the past few years, has been weighed down by public service layoffs (Figure 2-5). In 2014-15, operating spending received a one-time \$710 million boost from the Government's transition to a new pay system. In the absence of this non-recurring payment, operating spending would be \$500 million lower (-2.0 per cent) and DPS \$1.7 billion lower (-4.0 per cent).

Figure 2-5
Personnel Spending on Track to Hit Four-Year Low



Sources: Office of the Parliamentary Budget Officer; Government of Canada.

Through the first three months of 2014-15, spending on personnel has fallen 0.9 per cent to \$18.2 billion compared to the same period the previous year.³ Departments' and agencies' medium-term planning documents suggest a further elimination of 8,900-positions is planned over the next three years.

Service Levels

Layoffs provide the greatest certainty of realizing the savings over the short term. However, over the long term, sustainable spending reduction will require either eliminating or reducing programs and services or restructuring Government operations to provide permanent productivity improvements.

The Government has refused to release data that is necessary for the PBO to determine whether the recent spending cuts are sustainable (Box 2-6).

In lieu of this, the PBO analyses overall service levels of federal programs by reviewing the performance results attested to in Departmental Performance Reports (DPRs).

Notwithstanding the successive rounds of spending and personnel reductions over the past five years, the Government reports that the overall performance results of departments and agencies slightly improved in 2013-14 compared to previous years.⁴ As presented in Figure 2-7, in 2013-14:

- 46 per cent of targets were met or exceeded;
- 16 per cent of targets were not attained; and,
- 38 per cent of the Government's targets could not be evaluated, due to a lack of quantifiable data/evidence to evaluate against the stated objective.

³ Data collated from departments' quarterly financial reports.

⁴ Methods used to assess federal service standards are detailed in Expenditure Monitor 2013-14 Q1. http://www.pbo-dbo.gc.ca/files/files/Expenditure_Monitor_2013-14Q1_EN.pdf. Accessed December 2014. Results control for changes to performance targets from one year to the next.

Box 2-6: Why the PBO Measures Government Service Levels

Responding to a request of a parliamentarian, the PBO has asked for the service level data of Government departments, however the data has not been fully provided.

Following a Federal Court reference in 2012, the PBO subsequently issued a follow-up information request to departments and agencies that were subject to the Government's \$5.2 billion in cuts. In addition, PBO staff also filed Access to Information Requests seeking these data.

While there has been no official Government response regarding why the PBO has not been provided with the economic data to fulfill its mandate, departments and agencies have cited various reasons, including the impact of reductions in program spending being a Cabinet Confidence and/or being outside of the PBO's remit.

Given the Government's refusal to share the data essential to undertake a fiscal analysis of the Budget 2012 reductions, PBO staff have attempted to use existing public resources.

This, unfortunately, has met with limited success. While the collective service objectives for Government are outlined in each federal department and agency's respective Report on Plans and Priorities, and each organization reports actual results achieved against objectives in a corresponding Departmental Performance Report at year-end, these documents lack sufficient detail to isolate the specific impact of the Budget 2012 cuts.

While the Government reports modest improvement in meeting its performance targets, this tends to relate to smaller programs. Weighing the results by planned spending levels in 2013-14 indicates that the share of total program spending for which the majority of performance targets were "met" fell in 2013-14 to 54 per cent, below the average performance in the three prior years (Figure 2-8). This was mostly offset by a corresponding increase in the share of spending for which performance could not be conclusively evaluated, which rose from 26 to 37 per cent, or \$79 billion.

Figure 2-8

Almost \$80 Billion in Federal Spending Lacks Conclusive Performance Measures

Spending-Weighted Performance of Programs

	2010-11	2011-12	2012-13	2013-14	Average
"Met"	62%	52%	66%	54%	60%
"Not Met"	9%	14%	8%	9%	10%
"N/A"	29%	34%	26%	37%	29%

Sources: Office of the Parliamentary Budget Officer; Government of Canada.

3 Spending Trends By Policy Area

The Government's Whole of Government framework classifies all federal spending in four thematic areas (Figure 3-1):

- Economic Affairs
- Social Affairs
- International Affairs
- Government Affairs

Each of the four areas of spending are then linked to 15 discrete "outcome areas", which identify the primary objective of the spending.⁵

Figure 2-7

Government Meets Performance Targets Half of the Time

Results of Program-Level Performance Targets

	2010-11	2011-12	2012-13	2013-14	Average
"Met"	43%	42%	39%	46%	41%
"Not Met"	19%	15%	12%	16%	15%
"N/A"	38%	44%	49%	38%	44%

Sources: Office of the Parliamentary Budget Officer; Government of Canada.

⁵<http://www.tbs-sct.gc.ca/ppq-cpr/descript-eng.aspx#bm04>. Accessed December 2014.

Figure 3-1

Planned Reductions in International Affairs on Track

Spending Area	\$ millions		percentage change	
	Spending in First Six Months	Spending in First Six Months (y/y)	Spending in First Six Months (y/y)	Authorities
Economic Affairs	\$ 77,100	2%	2%	2%
Strong Economic Growth	\$ 49,280	1%	1%	1%
Income security and employment for Canadians	\$ 24,240	4%	3%	3%
An Innovative and Knowledge-based Economy	\$ 2,520	7%	5%	5%
A Clean and Healthy Environment	\$ 810	-7%	-6%	-6%
A Fair and Secure Marketplace	\$ 240	14%	6%	6%
Social Affairs	\$ 12,980	-2%	0%	0%
A Diverse Society that Promotes Linguistic Duality and Social Inclusion	\$ 4,350	-11%	-2%	-2%
A Safe and Secure Canada	\$ 4,410	8%	3%	3%
Healthy Canadians	\$ 3,190	-2%	0%	0%
A Vibrant Canadian Culture and Heritage	\$ 1,050	0%	0%	0%
International Affairs	\$ 1,780	-14%	-8%	-8%
Global Poverty Reduction Through International Sustainable Development	\$ 900	-23%	-7%	-7%
A Safe and Secure World Through International Engagement	\$ 750	-4%	-11%	-11%
A Prosperous Canada through Global Commerce	\$ 110	-6%	-3%	-3%
Government Affairs	\$ 8,940	-2%	-3%	-3%
Well-managed and efficient government operations	\$ 7,950	-2%	-1%	-1%
A Transparent, Accountable and Responsive Federal Government	\$ 630	3%	-17%	-17%
Strong and Independent Democratic Institutions	\$ 370	-5%	-9%	-9%
Department of National Defence	\$ 7,610	-9%	5%	5%
Pay Adjustment (Note 1)	\$ 710	-	-	-
Government of Canada	\$ 109,130	0%	1%	1%

Note 1: Reflects the one-time \$710 million payment for transitioning the Government's pay system.

Note 2: Spending classifications exclude the Employment Insurance Account, which the Government excludes from the "Whole of Government Framework". Finance Canada's *Transfer and Taxation Payment* program is assumed to be classified under **Economic Affairs**: Strong Economic Growth.

National Defence's program structure underwent a major realignment in 2014-15, so spending for this organization is presented separately to ensure comparability between fiscal years.

In the first six months of the current fiscal year (that is, from April to September 2014), changes in actual spending across the Government's policy spectrum was broadly consistent with the Government's spending plans.

Spending on **Economic Affairs** is up 2 per cent in the first six months of 2014-15 compared to the previous year, in line with budgeted authorities. A decline in spending on "A Clean and Healthy Environment" is offset by increases in the other four outcome areas.

Social Affairs spending is budgeted to be stable in 2014-15 compared to the previous year, but is 2 per cent lower in the first six months of 2014-15 owing to an 11 per cent decline in spending on the "A Diverse Society that Promotes Linguistic Duality and Social Inclusion" outcome.

The program driving this decline is federal support for the Canadian Broadcasting Corporation (CBC). The Government cut CBC's operating subsidy by \$115 million (approximately 10 per cent) in Budget 2012.

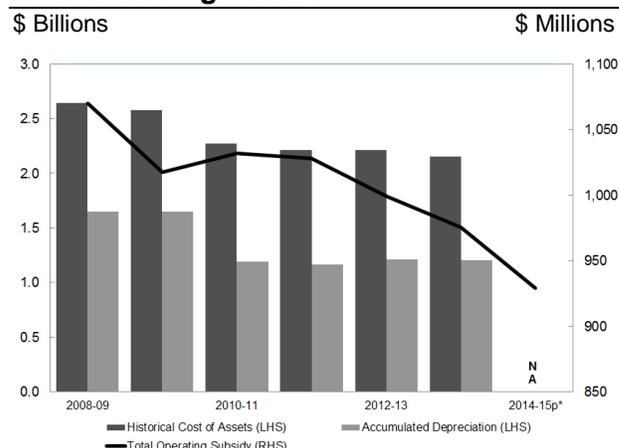
To offset this, the CBC is increasing operating revenues through non-appropriated sources (for example, advertising and subscriber fees). An additional source of recent CBC funding, however, is temporary: the sale of assets, such as the sale of CBC's partial stake in Sirius Radio for \$33 million.

This divestment is consistent with the pattern of decreasing federal funding and divestiture of "non-core" assets, as outlined in the medium-term corporate strategy. As a further part of this strategy, the CBC plans to reduce its real

estate holdings by 800,000 square feet by 2017.⁶

As presented in Figure 3-2, the total historical value of assets held by the CBC has been falling since 2008-09, in tandem with decreases in the level of operating support provided by the federal Government.⁷

Figure 3-2
CBC Shedding Assets



Sources: Office of the Parliamentary Budget Officer; Government of Canada, Canadian Broadcasting Corporation.

The Government earmarks financial support at the beginning of each fiscal year, which the CBC can drawdown as needed. Proceeds from one-time asset sales give the CBC a temporary cash infusion, which allows it to defer part of the Government's operating subsidy until later in the fiscal year. The total funding earmarked in Budget 2014 is expected to be transferred to the CBC as originally planned.

The Government has budgeted less funding for **International Affairs** spending in 2014-15, compared to the previous year (-8 per cent).

⁶ <http://www.cbc-radio-canada.ca/files/cbcr/documents/corporate-plan/corporate-plan-summary-2014-15-2018-19.pdf>. Accessed December 2014.

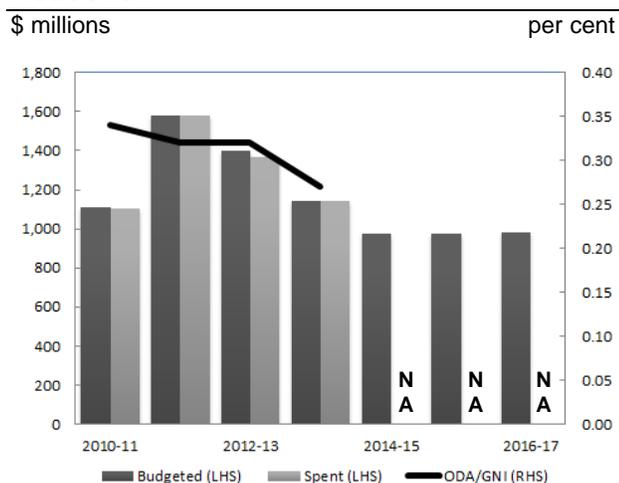
⁷ Valuations of property and equipment held by the Canadian Broadcasting Corporation are sourced from the book values presented in their annual financial statements.

In the first six months of the year, actual spending shrank more than anticipated due to a 23 per cent decrease in the “Global Poverty Reduction Through International Sustainable Development” outcome.

The Department of Foreign Affairs, Trade and Development’s (DFATD’s) Global Engagement and Strategic Policy Program is primarily responsible for the higher than anticipated decrease, which is mainly due to agreements ending in 2014, timing differences of disbursements, and decreased payments to the International Financial Institutions.⁸

Funding for this program has fallen over the past four years (Figure 3-3). As a consequence, according to the Organisation for Economic Co-operation and Development (OECD), Canadian overseas development assistance (ODA) as a share of Gross National Income (GNI) has decreased in turn – from 0.34 per cent in 2010-11 to 0.27 per cent in 2013-14. Planned spending decreases in 2014-15 mean that this ratio will fall further.

Figure 3-3
Less Money Budgeted For Global Poverty Reduction



Sources: Government of Canada, Office of the Parliamentary Budget Officer, OECD.

⁸http://www.international.gc.ca/finance/qfr-rft/qfr-rft_2014-2015_q2.aspx?lang=eng. Accessed December 2014.

Spending on **Government Affairs** fell 2 per cent in the first six months of 2014-15, compared to the same period in the previous year. While the overall trend is generally consistent with the budgeted cuts (-3 per cent), spending in one of the three outcome areas, “A Transparent, Accountable and Responsive Federal Government”, rose in the first half of the year, compared to a planned decrease of 17 per cent.

Spending growth is primarily attributable to Employment and Social Development Canada’s (ESDC’s) Citizen-Centred Service program, which leads in the front-line delivery of administrative services to Canadians, such as Employment Insurance. According to the department’s Report on Plans and Priorities, this program aims to improve and integrate Government service delivery by providing Canadians with a one-stop, easy-to-access, personalized service in person, by telephone, on the Internet and via mail.⁹

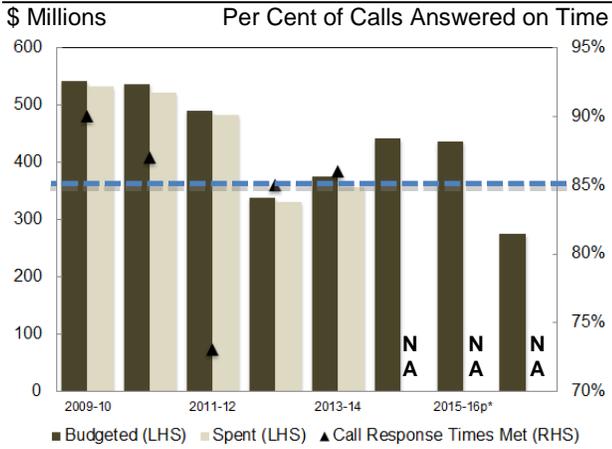
Consolidation of federal administrative operations is a key pillar of the Government’s strategy to reduce operating costs without impairing service delivery. Over the past year, the Citizen-Centred Service program administered routine passport applications and renewals.¹⁰

According to ESDC’s 2014-15 Report on Plans and Priorities, the consolidation of passport services is principally responsible for spending growth in 2014-15, as these services were previously included in a separate program activity (Figure 3-4). This followed a significant cut in the program’s budget, which was due, in part, to spending cuts announced in Budget 2012.

⁹http://www.esdc.gc.ca/eng/publications/rpp/2014_2015/section2_shtml#h2.4. Accessed December 2014.

¹⁰Resources of \$166 million (excluding employee benefit plans costs) for passport services, including 2,428 FTEs. http://www.esdc.gc.ca/eng/publications/quarterly/2014/sept/index_shtml. Accessed December 2014.

Figure 3-4
Consolidation of Federal Service Delivery
Continues



Notwithstanding the budget cuts implemented in 2012-13 and 2013-14, the Government reports that actual performance in this program improved, with calls being answered within the targeted time limit 86 per cent of the time.

Sources: Office of the Parliamentary Budget Officer;
 Government of Canada.