OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
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The Government's Expenditure Plan and Main Estimates for 2019-20

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The Parliamentary Budget Officer (PBO) supports Parliament by providing economic and financial analysis for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

This note examines the federal government's Expenditure Plan and Main Estimates for 2019-20, which supports the second appropriation bill that will seek Parliament's approval of $125.7 billion.

Lead Analyst:
Jason Stanton, Financial Analyst

This report was prepared under the direction of:
Jason Jacques, Senior Director

Nancy Beauchamp, Jocelyne Scrim and Rémy Vanherweghem assisted with the preparation of the report for publication.

For further information, please contact pbo-dpb@parl.gc.ca

Yves Giroux
Parliamentary Budget Officer

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Executive Summary

The Government's Main Estimates for 2019-20 outline $299.6 billion in total budgetary spending authorities. This represents an increase of approximately $23.7 billion (8.6 per cent) compared to the total budgetary authorities identified in the 2018-19 Main Estimates, and an increase of $9.4 billion (3.2 per cent) in comparison to the 2018-19 Estimates to date. Parliament is responsible for voting on $125.6 billion of this money.

Budgetary statutory authorities are projected to be $174.0 billion in 2019-20, which is an increase of $10.9 billion (6.7 per cent), compared to the estimated statutory spending in the 2018-19 Main Estimates.

Elderly Benefits, which is the largest major transfer to persons, are forecast to increase by $2.5 billion (4.7 per cent) from the 2018-19 Main Estimates. The Gas Tax Fund and the Canada Health Transfer (CHT) account for two of the most significant increases in major transfers to other levels of government. They are forecast to increase by $2.2 billion (100 per cent) and $1.8 billion (4.6 per cent), respectively.

The Government made significant changes to the Estimates process last year with the goal to better align the Estimates with the Budget. It delayed the tabling of the Main Estimates by several weeks to include Budget measures via a new Treasury Board managed central vote. However, this resulted in parliamentarians voting on items which had not gone through the TB submission process, and only being referred to one parliamentary committee.

To address concerns raised by parliamentarians last year, the 2019-20 Main Estimates eliminates the central vote, instead creating individual votes within departments and agencies for Budget 2019 measures. This is an improvement as it allows different parliamentary committees to examine these measures, as well as permit parliamentarians to vote on the specific measures, rather than one central vote.

While these are important improvements to the process, it does not address the issue of parliamentarians voting on items which have yet to be scrutinized or refined by the Treasury Board. Therefore, parliamentarians will still be asked to approve Budget 2019 measures without having complete information on these new measures.

It is ultimately up to parliamentarians to decide whether these procedural improvements outweigh the loss of some financial precision in order to help the Government expedite the implementation of Budget measures.

1. Introduction

The Government is required to receive either voted or statutory authority from Parliament to spend money from the Consolidated Revenue Fund. Voted authorities are approved annually by Parliament through an appropriation bill, while statutory authorities have already been approved through previously adopted legislation, such as Old Age Security benefits paid under the authority of the *Old Age Security Act*.[1]

The 2019-20 Main Estimates support the second appropriation bill for the current fiscal year. It follows the 2019-20 Interim Estimates, which were tabled in Parliament on January 28th, 2019, to ensure sufficient spending authorities are available for the start of the fiscal year. Historically, these first two appropriation bills seek authority for most of the total spending in the given year.

The Main Estimates also include forecasts of statutory authorities for information purposes only. They represent 58.1 per cent of the total budgetary authorities for 2019-20, while the remaining 41.9 per cent require parliamentary approval through appropriation bills. The proportion of money requiring Parliament's annual approval has consistently increased over the past three years.

1.1. Expenditure Plan and Main Estimates – Overview

The Government's Expenditure Plan and Main Estimates for 2019-20 outline $299.6 billion in budgetary spending authorities, as well as an overall increase of $2.2 billion in the value of non-budgetary loans, investments and advances (Table 1-1). Of the budgetary total, $125.6 billion relates to authorities to be voted by Parliament.

Table 1-1 The Government's expenditure plan

($ billions)	**Budgetary**	**Non-Budgetary**	**Total**
Voted	125.6	0.1	125.7
Statutory	174.0	2.1	176.1
Total	**299.6**	**2.2**	**301.8**

Source: Main Estimates 2019-20.

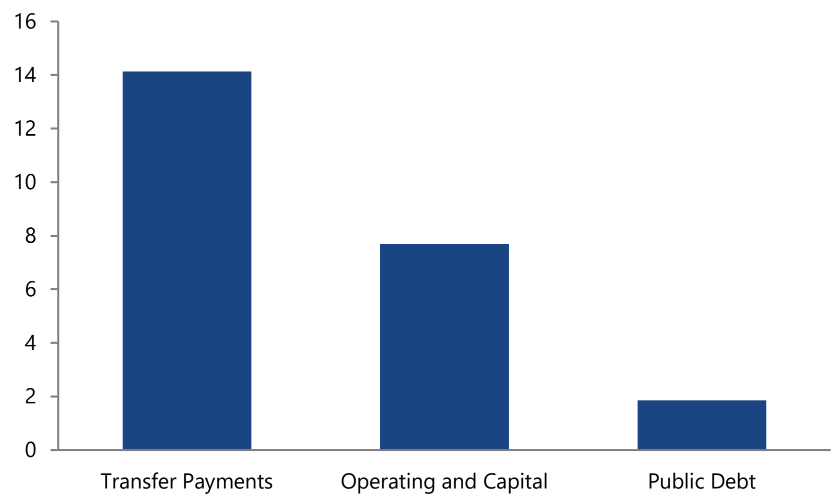
The total budgetary authorities of $299.6 billion represent an increase of approximately $23.7 billion (8.6 per cent) compared to the total budgetary authorities outlined in the Main Estimates 2018-19. When compared to Estimates to date in 2018-19, the increase is $9.4 billion (3.2 per cent). This growth is consistent with the fiscal plan outlined in Budget 2019.

The 2019-20 budgetary authorities will rise with anticipated funding requests in Supplementary Estimates A and B.

As shown in Figure 1-1, more than half of the $23.7 billion increase in budgetary authorities from the 2018-19 Main Estimates stems from transfer payments, which are up by $14.1 billion (8.3 per cent). Budgetary authorities for operating and capital have increased by $7.7 billion (9.3 per cent), while public debt charges have increased by $1.9 billion (8.1 per cent).

Figure 1-1 Composition of changes in budgetary authorities (year-over-year)

$ billions



Source: Treasury Board of Canada Secretariat, 2019-20 Main Estimates.

Note: The figure compares the 2019-20 Main Estimates to the 2018-19 Main Estimates.

The largest major transfer to persons, Elderly Benefits, is forecast to increase by $2.5 billion (4.7 per cent) from the 2018-19 Main Estimates projection to $56.2 billion. The Gas Tax Fund and the Canada Health Transfer (CHT) account for two of the most significant increases in major transfers to other levels of government. The Gas Tax Fund is forecast to increase by $2.2 billion (100 per cent) to $4.3 billion, while the CHT is forecast to increase by $1.8 billion (4.6 per cent) to $40.4 billion.

The value of non-budgetary authorities has increased from the previous Main Estimates by $1.6 billion. Canada Mortgage and Housing Corporation and Employment and Social Development Canada account for almost all of it, with increases of $1.2 billion and $0.3 billion, respectively. This is primarily due to advances under the *National Housing Act*, as well as loans dispersed under the *Canada Student Financial Assistance Act*.

2. Estimates Reform

2.1. Changes in 2018-19

The Government made significant changes to the Estimates process in 2018-19, with the goal to better align the Estimates with the Budget. The changes to Standing Order 81, which was approved by the House of Commons, delayed the tabling of the Main Estimates by several weeks in order to allow measures announced in the budget to be included in the Main Estimates.[2] This, in turn, required the Government to table an “Interim Estimates” to ensure it had funding to begin the fiscal year. It also eliminated the need for a spring supplementary estimates.

In addition to the changes to the timing of the Main Estimates, there were also notable changes to its composition. The 2018-19 Appropriation Bill #2 introduced a new central vote within the Treasury Board of Canada Secretariat (TBS), TB Vote 40, which totalled $7.0 billion for the implementation of Budget 2018 spending measures. The primary purpose for this was to “include 100% of Budget 2018 incremental spending measures, improving Budget-Estimates alignment and eliminating some of the time lag between announcement and implementation of programs.”[3]

In the 2018-19 Main Estimates report, PBO highlighted that parliamentarians would need to determine if they would be willing to accept weaker spending controls and incomplete information to help the Government expedite the implementation of Budget measures.

With respect to the former, it was unclear whether the initial proposed wording of the central vote restricted the Government from changing allocations across any initiative mentioned in Budget 2018. The Government subsequently made changes to the wording of the vote in the Appropriation Bill to ensure that this would not happen.

With respect to the latter, virtually none of the money requested in the central vote had been scrutinized through the standard Treasury Board submission process, which the Government states is necessary to “ensure resources are directed to programs and activities that remain government priorities and achieve value for money."[4]

2.2. Changes in 2019-20

As described above, the 2018-19 Main Estimates included all Budget 2018 measures in one central vote, TB Vote 40. The 2019-20 Main Estimates has made some improvements compared to the previous year. Each voted budgetary measure identified in table A2.11 in Budget 2019 now has an individual vote within the specific department or agency. This is an improvement in two ways:

- It will allow multiple parliamentary committees to examine these measures, whereas in 2018-19, they were all included in the central vote within TBS, and therefore was only referred to the House of Commons Standing Committee on Government Operations and Estimates.
- Parliamentarians can now vote on the amounts for specific Budget measures. Prior to 2018-19, when the measures appeared in the Supplementary Estimates, they would be identified as a Budget measure; however, parliamentarians would not be voting on that specific amount, as it would be included in the Appropriation Bill under, for example, operating, capital, or transfer payments.

While these are positive changes, it does not fully address the issues raised regarding the changes in the Estimates process. Parliamentarians will still be required to vote on Budget measures which have not gone through the TB submission process prior to the Main Estimates being tabled in the House of Commons.

By the Government's own admission, one of the key roles of the Treasury Board (TB) is to act as an "expenditure manager", as "it examines the proposed spending plans of government organizations before they are tabled in Parliament (e.g., Estimates), and reviews program spending in the government to ensure resources are directed to programs and activities that remain government priorities and achieve value for money."[5]

As noted in previous PBO reports, there are often significant differences between the money announced in the Budget versus what is ultimately approved by Treasury Board and presented to Parliament for its review. PBO tracked the spending measures identified in Budget 2016 through the 2016-17 estimates and found that 31 per cent of these measures had variation, both higher and lower, compared to what was initially indicated in the budget.[6] This suggests that TB provides meaningful, value-added review of planned Government spending.

For the Budget 2018 measures, the most recent update indicates that the TB approved and allocated $4.8 billion of the $7.0 billion, which is spread over 126 measures. An additional $1.9 billion has been withheld by TB, and $0.3 billion has yet to be allocated.[7,8] While some of the items that were withheld have been re-submitted to Parliament through the Supplementary Estimates, it does indicate that not all the details were fully developed or verified at the outset when parliamentarians were required to vote.

Parliamentarians also raised concerns at the Government Operations committee regarding departments' ability to speak to planned resources and results for the new Budget measures.[9] As many of the items had not gone through TB, or even the submission had not yet been developed, parliamentarians were asked to approve these measures without receiving this information. Given that many of the Budget 2019 measures have not yet been approved by TB, it remains to be seen whether this will improve in the upcoming committee meetings.

In summary, it is clear the Government has taken steps to improve the Estimates process from the previous year; however, there are still changes which could be made to further improve parliamentarians' oversight role in scrutinizing government spending. It is ultimately up to parliamentarians to decide whether these improvements are sufficient to outweigh the drawbacks of incomplete information in order to help the Government expedite the implementation of Budget measures.

As highlighted in previous PBO reports, a significant part of Budget implementation delays stem from the Government's own internal processes. Were these to be streamlined, the Government would be able to spend money more quickly, without the need for Parliament to forego information. It is unclear what the Government intends to do to address this issue.

2.3. Alignment with Departmental Plans

The 2019-20 Departmental Plans (DPs) were also tabled in Parliament on the same day as the Main Estimates. DPs, along with the Departmental Results Reports (DRR), combine to represent Part III of the Estimates.

DPs are considered as the department's annual expenditure plan which highlights its priorities, planned results, as well as required resources for the upcoming three fiscal years. These documents are prepared by each individual department and agency and are tabled by the President of the Treasury Board on behalf of the Ministers responsible for those organizations.

As part of the Government's four-pillar plan to change the Estimates process, Pillar 4 focuses on improving the annual departmental reports (DPs and

DRRs) so that "parliamentarians are provided with better information on planned spending, expected outcomes and actual results."[10]

PBO reviewed the 2019-20 DPs for all departments which have planned spending in the current fiscal year for measures identified in Table A2.11 in Budget 2019. While a few departments provided some information on their Budget 2019 initiatives in the text of their DPs, the majority of departments did not provide any details on these measures.

With respect to planned departmental resources, none of the DPs included the Budget 2019 measures in their planned spending or planned employee figures. In 2018-19, all of the Budget 2018 measures were included in the main estimates figures in TBS' departmental plan, as they were within TB Vote 40; however, the Budget measures were not reflected in the employee figures.

PBO was also unable to identify any results information related to Budget 2019 measures in the DPs.

3. Major Expenditures

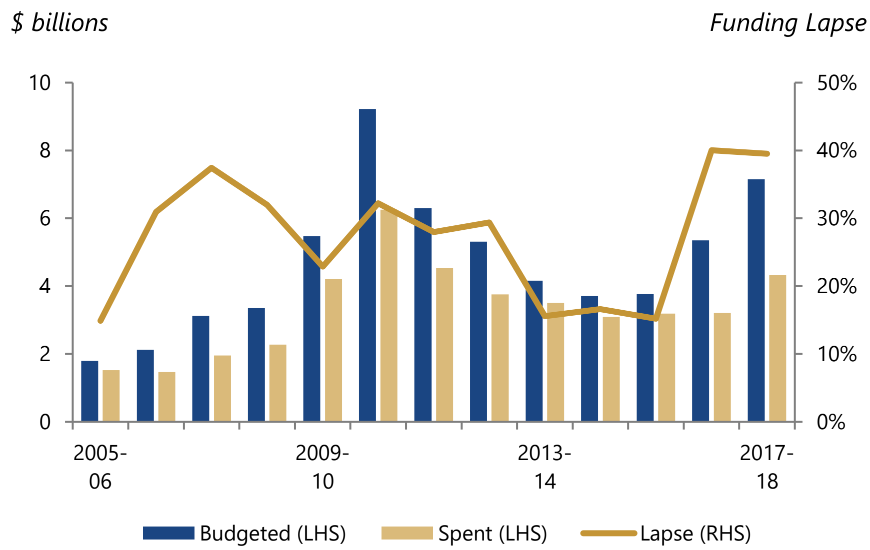
3.1. Infrastructure Spending

Infrastructure Canada is responsible for one the largest increases in discretionary spending in these Main Estimates. The organization's budget is set to rise from $6.2 billion to $10.7 billion, representing a 75 per cent increase from the previous year's Main Estimates. Almost half of this increase is attributable to the one-time boost in the Gas Tax Fund announced in Budget 2019 ($2.2 billion). There are also substantial increases in planned spending in the Public Transit Infrastructure Fund ($0.8 billion), Clean Water and Wastewater Fund ($0.5 billion), New Building Canada Fund ($0.4 billion) and other initiatives ($0.5 billion).

The new money was originally earmarked in Budget 2016 as part of the Investing in Canada Plan, which provides $120 billion for infrastructure projects over 10 years.[11] Planned spending is cost-shared with provinces, territories and municipalities. At the time, the Government indicated that the policy objective for the program is to "boost demand in the short term and lay a solid foundation for long-term growth".

As noted in previous PBO reports, actual spending by the Government has lagged its original plan (Figure 3-1).[12] In the past two years (2016-17 and 2017-18), the Government failed to spend about 40 per cent of its planned infrastructure budget. While this money was pushed to future fiscal years, it did diminish the intended short-term boost in demand.

Figure 3-1 Infrastructure Canada Spending



Source: Public Accounts of Canada.

The lapse rate is likely to decrease in 2019-20 owing to a shift toward greater reliance on the Gas Tax Fund, which proactively provides money to other governments (rather than requiring an application process). Infrastructure Canada also indicates that they are attempting to expedite the existing reimbursement process, thus ensuring that federal spending is more tightly linked with actual construction activity.[13]

Evaluating whether the new money for infrastructure will achieve its intended policy objective is still a work in progress. As noted in recent PBO reports, there is some evidence that additional federal spending has been offset by retrenchment by provincial and territorial governments.[14]

Up to this point, most of Infrastructure Canada's performance measures have focussed on money spent and the number of projects funded, rather than concrete outcomes such as economic growth, job creation, productivity gains or quality of life improvements. This gap may be addressed through the department's ongoing collaboration with Statistics Canada "to promote a more evidence-based approach to the development of infrastructure policies and programs".[15]

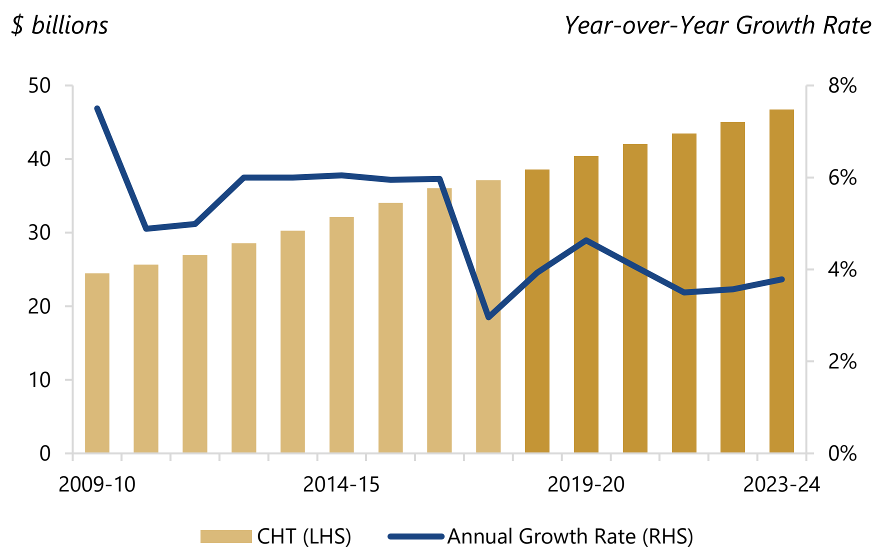
3.2. Federal Spending on Health

Forecast statutory spending, which is authorised through pre-existing legislation, is set to increase in 2019-20 by $10.9 billion (6.7 per cent), compared to the estimated statutory spending in the 2018-19 Main Estimates.

The largest federal transfer to provinces and territories, the Canada Health Transfer (CHT), is set to increase by $1.8 billion (4.6 per cent). The CHT provides financial assistance to provinces and territories, which are responsible for Canadian healthcare.

The CHT is calculated to automatically grow in line with the three-year moving average of nominal GDP growth; however, the minimum annual growth rate is set at 3 per cent. The CHT is also allocated to all provinces and territories on an equal per capita basis. Based on policy changes implemented in 2017-18, the CHT is forecasted to grow at a lower rate over the medium term than the years preceding these changes, as shown in Figure 3-2.

Figure 3-2 Canada Health Transfer Growth Rate



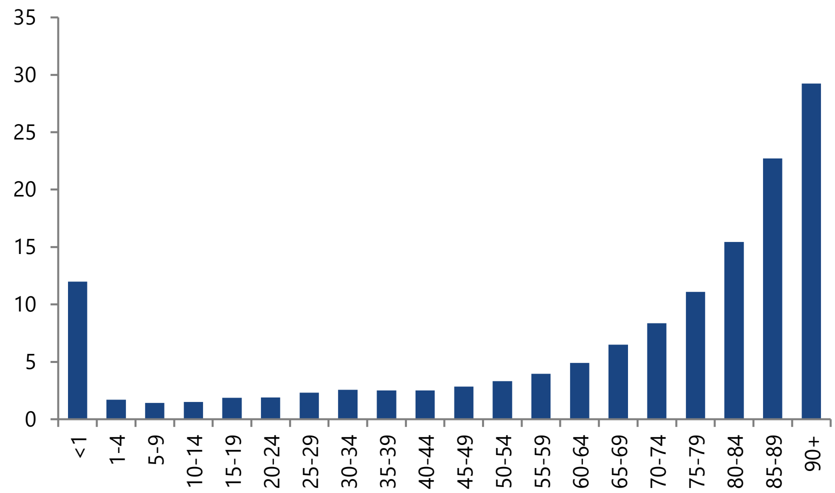
Sources: Receiver General of Canada, Public Accounts of Canada; Treasury Board of Canada Secretariat, Main Estimates 2019-20; Parliamentary Budget Officer, Economic and Fiscal Outlook.

Note: Figures prior to 2018-19 are actuals. Figures for 2018-19 and 2019-20 are estimates. Figures for 2020-21 and later are PBO projections.

As noted in PBO's Fiscal Sustainability Report 2018, health spending across all provinces and territories is projected to grow faster than nominal GDP.[16] A significant cost driver is the ageing of the Canadian population, with total per capita government health expenditures increasing as individuals get older (Figure 3-3). Given that growth in the CHT is tied to nominal GDP growth, it is expected that the CHT will decrease as a share of total health spending over the long term.[17]

Figure 3-3 Per Capita Health Care Expenditures by Age Group in Canada, 2016

$ thousands



Source: National Health Expenditure Trends, 1975 to 2018, Canadian Institute for Health Information.

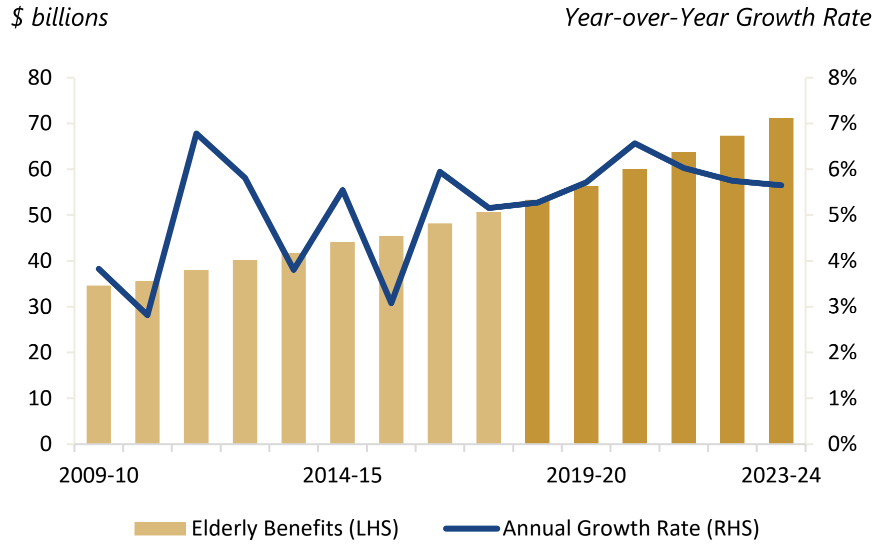
Note: This represents the total for all health care spending by provincial and territorial governments.

3.3. Federal Spending on Elderly Benefits

As the Canadian population ages, there will also be an increase in the eligibility for Elderly Benefits. Old Age Security (OAS), which is currently the largest federal program, provides a monthly pension payment to most seniors who are over 65 and meet the eligibility requirements.[18] In addition, the OAS program can provide other benefits for low-income pensioners, such as the Guaranteed Income Supplement and Allowance Payments.

Federal spending on Elderly Benefits are set to increase by $2.5 billion (4.7 per cent) to a total of $56.2 billion in 2019-20, which is the result of an increase in the number of beneficiaries and average monthly payment. This is consistent with historical trends, as shown in Figure 3-4.

Figure 3-4 Elderly Benefits Growth Rate



Sources: Receiver General of Canada, Public Accounts of Canada; Treasury Board of Canada Secretariat, Main Estimates 2019-20; Parliamentary Budget Officer, Economic and Fiscal Outlook.

Note: Figures prior to 2018-19 are actuals. Figures for 2018-19 and 2019-20 are estimates. Figures for 2020-21 and later are PBO projections.

Notes

1. *Old Age Security Act*. http://laws-lois.justice.gc.ca/eng/acts/O-9/.
2. These changes to Standing Order 81 are only for the duration of the 42nd Parliament.
3. Treasury Board of Canada Secretariat, *2018-19 Main Estimates* https://www.canada.ca/en/treasury-board-secretariat/services/planned-government-spending/government-expenditure-plan-main-estimates/2018-19-estimates/introduction.html#idchapter139078832
4. The Business of the Treasury Board. https://www.canada.ca/en/treasury-board-secretariat/services/treasury-board-submissions/business-treasury-board.html.
5. Ibid, Note 4.
6. Following the Dollar: Tracking Spending and Tax Measures from Budget 2016. http://www.pbo-dpb.gc.ca/en/blog/news/Tracking_Budget_2016.
7. Sources and Uses of the Budget Implementation vote by Department. Updated February 28, 2019. https://www.canada.ca/en/treasury-board-secretariat/services/planned-government-spending/government-expenditure-plan-main-estimates/2018-19-estimates/2018-19-sources-uses-budget-implementation-vote-department.html
8. Similar to 2018-19, TBS will continue to publish monthly updates regarding the allocations of Budget 2019 measures, once they are approved by TB.
9. House of Commons Standing Committee on Government Operations and Estimates. http://www.ourcommons.ca/DocumentViewer/en/42-1/OGGO/meeting-132/evidence
10. Empowering parliamentarians through better information. https://www.canada.ca/en/treasury-board-secretariat/services/planned-government-spending/empowering-parliamentarians-better-information.html#toc3
11. Budget 2016. Government of Canada. https://www.budget.gc.ca/2016/docs/plan/budget2016-en.pdf
12. Status Report on Phase 1 of the Investing in Canada Plan. Parliamentary Budget Office. https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2018/Infrastructure%20update/Phase%201%20June%20update_FINAL_ENG.pdf
13. Infrastructure Canada Q3 2018-19 Quarterly Financial Report. Government of Canada. https://www.infrastructure.gc.ca/pub/qfr-rft/qfr-rft-2018-12-31-eng.html
14. Infrastructure Update: Investments in Provinces and Municipalities. Parliamentary Budget Office. https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2019/Infrastructure%20Investments/Infrastructure_Update_03-20-2019_EN.pdf

15. Infrastructure Canada 2019-20 Departmental Plan. Government of Canada. https://www.infrastructure.gc.ca/pub/dp-pm/2019-20/2019-01-eng.html

16. Fiscal Sustainability Report 2018. https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2018/FSR%20Sept%202018/FSR_2018_25SEP2018_EN_2.pdf

17. Ibid, Note 16.

18. Old Age Security – Overview. https://www.canada.ca/en/services/benefits/publicpensions/cpp/old-age-security.html