

OFFICE OF  
THE PARLIAMENTARY BUDGET OFFICER



BUREAU DU  
DIRECTEUR PARLEMENTAIRE DU BUDGET

## Expenditure Monitor: 2014-15 Q3

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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 nine months of the year.

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**The Bottom Line**

- Spending levels for the first nine months of the year show spending restraint. The broadest measure of government operating spending – Direct Program Spending (DPS) – is 3.5 per cent lower in the first three quarters of 2014-15 compared to last year.
- Spending on Internal Services is again reduced, and the Government is well-positioned to attain its \$850 million targeted savings in this spending category.
- Spending by CBSA has increased 21 per cent over last year’s 3<sup>rd</sup> quarter, due to implementation of the *Beyond the Border Action Plan*, and a one-time severance payment resulting from contract negotiations.
- AANDC transfers and payments to First Nations have decreased compared to last year as a result of ongoing negotiations on Specific Claims, and a reduction in transfers to other governments.

**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 analyze:

- 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).

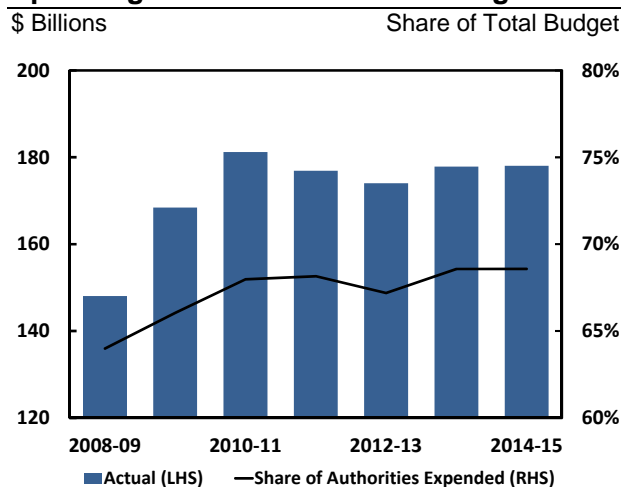
This analysis of the Government’s Expenditure Plan (also known as the Estimates) supports informed parliamentary scrutiny of spending.

**2 Year-to-Date Highlights of 2014-15**

Total expenditures in the first nine months of 2014-15 were \$178.1 billion, an increase of \$0.2 billion year-over-year (y/y). This represents a 0.1 per cent increase compared with the same nine months in 2013-14 (Figure 2-1).

**Figure 2-1**

**Spending to Third Quarter Unchanged**



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

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

The Government has so far spent 69 per cent of its planned expenditures, equal to its share of spending at the same point last year. Prior to 2014-15, this share of spending had been increasing.

Federal expenditures consist of four primary components (Figure 2-2):

- 1) major transfers to individuals;
- 2) major transfers to other levels of government;
- 3) debt servicing costs; and,
- 4) DPS.

**Figure 2-2**

**Decrease in DPS and Debt Charges Continue to Slow Spending**

\$ Billions				
	2014-15	2013-14	\$ y/y	% y/y
<b>Total</b>	<b>178.1</b>	<b>177.9</b>	<b>0.2</b>	<b>0.1%</b>
Direct program spending	63.8	66.1	-2.3	-3.5%
Transfers to persons	48.1	46.7	1.4	3.0%
Other levels of government	47.6	45.5	2.1	4.6%
Debt charges	18.6	19.5	-1.0	-5.1%

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 nine 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

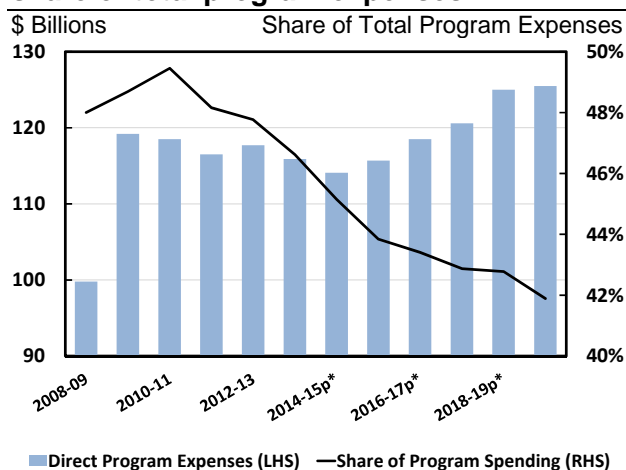
consequential effect on federal programs requires careful scrutiny of this budgetary component.

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.<sup>1</sup>

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 (Figure 2-3).<sup>2</sup>

**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 nine months of the fiscal year, DPS was \$2.3 billion lower (-3.5 per cent) compared to the same period in 2013-14 (Figure 2-4).

<sup>1</sup> Budget 2014. Accessed April 2015.

<sup>2</sup> Direct Program Expenses comprise the same spending as Direct Program Spending, but are presented on an accrual accounting basis (rather than cash accounting).

**Figure 2-4**  
**Operating spending down after nine months**

	2014-15	2013-14	\$ y/y	% y/y
<b>Direct program spending</b>	<b>63.8</b>	<b>66.1</b>	<b>-2.3</b>	<b>-3.5%</b>
Operating	37.5	37.6	-0.1	-0.3%
Capital	3.1	3.2	-0.1	-3.1%
Other transfer payments	19.3	21.0	-1.6	-7.8%
Payments to Crown Corps.	3.9	4.4	-0.5	-10.6%

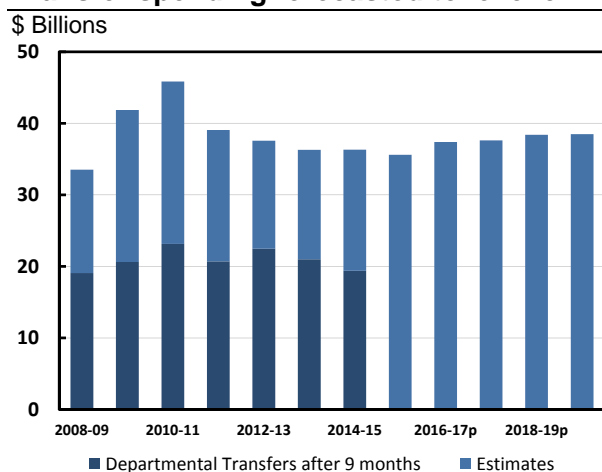
Sources: Office of the Parliamentary Budget Officer;  
Government of Canada.

Note: Figures may not add due to rounding.

All components of DPS have decrease on a y/y basis. One component, *Other transfer payments*, has decreased \$1.6 billion in the first nine months of the fiscal year compared to the previous year.

Other transfer payments primarily consist of grants and contributions by various government departments. The Government expects transfers dispersed through departmental programs to remain broadly constant through the forecast horizon (Figure 2-5).<sup>3</sup>

**Figure 2-5**  
**Transfer spending forecasted to level off**



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

<sup>3</sup> [Update of Economic and Fiscal Projections — 2014: 3 of 4](#). Accessed April 2015.

In 2014-15, operating spending received a one-time \$713 million boost from the Government's transition to a new pay system. In the absence of this non-recurring payment, operating spending would be \$810 million lower (-2.2 per cent) and DPS \$3 billion lower (-4.5 per cent).

Lower *Payments to Crown Corps* largely result from lower payments to the CBC, which was covered in a previous Expenditure Monitor.<sup>4</sup>

### Personnel

Through the first nine months of 2014-15, spending on personnel has increased 0.2 per cent compared to the same period the previous year, to \$27.5 billion.<sup>5</sup> This is the first increase in personnel spending since the planned cuts of Budget 2012 were implemented. However, estimates gleaned from the 2015-16 Reports on Plans and Priorities suggest that the Federal Public Service will shed an additional 7,000 jobs in the three years to 2017-18.<sup>6</sup>

### Back Office Cuts Continue

Budget 2014 reiterated the Government's commitment to making government more efficient while maintaining performance targets.<sup>7</sup> This pledge continues the Government's Budget 2012 commitment to reducing and modernizing the back office.<sup>8</sup>

Back office services such as communications, financial management, human resource management, and information technology comprise the Internal Services (IS) category of spending common amongst most departments and agencies.

<sup>4</sup> [PBO - Expenditure Monitor 2014-15:Q1](#). Accessed April 2015.

<sup>5</sup> Data collated from departments' quarterly financial reports.

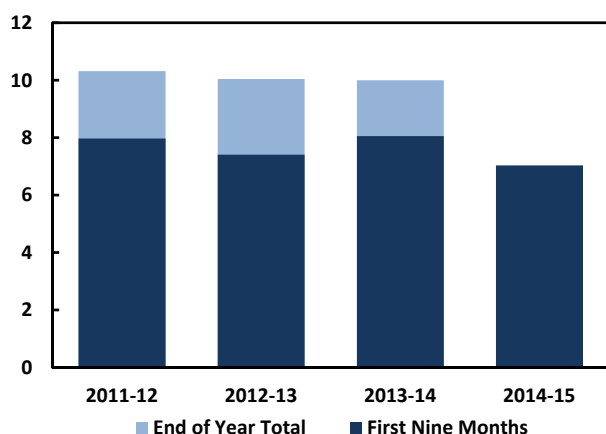
<sup>6</sup> These estimates are subject to the approval of continued funding for 2,500 passport service employees at ESDC for 2016-17 and future years. [ESDC 2015-16 Report on Plans and priorities](#). Accessed April 2015.

<sup>7</sup> [Budget 2014 - Plan for Returning to Balanced Budgets: Making Government More Efficient](#). Accessed April 2015.

<sup>8</sup> [Budget 2012- Chapter 5: Responsible Management to Return to Balanced Budgets](#). Accessed April 2015.

**Figure 2-6****Internal Services: Program support continues to decline**

\$ Billions



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

Budgeted amounts for IS indicated \$850 million in savings over the previous year. After nine months savings have surpassed that, reaching \$1 billion (Figure 2-6). These savings represented a 13 per cent decrease in spending on IS compared to the same period in 2013-14.

The Government has further reductions planned for back office operations, budgeting \$200 million less for IS in the 2015-16 Main Estimates.<sup>9</sup> These new estimates bring expected spending on IS to \$8.2 billion for the coming year.

### 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.<sup>10</sup>

After nine months of the 2014-15 fiscal year (April to December 2014, inclusive), Government spending remains broadly consistent with the Government's spending plans.

Expenditure within **Economic Affairs** appears to not differ greatly from expectations. The Government budgeted for a 1 per cent increase in spending over the previous year, and in-year spending has increased from last year by 2 per cent (\$2.4 billion) after three quarters.

Spending on **Social Affairs** is down 2 per cent compared to the same time last year, while the Government provisioned for a 1 per cent increase. This difference is attributable mostly to two effects: decreased spending on "A diverse society that promotes linguistic duality and social inclusion" (spending is down \$850 million compared to the third quarter of last year); and increased spending on "A Safe and Secure Canada" (up \$450 million over the same period).

Some of the decreased spending on a diverse society was due to changes to the Canadian Broadcasting Corporation (CBC) operating account, addressed in the last Expenditure Monitor.<sup>11</sup> Further decreases in spending stem from on-going negotiations with First Nations Bands regarding specific claims under the *Indian Act*. These claims are handled through the *Aboriginal Rights and Interests* program of **Aboriginal Affairs and Northern Development Canada (AANDC)**.<sup>12</sup>

<sup>9</sup> Internal Services numbers published by the PBO contain program spending by Shared Services Canada, which was allocated a portion of departments' IS budget when it was created.

<sup>10</sup> [Treasury Board Secretariat – Descriptors for the Government of Canada Outcome Areas](#). Accessed April 2015.

<sup>11</sup> [PBO – Expenditure Monitor: 2014-15 Q2](#).

<sup>12</sup> This program is a re-organization of the previous Co-operative Relationships program.

Figure 3-1

Well-managed government operations becoming increasingly efficient

Thematic Spending Area	Spending in first nine months	Spending in first nine months	Change in Authorities
	\$ millions	YoY Change (%)	YoY Change (%)
<b>Economic Affairs</b>	\$ 116,201	2%	1%
Strong Economic Growth	\$ 73,956	1%	0%
Income security and employment for Canadians	\$ 36,935	4%	3%
An Innovative and Knowledge-based Economy	\$ 3,704	12%	11%
A Clean and Healthy Environment	\$ 1,316	-8%	-5%
A Fair and Secure Marketplace	\$ 290	35%	11%
<b>Social Affairs</b>	\$ 19,907	-2%	1%
A diverse society that promotes linguistic duality and social inclusion	\$ 6,769	-11%	-1%
A Safe and Secure Canada	\$ 6,899	8%	3%
Healthy Canadians	\$ 4,765	-1%	1%
A Vibrant Canadian Culture and Heritage	\$ 1,474	0%	4%
<b>International Affairs</b>	\$ 2,813	-13%	-5%
Global Poverty Reduction Through International Sustainable Development	\$ 1,444	-18%	-4%
A Safe and Secure World Through International Engagement	\$ 1,288	2%	-4%
A Prosperous Canada Through Global Commerce	\$ 81	-55%	-3%
<b>Government Affairs</b>	\$ 12,983	-8%	0%
Well-managed and efficient government operations	\$ 11,613	-9%	1%
A Transparent, Accountable and Responsive Federal Government	\$ 891	5%	-16%
Strong and Independent Democratic Institutions	\$ 480	3%	-8%
<b>Department of National Defence</b>	\$ 11,979	-8%	5%
<b>Pay Adjustment (Note 1)</b>	\$ 713		
<b>Government of Canada</b>	\$ 163,882	0%	1%

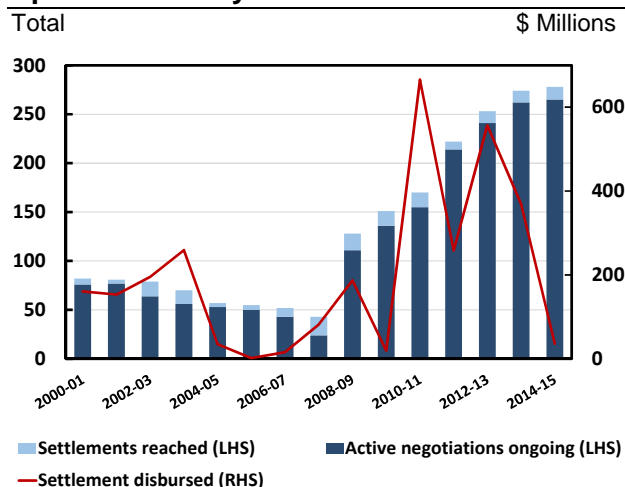
Note 1: Reflects the one-time \$713 million payment for transitioning the Government's pay system.

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

Spending after nine months in AANDC's *Aboriginal Rights and Interests* program has decreased 69 percent (a decrease of \$265 million). This decrease was partially related to a decrease in specific claim payments.<sup>13</sup>

Specific claims have increased since the Government implemented the **Specific Claims: Justice At Last** initiative in 2007 (Figure 3-2).<sup>14</sup> The Government has set aside allotments for specific claims, of which un-used amounts are re-profiled to future years. Currently, funding for **Specific Claims: Justice At Last** is scheduled to sunset in 2015-16.<sup>15</sup>

**Figure 3-2**  
**Specific claims yet to be settled**



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

On average the Government has reached 12.5 settlements per year over the past 10 years. At the end of 2014-15 there were 265 active negotiations yet to be settled. As these negotiations are concluded, payments through the *Aboriginal Rights and Interests* program may rise above historic levels.

Spending in another AANDC program, *Social Development* has decreased 12 per cent (\$150

million) after nine months. The majority of the money allocated to the *Social Development* program funds five initiatives that assist First Nations:

- Income Assistance
- National Child Benefit
- Assisted Living
- First Nations Child and Family Services
- Family Violence Prevention

Transfers to other governments have decreased \$158 million (-84 per cent). Where \$190 million was disbursed by the same period last year, only \$31 million has been released in 2014-15. The transfer spending decrease in 2014-15 is primarily due to timing of funding agreements with other levels of governments, which had not been yet been finalized through December 2014. The remainder of *Social Development* spending is essentially unchanged, year-on-year.

Offsetting these decreases within the **Social Affairs** framework is an increase in spending on “*A Safe and Secure Canada*”, up 8 per cent y/y after nine months. This increase is in excess of the overall 3 per cent increase budgeted by the government. To date the government has allocated \$10.6 billion to this spending area, of which \$6.9 billion has been spent.

Two sources of this increased spending are the **Canada Air Transport Security Authority (CATSA)**, and **Canada Border Services Agency (CBSA)**.

CATSA is responsible for security screening at Canadian airports. This includes the screening of passengers and their checked baggage, as well as engaging in non-passenger screening (for example, flight crews, baggage handlers, airport vendors, and other airport staff).<sup>16</sup>

In July 2013, more stringent security protocol standards for non-passengers, published by the International Civil Aviation Organization,

<sup>13</sup> [AANDC Quarterly Financial Report for the period ending December 31<sup>st</sup>, 2014](#). Accessed April 2015.

<sup>14</sup> [Specific Claims: Justice at Last](#). Accessed April 2015.

<sup>15</sup> [AANDC 2015-16 Report on Plans and Priorities](#). Accessed April 2015.

<sup>16</sup> [CATSA 2014 Annual Report](#). Accessed April 2015.

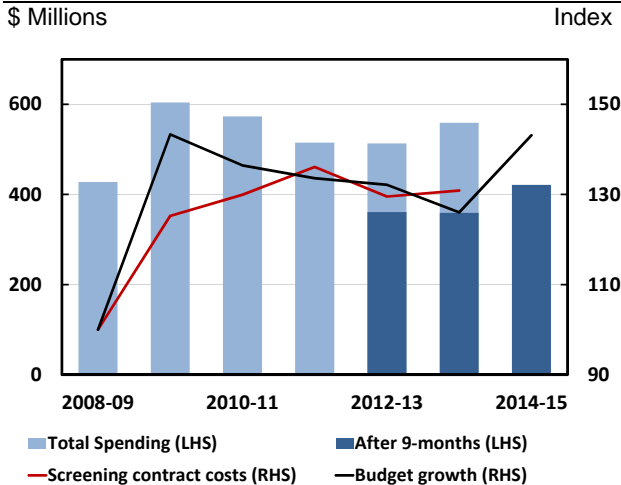


came into effect. These new standard were implemented within Canada in July 2014.<sup>17</sup>

As a result of these new regulations, the Government budgeted an additional \$85 million to CATSA in its Supplementary Estimates (B), a five-fold increase in allotments for non-passenger screening.

After 3 quarters CATSA's spending has increased 17 per cent (\$62 million) in 2014-15. This is partly due to efforts to satisfy the new security regulations, and partly a result of growing contracting costs (Figure 3-3).

**Figure 3-3**  
**CATSA spending up on new regulations and more passengers**



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

Note: 2008-09 = 100.

CATSA, in their most recent quarterly report noted that their budget does not fully account for recent increases in passenger volume, or increased screening costs, leading to longer wait times at airports.<sup>18</sup>

In late 2010-11, the Government committed to the **Beyond the Border Action Plan** with the United States.<sup>19</sup> This plan represents a long-term commitment between the two countries to enhance border security and facilitate the flow of goods and services. The Governments initiative is focusing on five areas:

- Addressing Threats Early
- Trade Facilitation, Economic Growth and Jobs
- Cross-Border Law Enforcement
- Critical Infrastructure and Cyber-Security
- Managing Our New Long-Term Partnership

CBSA is leading 12 of the plan's initiatives, in two main areas, Addressing Threats Early, and Trade Facilitation, Economic Growth and Jobs.<sup>20</sup> These initiatives include:

- Integrated Cargo Security Strategy
- Entry-Exit Information Systems
- Interactive Advance Passenger Information
- Bi-National Port Operations Committees
- Trusted Trader Programs
- Single Window
- Low Value Shipment Threshold
- NEXUS Benefits
- Radio Frequency Identification Technology
- Small and Remote Ports
- Border Wait Time Technology
- Pre-inspection and Preclearance

As a result of implementing this plan, CBSA has increased spending after nine months by 21 per cent compares to the previous year (Figure 3-4).

<sup>17</sup> [Backgrounder: Amendment to the Canadian Aviations Security Regulations, 2012 \(Non-Passenger Screening\)](#). Accessed April 2015.

<sup>18</sup> [CATSA Quarterly Financial Report for the period ending December 31<sup>st</sup>, 2014](#). Accessed April 2015.

<sup>19</sup> [Beyond the Border Action Plan](#). Accessed April 2015.

<sup>20</sup> [CBSA - Perimeter security and economic competitiveness](#). Accessed April 2015.

Figure 3-4<sup>21</sup>

**Border spending has increased**

CBSA Program	Spending to Q3		Change (%)
	2014-15	2013-14	
Criminal Investigations	29.8	16.5	81%
Admissibility Determination	678.5	378.7	79%
Recourse	11.0	6.8	62%
Risk Assessment	105.6	68.5	54%
Immigration Enforcement	136.0	102.8	32%
Secure and Trusted Partnerships	27.6	21.1	31%
Internal Services	321.4	557.0	-42%
Revenue and Trade Management	-9.6	-74.2	-87%
<b>Total</b>	<b>1,300.4</b>	<b>1,077.2</b>	<b>21%</b>

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

Note: Figures may not add due to rounding.

The increased expenditure by CBSA is largely a result of spending on *Admissibility Determination*. Spending on this program grew \$300 million (79 per cent) over the same period last year.<sup>22</sup>

With the *Admissibility Determination* program, CBSA question travelers upon arrival at a Canadian border to determine if they are eligible to enter the country. The program also collects information on commercial border traffic to determine admissibility, and may engage in further processing and/or examination of commercial goods.

Other CBSA programs under “*A Safe and Secure Canada*” that have increased expenditures include *Criminal Investigations* (increased \$13 million, 81 per cent) and *Immigration Enforcement* (increased \$33 million, 32 per cent).<sup>23</sup>

<sup>21</sup> Negative expenditures for CBSA’s Revenue and Trade Management program are a result of taxes and duties that CBSA collects on behalf of other government departments. These amounts are held in suspense until the end of the fiscal year.

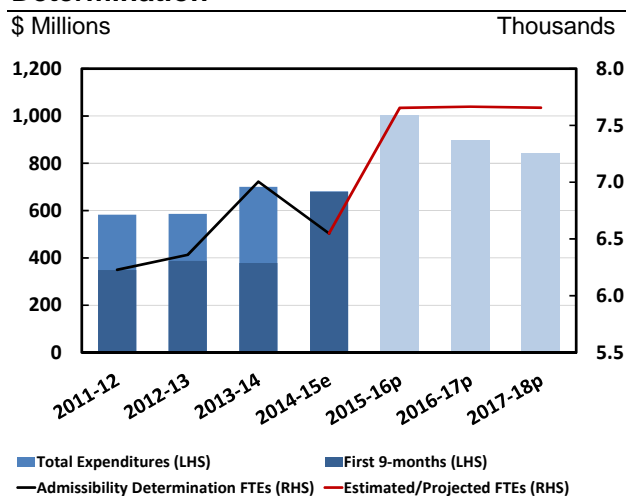
<sup>22</sup> In 2013-14 CBSA performed a realignment of their Internal Services program, reallocating \$264 million across several programs. This realignment describes a portion of the observed y/y variance. The PBO assumed that 75 per cent of the realigned Internal Services were expended after three quarters of the year, so after accounting for the IS realignment, spending on this program is up \$180 million (48 per cent). Sources: PBO and [CBSA 2013-14 Departmental Performance Report](#). Accessed April 2015.

<sup>23</sup> After making an approximation for the Internal Services realignment these changes are \$11 million (68 per cent) and \$27 million (26 per cent), respectively.

In their most recent quarterly report CBSA also noted that they paid out a one-time severance payment as a result of the recently agreed collective agreements with Border Services workers (FB classification) (Figure 3-5).<sup>24,25</sup>

Figure 3-5

**Increasing spending on Admissibility Determination**



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

Year to date spending on **Government Affairs** is down 8 per cent over the previous year, where the Government had budgeted for no change.

This decrease in spending is partially offset by the increased spending resulting from **Employment and Social Development Canada’s (ESDC) Citizen-Centered Service** program, as noted in the previous Expenditure Monitor.<sup>26</sup>

The majority of spending in **Government Affairs** is directed toward the “*Well-managed and efficient government operations*” spending area. This spending area consists of the Internal Services (IS) of departments, votes

<sup>24</sup> [CBSA Quarterly Financial Report for the period ending December 31<sup>st</sup>, 2014](#). Accessed April 2015.

<sup>25</sup> At the end of 2013-14 CBSA had accrued \$183 million in severance benefit obligations. CBSA plans to recoup these funds from the TBS central Vote 30, which is dedicated to payroll requirements.

<sup>26</sup> [PBO – Expenditure Monitor: 2014-15 Q2](#). Accessed April 2015.

centrally managed by the Treasury Board of Canada Secretariat (TBS), and other programs mostly managed by TBS, **Canada Revenue Agency**, and **Public Works and Government Services** (PWGSC).

There has been a decrease in spending on Internal Services in the current year compared to the previous year. This was discussed in Section 2.