

OFFICE OF
THE PARLIAMENTARY BUDGET OFFICER



BUREAU DU
DIRECTEUR PARLEMENTAIRE DU BUDGET

Supplementary Estimates (A) 2015-16

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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 presents detailed analysis of the first supplement to the federal government's Main Estimates for the 2015-16 fiscal year.

Correction notice: the Supplementary Estimates (A) 2015-16 published 27 May 2015 has been revised to correct a typographical error on page 1.

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The Bottom Line

- The Government of Canada (Government) is asking parliamentarians for \$3.2 billion in new money to implement the spending plan outlined in Budget 2015. This represents the largest Supplementary Estimates (A) since 2009-10.
- The funding requested in these supplementary estimates places an emphasis on infrastructure spending across the country. Of the total proposed spending, \$1.1 billion is earmarked for federal infrastructure renewal. Transfers to Crown Corporations supplement government-owned capital spending, including infrastructure provisions of \$403 million for Windsor-Detroit Bridge Authority and \$355 million for Marine Atlantic.
- In the Whole of Government spending framework, the Government proposes to increase the spending on “A Clean and Healthy Environment” and “A Vibrant Canadian Culture and Heritage” by 13 %. These increases are a result of added funding for the Nuclear Legacy Liabilities Program, and infrastructure funding for Parks Canada, respectively.

1. Purpose

Following the 2007 renewal of the federal Expenditure Management System (EMS), the Government has presented a separate appropriation bill to Parliament for each of the three parliamentary Supply periods ending June 23, December 10, and March 26.

Supplementary Estimates (A) corresponds to the first Supply period. In the past, the Government indicated that the primary purpose of the first supplementary estimates would be

to reflect many of the new spending measures included in its recent Budget.¹ However, in practice, legislative authority to spend on new Budget proposals is sought throughout the year.

The Parliamentary Budget Officer’s (PBO) legislative mandate includes research and analysis regarding the Government’s Estimates.² To implement this, the PBO reviews the Estimates and highlights proposed adjustments that warrant scrutiny, including:

- i. Proposed changes to programs that are material to adjustments in the federal budget balance; and,
- ii. Proposed changes to programs that represent significant growth compared to the status quo.

PBO’s Estimates analysis focuses on authorities delineated by program. While Parliament will continue to only appropriate on inputs (for example, operating or capital expenditures), a program lens provides greater insight as it links the money approved by Parliament to a concrete objective.

2. Supplementary Estimates (A)

The Government proposes to add approximately \$3.1 billion of budgetary authorities to the Government’s spending plan.

Overall, the adjustment would bring total budgetary authorities for 2015-16 to approximately \$244.7 billion, a 1.3 per cent increase over the total budgetary authorities approved in the previous year.³

¹ Treasury Board of Canada Secretariat - [Introduction to the Supplementary Estimates](#). Accessed May 2015.

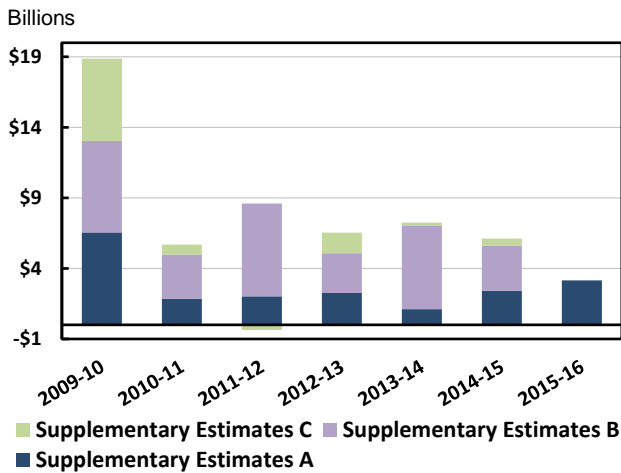
² [Parliament of Canada Act](#). Accessed May 2015.

³ Based on budgetary authorities presented in the Main and Supplementary Estimates in 2014-15, less Employment Insurance spending, which is no longer presented in the Government’s Spending Plan.

This is the largest Supplementary Estimates (A) since 2009-10, when the Government implemented its stimulus program to counter the recession (Figure 2-1). Prior to this, large supplementary estimates were more common, as often only two requests for funds were tabled in a fiscal year.

Figure 2-1

Largest Supplementary Estimates (A) in six years



Sources: Parliamentary Budget Officer; Government of Canada.

Almost all of the new spending would be “voted”, meaning Parliament’s assent is required to approve the new funding. There is also a minor increase to the estimates of “statutory” spending, for which pre-existing legislative spending authority has already been provided by Parliament (Figure 2-2). The Government has not allotted any additional money for non-budgetary expenditures in these supplementary estimates (See Box 2-3).

Much of the proposed spending is seeking authorities for the implementation of Budget 2015. This year the Budget was announced after the tabling of the Main Estimates. This timing has resulted in additional funds being requested to fulfil Budget pledges.⁴

⁴ Treasury Board of Canada Secretariat - [Supplementary Estimates \(A\) 2015-16](#). Accessed May 2015.

Figure 2-2

Supplementary Estimates (A)

Billions		
	Budgetary	Non-Budgetary
Voted	\$3.14	\$0.00
Statutory	\$0.02	\$0.00
Total	\$3.16	\$0.00

Source: Supplementary Estimates (A) 2015-16.

Box 2-3

Non-Budgetary Transactions

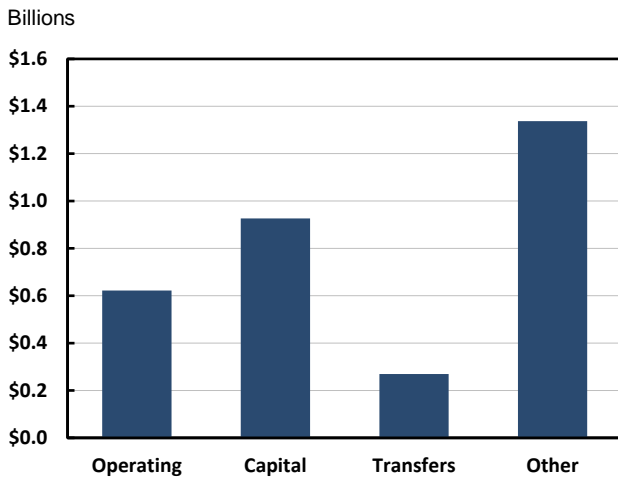
Beyond the actual spending proposed in the Budget, the Government’s Estimates also present details regarding “non-budgetary” transactions. These expenditures are comprised of loans and investments that create an offsetting asset on the Government’s financial statements. Examples include loans provided to First Nations and advances to international organizations, such as the International Monetary Fund.

Unlike budgetary authorities, non-budgetary spending authorities generally do not expire at the end of a given fiscal year. Rather, Parliament provides its consent for the transaction itself. The timing and amount of the repayment typically extends beyond a single fiscal year and is not necessarily specified.

Much of the requested spending pertains to the renewal of federal infrastructure across the country, outlined in Budget 2015. The Government plans to invest in upgrading national parks, defense bases, and critical transportation infrastructure from coast to coast. A large portion of these estimates also request funds that are to be transferred to Crown Corporations responsible for infrastructure (Figure 2-4). In these supplementary estimates, examples include \$403 million transferred to the Windsor-Detroit Bridge Authority, \$355 million to Marine Atlantic Inc., and \$58 million to the Jacques Cartier and Champlain Bridges Inc.

Figure 2-4

Capital spending and transfers to Crown Corps in Supplementary Estimates (A)



Sources: Parliamentary Budget Officer; Government of Canada.

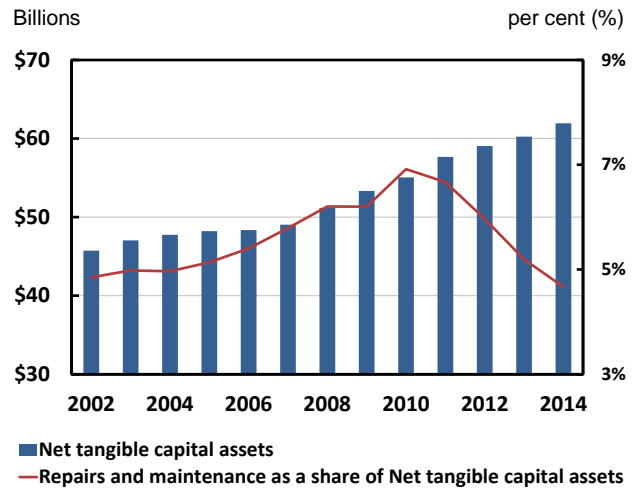
Note: These categories are based on standard object codes. The category "Other" includes both public debt charges and transfers to Crown Corporations. "Capital" spending consists of Standard Objects 6, 8 and 9.

Transfers to Crown Corporations supplement government-owned capital spending. Investments announced in Budget 2015 complement the Government's other capital investment programs, notably the Building Canada Fund, the New Building Canada Fund, and the Economic Action Plan Stimulus.⁵ In recent years, these investments have coincided with decreased repair and maintenance expenditures relative to the non-financial asset stock (Figure 2-5).

⁵ Infrastructure Canada - [New Building Canada Fund](#). Accessed May 2015.

Figure 2-5

Recent capital investments have reduced relative repair costs



Sources: Parliamentary Budget Officer; Government of Canada.

A significant theme of Budget 2015 was the Government's continued and enhanced focus of infrastructure spending.⁶ As a part of this focus, \$5.8 billion was pledged over 6 years from 2014-15 for renewing federal infrastructure. Some of these investments include:

- a Parks Canada led restoration of historic Québec city,
- a renewal of both the National Arts Centre and the Canada Science and Technology Museum in Ottawa,
- and upgrades to Canadian Forces bases across the country.

These Supplementary Estimates provide the funds for these investments, which make up over a third of the proposed additional funding (\$1.12 billion, or 36 per cent). The investments provide funding for a variety of departments, which are listed in Table 2-6. These investments are appropriated on a cash basis for the current year, but the budgetary cost is set to accrue over the lifetime of the assets (Box 2-7).

⁶ Government of Canada - [Budget 2015](#). Accessed May 2015.

Table 2-6

Renewing Federal Infrastructure Funds

Millions	
Department	Funds
Parks Canada Agency	\$ 346
National Defence	\$ 220
Fisheries and Oceans	\$ 189
Public Works and Government Services	\$ 70
Transport	\$ 58
Indian Affairs and Northern Development	\$ 50
Natural Resources	\$ 44
National Museum of Science and Technology	\$ 29
National Research Council of Canada	\$ 24
National Arts Centre Corporation	\$ 21
Other departments	\$ 68
Total	\$ 1,119

Source: Government of Canada.

Box 2-7

Accrual Budgeting of Capital Assets

With the advent of accrual budgeting in the preparation of the Budget in 2002-03, the Government capital assets now remain on the federal balance sheet for the duration of the life of the asset purchased. In this way Government is better able to measure and value their asset stock.

Prior to this, under a near-cash accounting method, expenditures on capital assets were recorded only in the fiscal year that the asset was purchased. While the Budget is now presented on an accrual basis, the Main and Supplementary Estimates continue to be reported on a near-cash basis.

Consequently, the budgetary cost of capital investments described in the Estimates will continue beyond the current fiscal year.

Source: Report of the Standing Committee on Government Operations and Estimates – [Accrual Budgeting and appropriations in the Federal Government](#) (December 2006). Accessed May 2015.

3. Whole of Government spending

Based on the Government’s classification framework, most of the new spending would be concentrated on the Government’s “Economic Affairs”, with increases to the both “Social Affairs” and “Government Affairs”. There has been no change in the “International Affairs” spending area (Figure 3-1 and Box 3-2).

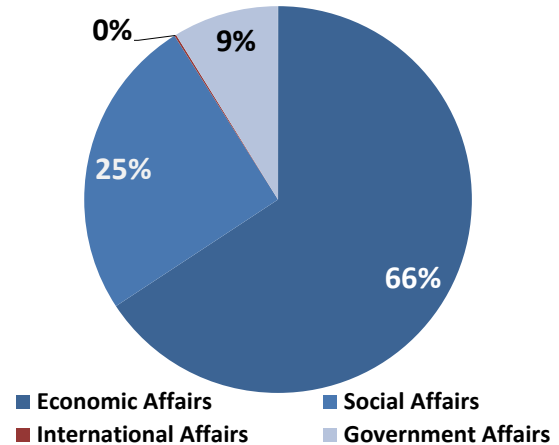
The spending area with the highest concentration of total authorities, “Strong Economic Growth”, would also receive the majority of the planned spending increase (\$1.7 billion), while two spending areas that traditionally receive less funding have received large proposed increases relative to total authorities (Figure 3-3):

- A Clean and Healthy Environment, and
- A Vibrant Canadian Culture and Heritage

Figure 3-1

Whole of government spending in Supplementary Estimates (A)

% of total Budgetary Authorities



Sources: Parliamentary Budget Officer; Government of Canada.

Box 3-2

Whole of Government Framework

The Government's "Whole of Government" framework classifies all funding appropriations from Parliament across four thematic areas of spending: "Economic Affairs"; "Social Affairs"; "International Affairs"; and, "Government Affairs".

Each of the four areas of spending are then linked to fifteen discrete "outcome areas", which identify the primary objective of the spending. For instance, "Social Affairs" has four outcome segments: Healthy Canadians; A Safe and Secure Canada; A Diverse Society that Promotes Linguistic Duality and Social Inclusion; and, A Vibrant Canadian Culture and Heritage.

According to the Government, over half of all spending in 2014-15 related to "Economic Affairs", followed by roughly one-quarter of spending targeting "Social Affairs" and the balance for the other two categories.

Sources: Treasury Board of Canada Secretariat - [Whole of Government Framework](#). Accessed May 2015.

Treasury Board of Canada Secretariat – [InfoBase](#). Accessed May 2015.

Figure 3-3

Windsor-Detroit Bridge construction drives Strong Economic Growth

Thematic Spending Area	Main Estimates (2015-16)	Supplementary Estimates A	Revised Total	Change
	(\$ millions)	(\$ millions)	(\$ millions)	(per cent)
Economic Affairs	164,735	2,074	166,809	1%
Strong Economic Growth	104,692	1,654	106,346	2%
Income security and employment for Canadians	51,291	16	51,307	0%
An Innovative and Knowledge-based Economy	6,084	135	6,219	2%
A Clean and Healthy Environment	2,121	269	2,389	13%
A Fair and Secure Marketplace	547	1	547	0%
Social Affairs	47,272	798	48,071	2%
A diverse society that promotes linguistic duality and social inclusion	10,970	31	11,001	0%
A Safe and Secure Canada	28,001	503	28,504	2%
Healthy Canadians	6,596	40	6,636	1%
A Vibrant Canadian Culture and Heritage	1,706	224	1,929	13%
International Affairs	6,884	5	6,889	0%
Global Poverty Reduction Through International Sustainable Development	3,047	0	3,047	0%
A Safe and Secure World Through International Engagement	3,383	0	3,383	0%
A Prosperous Canada Through Global Commerce	454	5	459	1%
Government Affairs	22,674	278	22,952	1%
Well-managed and efficient government operations	20,485	261	20,746	1%
A Transparent, Accountable and Responsive Federal Government	1,077	0	1,077	0%
Strong and Independent Democratic Institutions	1,112	17	1,129	2%

Note: 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. Total amounts and total percentage changes do not reflect transfers from Treasury Board Central Votes, or inter-year transfers made to the budgetary authorities for federal organizations with multi-year appropriations, as this data is not disclosed by the Government on a program activity basis.

The PBO assumes that funds allocated to the Windsor Detroit Bridge Authority to be classified under the Whole of Government spending area "Strong Economic Growth"

Strong Economic Growth

Much of the proposed funds for “Strong economic growth” relates to infrastructure spending. The Government’s commitment to renewing federal infrastructure complements 10-year New Building Canada Plan, and Public Transit Fund, and the recently announced Canada 150 community infrastructure program.⁷ The latter program is intended to provide renewed infrastructure for Canada’s 150th birthday in 2017, and will be implemented by the Government’s regional economic development agencies.

The Government has undertaken the construction of the Gordie Howe International Crossing (previously the Detroit River International Crossing). The Windsor-Detroit Bridge Authority (WDBA), a Crown Corporation under the Ministry of Transport, is tasked with the design, construction, operation and maintenance of the bridge, set to be in service by 2020.⁸

In June 2012, the Prime Minister announced that the Government reached an agreement with the State of Michigan for the construction of the Detroit River International Crossing.⁹ The bridge will be procured through a public-private partnership (P3) with an estimated construction cost of between \$3.5 and \$4 billion.^{10,11} Canada is funding the American share of the project, but expects to recover the investment through tolls.¹²

Budget 2014 announced an additional \$470 million over two years in support of the project.¹³ These estimates propose that

\$403 million be transferred to the Windsor-Detroit Bridge Authority through the supplementary estimates.

Also driving the increase in funds allocated to “Strong economic growth” is \$355 million set aside for Marine Atlantic Incorporated, a Crown Corporation responsible for providing ferry service between Nova Scotia and Newfoundland.¹⁴ Estimates to date are roughly \$250 million higher than estimates for 2014-15, an increase of 190 per cent.

Funds in these estimates are earmarked for “fleet renewal, shore-based projects and for operating expenditures” but a decomposition of how the \$250 million funding increase will be used among the spending categories has not been provided.¹⁵

For context, Government funding to Marine Atlantic operations has not exceeded \$140 million since 2007-08, suggesting much of the \$355 million requested may be used for non-operating capital expenditures (Figure 3-4).¹⁶

⁷ Prime Minister of Canada - [PM announces Canada 150 Community Infrastructure program](#). Accessed May 2015.

⁸ Government of Canada - [About the Windsor-Detroit Bridge Authority \(WDBA\)](#). Access May 2015.

⁹ Prime Minister of Canada - [Detroit River International Crossing](#). Accessed May 2015.

¹⁰ Supra note 8.

¹¹ Supra note 9.

¹² Global News - [Canada announces plans to cover U.S. costs of major new Windsor-Detroit Bridge](#). Accessed May 2015.

¹³ [Budget 2014](#). Accessed May 2015.

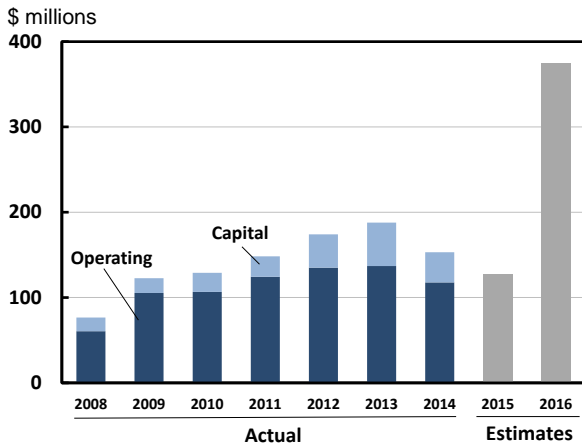
¹⁴ [Marine Atlantic Inc.](#) Accessed May 2015.

¹⁵ Treasury Board of Canada Secretariat - [Supplementary Estimates \(A\) 2015-16](#). Accessed May 2015.

¹⁶ Funding in Supplementary Estimates is provided on a near-cash basis, while Government funding in Marine Atlantic’s Annual Reports is presented on an accrual basis. Operating expense is not estimated to vary greatly using either accounting approach.

Figure 3-4

Planned funding to Marine Atlantic exceeds historic levels



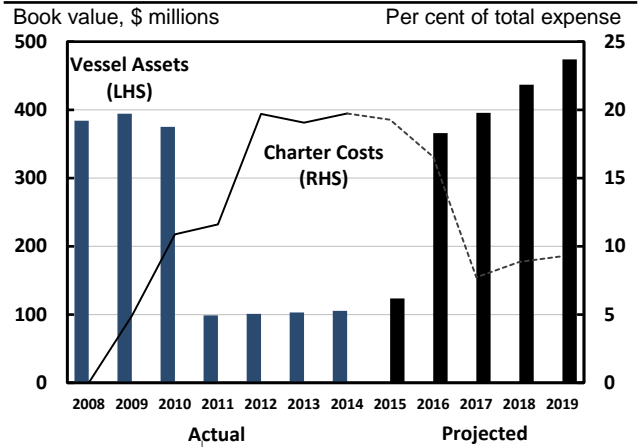
Sources: Marine Atlantic Annual Reports and Corporate Plan 2014-19 and PBO calculations.

Additionally, while Marine Atlantic has not confirmed plans to purchase new fleet, a \$242 million capital acquisition expense is planned for in 2015-16 in Marine Atlantic's corporate plan. Fleet renewal is consistent with the corporation's long-term fleet strategy.¹⁷

The acquisition of new vessels in 2015-16 would shift Marine Atlantic's operating structure closer to the vessel ownership business model used prior to 2010-11 (Figure 3-5). Vessel recapitalization would halve chartering expenses to roughly 10 per cent of total expenses over the next five years and bring the book value of fleet to levels near those prior to vessel decommissioning.¹⁸

Figure 3-5

Supplementary Estimates (A) may pivot Marine Atlantic to an ownership- rather than lease-based operating model



Sources: Marine Atlantic Annual Reports and Corporate Plan 2014-19 and PBO calculations.

These supplementary estimates also propose the allocation of funds to manage legal liabilities for Aboriginal Affairs and Northern Development Canada (AANDC). AANDC is to receive \$256 million to fund an out-of-court settlement negotiated with an Inuit organization. Expenditure Monitor 2014-15 Q3 noted that, after three quarters, a large amount of funds allocated to out-of-court settlements had remained unspent in the previous fiscal year.¹⁹ The same report noted the difficulty in accurately predicting settlement dates, resulting in uncertainty for the department in forecasting expenditures of this type.

¹⁷ Marine Atlantic – [2014/15 – 2018/19 Corporate Plan Summary](#). Accessed May 2015.

¹⁸ Marine Atlantic – [2014/15 – 2018/19 Corporate Plan Summary](#). Accessed May 2015.

¹⁹ PBO - [Expenditure Monitor: 2014-15 Q3](#). Accessed May 2015.

A Clean and Healthy Environment

The 13 per cent increase in spending on “A Clean and Healthy environment” is driven by \$231.3 million of proposed funding for Natural Resources Canada (NRCan), to be directed towards the Nuclear Legacy Liabilities Program (NLLP).

NRCan is responsible for the funding oversight for NLLP activities to decommission and remediate legacy sites operated by Atomic Energy of Canada Limited (AECL).²⁰

Approximately 65 per cent of the NLLP’s estimated \$8 billion in liabilities is associated with AECL’s Chalk River Laboratories, located in Deep River, Ontario.²¹ The National Research Universal (NRU) reactor at Chalk River is responsible for producing approximately 40 per cent of all medical isotopes produced in the world.

In February the Government announced plans to close the reactor at Chalk River in 2018.²² Following the decommission of the NRU reactor, Canada will rely upon a combination of non-reactor cyclotrons (which are smaller and can be located in hospitals), and imports to supply its medical isotope needs.²³ However, the Organisation for Economic Co-operation and Development (OECD) describes supply during the 2015-20 periods as “potentially critical” because of the timing surrounding the commissioning of new reactors and the decommissioning of the old.²⁴

To mitigate the risks related to the decommissioning of the NRU reactor, in

Budget 2015 the Government pledged additional \$45 million over 5 years, starting in 2015-16, to TRIUMF, home to the world’s largest cyclotron particle accelerator.²⁵

A Vibrant Canadian Culture and Heritage

Increased spending in “A Vibrant Canadian Culture and Heritage” is derived from an additional \$144 million requested for Parks Canada’s Visitor Experience program.

The Visitor Experience program “fosters opportunities for Canadians and international visitors to discover, experience, enjoy and develop a sense of personal connection” to areas administered by Parks Canada.²⁶

This additional \$144 million is a portion of the total \$346 million requested for Parks Canada under the Federal Infrastructure renewal commitment outlined in Budget 2015.

²⁰ Nuclear Legacy Liabilities Program - [About Us](#). Accessed May 2015.

²¹ Nuclear Legacy Liabilities Program - [FAQ](#). Accessed May 2015.

²² Government of Canada - [Government of Canada Announces Extension of National Research Universal \(NRU\) Reactor](#). Accessed May 2015.

²³ Ottawa Citizen - [Expanded medical isotope production part of Chalk River legacy](#). Accessed May 2015.

²⁴ OECD - [The Supply of Medical Radioisotopes](#). Accessed May 2015.

²⁵ TRIUMF - [TRIUMF Talks about Medical Isotopes](#). Accessed May 2015.

²⁶ Receiver General – [2015-16 Chart of Accounts: Program Description](#). Accessed May 2015.