

OFFICE OF  
THE PARLIAMENTARY BUDGET OFFICER



BUREAU DU  
DIRECTEUR PARLEMENTAIRE DU BUDGET

## Supplementary Estimates (B) 2014-15

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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 federal government's (Government) fourth appropriation bill for the 2014-15 fiscal year.

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### **The Bottom Line**

- The Government is asking parliamentarians for \$2.9 billion to implement the spending plan outlined in Budget 2014.
- The funding requested in these Supplementary Estimates is well below the historical average, reflecting ongoing spending restraint. As well, while lapses (that is, unspent money) among departments and agencies remain above their historical average, they did fall in 2013-14, resulting in less money being “re-requested” from one year to the next.
- The Government has never explained why lapses remain above their historical average, what factors explain its projection that lapses will fall, or the operational consequences when the Government fails to spend billions of dollars provided to it by Parliament.
- “Social Affairs” would receive the largest increase in new money, linked to a \$785 million increase in National Defence’s Defence Capability Element Production program, which is primarily responsible for maintaining the capacity and readiness of the Canadian Forces.

## **1 The Government Needs Parliament’s Consent to Spend Taxpayer Money**

Each year, Parliament endorses the Government’s fiscal and economic strategy outlined in the Budget. The Government then needs to obtain Parliament’s approval of the money required to implement its Budget. This legal consent is provided in one of two ways:

- a) Ongoing statutory authority**, through standing legislation that allows federal departments and agencies to expend funds for specific purposes, when needed. Examples of this are the cost of Old Age Security benefits and Public Debt Interest expenses. In 2014-15, over 60% of planned budgetary spending is authorized through these standing mechanisms.
- b) Time-limited, voted, appropriations**, which Parliament approves each year for the separate operating, capital and transfer payment budgets of departments and agencies. With certain exceptions (for example, Parks Canada, the Canada Border Services Agency and the Canada Revenue Agency), the legal authority to spend this money expires at the end of the fiscal year (that is, March 31). In 2014-15, a little less than 40% of the Government’s planned budgetary spending will be authorized through this mechanism.

Any annual “voted” appropriations that remain unspent by the end of the fiscal year will offset the deficit (or augment the surplus) and automatically reduce public debt. This unspent or “lapsed” funding amounted to \$7.3 billion in 2013-14 (Box 1-1). Some of this money will be included in subsequent funding requests made by the Government.

The Government typically presents five separate appropriation bills to Parliament each year to obtain annual spending authority. The first two are the largest and correspond to the Government’s Main Estimates, which seek authority for roughly 95% of the total spending in a given year. The other three appropriation bills correspond to the Supplementary Estimates, through which the Government seeks Parliament’s approval to spend money on initiatives that were “either not sufficiently developed...at the time of the Main Estimates...or...have been further refined..”<sup>1</sup>

Since the renewal of the Government’s Expenditure Management System in 2007, Parliament has been presented with a Supplementary Estimates for each of the three parliamentary Supply periods ending June 23, December 10, and March 26. Supplementary Estimates (B) corresponds to the second Supply period.

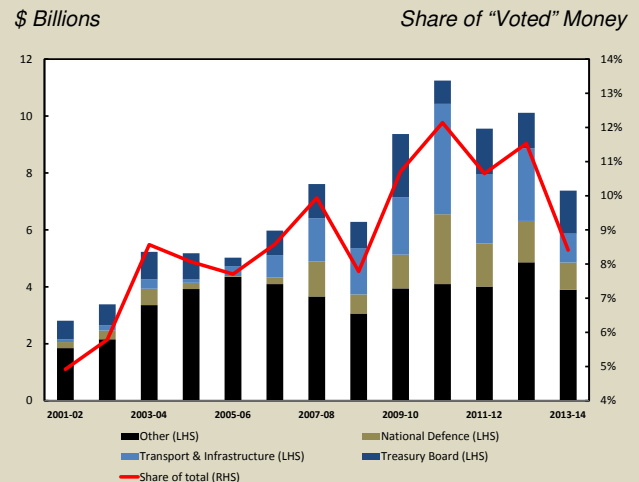
## Box 1-1

### Why It is Normal to Lapse Funds

“Lapsing” funds is a normal and expected part of any budget process. Some projects will be unexpectedly delayed or, in some situations, cancelled altogether. As well, given that Parliament provides legal authority to spend “up to” specific amounts for annual voted appropriations, departments and agencies have a strong incentive to be careful in their financial management and not exceed their budgetary ceilings.

The growth in lapses over the past decade reflects these common management challenges, with significant new investments in infrastructure and national defence falling behind schedule. In addition, the Government chose to implement the first year of its Budget 2012 austerity package through “frozen allotments”, whereby the Treasury Board prohibits departments and agencies from spending some of the money that Parliament has already appropriated.

### Spending Restraint Begets Lower Lapses



Sources: Parliamentary Budget Office; Government of Canada.

Spending restraint focused on departments’ and agencies’ operating budgets resulted in the lowest lapse in the past five years in 2013-14, which nevertheless remains above the long-term average. Given that lapsed funding is often “re-requested” in subsequent appropriations, a lower lapse would generally result in fewer “repeat requests” for funding. The use of “frozen allotments” also fell to a 10-year low. Finance Canada projects that these lapses will fall further over the medium-term, to about 5% of annual parliamentary appropriations.

<sup>1</sup> [Supplementary Estimates \(B\) 2014-15](#). Accessed November 2014.

## 2 Ongoing Spending Restraint Results in a Smaller Supplementary Estimates (B)

The Government's medium-term fiscal strategy to temper spending growth and return to a budgetary surplus relies on reducing Direct Program Expenses (DPE), which are the cost of Government operations and grant and contribution programs.

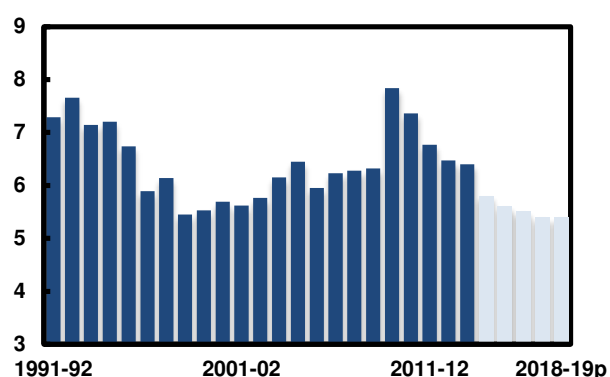
Since Budget 2012, the Government has used a combination of program cuts, operating budget freezes, employee benefit reductions and spending deferrals (for example, National Defence procurement) to reduce DPE by \$3.2 billion (-2.7%). Over the medium term, DPE as a share of the economy is projected to fall to a generational low by 2017-18 (Figure 2-1).

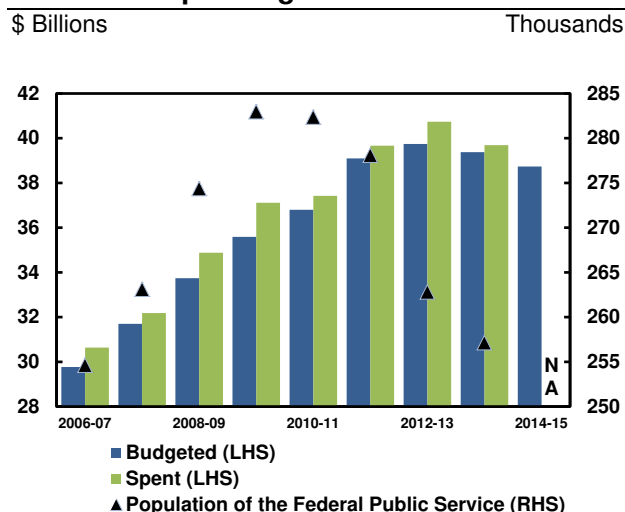
Commensurate with this ongoing spending restraint, these Supplementary Estimates are notably lower than those presented in previous years, roughly 58% of the 5-year average.

**Figure 2-1**

### Direct Program Expenses Projected to Fall to Record Low

% of the Canadian Economy

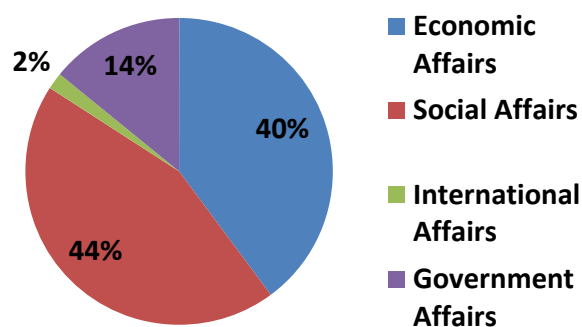


**Figure 2-3****Personnel Spending at 3-Year Low**

Sources: Parliamentary Budget Officer; Government of Canada.

**Figure 3-1****How the Government Plans to Spend the Supplementary Estimates (B) Money**

% of total Budgetary Authorities



Sources: Government of Canada, Parliamentary Budget Office.

**3 Social Policy Priorities to Receive Most Proposed Funding**

Most of the new spending would be concentrated on the Government's "Social Affairs" (\$1.4 billion), followed closely by "Economic Affairs" (\$1.3 billion), and minor increases to the other two areas – "Government Affairs" (\$452 million) and "International Affairs" (\$56 million) (Figure 3-1; Box 3-2).<sup>3</sup>

**Box 3-2****Viewing Government Spending Through a Policy Lens**

The Government's Whole of Government framework classifies all federal spending in four thematic areas:

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

Each of the four areas of spending are then linked to sixteen 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*.<sup>4</sup>

Analyzing departments' and agencies' spending by policy category provides greater clarity regarding the Government's priorities and what it expects to achieve.

<sup>3</sup> <http://www.tbs-sct.gc.ca/ppg-cpr/frame-cadre-eng.aspx>. Accessed November 2014.

<sup>4</sup> <http://www.tbs-sct.gc.ca/ppg-cpr/descript-eng.aspx#bm04>. Accessed November 2014.

**Figure 3-3****Largest Share of New Funding for Social Affairs to Ensure National Defence Capabilities**

Thematic Spending Area	\$ Millions	% of Supplementary Estimates B	Revised Total Estimates	% Change
<b>Economic Affairs</b>	<b>\$ 1,276</b>	<b>40%</b>	<b>\$ 162,325</b>	<b>1%</b>
Strong Economic Growth	\$ 819	26%	\$ 103,757	1%
Income Security and Employment for Canadians	\$ 41	1%	\$ 49,237	0%
An Innovative and Knowledge-based Economy	\$ 311	10%	\$ 6,174	5%
A Clean and Healthy environment	\$ 103	3%	\$ 2,637	4%
A Fair and Secure Marketplace	\$ 3	0%	\$ 519	1%
<b>Social Affairs</b>	<b>\$ 1,419</b>	<b>44%</b>	<b>\$ 48,113</b>	<b>3%</b>
A Diverse Society that Promotes Linguistic Duality and Social Inclusion	\$ 61	2%	\$ 11,192	1%
A Safe and Secure Canada	\$ 1,179	37%	\$ 28,399	4%
Healthy Canadians	\$ 104	3%	\$ 6,659	2%
A Vibrant Canadian Culture and Heritage	\$ 75	2%	\$ 1,864	4%
<b>International Affairs</b>	<b>\$ 56</b>	<b>2%</b>	<b>\$ 6,929</b>	<b>1%</b>
Global Poverty Reduction Through International Sustainable Development	\$ 10	0.3%	\$ 3,219	0%
A Safe and Secure World Through International Engagement	\$ 35	1.1%	\$ 3,456	1%
A Prosperous Canada Through Global Commerce	\$ 12	0.4%	\$ 254	5%
<b>Government Affairs</b>	<b>\$ 452</b>	<b>14%</b>	<b>\$ 23,009</b>	<b>2%</b>
Well-managed and Efficient Government Operations	\$ 459	14%	\$ 21,008	2%
A Transparent, Accountable and Responsive Federal Government	-\$ 23	-1%	\$ 1,196	-2%
Strong and Independent Democratic Institutions	\$ 16	0%	\$ 805	2%

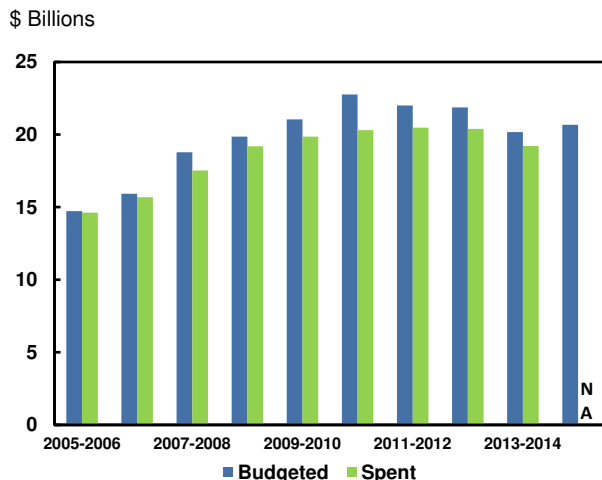
Note: Spending classifications exclude the Employment Insurance Account, which the Government excludes from the "Whole of Government Framework". Finance Canada's *Transfer and Taxation Payment* program is assumed to be classified under **Economic Affairs**: Strong Economic Growth.

Over half of the increase in “Social Affairs” spending is attributable to growth in National Defence’s *Defence Capability Element Production* program by \$785 million (+5.6%, Figure 3-3). According to the department’s Report on Plans and Priorities for 2014-15, the objective of this program is to ensure that the Government has adequate capacity in place to implement the Canada First Defence Strategy. This includes the production and maintenance of the operational readiness of military personnel, materiel and information systems, information, and real property.

After rising prodigiously from 2006-07 to 2010-11, National Defence spending reached a peak of \$20.5 billion in 2011-12 (Figure 3-4). After falling for the past two years, spending is set to rise slightly in 2014-15, primarily as a result of a non-recurring capital investment in the Communications Security Establishment’s new headquarters.

**Figure 3-4**

### National Defence Budget Temporarily Stablises



Sources: Parliamentary Budget Office, Government of Canada

Note: Data from 2011-12 onward include spending for the Communications Security Establishment.

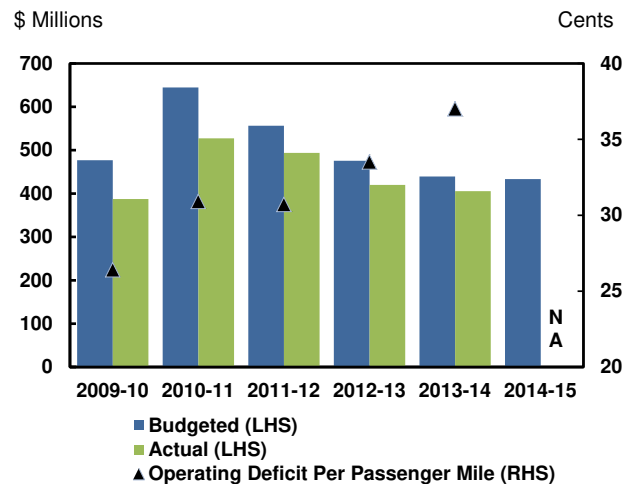
New money for “Economic Affairs” is the second largest area of new spending in Supplementary Estimates (B). Over two-thirds of the increase is attributable to the *Strong Economic Growth* outcome (\$819 million).

While the proposed funding increase would be spread across a range of programs, the largest increase is attributable to VIA Rail’s *Passenger Rail Services* (\$149 million). The Government indicates that the funding is needed to meet operating and capital requirements for the Crown Corporation.

VIA Rail has an ongoing operating deficit that is offset by direct transfers from the Government (Figure 3-5). Notwithstanding ongoing federal support, the operating deficit per passenger mile has deteriorated over the past 5 years, from 26.4 cents in 2009 to 37.0 cents in 2013.

**Figure 3-5**

### Operating Deficit per Passenger Mile Increasing



Sources: Parliamentary Budget Office, VIA Rail.



The last policy area with a material increase is “Government Affairs”, in particular the *Well Managed Government Operations* outcome (\$459 million).

Public Works and Government Services Canada’s (PWGSC’s) *Accommodations and Real Property Management* program would be a primary beneficiary of the proposed increase (\$120 million), and would raise its total budget by 6% to \$2.09 billion in 2014-15.

This program is responsible for the provision of office space to federal departments and agencies.<sup>5</sup> The Government indicates that the funding sought in Supplementary Estimates (B) pertains to non-discretionary cost pressures associated with Crown-owned buildings and leased space (e.g. electricity, heating and cooling, cleaning, repairs, etc.). As per PWGSC’s Budget 2012 commitment, PWGSC’s inventory is expected to decrease by 275,800 square meters by 2018-19.

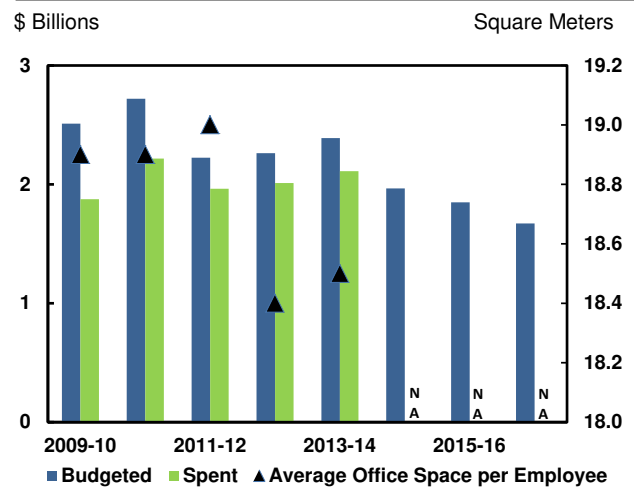
Budget 2012 targeted the reduction of federal office space costs by \$129.8 million over seven years ending in 2018-19. As noted earlier, the number of positions in the federal public service has fallen by 25,800 since its peak in 2010 and the Government projects further reductions. In addition, efforts are underway

within departments and agencies to reduce the size of office space used by each federal employee. According to PWGSC, the average amount of office space per federal employee has fallen by 3% over the past two years to 18.5 m<sup>2</sup>.

As a result of fewer employees working in smaller offices, net spending on this program is projected to fall over the next two years to \$1.7 billion (Figure 3-6).

**Figure 3-6**

**Squeezing into Less Office Space**



Sources: Parliamentary Budget Office, Government of Canada.

<sup>5</sup> <http://www.tpsgc-pwgsc.gc.ca/rapports-reports/rpp/2013-2014/rpp-01-eng.html>. Accessed November 2014.