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SUPPLEMENTARY ESTIMATES (B) 2019-20



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

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 presents a detailed analysis of the Government's second supplementary estimates for the 2019-20 fiscal year, which seeks Parliament's approval of \$3.8 billion to be spent before March 31, 2020.

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Executive Summary

Supplementary Estimates (B), tabled February 18, 2020 in the House of Commons, outline an additional \$5.6 billion in budgetary authorities: \$3.8 billion in spending which requires Parliament's approval and \$1.8 billion for which legislative permission already exists.

Including these supplementary estimates, the total proposed year-to-date budgetary authorities are \$312 billion, which represents a \$21.8 billion (7.5 per cent) increase over the 2018-19 estimates to date.

Major spending items in these estimates include:

- \$919 million to the Department of Crown-Indigenous Relations and Northern Affairs for loan forgiveness and reimbursement for comprehensive land claims negotiations;
- \$487 million to the Department of National Defence for funding capital investments as part of the department's defence policy, Strong, Secure, Engaged (SSE);
- \$180 million to the Department of Employment and Social Development to write-off unrecoverable debts for Canada Student Loans; and,
- \$950 million in statutory authorities to the Department of Natural Resources for the Green Municipal Fund.

These estimates will be the last under the temporary change to Standing Order 81, which took effect in 2018-19 and aimed to better align the estimates process with the Budget. As of the 2020-21 fiscal year, the original process will be reintroduced, meaning that the Main Estimates will be tabled prior to the Budget. This will also likely bring back the need for three Supplementary Estimates (in the spring, fall and winter).

As a result of these changes, all Budget items will be required to go through detailed Treasury Board (a Committee of Ministers chaired by the President of the Treasury Board) scrutiny prior to funding being sought from Parliament. At the same time, this may mean a longer delay between the announcement of new initiatives and their implementation, as the earliest opportunity to receive approval for the funds will be in the spring Supplementary Estimates (A).

PBO also notes that given that the 2018-19 Departmental Results Reports were not presented to Parliament prior to the tabling of the 2019-20 Supplementary Estimates, parliamentarians are required to consider (and

approve) the proposed spending without knowing whether any of the organizations achieved their intended results for the previous year.

1. Introduction

The Government cannot spend public money without Parliament's permission. This can be done in two ways.

Parliament can provide its permission through approval of appropriation bills, which generally provide permission to spend certain amounts of money within a given year. Alternatively, Parliament can also provide ongoing permission to spend through continuing legislation (such as Old Age Security benefits paid under the authority of the *Old Age Security Act*).¹

The *Supplementary Estimates (B) 2019-20* is the second planned Supplementary Estimates in 2019-20 and supports the fourth and final appropriation bill for the current fiscal year.

The Supplementary Estimates reflect "additional spending requirements which were either not sufficiently developed in time for inclusion in the Main Estimates, or have subsequently been refined to account for developments in particular programs and services."²

1.1. Overview – Total Authorities

Supplementary Estimates (B) 2019-20 outlines an additional \$5.6 billion in budgetary authorities (Table 1-1). Voted authorities, which require approval by Parliament, total \$3.8 billion. Statutory authorities, for which the Government already has Parliament's permission to spend, total \$1.8 billion.

Non-budgetary authorities, which include loans, investments and advances, are increasing by \$115 million.

Table 1-1

Supplementary Estimates (B), 2019–20: Total authorities

	Budgetary (\$ millions)	Non-budgetary (\$ millions)
Voted	3,793	0
Statutory	1,762	115
Total	5,556	115

Source: Treasury Board of Canada Secretariat, *Supplementary Estimates (B), 2019-20*.

Including these supplementary estimates, the total proposed year-to-date budgetary authorities are \$312 billion, which represents a \$21.8 billion (7.5 per cent) increase over the 2018-19 estimates to date.

1.2. Frozen Allotments

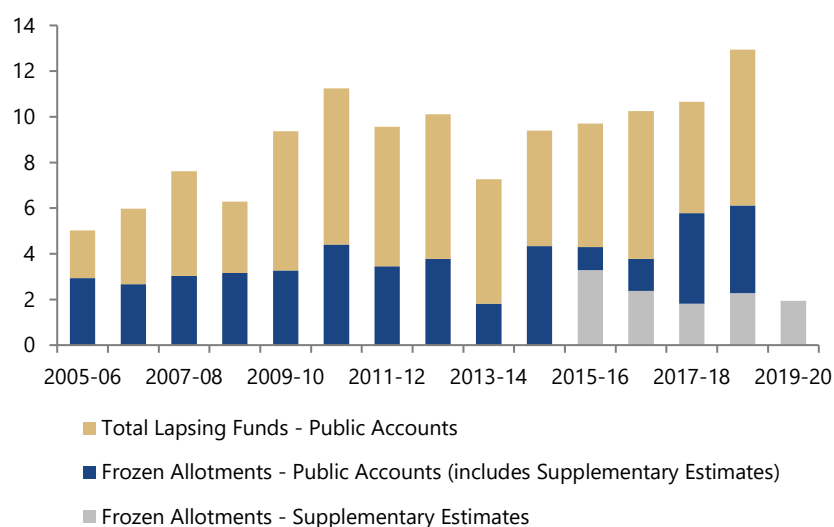
These supplementary estimates indicate that \$2.6 billion in money already approved by Parliament have now been sequestered by the Treasury Board in “frozen allotments”. Frozen allotments refer to funds that have been approved by Parliament, but that the Government then restricts for various reasons (see Box 1).

While a significant amount, this represents a \$1.1 billion decrease from the final supplementary estimates presented last year.³

In theory, publishing projected frozen allotments in the final supplementary estimates could improve transparency. However, as shown in Figure 1-1, these figures are generally unrelated to the total funding lapse at the end of the year (that is, the total amount of public money that the Government is unable to spend). Hence, this additional transparency is not sufficient to improve Parliament’s ability to predict total Government lapses and actual spending.

Figure 1-1 Lapses over time

\$ billions



Sources: Public Accounts of Canada; Treasury Board of Canada Secretariat; and PBO calculations.

Notes: \$0.7 billion of “Other” frozen allotments are contained within TB Central Votes in 2019-20. These amounts are lapses, but were not considered as frozen allotments in the Public Accounts prior to 2017-18. Therefore, PBO excluded these amounts from frozen allotments to ensure comparable year-over-year measurements. They are included in the total lapse amounts.

Box 1 – Frozen allotments

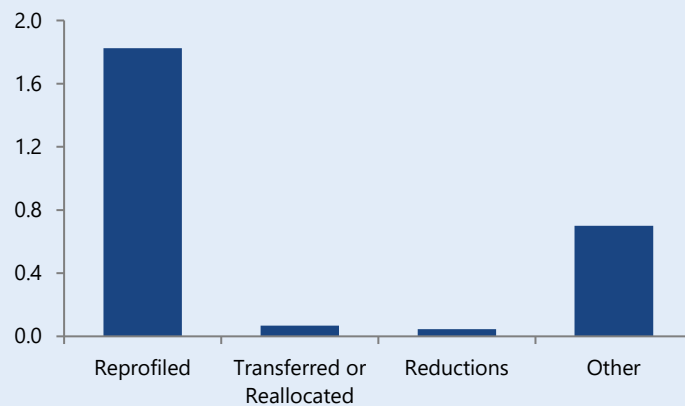
Frozen allotments are moneys approved by Parliament that the Treasury Board internally restricts. These allotments can be temporary or permanent. Temporarily frozen allotments allow the Treasury Board to stipulate certain conditions that must be met before the funds are released to departments and organizations. Permanently frozen allotments must be lapsed by the department at the end of the fiscal year.

As noted by the Treasury Board of Canada Secretariat, frozen allotments are used for four principal purposes (Figure B-1):

1. **Re-profiling** funds, which allows unused authorities from the current year to be pushed forward to the next fiscal year, subject to Parliament's approval;
2. **Transferring or reallocating** funds, which allows departments to trade authorities across votes, for example moving capital authorities to operating;
3. **Authority reduction**, which occurs when the original purpose of the funds no longer exists, for example due to a cancelled program; and,
4. **Other** frozen allotments, which are mostly uncommitted TB Central Votes used to distribute funds to departments for specific purposes and address urgent funding requirements.

Figure B-1 Frozen allotments by category

\$ billions



Source: Treasury Board of Canada Secretariat, *Supplementary Estimates (B)*, 2019-20.

1.3. Treasury Board Central Votes

Typically, the Estimates seek Parliament's approval for precise amounts of money for specific purposes in departments. However, the Government can also seek funding for Central Votes, which hold funds for which the Government will ultimately determine the allocation.

While the use of Treasury Board (TB) central votes is not new, the way in which certain TB central votes are used has changed in recent years. For example, in 2018-19, the Treasury Board of Canada Secretariat (TBS) created TB Vote 40 (Budget Implementation Vote), which sought approval for \$7.0 billion to implement Budget 2018 measures. However, this central vote was not used in 2019-20, as individual votes were created within departments and agencies for Budget 2019 measures.

In addition, TB Vote 10, which is used for the implementation of government-wide initiatives, has increased from roughly \$3 million in the years prior to 2018-19, to \$371 million in 2018-19 and \$373 million in 2019-20.

The TBS has indicated that TB Vote 10 has been used for horizontal initiatives where the precise amounts for each organization have not yet been determined, but with the expectation that the funding would be needed prior to the next appropriation act.⁴

Given the significant expansion in the use of TB Vote 10, parliamentarians may wish to consider whether the merits of expediting the access to funds by organizations offsets the lack of detail regarding how much money each department will receive and how they will spend taxpayers' funds.

2. Estimates Process

Historically, the Main Estimates have been prepared prior to the release of the Budget. This resulted in spending announcements made in the Budget not being included in the Mains, and the Government having to include funding for these initiatives in Supplementary Estimates. Parliamentarians were therefore being asked to approve funding through the Main Estimates that were incomplete as they did not represent an accurate picture of the Government's policy.

In an effort to better align the Budget and Estimates, the Government made a change to Standing Order 81 in 2018-19 to delay the tabling of the Main Estimates by several weeks.⁵ This change, which has been in effect for the

past two years, was only temporary, meaning that Standing Order 81 has since reverted to the previous version.⁶

With the original system now back in effect for the upcoming 2020-21 fiscal year, the 2020-21 Main Estimates will have to be tabled by March 1st, 2020, prior to the release of Budget 2020. This will also likely bring back the need for three Supplementary Estimates.

With these changes, Budget items will have to be funded through the Supplementary Estimates, allowing detailed TB scrutiny of these items prior to being presented to Parliament for approval. However, this will also likely mean an increased lag time between announcements in the Budget and implementation of these programs, as the earliest opportunity to receive funds would be in the spring Supplementary Estimates (A).

Going forward, PBO will track the implementation of Budget measures as they appear in Supplementary Estimates. This analysis will be similar to what was done in previous PBO reports prior to the initial change of Standing Order 81.⁷ That being said, parliamentarians may wish to encourage TBS to provide updates of the implementation of budget measures (as was done over the past two years).

2.1. Departmental Results Reports

The Departmental Results Reports (DRRs), along with Departmental Plans (DPs), represent Part III of the Estimates. DPs set out the priorities, programs, expected results and resource requirements for the upcoming year for each organization, while the DRRs provide the actual performance against their plans once the fiscal year is completed.⁸

Both of these documents provide valuable information for parliamentarians and Canadians, as they indicate how the Government plans to spend its money, and whether or not organizations are achieving the results they intended to.

Typically, the DRRs are tabled in Parliament in the fall of the subsequent fiscal year. However, as of the tabling of the final 2019-20 Supplementary Estimates, the 2018-19 DRRs have yet to be presented to Parliament. As a result, parliamentarians are required to consider all of the current years' authorities prior to knowing whether organizations achieved their intended results for the previous year, which negatively affects their capacity to hold the Government to account.

3. Key Issues for Parliamentarians

3.1. Forgiving Land Claim Negotiation Loans

The single largest item requiring Parliament's approval is \$919 million for Crown-Indigenous Relations and Northern Affairs Canada (CIRNAC). CIRNAC is one of two federal departments created from the dissolution of Indigenous and Northern Affairs Canada announced in 2017 and focuses on the recognition and implementation of Indigenous rights.⁹ The proposed funding would be used to forgive all outstanding comprehensive claim negotiation loans and to reimburse those that have been repaid.

In the past, the Government provided funding for Indigenous participation in comprehensive land claim negotiations through loans. Budget 2018 replaced the use of loans with non-repayable contributions, indicating that this change would help to remove barriers to participation.¹⁰ To further this, in Budget 2019, the Government stated its intention to forgive all accumulated loan debts related to land claim negotiations and reimburse those repaid to allow Indigenous communities to invest in their own priorities.¹¹

Budget 2019 earmarked \$1.4 billion over seven years for this proposal, with the large majority flowing through these Supplementary Estimates (\$919 million).¹²

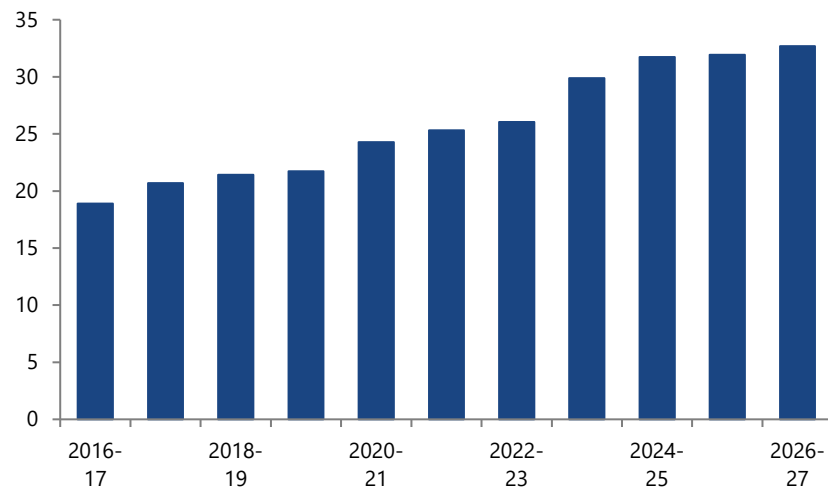
3.2. National Defence

National Defence is seeking an additional \$795 million in voted authorities in these Supplementary Estimates. More than half, \$487 million, is to fund capital investments as part of the department's defence policy, *Strong, Secure, Engaged (SSE)*.

The policy, which was introduced in 2017, committed to provide additional funding to both operating and capital investments over a 20-year period. As shown in Figure 3-1, the defence funding outlined in the initial policy document was projected to increase from \$18.9 billion in 2016-17 to \$32.7 billion in 2026-27 on a cash basis.¹³

Figure 3-1 Defence Funding in Strong, Secure, Engaged.

\$ billions



Source: Department of National Defence. *Strong, Secure, Engaged*. 2017.

Note: This data is provided on a cash basis.

PBO recently sent an information request to National Defence for updated data on the SSE defence policy, both on a cash and accrual basis.¹⁴ The requested information, when received, will provide additional details regarding projects that have occurred to date, as well as any changes to cost estimates and schedules. These inputs will allow the PBO to track the progress of capital projects included in SSE; an analysis of planned and completed SSE capital expenditure will be published in the near future.

3.3. Student Loans Write-offs

The Canada Student Loans Program provides repayable loans and non-repayable grants to help Canadians finance their participation in postsecondary education.¹⁵

Since 2014, the Government has sought Parliament's approval each year to write-off student loans that are deemed uncollectable. The write-off of loans from year to year is part of a multi-step process that may result in some volatility.¹⁶

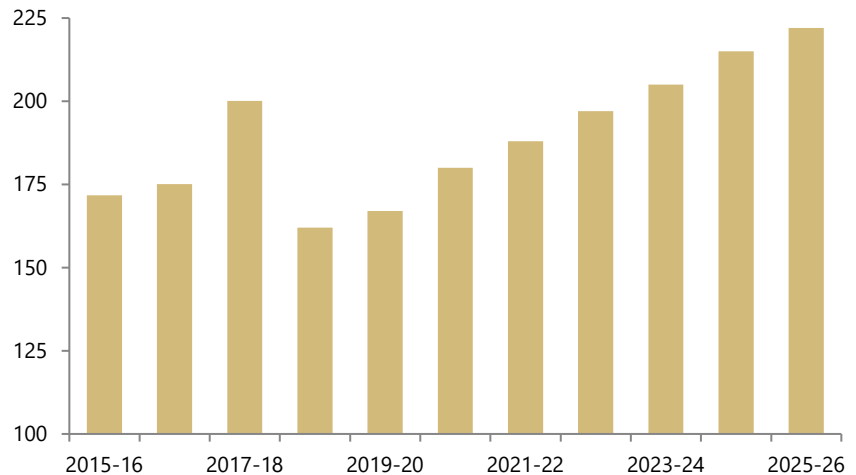
These Supplementary Estimates request \$180.4 million to write-off 33,098 unrecoverable debts. In comparison, the 2018-19 *Supplementary Estimates (B)* sought \$163.5 million to write-off 31,658 unrecoverable debts.

As shown in Figure 3-2, the Office of the Chief Actuary's projections for write-offs indicate a structural break after the 2017-18 loan year. This is a

result of program changes, such as reducing interest rates charged to borrowers in repayment, as well as allowing borrowers in default to access other federal supports, such as the Repayment Assistance Plan, to begin making payments on their remaining debt. Projected loan write-offs in subsequent years are expected to increase over the medium term.

Figure 3-2 Canada Student Loans – loan write-offs

\$ millions



Source: Office of the Chief Actuary of Canada

Notes: Annual figures represent the Canada Student Loans Program loan year (August 1 to July 31).

Write-off amounts include the loan principle and the amount of interest accrued.

Figures prior to 2018-19 are actuals. Figures for 2018-19 and later are projections.

3.4. Green Municipal Fund

The Department of Natural Resources is one of the organizations with the largest budgetary authorities in these Supplementary Estimates (\$1.0 billion). However, the overwhelming majority of these funds (\$958 million) are provided through statutory authorities, with \$950 million for the Green Municipal Fund.

Budget Implementation Act, 2019, No. 1 provides authority to the Minister of Natural Resources to pay up to \$950 million out of the Consolidated Revenue Fund to the Federation of Canadian Municipalities for the Green Municipal Fund (GMF).¹⁷ These Supplementary Estimates reflect these updated statutory forecasts.

According to its annual report, the GMF “supports municipalities across the country in their sustainable community development goals, improving the quality of air, water and land, as well as reducing greenhouse gas (GHG) emissions.”¹⁸

Notes

1. *Old Age Security Act*. <http://laws-lois.justice.gc.ca/eng/acts/O-9/>.
2. Treasury Board of Canada Secretariat, *Supplementary Estimates (B) 2019-20*. <https://www.canada.ca/en/treasury-board-secretariat/services/planned-government-spending/supplementary-estimates/supplementary-estimates-b-2019-20.html>
3. This is calculated based on all four frozen allotment categories: Reprofiled, Transferred or Reallocated, Reduction, and Other.
4. Standing Committee on Government Operations and Estimates. June 12, 2019. <https://www.ourcommons.ca/DocumentViewer/en/42-1/OGGO/meeting-180/evidence>
5. Both Budget 2018 and Budget 2019 were tabled prior to the Main Estimates, allowing for Budget measures to be included in the Main Estimates of that year. However, the changes to the Standing Order did not guarantee that this would be the case, as the Government retained its flexibility regarding the Budget date.
6. Additional information regarding the temporary changes to the Estimates process can be found in the following PBO reports.

The Government's Expenditure Plan and Main Estimates 2018-19.
https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2018/Mains%202018-19/The%20Government's%20Expenditure%20Plan%20and%20Main%20Estimates%20for%202018-19_EN.pdf

The Government's Expenditure Plan and Main Estimates for 2019-20.
https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2019/Main_estimates_2019_20/The%20Government%E2%80%99s%20Expenditure%20Plan%20and%20Main%20Estimates%20for%202019-20_EN.pdf.pdf
7. *Supplementary Estimates (C) 2017-18*. [https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2018/Supps%20\(C\)%202017-18/Supplementary%20Estimates%20C%202017-18_EN.pdf](https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2018/Supps%20(C)%202017-18/Supplementary%20Estimates%20C%202017-18_EN.pdf)
8. <https://www.canada.ca/en/treasury-board-secretariat/services/departmental-performance-reports.html>
9. *Budget 2019*. <https://www.budget.gc.ca/2019/docs/plan/budget-2019-en.pdf>
10. Ibid, Note 9.
11. Ibid, Note 9.
12. On an accrual basis, \$938 million was expensed in 2018-19. See *Budget 2019*, Chapter 3, page 148 for more details.
<https://www.budget.gc.ca/2019/docs/plan/budget-2019-en.pdf>

13. *Strong, Secure, Engaged*. <http://dgpaapp.forces.gc.ca/en/canada-defence-policy/docs/canada-defence-policy-report.pdf>
14. IR0446. https://www.pbo-dpb.gc.ca/web/default/files/Documents/Info%20Requests/2020/IR0446_ND_SSE_update_ltr_e.pdf
15. *Actuarial Report on the Canada Student Loans Program, as at 31 July 2018*. https://www.osfi-bsif.gc.ca/Eng/Docs/CSLP_2018.pdf
16. Ibid, Note 15.
17. *Budget Implementation Act, 2019, No.1 S.C. 2019, c.29*. <https://www.parl.ca/DocumentViewer/en/42-1/bill/C-97/royal-assent>
18. *Annual report: Green Municipal Fund 2017–2018*. <https://fcm.ca/en/resources/gmf/annual-report-green-municipal-fund-2017-2018>