



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

Supplementary Estimates (B) 2016-17

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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 report presents detailed analysis of the second supplement to the Government's Main Estimates for the 2016-17 fiscal year.

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Executive Summary

The Supplementary Estimates (B) outlines \$4.3 billion in additional budgetary spending. The Estimates request \$3.9 billion in “voted” authorities and an additional \$0.4 billion in “statutory” authorities.

\$1.7 billion (44%) of the voted authorities in these Estimates are related to approximately 50 measures announced in Budget 2016, including an additional:

- \$249 million for the Post-Secondary Institutions Strategic Investment Fund (SIF). Funding for federal capital spending at post-secondary institutions is projected to increase sharply in 2016-17, and would surpass spending during in the years immediately following the 2009 economic downturn.
- \$283 million for the Indigenous and Northern Affairs Canada (INAC) Education program. In Budget 2016, the Government committed to spend \$2.6 billion over five years on primary and secondary education on-reserve, starting in 2016-17.

The balance of funding generally relates to measures announced in previous budgets (that is, Budget 2015 and earlier), changes in the estimated cost of legislated programs (for which statutory authority to spend money is already in place) and funding that lapsed in the previous fiscal year that the Government is seeking permission to spend this year.

Roughly \$9.7 billion of total authorities were lapsed in 2015-16, or 11.6% (shown as the ratio of unspent authorities to total authorities spent). Lapse rates have increased steadily since 2001-02. As noted in earlier PBO reports, lapsing funding is a normal outcome of the government’s financial management system. In general, it neither reflects poor management or misfeasance on the part of departments and agencies.

Parliamentarians may wish to confirm that the additional spending proposed in these supplementary estimates has corresponding performance targets. As PBO and the Auditor General have noted in previous reports, the performance measurement framework for some aspects of federal spending has been uneven.

1. Proposed spending in these Estimates

The Supplementary Estimates (B) outlines \$4.3 billion in additional budgetary spending. The estimates request \$3.9 billion in “voted” authorities and estimate an additional \$0.4 billion in “statutory” authorities.

In combination with the Main Estimates and Supplementary Estimates (A), this would bring total approved spending to \$256 billion for 2016-17. This is generally consistent with the government’s fiscal plan recently presented in the Fall Economic Statement.

Supplementary Estimates (B) corresponds to the second supply period. 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...”

\$1.7 billion (44%) of the voted authorities in these Estimates are related to measures announced in Budget 2016.¹ The balance of funding generally relates to:

- measures announced in previous budgets (that is, Budget 2015 and earlier),
- changes in the estimated cost of legislated programs (for which statutory authority to spend money is already in place); and,
- funding that lapsed in the previous fiscal year that the government is seeking permission to spend this year (see Box 1.1).

Box 1.1 Lapsing funds

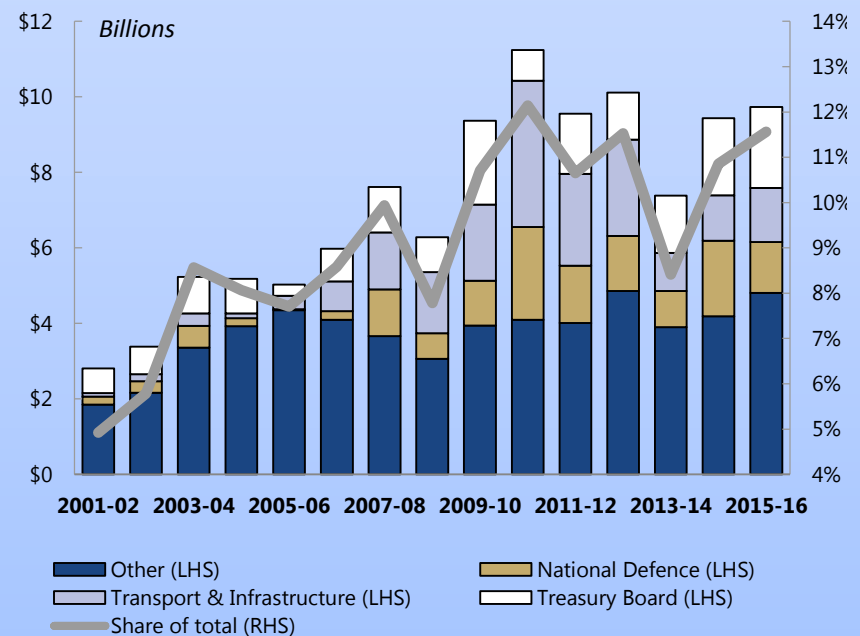
A lapse in spending represents money approved by Parliament through annual appropriation bills that has gone unspent for a specific fiscal year. Money lapses because the legal authority to spend most money authorized by parliament expires at the end of each fiscal year.

Of the \$9.7 billion lapsed in 2015-16, roughly half (\$4.9 billion) can be attributed to National Defence, Transport Canada, Infrastructure Canada, and Treasury Board.

The Budget forecast “recognizes that some amount of the spending included in the Estimates will lapse at the end of the year, and either be re-profiled to future years or simply remain unspent.” A key cause of lapses is the asymmetry in authorities. Departmental spending authorities are legal spending ceilings rather than estimates of the actual level of expenditure. This means that departments are “legally prohibited from exceeding these expenditure ceiling”. Other reasons for lapses include unexpected delays in program delivery and changes in priorities.

Given these structural causes of lapses the government maintains expedited mechanisms to move lapsed spending from one year to the next. This includes the Treasury Board’s votes for Operating and Capital Budget “carry forwards”, which are brought forward for parliamentary consideration each year.

Lapses in spending authorities



Sources: Public Accounts of Canada and Parliamentary Budget Officer.

2. New Spending by Policy Themes

The Government classifies each dollar it spends by policy category (Figure 3-1). There are four principal themes, and sixteen sub-themes. The main headings (economic, social, international and government) aim to capture the essence of the Government's spending.² Tracking appropriations and spending within this framework allows parliamentarians to focus on the policy aims and priorities of the Government.

2.1 Economic affairs

Economic Affairs would see the largest increase in spending, \$1.9 billion (1.1%). The largest funding proposed funding increase relates to \$1.25 billion for **Strong Economic Growth**. This includes a combination of investments in federal infrastructure assets, including the \$350.6 million proposed transfer to the Windsor-Detroit Bridge Authority for the Detroit River International Crossing, \$23.8 million to Infrastructure Canada for the New Bridge for the St. Lawrence Corridor Project, and \$21.0 million for Infrastructure Canada's Permanent and Flexible Funding program.

With respect to the latter, this program provides funding for municipalities for infrastructure. Funding is provided under the Gas Tax Fund. The federal funding "is provided up front and does not have to be used in the year in which it is provided".³

This funding increase aligns with the Budget 2016 commitment that the Government will transfer "remaining uncommitted funds from older federal infrastructure programs to municipalities through the Gas Tax Fund in 2016–17 in order to ensure funds are directed towards municipal infrastructure priorities in the near term".⁴

Figure 2-1 Whole of Government spending authorities

Thematic Spending Area	Estimates to date (2016-17) (\$ millions)	Supplementary Estimates (B) (\$ millions)	Revised Total (\$ millions)	Change (per cent)
Economic Affairs	173,387	1,855	175,242	1.1%
Strong economic growth	108,589	1,250	109,839	1.2%
Income security and employment for Canadians	54,672	96	54,768	0.2%
An innovative and knowledge-based economy	7,497	446	7,943	5.9%
A clean and healthy environment	2,091	59	2,149	2.8%
A fair and secure marketplace	538	5	543	0.9%
Social Affairs	47,314	1,358	48,671	2.9%
A diverse society that promotes linguistic duality and social inclusion	10,039	593	10,631	5.9%
A safe and secure Canada	28,435	327	28,762	1.1%
Healthy Canadians	6,611	352	6,963	5.3%
A vibrant Canadian culture and heritage	2,229	86	2,315	3.9%
International Affairs	6,938	728	7,666	10.5%
Global poverty reduction through international sustainable development	3,264	439	3,704	13.5%
A safe and secure world through international engagement	3,425	279	3,704	8.1%
A prosperous Canada through global commerce	242	9	251	3.7%
A strong and mutually beneficial North American partnership	7	0	7	4.1%
Government Affairs	23,762	316	24,078	1.3%
Well-managed and efficient government operations	21,368	362	21,730	1.7%
A transparent, accountable and responsive federal government	1,574	-86	1,488	-5.4%
Strong and independent democratic institutions	820	40	860	4.9%

A 2016 Auditor General report noted that there were inadequate performance measures and results for the funding provided by the Gas Tax Fund, which includes that from the Permanent and Flexible Funding program.⁵ Specifically:

... Infrastructure Canada could not adequately demonstrate that the Fund has resulted in cleaner air, cleaner water, and reduced emissions of greenhouse gases. Infrastructure Canada did not implement the performance measurement strategy that it would have needed to determine whether the Fund was meeting its objectives. We also found that the Department did not consistently manage key accountability and reporting requirements. This makes

it difficult for the Department to report back to Parliament about whether the funds have been managed appropriately and used for their intended purposes.

- 2016 Spring Reports of the Commissioner of the Environment and Sustainable Development

Report 1- Federal Support for Sustainable Municipal Infrastructure

Consistent with the Government's commitment in Ministerial mandate letters to "track and report on the progress of our commitments; assess the effectiveness of our work; and align our resources with priorities," parliamentarians may wish to ensure that Infrastructure Canada has concrete management plans for the projects which are being funded by the Permanent and Flexible Funding program.⁶

The largest area of growth is ***An Innovative and Knowledge Based Economy***, which would increase by \$446 million (5.9%). Most of this change can be explained by the Innovation, Science and Economic Development Canada's request for an additional \$249.3 million for funding the Post-Secondary Institutions Strategic Investment Fund (SIF). This request is in addition to the \$499.2 million requested in Supplementary Estimates (A).

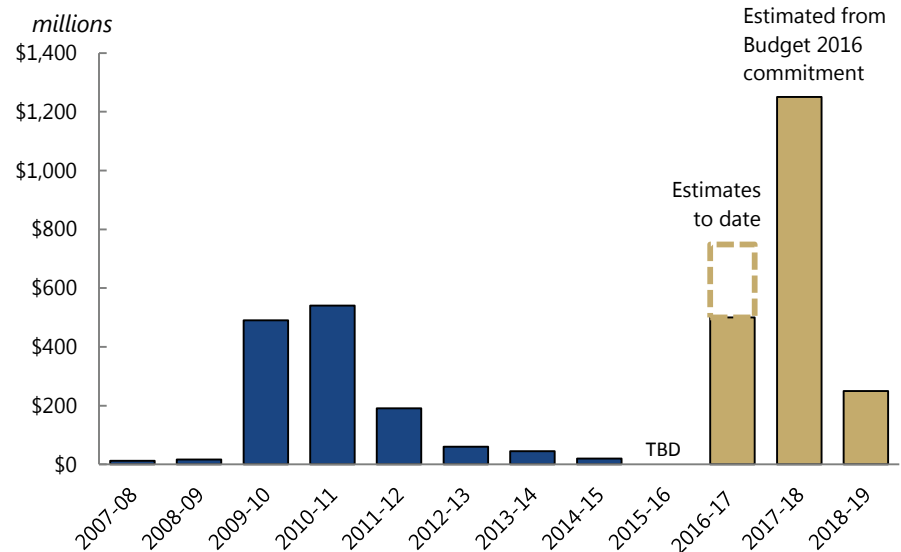
The SIF is part of the *Innovation Agenda* in Budget 2016, which commits the government to redesign "how it supports innovation and growth, in partnership and coordination with the private sector, provinces, territories and municipalities, universities and colleges, and the not-for-profit sector".⁷

The goal of the investments under the SIF is to ensure universities and colleges are properly equipped to develop, attract, and retain high skilled and innovative individuals. In turn this will contribute to Canada's innovation objectives.

The SIF is providing up to \$2 billion for infrastructure projects at post-secondary institutions and associated facilities such as training or research facilities. The government commits to cover up to half of the projects' eligible cost, encouraging the rest of the funding be provided by provincial governments, private sector investors and other non-federal partners. This limit on federal contribution is increased to up to 100 per cent of the cost for eligible projects at institutions that are accredited by an Aboriginal Government.⁸

Figure 2-2 displays the large increase in federal contribution to universities and degree-granting colleges for capital spending. Estimates for federal capital spending at post-secondary institutions in 2016-17 would surpass spending during in the years immediately following the 2009 economic downturn.¹

Figure 2-2 Federal Contribution to Capital Funds at Post-Secondary Institutions



Sources: Statistics Canada, Supplementary Estimates (B), Finance Canada and Parliamentary Budget Officer

Note: Amounts for 2016-17 to 2018-19 are PBO calculations. The three year total equals the Budget 2016 \$2.0 billion funding commitment. 2016-17 reflects authorities to date. 2017-18 and 2018-19 are projections.

2.2 Social affairs

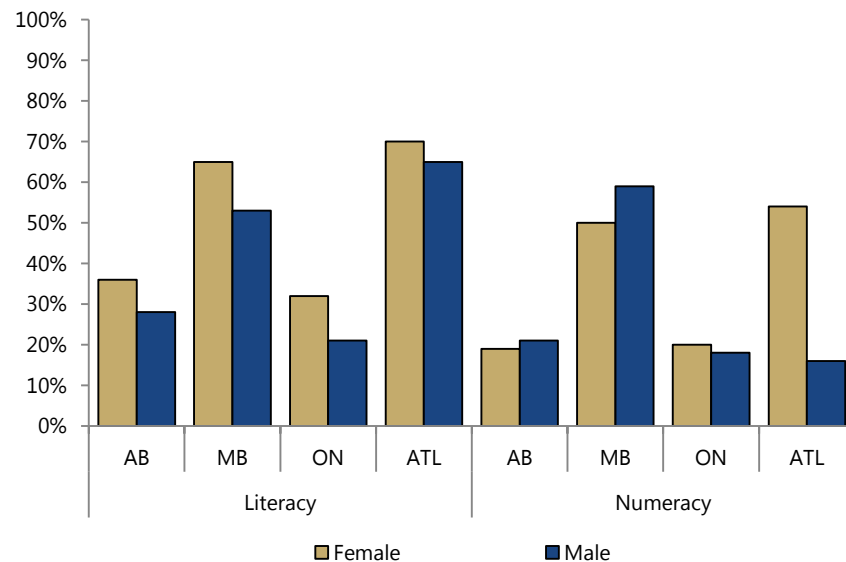
Social Affairs would receive an additional \$1.36 billion in funds (2.9%). Within this heading, the largest single program increase arises from Indigenous and Northern Affairs Canada (INAC) for its Education program (\$283 million), with a focus on First Nations elementary and secondary education.

¹ A large part of this stimulus funding may be part of the Knowledge Infrastructure Program, which was part of Canada's Economic Action Plan, announced in 2009. It provided up to \$2 billion to support infrastructure spending at universities and colleges.

The Education program's goals include supporting Indigenous students to achieve education outcomes comparable to those of other Canadians and funding culturally-appropriate education for on-reserve students. The higher funding corresponds to the Government's commitment in Budget 2016 to spend \$2.6 billion over five years on primary and secondary education on-reserve, starting in 2016-17.⁹ A forthcoming PBO report will provide analysis on education spending on reserves.

Given these new authorities, parliamentarians may wish to seek clarification on metrics to meaningfully assess the Government's effectiveness in implementing the program. INAC's most recent Departmental Performance Report and Report and Plan and Priorities (2014-15 and 2016-17, respectively) do not contain a comprehensive, provincially-comparable suite of performance metrics. The Elementary and Secondary Education sub-program currently has only one reported performance indicator and results were reported for only four of the seven provincial regions (Figure 2-3).

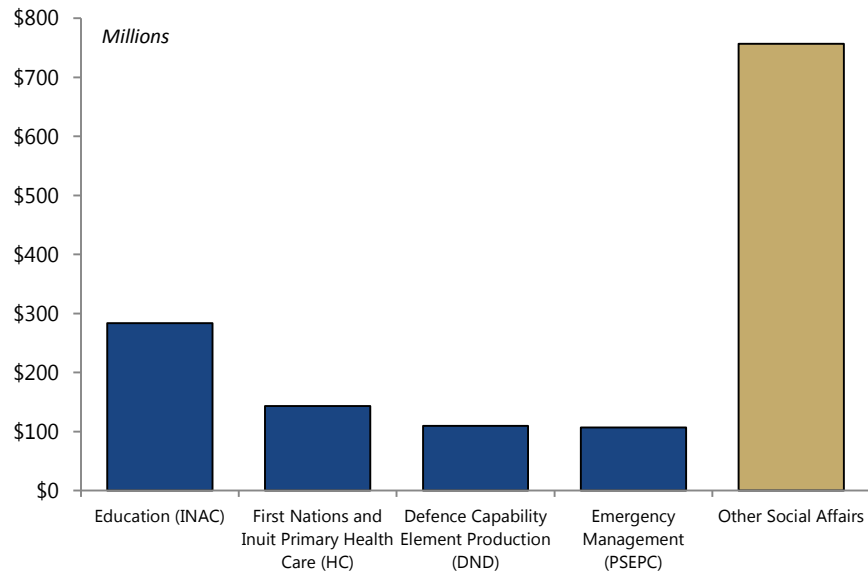
Figure 2-3 Percentage of First Nations students on-reserve who met or exceeded standard assessment for literacy and numeracy in the region of reference, 2013-14



Source: Indigenous and Northern Affairs Departmental Performance Report 2014-15¹⁰

Other program proposals in these Supplementary Estimates (B) include funding increases for First Nations and Inuit Primary Health Care (\$143 million), Defence Capability Element Production (\$110 million), and Emergency Management (\$107 million) (Figure 2-4).

Figure 2-4 Notable Supplementary Spending Allocations within Social Affairs, by Program



Source: Supplementary Estimates (B) 2016-17

Note: INAC – Indigenous and Northern Affairs Canada
 HC – Health Canada
 DND – Department of National Defence
 PSEPC – Public Safety and Emergency Preparedness Canada

2.3 International affairs

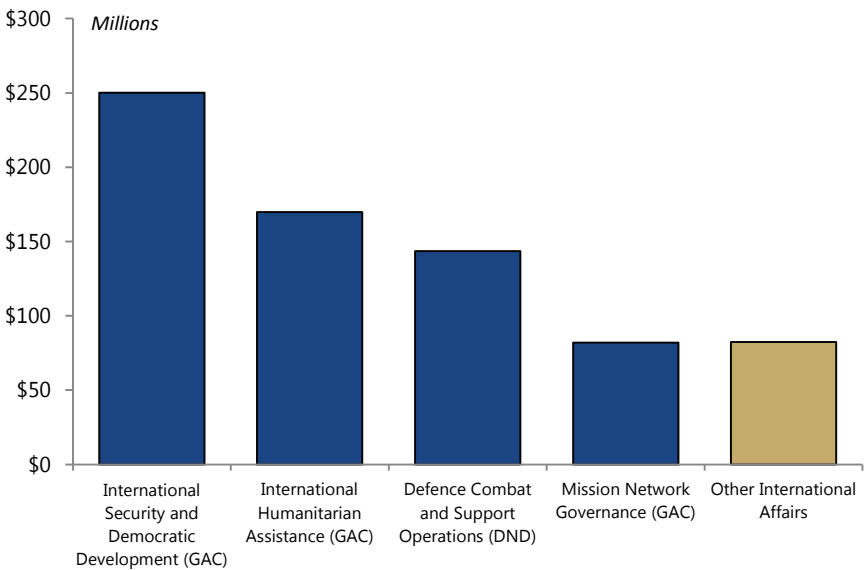
The International Affairs heading received the largest percentage increase of the new funds found within these Supplementary Estimates (B), \$728 million (10.5%) over the estimates to date. The spending increase has taken place against the backdrop of deteriorating security in countries where Canada is engaged. The majority of supplementary funding consisted of transfers to third party organizations to promote peace, security, and development. It includes \$179 million in grants for development assistance, humanitarian assistance, and disaster preparedness in places such as Southeast Asia,¹¹ Sri Lanka,¹² Colombia,¹³ Haiti,¹⁴ and especially Iraq and Syria¹⁵.

It also includes \$179 million in grants and contributions to support peace and stabilization operations programs, ostensibly in support of the new Peace and Stabilization Operations Program (PSOPs). The program commits \$450 million across government over three years to support peace operations around the world, including through the United Nations.¹⁶

At the program level within International Affairs, over a third of the new funds (\$250 million) went toward Global Affairs Canada's (GAC) International Security and Democratic Development program. Other GAC program

funding increases include International Humanitarian Assistance (\$170 million and Mission Network Governance, Strategic Direction and Common Services (\$82 million). The Department of National Defence would receive a \$144 million increase to Defence Combat and Support Operations (Figure 2-5).

Figure 2-5 Notable Supplementary Spending Allocations within International Affairs, by Program



Source: Supplementary Estimates (B) 2016-17

Note: GAC – Global Affairs Canada
DND – Department of National Defence

2.4 Government affairs

The Government proposes to increase spending on Government Affairs (that is, internal public sector operations) by \$316 million (1.3%) to slightly over \$24 billion this fiscal year. Virtually all of the proposed increase relates to additional funding for the *Well-Managed and Efficient Government Operations* outcome (\$362 million), which promotes value-for-money in government administration.

The Treasury Board Secretariat’s *Government-Wide Program Design and Delivery* program would receive the single largest increase in funding (\$91 million), almost doubling its budget to \$186 million for this fiscal year. As noted in the department’s Report on Plans and Priorities, this program is responsible for designing and delivering activities, systems, services and operations with, for, or on behalf of the entire government to improve service quality and value for money.¹⁷

This funding increase primarily stems from a Budget 2016 commitment, which earmarked \$75.2 million over two years to replace various information technology platforms across federal departments and agencies with new "whole-of-government" systems. The Budget also promised that this initiative would both save money and improve service quality.¹⁸

As identified in various performance audits by the Auditor General of Canada, as well as recent experience with implementation of the Government's Pay Modernization Initiative, reforming "back-office" operations can present challenges.¹⁹ PBO notes that neither the Budget, nor the department's RPP, has identified the specific cost savings or service level improvements that would result from these proposed investments, nor the potential fiscal risks associated with these projects.

The mandate letter to the President of the Treasury Board directed that he should "...publicly releas(e) all key information that informs the decisions we make".²⁰ As such, parliamentarians may wish to solicit greater detail regarding how much money will be saved from the proposed additional spending, how the savings will be realised (for example, through lay-offs or fewer external contracts), what the current service levels are for the "back-office" operations that will be "transformed" and how those service levels are expected to improve.

Notes

- ¹ Treasury Board of Canada Secretariat. Supplementary Estimates.
<https://www.tbs-sct.gc.ca/hgw-cgf/finances/pgs-pdg/se-bsd/sups/b/20162017/seb-bsdb01-eng.asp#toc1-1>
- ² A good description of each heading and sub-heading can be found at the TBS InfoBase: <http://www.tbs-sct.gc.ca/ems-sgd/edb-bdd/index-eng.html#goco>
- ³ Infrastructure Canada Report on Plans and Priorities. (2016). Available at: <http://www.infrastructure.gc.ca/alt-format/pdf/rpp/2016-2017-RPP-eng-FINAL.pdf>
- ⁴ Budget 2016: Growing the Middle Class. Available at: <http://www.budget.gc.ca/2016/docs/plan/budget2016-en.pdf>
- ⁵ 2016 Spring Report of the Auditor General of Canada. Report 1- Federal Support for Sustainable Municipal Infrastructure. Available at: http://www.oag-bvg.gc.ca/internet/English/parl_cesd_201605_01_e_41380.html#hd3c
- ⁶ Minister of Infrastructure and Communities Mandate Letter. Available at: <http://pm.gc.ca/eng/minister-infrastructure-and-communities-mandate-letter>
- ⁷ Budget 2016, Chapter 2- Growth for the Middle Class: Available at: <http://www.budget.gc.ca/2016/docs/plan/ch2-en.html>
- ⁸ Post-Secondary Institutions Strategic Investment: Program Overview. (2016). Available at: https://www.ic.gc.ca/eic/site/051.nsf/eng/h_00001.html
- ⁹ Budget 2016, Chapter 3. Available at: <http://www.budget.gc.ca/2016/docs/plan/ch3-en.html>
- ¹⁰ Indigenous and Northern Affairs Canada (2015). Department Performance Report. Available at: <https://www.aadnc-aandc.gc.ca/eng/1432826246467/1432826394222>
- ¹¹ Global Affairs Canada (2016). Backgrounder – Canada promotes regional security and safety in Southeast Asia. Available at: <http://news.gc.ca/web/article-en.do?mthd=advSrch&ctr.mnthndVI=11&ctr.dpt1D=6673&nid=1104099&ctr.kw=&ctr.yrStrtVI=2015&ctr.dyStrtVI=15&ctr.aud1D=&ctr.mnthStrtVI=11&ctr.page=19&ctr.yrndVI=2018&ctr.dyndVI=7>
- ¹² Global Affairs Canada (2016). Backgrounder – Project announcements. Available at: <http://news.gc.ca/web/article-en.do?mthd=advSrch&ctr.mnthndVI=11&ctr.dpt1D=6673&nid=1105989&ctr.kw=&ctr.yrStrtVI=2015&ctr.dyStrtVI=15&ctr.aud1D=&ctr.mnthStrtVI=11&ctr.page=18&ctr.yrndVI=2018&ctr.dyndVI=7>

- ¹³ Global Affairs Canada (2016). Address by Minister Bibeau announcing Canadian funding for development projects in Colombia. Available at: <http://news.gc.ca/web/article-en.do?mthd=advSrch&crtr.mnthndVI=11&crtr.dpt1D=6673&nid=1095169&crtr.kw=&crtr.yrStrtVI=2015&crtr.dyStrtVI=15&crtr.aud1D=&crtr.mnthStrtVI=11&crtr.page=23&crtr.yrndVI=2018&crtr.dyndVI=7>
- ¹⁴ Global Affairs Canada (2016). Backgrounder – Canada provides an additional \$2 million in humanitarian assistance funding to Haiti. Retrieved from <http://news.gc.ca/web/article-en.do?mthd=advSrch&crtr.mnthndVI=11&crtr.dpt1D=6673&nid=1137819&crtr.kw=&crtr.yrStrtVI=2015&crtr.dyStrtVI=15&crtr.aud1D=&crtr.mnthStrtVI=11&crtr.page=5&crtr.yrndVI=2018&crtr.dyndVI=7>
- ¹⁵ Global Affairs Canada (2016). Canada pledges humanitarian and stabilization support for Iraq. Available at: <http://news.gc.ca/web/article-en.do?nid=1101179>
- ¹⁶ Global Affairs Canada (2016). Canada to support peace operations. Retrieved from <http://news.gc.ca/web/article-en.do?mthd=advSrch&crtr.mnthndVI=11&crtr.dpt1D=6673&nid=1117209&crtr.kw=&crtr.yrStrtVI=2015&crtr.dyStrtVI=15&crtr.aud1D=&crtr.mnthStrtVI=11&crtr.page=15&crtr.yrndVI=2018&crtr.dyndVI=7>
- ¹⁷ Treasury Board Secretariat Report on Plans and Priorities 2016-17. Available at: <https://www.tbs-sct.gc.ca/ip-pi/reports-rapports/rpp/2016-2017/tbd-eng.pdf>
- ¹⁸ Budget 2016, Chapter 7. Available at : <http://www.budget.gc.ca/2016/docs/plan/ch7-en.html>
- ¹⁹ Fall 2015 Report of the Auditor General of Canada: Information Technology Shared Services. (2015). Available at : http://www.oag-bvg.gc.ca/internet/docs/parl_oag_201511_04_e.pdf
- ²⁰ Mandate Letter to the President of the Treasury Board. Available at : <http://pm.gc.ca/eng/president-treasury-board-canada-mandate-letter>