OFFICE OF THE PARLIAMENTARY BUDGET OFFICER

BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

Supplementary Estimates (C) 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 third supplement to the Government's Main Estimates for the 2015-16 fiscal year.

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Executive Summary

The third Supplementary Estimates for the 2015-16 fiscal year outline $5.1 billion of additional budgetary spending. This brings total planned budgetary spending for the year to $251 billion, 3.7 per cent higher than the previous year.

The request consists of an additional $2.8 billion of voted appropriations from Parliament and outlines an additional $2.3 billion in statutory spending.

Voted appropriations include a $435 million top up of the long-term disability insurance for members of the Canadian Armed Forces. The Government also wrote off $176 million in defaulted student loans and provided a $168 million grant to the Green Climate Fund.

Statutory spending increases stem from a $4.8 billion increase in Universal Child Care Benefit payments, which are partially offset by $2.6 billion of savings from lower interest payments on public debt.

Lastly, for the first time, these Supplementary Estimates (C) publish details regarding $5.1 billion of unspent funds, of which $1.8 billion are Treasury Board Central Votes, and $3.3 billion are frozen allotments. Frozen allotments are moneys approved by Parliament but held in escrow by the Treasury Board. Since 2004-05, frozen allotments have, on average, represented roughly two-fifths of annual "lapsed" funding. If the pattern from previous years holds, this would imply a total lapse higher than the Government projected in Budget 2015. This would potentially result in lower than anticipated Direct Program Expenses.

1. Context

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 per cent 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]

Following the 2007 renewal of the 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 (C) corresponds to the third 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. However, in practice, legislative authority to spend on new budget proposals is sought throughout the year with the second and third supplementary estimates, or even in subsequent years.

2. Supplementary Estimates (C)

2.1. Overview

These Supplementary Estimates (C) outline $5.1 billion in additional spending. About half of this new spending would be "voted", meaning that Parliament's assent is required to approve the new funding. The other half of the spending is "statutory" spending (Table 2-1). Statutory amounts relate to spending for which legislative authority already exists and their inclusion in the Estimates documents is for information only.

In addition to budgetary amounts, Estimates documents also include non-budgetary amounts. These amounts are changes in the valuation or composition of the Government's financial assets, such as student loans.

With these estimates, the Government is identifying a decrease in non-budgetary spending of $251 million.

Table 2-1 Supplementary Estimates (C): Total authorities, 2015-16

	Budgetary ($ millions)	Non-budgetary ($ millions)
Voted	2,836	0
Statutory	2,308	-251
Total	5,144	-251

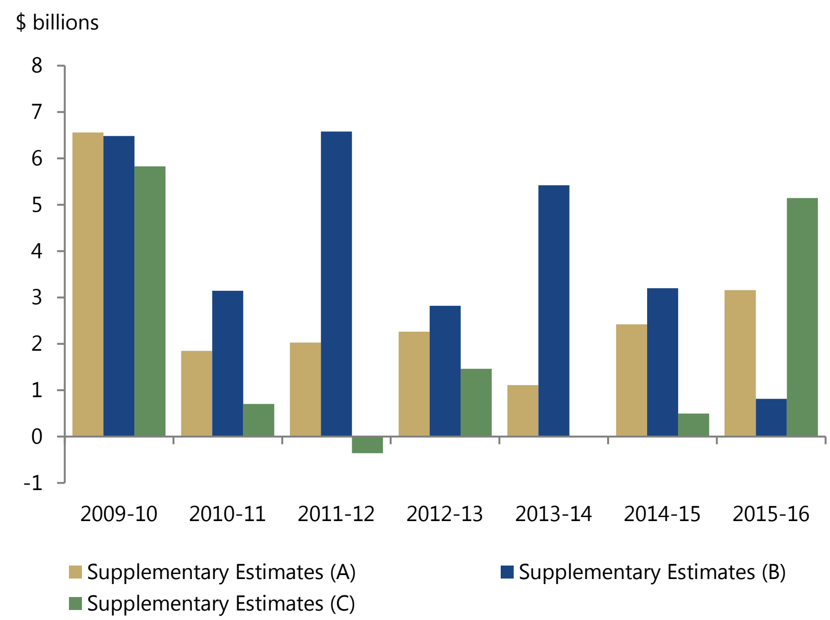
Source: Treasury Board of Canada Secretariat.

Statutory Authorities

These are authorities for which on-going spending approval has been previously provided by Parliament. These approvals are indeterminate in nature and are reported to parliamentarians to provide a fuller picture of the Government's spending.

These are the largest Supplementary Estimates (C) since 2009-10 (Figure 2-1).[2] These Supplementary Estimates are larger than usual due to the timing of the election and the reconvening of Parliament, which resulted in relatively fewer measures being included in Supplementary Estimates (B). Thus, other funding measures are only now appearing in the Supplementary Estimates (C).

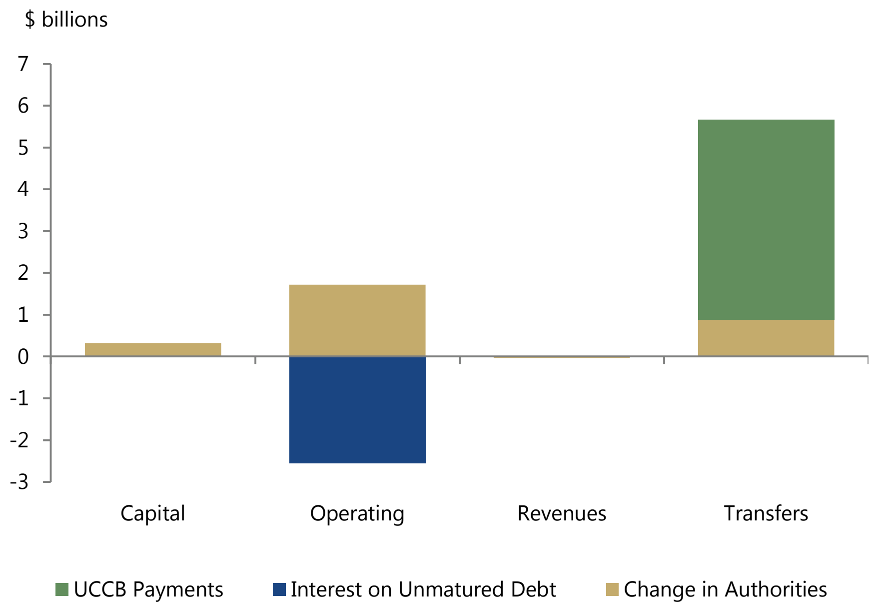
Figure 2-1 Historical supplementary estimates: budgetary authorities



Source: Treasury Board of Canada Secretariat.

The changes to statutory forecasts are primarily explained by two large items: savings on debt interest as a result of lower interest rates, and higher Universal Child Care Benefit (UCCB) payments resulting from the enhancement of the program in 2015. The former saves $2.6 billion while the latter costs an additional $4.8 billion. With these forecasts excluded, the total change resulting from these Estimates total $2.7 billion, with more than half of that increase coming from higher operating spending (Figure 2-2).[3]

Figure 2-2 **Lower debt charges partially offset increases in UCCB payments**



Source: Treasury Board of Canada Secretariat.

2.2. Frozen allotments

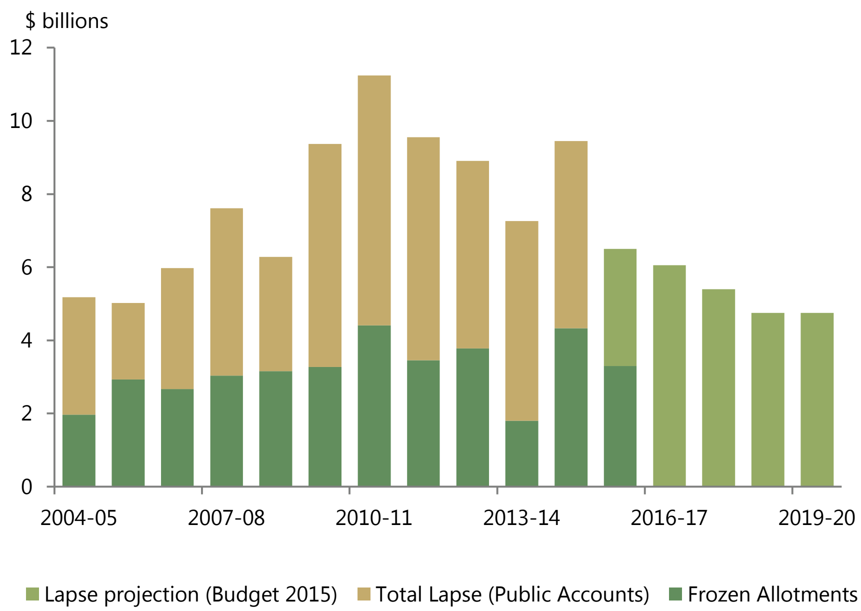
For the first time, these Supplementary Estimates provide details on allotments that are frozen by the Treasury Board of Canada Secretariat (TBS). The publication of these frozen allotments a full ten months prior to the Public Accounts of Canada represents an important increase in fiscal transparency, ensuring that parliamentarians are on a less unequal footing with the Government.

Frozen allotments refer to funds that have been approved by Parliament, but the Treasury Board (TB) then restricts for various reasons (see Box 1). TBS indicates that these frozen allotments provide an early indication of the amount of funding that will lapse in the fiscal year. These Supplementary Estimates reports $5.1 billion in unspent funds, of which $1.8 billion are TB Central Votes.

At this point in time, $3.3 billion in appropriations are held in frozen allotments, $1.0 billion less than the year previous (Figure 2-3). Since

2004-05, frozen allotments have averaged 41 per cent of total lapsed funding. If a similar relationship held as in 2015-16, this would suggest a total lapse figure higher than the $6.5 billion projected lapse in Budget 2015.[4] A higher than anticipated lapse would result in lower Government spending, which all else equal would result in a smaller budget deficit in 2015-16 than projected in the Government's recent outlook.

Figure 2-3 Lapses over time



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

Note: $1.8 billion of "Other" frozen allotments are contained within TB Central Votes. These amounts are lapses, but are not considered as frozen allotments in the Public Accounts. They are not included in the above chart.

Box 1 – Frozen allotments

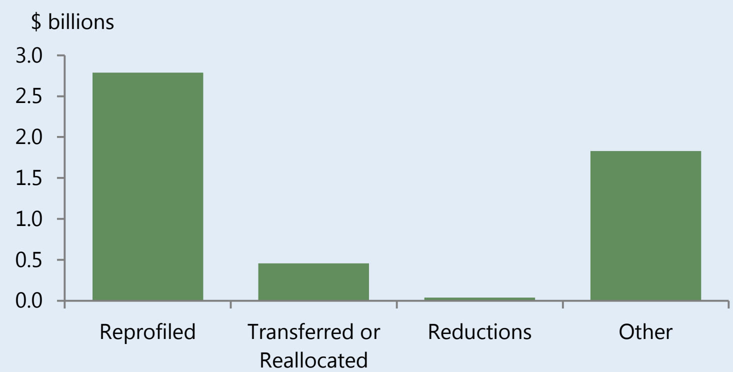
Frozen allotments are moneys approved by Parliament that the Treasury Board internally restricts. These allotments can be temporary or permanent. Temporarily frozen allotments allow the Treasury Board to stipulate certain conditions that must be met before the funds are released. Permanently frozen allotments must be lapsed by the department at the end of the fiscal year. An example of this was the first year of spending cuts outlined in the Budget 2012 Deficit Reduction Action Plan (DRAP), which were achieved through permanently frozen allotments.

Box 1 – Frozen allotments (continued)

As noted by the Treasury Board 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,
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 (also, departments that earn revenues above 125 per cent of the amount they had forecast must place those excess funds into a frozen allotment).

Figure B-1 Frozen allotments by category



Source: Treasure Board Secretariat of Canada, 2015-16.

Note: $1.8 billion of "Other" frozen allotments are contained within TBS Central Votes, which are lapses, but are not considered as frozen allotments in the Public Accounts.

The outlining of current frozen allotments in these Supplementary Estimates (C) provides an early indication of the funds that will be lapsed at year end, as the outlined frozen allotments are likely to be permanently frozen. A previous PBO report outlined government lapses in detail, including a discussion of frozen allotments (PBO, 2015).

3. New Spending by Policy Area

Figure 3-1 Whole of government authorities

Thematic Spending Area	Estimates to date (2015-16) ($ millions)	Supplementary Estimates (C) ($ millions)	Revised Total ($ millions)	Change (per cent)
Economic Affairs	**167,106**	**-1,694**	**165,413**	**-1.0%**
Strong Economic Growth	106,346	-2,139	104,207	-2.0%
Income security and employment for Canadians	51,993	238	52,230	0.5%
An Innovative and Knowledge-based Economy	5,828	164	5,991	2.8%
A Clean and Healthy Environment	2,393	43	2,436	1.8%
A Fair and Secure Marketplace	547	1	548	0.2%
Social Affairs	**47,874**	**5,304**	**53,177**	**11.1%**
A diverse society that promotes linguistic duality and social inclusion	11,103	4,941	16,043	44.5%
A Safe and Secure Canada	28,481	344	28,824	1.2%
Healthy Canadians	6,361	41	6,402	0.6%
A Vibrant Canadian Culture and Heritage	1,929	-22	1,908	-1.1%
International Affairs	**7,067**	**742**	**7,809**	**10.5%**
Global Poverty Reduction Through International Sustainable Development	3,425	328	3,752	9.6%
A Safe and Secure World Through International Engagement	3,418	400	3,818	11.7%
A Prosperous Canada Through Global Commerce	218	14	232	6.5%
A strong and mutually beneficial North American partnership	7	0	7	0.0%
Government Affairs	**23,485**	**792**	**24,277**	**3.4%**
Well-managed and efficient government operations	21,205	770	21,975	3.6%
A Transparent, Accountable and Responsive Federal Government	1,515	1	1,516	0.1%
Strong and Independent Democratic Institutions	765	21	786	2.7%

Source: Treasury Board of Canada Secretariat.

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

With these Supplementary Estimates (C) the most of the new money will be provided to the **Social Affairs** objective of building *A diverse society that promotes linguistic duality and social inclusion*. This spending area is proposed to receive an additional $4.9 billion in funds, an almost 45 per cent increase. Virtually all of this increase goes to Employment and Social Development in the form of a $4.8 billion increase in statutory spending associated with the Enhanced Universal Child Care Benefit. This benefit was increased by the previous Parliament, with the first payments being disbursed in July 2015.

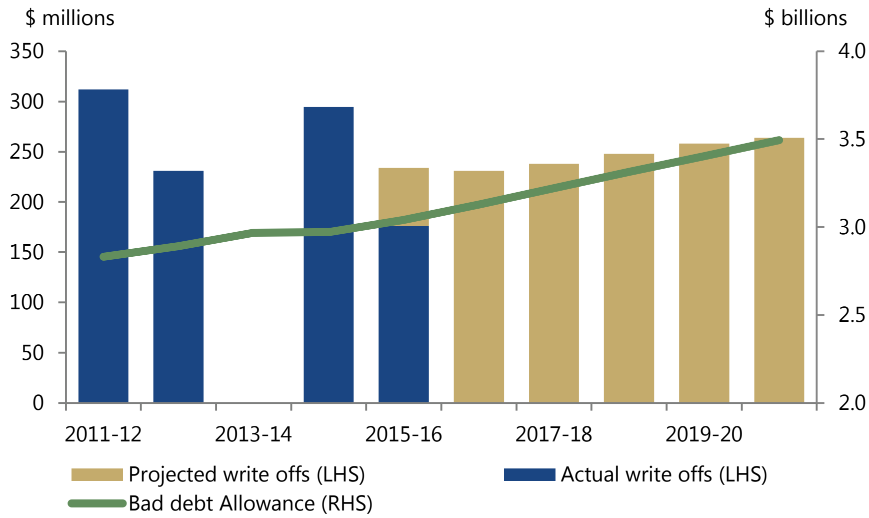
In terms of funding decreases, the **Economic Affairs** objective of fostering *Strong economic growth* experienced the largest decrease, falling $2.1 billion (2.0 per cent decrease), as a result of lower interest payments on unmatured debt. As a result of lower than anticipated interest rates the Government has revised down its public debt interest cost forecast to $15.4 billion from $18.0 billion, a savings of $2.6 billion. Without this large revision, these Supplementary Estimates would outline an additional $433 million in authorities.

Another notable change in **Economic Affairs** is a $238 million increase (0.5 per cent) in the *Income security and employment for Canadians* policy goal. This increase in primarily attributable to Employment and Social Development's Learning program, which is requesting $176 million to write off student loans. Associated with this request is a reduction in the non-budgetary value of the Canada Student Loans Program (CSLP) by $200 million. This non-budgetary amount is not captured in the Whole of Government framework.

The Office of the Superintendent of Financial Institutions' (OSFI) Actuarial Report on the CSLP projects an allowance for bad debt (that is, actual and expected debt defaults) to rise from about $3.1 billion in 2015-16 to about $3.5 billion by 2020-21 (Figure 3-2).[5] Within this five-year period, OSFI expects that the CSLP will write off a further $1.2 billion in bad debt.

In percentage terms, after the increases in **Social Affairs**, the next largest area of growth is within **International Affairs** (a 10.5 per cent increase). Most of the increase relates to two policy goals: *Global Poverty Reduction through International Sustainable Development* ($328 million, a 9.6 per cent increase) and *A Safe and Secure World through International Engagement* ($400 million, an 11.7 per cent increase). Within the latter, $219 million of this increase is for National Defence to continue the mission in Ukraine, while most of the rest is for the newly re-named Global Affairs Canada (GAC).

Figure 3-2 $1.2 billion in student loans to be written off over the next five years



Source: Office of the Chief Actuary.

Global Affairs Canada is also slotted to receive all of the funds under the *Global Poverty* sub-heading (Table 3-1), the first substantial increase in funding for the programs previously under the direction of the Canadian International Development Agency (CIDA) since their integration with GAC.

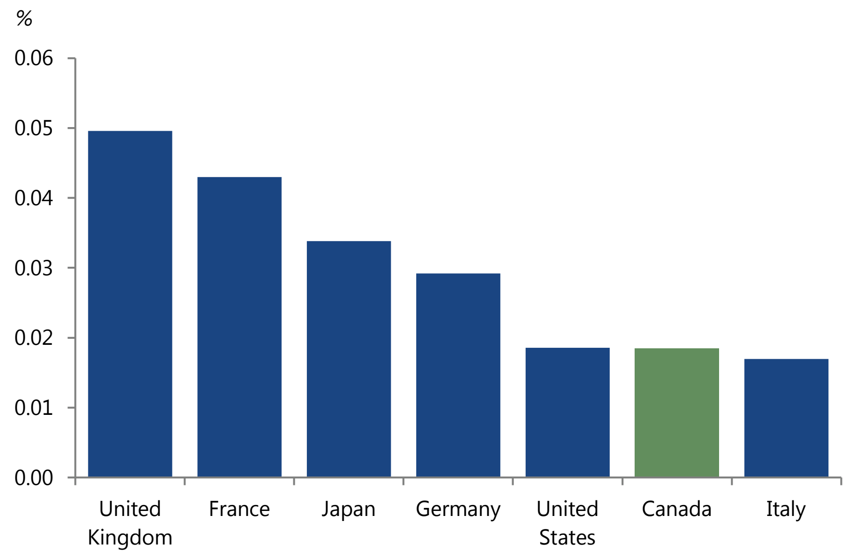
Table 3-1 New funds for Global Affairs Canada

Thematic heading	Program	New funds ($ millions)
A safe and secure world through international engagement		
	Diplomacy, Advocacy, and International Agreements	93
	Mission Network Governance, Strategic Direction and Common Services	76
	Other programs	17
Total		**186**
Global poverty reduction through international sustainable development		
	International Development	214
	International Humanitarian Assistance	99
	International Security and Democratic Development	16
Total		**329**

Sources: Supplementary Estimates (C) 2015-16 and PBO calculations.

The Government followed up the COP21 climate change conference in December 2015 with an immediate pledge of $300 million to the Green Climate Fund (GCF), which focuses on assisting developing countries with climate change.[6] These Supplementary Estimates provide $168 million of this $300 million pledge (Figure 3-3).

Figure 3-3 Announced G7 Green Climate Fund funding as a share of GDP



Sources: Green Climate Fund; OECD; and PBO calculations.

Note: All GDP figures refer to 2014.

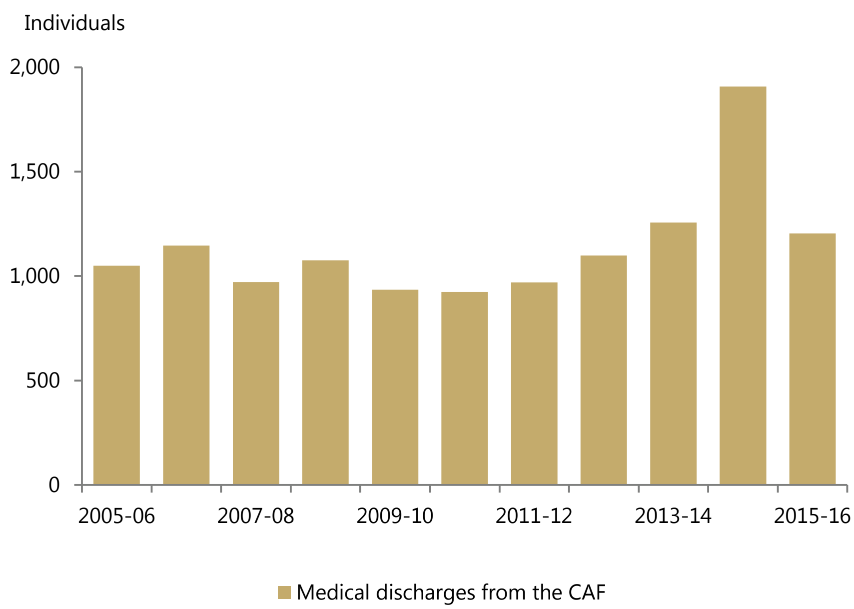
Government Affairs is projected to increase 3.4 per cent, almost exclusively due to an additional $770 million *Well-managed and efficient government operations.* This increase is driven by an additional $469 million for Public Service Insurance, of which $435 million is to address a funding shortfall in the Service Income Security Insurance Plan (SISIP).[7] The shortfall is a result of low interest rates (which increases the valuation of the liability), as well as a policy change that provides higher benefits to a growing number of medically-released members of the Canadian Armed Forces (CAF).

When CAF members become ill or injured and are released from the CAF, SISIP provides a Long Term Disability Vocational Rehabilitation Program for up to 2 years. Once the 2 year period has expired, Veterans' Affairs continues to assist the disabled in a transition to civilian life.[8]

Higher benefit payments through the SISIP program partially stem from a May 2012 Federal Court ruling that the funds SISIP clawed-back from recipients also receiving disability pension payments were improper.[9] At the time of the decision the Government made a settlement payment to disabled veterans, and has since ceased the claw-backs.

Canada's mission in Afghanistan has been a source of long-term disability in the CAF. With the completion of the mission in March 2014, a backlog of medical releases was processed, resulting in a surge of medical releases. This backlog processing is expected to continue through to 2017 and then decline.[10] Notably, a higher proportion of these releases were older, higher-paid, soldiers. Some of these veterans still fall within the two-year window of SISIP eligibility (Figure 3-4).[11] Once the two-year window has closed some of these veterans will begin to access Veteran's Affairs benefits.

Figure 3-4 Medical releases spiked following operations in Afghanistan



Source: Department of National Defence.

References

Parliamentary Budget Officer (PBO). (2015). Why does the Government lapse money and why does it matter? Retrieved from: http://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2015/Lapse%202015/Lapse_Analysis_EN.pdf

Notes

1 Treasury Board of Canada Secretariat. Supplementary Estimates (C) 2015-16. http://www.tbs-sct.gc.ca/hgw-cgf/finances/pgs-pdg/se-bsd/index-eng.asp.

2 Treasury Board of Canada Secretariat requested $5.8 billion in the 2009-10 Supplementary Estimates (C), of which $4.0 billion was statutory authorities. http://www.tbs-sct.gc.ca/est-pre/20092010/sups/C/toc-tdm-eng.asp

3 Category definition for Figure 2-2 come from TBS definitions found at: http://www.tbs-sct.gc.ca/hgw-cgf/finances/pgs-pdg/se-bsd/sups/c/20152016/esop-drsp-eng.asp

4 See Budget 2015: http://www.budget.gc.ca/2015/docs/plan/toc-tdm-eng.html

5 Office of the Superintendent of Financial Institutions: Actuarial Report on the Canada Student Loans Program as at 31st July 2014: http://www.osfi-bsif.gc.ca/Eng/Docs/CSLP_2014.pdf

6 Pledges to the GCF can be found on the GCF website (http://www.greenclimate.fund). Canada's specific pledge can be found here: http://www.greenclimate.fund/documents/20182/40672/2015_-_Canada.pdf/fd12eacd-ef07-4f6c-b4b6-6b37ebe8e9ef?version=1.0

7 About SISIP Financial: https://www.cfmws.com/en/AboutUs/SISIPFS/AboutUs/Pages/default.aspx

8 See the Senate subcommittee on Veterans Affairs July 2014 report entitled: "The transition to civilian life of veterans". Retrieved from: http://www.parl.gc.ca/Content/SEN/Committee/412/secd/rep/rep08jun14-e.pdf

9 See Manuge v Canada (2012 FC 499) : http://decisions.fct-cf.gc.ca/fc-cf/decisions/en/item/60778/index.do

10 Based on discussions with the Department of National Defence.

11 Afghanistan timeline: http://www.forces.gc.ca/en/operations-abroad-past/afg-timeline.page