



Supplementary Estimates (A) 2014-15

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www.pbo-dpb.gc.ca

Key Points of this Note:

- Supplementary Estimates (A) 2014-15 seek approval for a further \$2.4 billion in budgetary authorities.
 - Most of the new spending would be concentrated on the Government's "Economic Affairs", with minor increases balanced across the other three categories – "Social Affairs", "International Affairs" and "Government Affairs".
- Total planned budgetary authorities stand at \$237.8 billion for the current fiscal year, a marginal decrease of 0.9 per cent over the previous fiscal year.
 - While the Government no longer publishes a reconciliation of its Expenditure Plan - the Estimates – and its Budget, the marginal overall decrease in total budgetary authorities is consistent with its medium-term fiscal strategy to temper spending growth and return to a budgetary surplus.
- Roughly one third of the funding sought by the Government pertains to six initiatives announced in Budget 2014. As has been the case in recent years, this means that Parliament's consideration of many Budget initiatives will be deferred until the fall.

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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 of Canada's (Government) 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 (e.g. 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)

These are the largest Supplementary Estimates (A) since 2009-10. The Government proposes to add approximately \$2.4 billion of budgetary authorities to the Government's spending plan. 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 authority has already been provided by Parliament to spend (Figure 2-1).

Figure 2-1

Supplementary Estimates (A): Budgetary Authorities

Voted	\$2.411 B
Statutory	\$0.011 B
Net Change	\$2.422 B

Source: Supplementary Estimates (A) 2014-15.

Overall, the adjustment would bring total budgetary authorities for 2014-15 to approximately \$237.8 billion, down 0.9 per cent over the total budgetary authorities approved in the previous year.³

Based on the Government's classification framework, most of the new spending would be concentrated on the Government's "Economic Affairs", with minor increases to the other three areas – "Social Affairs", "International Affairs" and "Government Affairs" (Figure 2-2; Box 2-3).⁴

¹ <http://www.tbs-sct.gc.ca/est-pre/20092010/sups/A/intro-eng.asp>. Accessed May 2014.

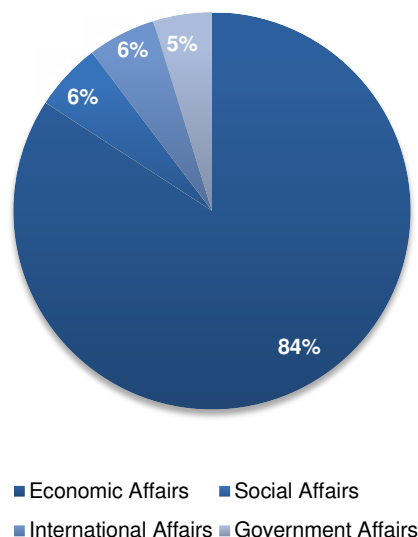
² <http://laws-lois.justice.gc.ca/eng/acts/P-1/FullText.html?term=79.2>. Accessed May 2014.

³ Based on budgetary authorities presented in the Main and Supplementary Estimates in 2013-14, less Employment Insurance spending, which is no longer presented in the Government's Spending Plan.

⁴ <http://www.tbs-sct.gc.ca/ppg-cpr/frame-cadre-eng.aspx>. Accessed May 2014.

Figure 2-2**Economic Priorities to Receive Most Funding**

% of total Budgetary Authorities



Sources: Government of Canada "Whole of Government" Reporting Framework; Supplementary Estimates (A) 2014-15; 2014-15 Reports on Plans and Priorities; PBO Calculations.

Note: Proposed budgetary allocations for VIA Rail, AECL and Windsor-Detroit crossing are assumed to be "Economic Affairs."

While the Government no longer publishes a reconciliation of its Expenditure Plan - the Estimates – and its Budget, the marginal overall decrease in total budgetary authorities is consistent with its medium-term fiscal strategy to temper spending growth and return to a budgetary surplus.

As noted in the PBO's Economic and Fiscal Outlook, the Government's ongoing spending restraint has focussed on its Direct Program Expenses (DPE) – the cost of government operations and grant and contribution programs.⁵ Budget 2014 projected the greatest year-over-year reduction of DPE since 1998-99 and DPE as a share of the economy is projected to fall to a generational low by 2017-18 (Figure 2-4).

⁵ http://www.pbo-dpb.gc.ca/files/files/EFO2014_EN.pdf. Accessed May 2014.

Box 2-3**The "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".

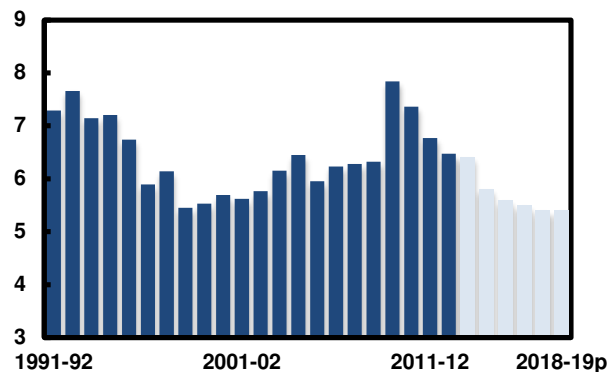
Each of the four areas of spending are then linked to sixteen discrete "outcome areas", which identify the primary objective of the spending. For instance, "Social Affairs" has four outcome segments: *Healthy Canadians*; *A Safe and Secure Canada*; *A Diverse Society that Promotes Linguistic Duality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

According to the Government, over half of all spending in 2011-12 related to "Economic Affairs", followed by roughly one-quarter of spending targeting "Social Affairs" and the balance for the other two categories.

Source: Treasury Board Secretariat of Canada. <http://www.tbs-sct.gc.ca/ppg-cpr/frame-cadre-eng.aspx>. Accessed May 2014.

Figure 2-4**Direct Program Expenses Projected to Fall to Record Low**

% of the Canadian Economy



Sources: Fiscal Reference Tables; Budget 2014.

Note: Figures from 2013-14 onward are projections.

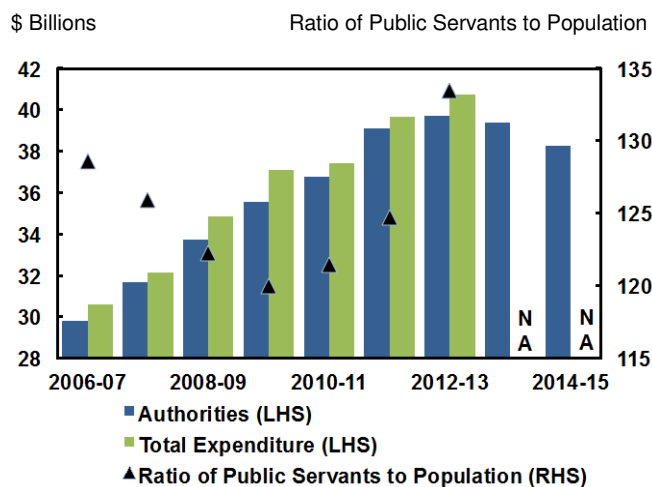
The Government's plan to reduce the size of the federal public sector in the economy has been implemented via five rounds of successive restraint, starting with Budget 2010.

While these Supplementary Estimates propose increases to two areas targeted by restraint: *Personnel* costs (\$62 million) and *Professional Services* spending (\$325 million), overall spending in these categories is estimated to decrease compared to the prior year.

In 2014-15, spending on *Personnel* is estimated to decline by 2.8 per cent compared to 2013-14 (Figure 2-5).

The decline in authorities has not kept pace with the 5.7 per cent decline in personnel employed in 2012-13 (over 16,000 positions eliminated; the Government has not yet released data for 2013-14). Nevertheless, the ratio of federal public servants to the overall Canadian population has fallen consistently over the four years ending 2012-2013, from approximately 1:120 to 1:133.

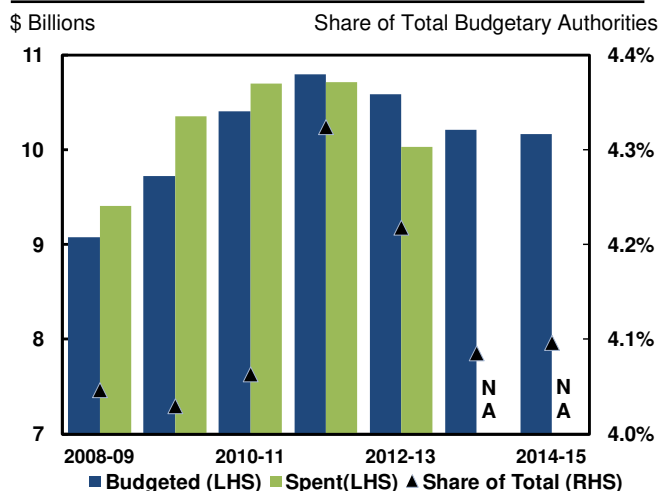
Figure 2-5
Fewer Public Servants



Sources: Public Accounts of Canada; Main and Supplementary Estimates; Statistics Canada; PBO Calculations.

Spending reductions to another core area of Government operations - *Professional and Special Services* - have been less pronounced. In 2014-15 spending in this area is estimated to marginally decrease by 0.5 per cent to \$10.2 billion and will rise as a share of overall budgetary authorities (Figure 2-6).

Figure 2-6
Stable Spending on Professional Services



Sources: Public Accounts of Canada; Main and Supplementary Estimates; PBO Calculations.

3. Program Details

As noted earlier, PBO's analysis focuses on programs that have the largest proposed changes in budgetary authorities. In Supplementary Estimates (A) 2014-15, this includes programs managed by PPP Canada Inc., The Jacques Cartier and Champlain Bridges Inc. (JCCBI), and VIA Rail Canada Inc.

PPP Canada Inc.: Federal Public-Private Partnership Initiatives

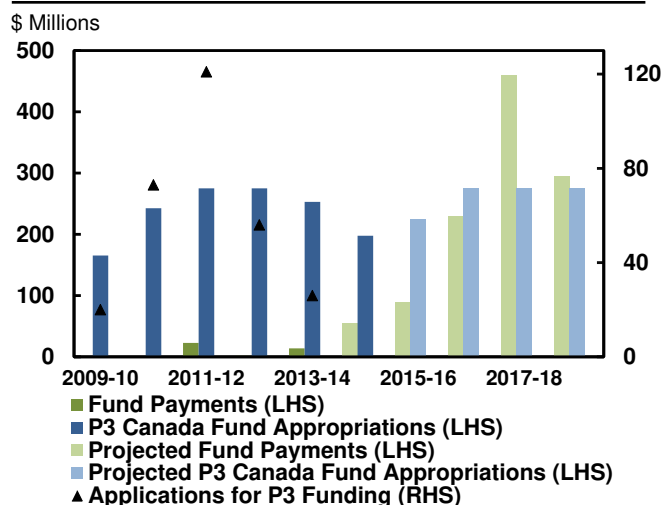
PPP Canada Inc. serves as a source of public-private partnership (PPP) expertise to all levels of government and acts to encourage the development of Canada's PPP market, and manage the P3 Canada Fund to provide funding for provincial, territorial and municipal PPP infrastructure projects.

The P3 Canada Fund provides funding to all levels of government for PPP infrastructure projects. Together with the Community Improvement Fund (\$32 billion over 10 years) and the Building Canada Fund (\$14 billion over

10 years), these represent the majority of the Government's planned support for provincial, territorial and municipal infrastructure. All projects funded through the Building Canada Fund with eligible costs over \$100 million must be assessed to determine whether they could deliver better value through a P3 structure, rather than traditional procurement. If analysis demonstrates that the project can be successfully delivered as a P3 and generate positive value-for-money, the Government will make P3 procurement a condition of its contribution toward the project.⁶

Supplementary Estimates (A) 2014-15 provide for \$200 million in funding for PPP Canada. This funding reflects the current year portion of the \$1.25 billion P3 Canada Fund commitment earmarked in Budget 2013 (See Figure 3-1).

Figure 3-1
P3 Canada Funded in Advance of Planned Payments



Sources: PPP Canada Inc. Annual Reports, PPP Canada 2013-14 Second Quarterly Financial Report, PPP Canada 2013-14 Summary Corporate Plan.

As noted in the 2013 Spring Report of the Auditor General (AG), the Government provides funding to P3 Canada in advance of expected payments due to its need to have resources on hand when project commitments are made.⁷ Hence, the appropriations provided to P3 Canada over the past six years far outstrip actual payments, which are projected to rise in the coming years.

PPP Canada's most recent quarterly financial report listed the value of the P3 Canada Fund at \$1.2 billion.⁸ Of the proposed \$200 million in additional funding in Supplementary Estimates (A) 2014-15, \$198 million is earmarked for the P3 Canada Fund. This would bring the total value of the fund to approximately \$1.4 billion.

PPP Canada's most recent estimates of all future fund obligations total \$1.67 billion (Figure 3-2).⁹ A new round of applications for funding, launched on April 14, closes on June 13, 2014.

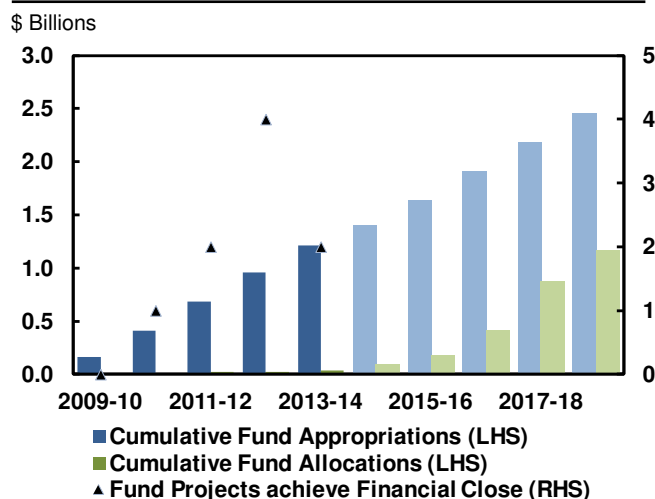
⁶ <http://www.budget.gc.ca/2013/doc/plan/chap3-3-eng.html#a15-P3-Canada-Fund>. Accessed May 2014.

⁷ 2013 Spring Report of the Auditor General of Canada. Chapter 10. http://www.oag-bvg.gc.ca/internet/English/parl_oag_201304_10_e_38195.html#ex1. Accessed May 2014.

⁸ At the time of writing, the most recent QFR was for the period ending December 31, 2013. <http://www.p3canada.ca/en/about-us/transparency-and-accountability/quarterly-financial-report/>. Accessed May 2014.

⁹ PPP Canada 2013-14 Summary Corporate Plan. <http://www.p3canada.ca/en/about-us/transparency-and-accountability/corporate-plans/2013-2014---summary-of-corporate-plan/>. Accessed May 2014.

Figure 3-2
Fiscal Room Available to Fund New Projects



Sources: PPP Canada Inc. Annual Reports, PPP Canada 2013-14 Summary Corporate Plan, Budget 2013. Canadian Council for Public-Private Partnerships: Canadian PPP Project Database¹⁰

Note: Lighter shaded bars in 2014-15 onward reflect projections. "Financial Close" indicates number of projects for which financial terms and conditions have been agreed to by participating parties.

The Jacques Cartier and Champlain Bridges Inc.: Management of Federal Bridge, Highway and Tunnel Infrastructure, and Properties in the Montreal area

The JCCBI is responsible for the operation and maintenance for the federally owned bridges in Montreal, all of which span the Saint Lawrence Seaway. This includes the Champlain Bridge, the Jacques Cartier Bridge, and sections of the Honoré-Mercier Bridge and Melocheville Tunnel.

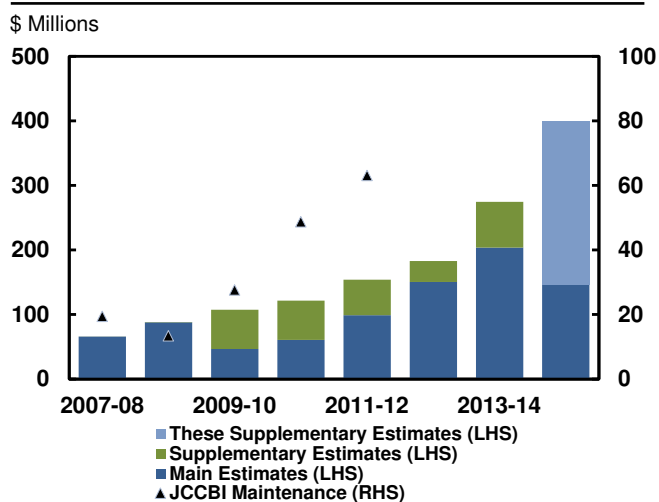
In September 2013 the JCCBI published a report they commissioned on the condition of the girders of the Champlain Bridge in Montreal. This assessment expressed concern with the status of the girders and recommended funding over five years of approximately \$500 million to rehabilitate the bridge.¹¹ The report also indicated that these

costs would continue to escalate until the bridge was replaced.

To underline the urgency, in November 2013 one of the girders assessed began to crack, requiring emergency measures which included the temporary installation of a "Superbeam" on the bridge deck, reducing the flow of traffic.¹²

Budget 2014 pledged \$378 million over two years to rehabilitate JCCBI bridges, including the Champlain Bridge.¹³ These supplementary estimates request \$253.7 million of that funding (Figure 3-3).

Figure 3-3
Maintenance Expenses Driving Budget Increases



Sources: Main and Supplementary Estimates, JCCBI Annual Reports.

Bridges Inc. Retrieved from: <http://jccbi.ca/the-corporation/transparency/>.

¹² CTV News: "Superbeam" installed on Montreal's Champlain Bridge. Accessed May 2014. <http://www.ctvnews.ca/canada/superbeam-installed-on-montreal-s-champlain-bridge-1.1568467>.

¹³ <http://www.budget.gc.ca/2013/doc/plan/budget2013-eng.pdf> Accessed May 2014.

¹⁰ <http://projects.pppcouncil.ca/ccppp/src/public/search-project>

¹¹ Buckland & Taylor Limited. (2013). Champlain Bridge Approach Spans: Edge Girder Condition Assessment and Rehabilitation Requirements. Prepared for the Jacques Cartier and Champlain

The Government has announced that the Champlain Bridge would be replaced with a new bridge, to be completed in 2018.¹⁴ This bridge will be procured through PPP at an estimated cost of \$3 billion to \$5 billion. A Request for Qualifications was completed in May 2014, and the resulting Request for Proposal is expected in July 2014.¹⁵

VIA Rail Inc.: Passenger Rail Services

VIA Rail's single program activity consists of the operation of a national passenger rail transportation system.

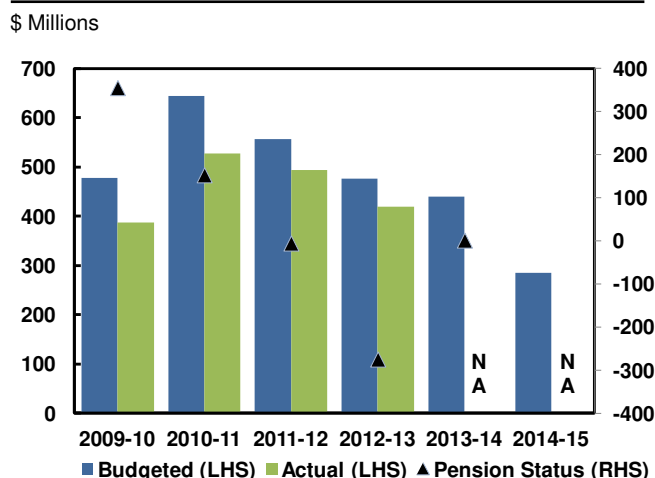
These supplementary estimates seek an additional \$101.6 million to offset the Crown Corporation's pension liabilities, and builds on \$215 million of similar pension top-ups provided by the Government since 2011-12.

VIA's pension deficit was largely erased by the end of 2013-14. This was partly due to the additional contributions made by the Government, as well as changes to the underlying financial assumptions, which reduced the estimated benefit obligation by \$248.5 million in 2012-13.

Changes in the assumptions underpinning the cost estimate of defined pension plan liabilities can have a material impact on the financial status of the plan. As noted in a recent quarterly report by VIA Rail, the estimates of Canadians' longevity – currently based on U.S. studies – are understated. Revising pension plans' assumptions regarding the life expectancy of employees would increase the cost of pension obligations.¹⁶

Figure 3-4

Pension Deficit Leads to Increased Costs



Sources: Public Accounts of Canada; Main and Supplementary Estimates, VIA Rail Annual Reports.

Note: Pension plan accrued benefit asset/liability calculated at the end of each calendar year, December 31st.

¹⁴ Government of Canada. (October 2011). Harper government to proceed with new bridge over the St. Lawrence. Retrieved May 2014 from: <http://news.gc.ca/web/article-en.do?nid=626529>.

¹⁵ RFQ = Request for qualifications, RFP = Request for proposals.

¹⁶ http://www.viarail.ca/sites/all/files/media/images/aboutViaRail/our-company/quarterly-reports/2013/Q3/Q3report_EN.pdf

Accessed May 2014. Report from Canadian Council of Actuaries: <http://www.cia-ica.ca/docs/default-source/2014/214013e.pdf?sfvrsn=4>. Accessed May 2014.