



## Federal User Charges

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**Key Points of this Note:**

- Revenues from Canada's user charges have been increasing at a relatively high rate, exhibiting a similar trend through provincial and municipal levels of government, as well as across other G7 nations. Currently, total user charges revenue earned by all levels of government rank second as a % of General Government Revenue (GGR) and Gross Domestic Product (GDP), trailing only behind all levels of government in the U.S.
- Revenues from user charges have risen from \$3.4B in 2000-01 to just over \$8B in 2010-11. Overall, user charges grew on average at around 9% annually since 2000-01. Comparatively, total tax revenues (personal, corporate and non-resident income tax plus other taxes and duties) grew on average at a little over 1.8% per year during the same period of time.
- On a ministerial revenue (i.e. internal and external revenues) basis, the Top 5 departments represented 62% of total ministerial revenues in 2002-03, whereas the Top 5 represented 70% of these revenues in 2010-11 suggesting that ministerial revenues from sales of federal goods and services have become increasingly concentrated across a handful of departments.
- While some organizations provide some detail in their Departmental Performance Reports (DPRs) regarding user charges, others do not. This reporting inconsistency does not lend itself to rigorous reconciliation and analysis between detailed information as presented in the DPRs and the content of the *Public Accounts*.
- Parliamentarians could benefit from having the detailed data on actual-to-forecast user charge performance presented either through the individual departmental Report on Plans and Priorities (RPPs) or the Departmental Performance Reports (DPRs). This would ensure that parliamentarians could be better informed to areas of specific interest in user charges that would warrant further Parliamentary scrutiny.

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## 1. Context

The Parliamentary Budget Officer’s (PBO) legislative mandate includes research and analysis regarding the state of the Government of Canada’s national finances.<sup>1</sup> This includes analysis of the revenue components of the federal fiscal plan.

For the purposes of this report, the PBO employs a certain set of definitions to distinguish its findings. The PBO defines “user charges” as total external revenues from the sales of federal goods and services (SG&S), as observed in Table 4a of Volume II of the *Public Accounts of Canada*. The term “external revenues” is used in contrast to “total ministerial revenues”, which encompass both external and internal revenues from the sales of federal goods and services (SG&S).

This definition was employed to determine the extent of the Government’s non-tax revenues

arising from external users (i.e. non-government departments). These user charges include such items as what can be seen in Box 1-1.

User charges have become a material source of financial operations within the Government of Canada over the past few years due to substantial growth. The growth in this source of revenues is consistent with both provincial and municipal jurisdictions, as well as other G7 nations. Most of these countries have also exhibited similar patterns with respect to how their user charge revenue base has climbed, relative to Gross Domestic Product (GDP) and General Government Revenue (GGR) growth.

## 2. Data Sets

The PBO initially set out to study the detailed User Fee information contained within the annual *Departmental Performance Reports* (DPRs) of each department. However, these fees are limited to those that are “solely from external sources” and “that meet the *User Fees Act* (UFA) definition of a user fee”.<sup>2</sup> As a result, the fees contained in the DPRs consist of a subset of overall user charges.

Thus, to study the trends associated with governmental revenues arising from user charges, the PBO used the information pertaining to external sales of federal goods and services (SG&S) as contained within Table 4a of the *Public Accounts of Canada*. This means that this category encompasses all user charges, even those that don’t strictly fall into the definition of a user fee, as defined by the UFA. The PBO compared the growth in this revenue base to the amount that is collected in tax revenues dating back to 2000-01, and compared these growth rates to the pace of inflation in Canada for the same period.

**Box 1-1: User Charge Categories, Examples, and Amounts**

User Charge Category	Example	Amount (\$)
<i>Rights and Privileges</i>	<b>Justice Canada:</b> Divorce registrations	720,126
<i>Lease and use of public property</i>	<b>Correctional Service:</b> Board and lodging – Inmates	595,292
<i>Services of a regulatory nature</i>	<b>Citizenship and Immigration:</b> Temporary resident permits	1,887,784
<i>Services of a non-regulatory nature</i>	<b>Health Canada:</b> Inspections revenues	552,422
<i>Sales of goods and information products</i>	<b>Fisheries and Oceans:</b> Proceeds from sale of publications	1,541,286
<i>Other fees and charges</i>	<b>Foreign Affairs and International Trade:</b> International youth exchange program	8,070,819

<sup>1</sup> <http://laws-lois.justice.gc.ca/eng/acts/P-1/FullText.html?term=79.2>. Accessed June 2012.

<sup>2</sup> Please see the Parliamentary Budget Officer’s Information Request #85 (IR0085) addressed to the Treasury Board Secretariat (TBS). The request seeks information on the relationship between the user fee data presented in the DPRs and the corresponding data presented in Volume II, Table 4b of the Public Accounts of Canada. The corresponding response from TBS as well as the original request can be found at: <http://parl.gc.ca/pbo-dpb/InformationRequests.aspx?Language=E>

The data source for the domestic overview component of this study is Table 4a of Volume II of the *Public Accounts of Canada* from 2000-01 to 2010-11.<sup>3</sup> As well, tax revenue values were also collected from the Fiscal Reference Tables obtained from Finance Canada's website<sup>4</sup> and Consumer Price Index (CPI) information was obtained through Statistics Canada's website.<sup>5</sup> After the three time series were collated, each was indexed to 2001 to ensure comparable bases across all three metrics. To compare Canada's user charge revenue base against provinces and municipalities, as well as other G7 nations, the PBO obtained datasets from the OECD's Fiscal Decentralisation database.<sup>6</sup>

Lastly, the categories contained in Table 4a are further decomposed by departmental detail in Table 4b. However, Table 4b only started being published in the *Public Accounts* starting in the FY 2002-03. This table is the source of analysis for the categorical and departmental revenue breakdown component that is presented later in the study.

Unfortunately however, Table 4b does not show a breakdown of total *external* revenues by department, but total *ministerial* revenues only. However, the conclusions that can be drawn from this part of the study still provide some useful insight into this portion of the government's non-tax revenue base.

### 3. External Revenue Analysis

*Figure 3-1* highlights the substantial growth in revenues from user charges relative to the growth in tax revenues and the pace of inflation (see Annex A). Whereas tax revenues and CPI have moved almost symmetrically to each other over

the past decade, user charges have risen substantially in growth.

At the end of 2010-11, user charges yielded roughly \$8 billion in revenues, whereas tax revenues from excise taxes, duties, personal and corporate income tax amounted to just over \$191 billion. The \$8 billion amount may only represent roughly 4% of total tax revenues, but the fact that the nominal amount has grown almost two and a half times since 2000-01 is significant. This growth illustrates that there appears, at first sight, to be a movement towards increasing reliance on this revenue source.

To look at the pace of growth across these categories, *Figure 3-2* presents the growth of the six components that comprise total sales of federal goods and services (i.e. user charges) individually, contrasted against the overall user charges category, tax revenues and the CPI (see Annex B).

Overall, user charges grew annually at an average rate of approximately 9 per cent, of which revenues from services of a non-regulatory nature climbed 27 per cent (such as revenues earned from rentals of land, buildings, vehicles and machinery), and with other fees and charges actually decreasing (2 per cent) during that same time period. However, most components were growing faster than the rate of growth in tax revenues and inflation.

When analyzing the user charges revenue structure for all levels of government within Canada, another interesting observation is made (see Annex C). *Figure 3-3* points out that the provinces collected the most in user charges in 2010, with roughly \$31 billion in revenues (for items such as ambulance services and campsite reservations), whereas the federal government collected just over \$7.5 billion during the same time period.<sup>7</sup> In fact, the federal government actually collected the lowest amount of revenues, in nominal terms, relative to all three

<sup>3</sup> *Public Accounts of Canada Volume II – Table 4a: Sales of Goods and Services, FY 2000-01 – 2010-11*

<sup>4</sup> <http://fin.gc.ca/frt-trf/2011/frt-trf-1101-eng.asp#tbl3>. Accessed June 2012

<sup>5</sup> <http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/econ46a-eng.htm>. Accessed June 2012

<sup>6</sup> [http://www.oecd.org/ctp/fiscalfederalismnetwork/oecdiscaldecentralisationdatabase.htm#SEC\\_B\\_7](http://www.oecd.org/ctp/fiscalfederalismnetwork/oecdiscaldecentralisationdatabase.htm#SEC_B_7)

<sup>7</sup> OECD data source are the National Accounts whereas user charges data source are from the Public Accounts, causing a minor variation in the \$7.5 billion amount vs. \$8 billion in user charges registered in the Public Accounts.

levels of government, as even municipalities earned roughly \$18 billion for charging user fees for essential services such as waste management. Overall, each level of government has seen an average annual rate of growth of approximately 5%. Previously, this report pointed to how quickly federal user charges had outpaced tax revenue growth and inflation since 2001. *Figure 3-3* shows that the provinces are increasing user charge revenues even faster than the federal government. To this point, federal user charges has been the focus of this report but this finding suggests that if user charge revenue growth for the federal government was high, the provincial rate of revenue growth in this sector is even more impressive. Thus, a pattern of increasing government revenues through user fees rather than through taxation, albeit a little more notable in the provinces, is observed.

This finding is replicated throughout other G7 nations as *Figure 3-4* shows the federal Canadian government seems to be following the same general trend internationally (see Annex D).<sup>8</sup> The PBO analyzed user charges as a % of GDP to control for any structural tax policy differences across G7 nations during the time periods, and noted that both trends were largely similar.

The most important takeaway of *Figure 3-4* is that user charge revenues are climbing faster than the rate of growth in GGR. This is why the normalized measure of user charge revenues as a % of GGR has increased steadily for all G7 nations since 1993. The only exception to this pattern appears to be the United States, as they were the only G7 nation where their user charges as a % of GGR decreased during the same time horizon.

Furthermore, of interest is that *Figure 3-5* shows that the total user charges revenue earned by all levels of government in Canada rank second as a % of GGR and GDP, trailing only behind all levels of government in the U.S. (see Annex E).

<sup>8</sup> Japan did not report user fees as % of GDP/GGR and was consequently excluded from the analysis.

#### 4. Ministerial Revenue Analysis

Beyond the overall trend in revenue growth from strictly user charges, there is also significant volatility within the ministerial revenue time series. Table 4b presents ministerial revenue data (i.e. encompasses both internal and external revenues), since a breakdown of external revenues by department isn't publically available.

*Figure 3-6* illustrates how the composition of revenues has changed from 2002-03 to 2010-11.<sup>9</sup> "Services of a regulatory nature" (e.g. telecommunications fees) have decreased from representing almost one-quarter of all user charges to only one-eighth. In contrast, the "Sales of goods and information products" (e.g. sales of publications and datasets) category as well as "Other Fees and Charges" (e.g. fines) have together increased 14 per cent (see Annex F).

*Figure 3-7* presents the contribution of services by the Top 5 departments in 2002-03, which represented approximately 62 per cent of total ministerial revenues. In 2010-11, the Top 5 departments accounted for over 70 per cent of total ministerial revenues.

In the most recent fiscal year for which data are available, the Top 5 Ministries responsible for revenues are: Industry Canada, Royal Canadian Mounted Police, Canada Revenue Agency, Natural Resources Canada, and Public Works and Government Services Canada. Only two of these were also in the Top 5 in 2002-03 (Industry Canada and the RCMP).

*Figure 3-8* illustrates the ministerial revenues that the new Top 5 entrants earned in both 2003 and 2011 (see Annex G). These new entrants did not form part of the Top 5 in 2002-03, but only entered into this list in 2010-11. This led to the PBO trying

<sup>9</sup> Although aggregate category numbers were available dating back to 2000-01, Table 4b with departmental detail across the six discrete categories of ministerial SG&S revenues were only added to the Public Accounts starting in 2002-03, so PBO elected to use this fiscal year as the starting point in constructing the categorical and departmental revenue breakdown analysis.

to determine what was the cause of these three departments being added to the Top 5 list during the time period. The PBO found that the Canada Revenue Agency generated increased revenues from both services of a regulatory and non-regulatory nature, with the sum of these two categories increasing 217 per cent since 2002-03 to approximately \$550 million.

Natural Resources Canada, on the other hand, saw its ministerial revenue base climb due to a combination of its rights and privileges and other fees and charges sub-categories increasing roughly \$1.5 billion since 2002-03. Lastly, PWGSC is one of the most notable departments, boasting an increase in ministerial revenues from federal sales of goods and services of approximately \$3.8 billion, up from \$62 million since 2002-03. Unlike the other departments however, PWGSC saw its increased revenues come relatively evenly from across-the-board increases of all six subcategories, rather than from any specific subcategory.

Unfortunately, based on the current reporting framework for user charges within the federal government, it isn't possible to determine based on publically available data which exact departmental user charges were the source fueling the growth. Moreover, it isn't possible to pinpoint exactly if the growth in ministerial revenues across these departments was due to an increase in user charges or inter-governmental transactions. If such information were available, it might assist in helping to better inform parliamentarians as to the changing nature of an increasingly larger source of government revenues.

## 5. Conclusion

External user charges amount to 8 billion dollars annually for the Government, and the trend indicates this revenue base is growing. This growth pattern is consistent both domestically across all levels of government, as well as across other G7 nations, highlighting the importance of this source of revenue for added parliamentary scrutiny.

While some organizations provide some detail in their Departmental Performance Reports (DPRs) regarding user charges, others do not. This reporting inconsistency does not lend itself to rigorous reconciliation and analysis between detailed information as presented in the DPRs and the content of the *Public Accounts*.

Parliamentarians could benefit from having the detailed data on actual-to-forecast user charge performance presented either through the individual departmental Report on Plans and Priorities (RPPs) or the Departmental Performance Reports (DPRs). This would ensure that parliamentarians could be better informed to areas of specific interest in user charges that would warrant further parliamentary scrutiny.

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**Annex A**

**Figure 3-1: CPI, Tax Revenues and Total External Revenues from Sales of Goods and Services, Indexed to Base Year 2001, FY 2001 – 2011**

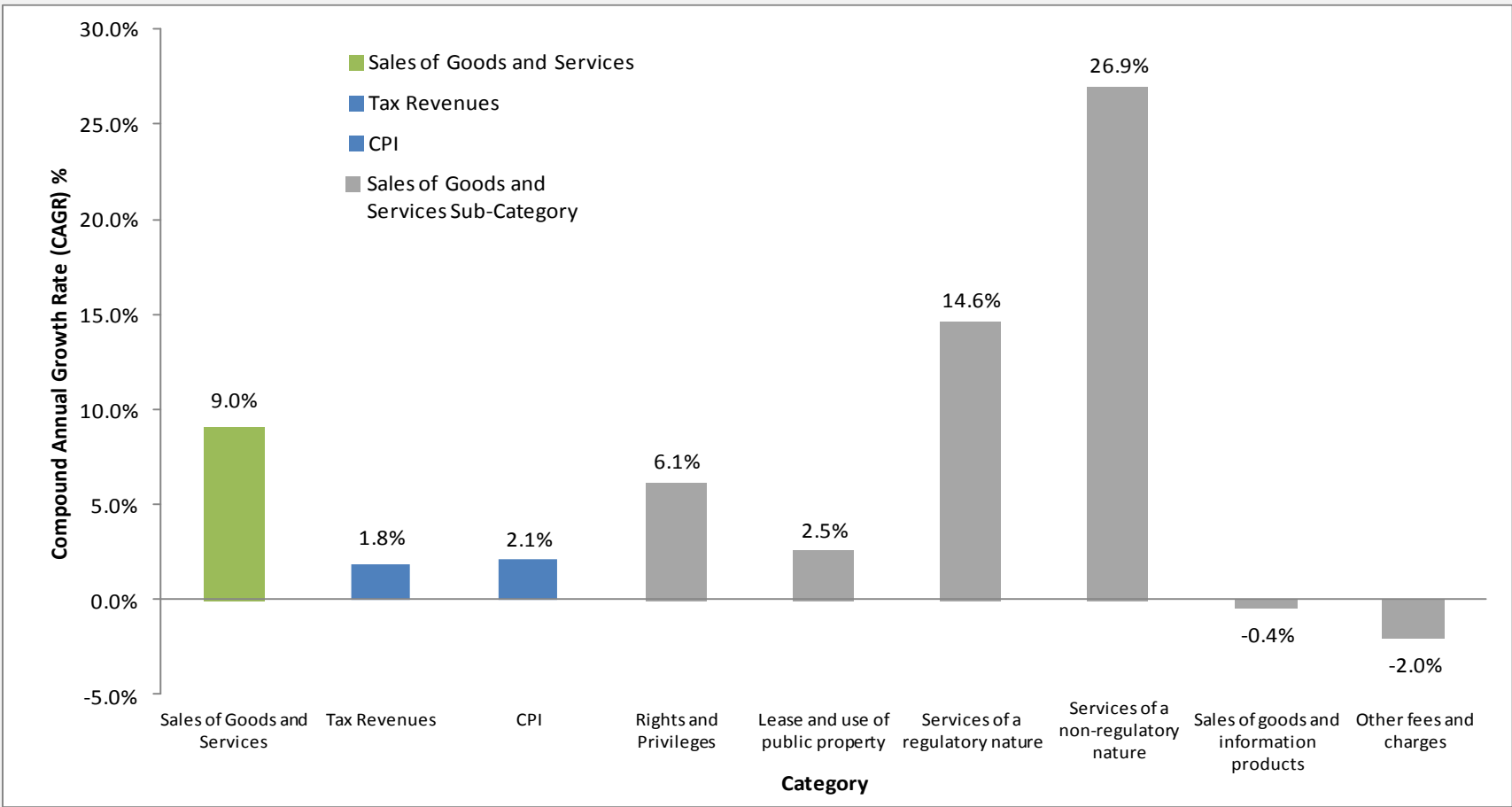


Source: Indexed values for Total External revenues from sales of goods and services obtained from aggregate data from *Public Accounts of Canada Volume II – Table 4a: Sales of Goods and Services, FY 2000-01 – 2010-11*  
Indexed values for Tax Revenues obtained from: *Federal Government – Public Accounts; Table 3: Revenues (millions of dollars) - Fiscal Reference Tables, October 2011* found at: <http://fin.gc.ca/frt-trf/2011/frt-trf-1101-eng.asp#tbl3> .  
Indexed CPI data obtained from Statistics Canada, *Consumer Price Index, historical summary (1992 to 2011)* found at: <http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/econ46a-eng.htm>



**Annex B**

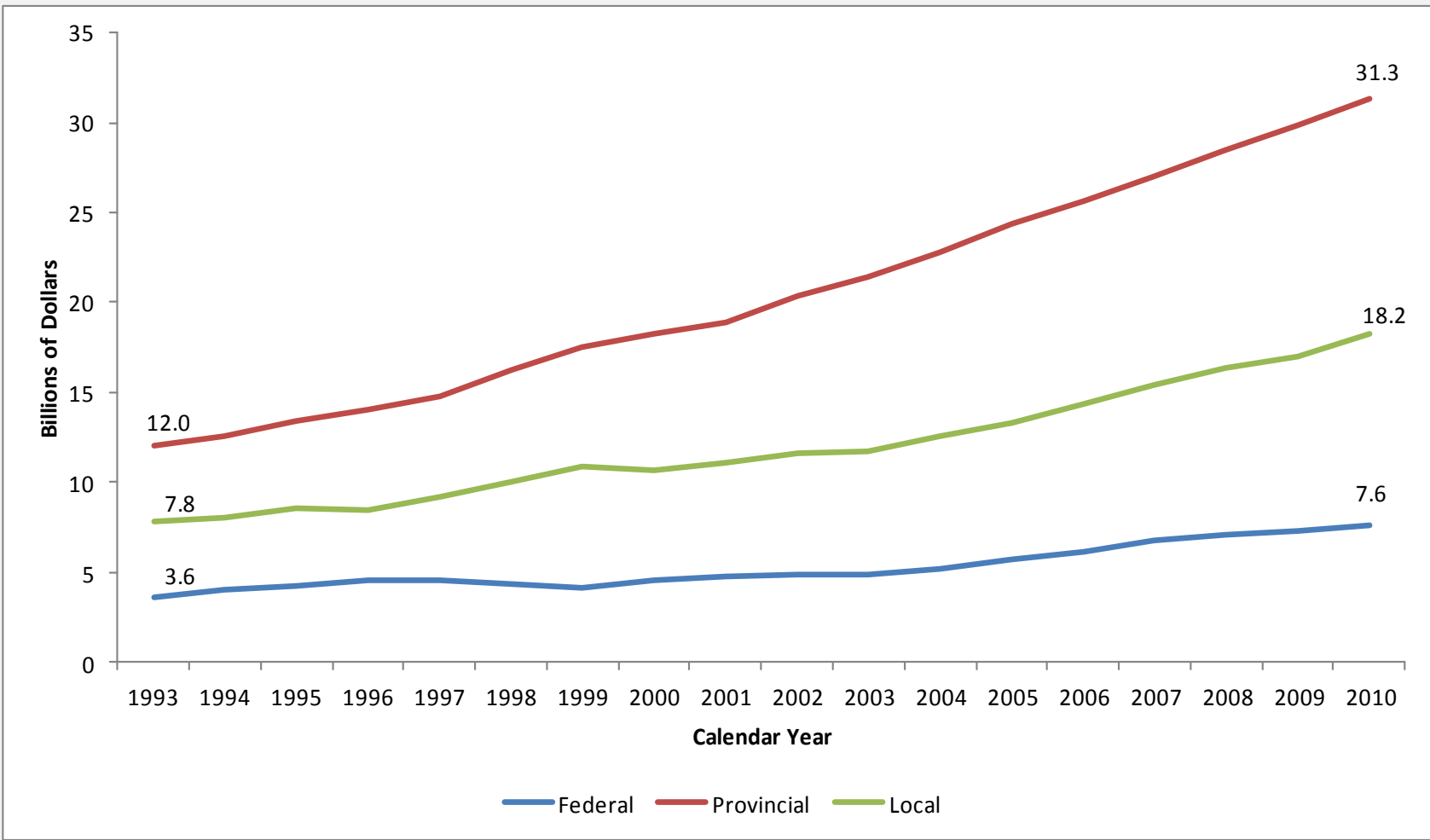
**Figure 3-2: Average Growth of 2001 Indexed Values of Total External Revenues from SG&S, SG&S Sub-components, CPI, and Tax Revenues, FY 2001 - 2011**



Source: Indexed values for Ministerial revenues from sales of goods and services obtained from aggregate data from *Public Accounts of Canada Volume II – Table 4a: Sales of Goods and Services, FY 2000-01 – 2010-11*  
 Indexed values for Tax Revenues obtained from: *Federal Government – Public Accounts; Table 3: Revenues (millions of dollars) - Fiscal Reference Tables, October 2011* found at: <http://fin.gc.ca/frt-trf/2011/frt-trf-1101-eng.asp#tbl3> .  
 Indexed CPI data obtained from Statistics Canada, *Consumer Price Index, historical summary (1992 to 2011)* found at: <http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/econ46a-eng.htm>

**Annex C**

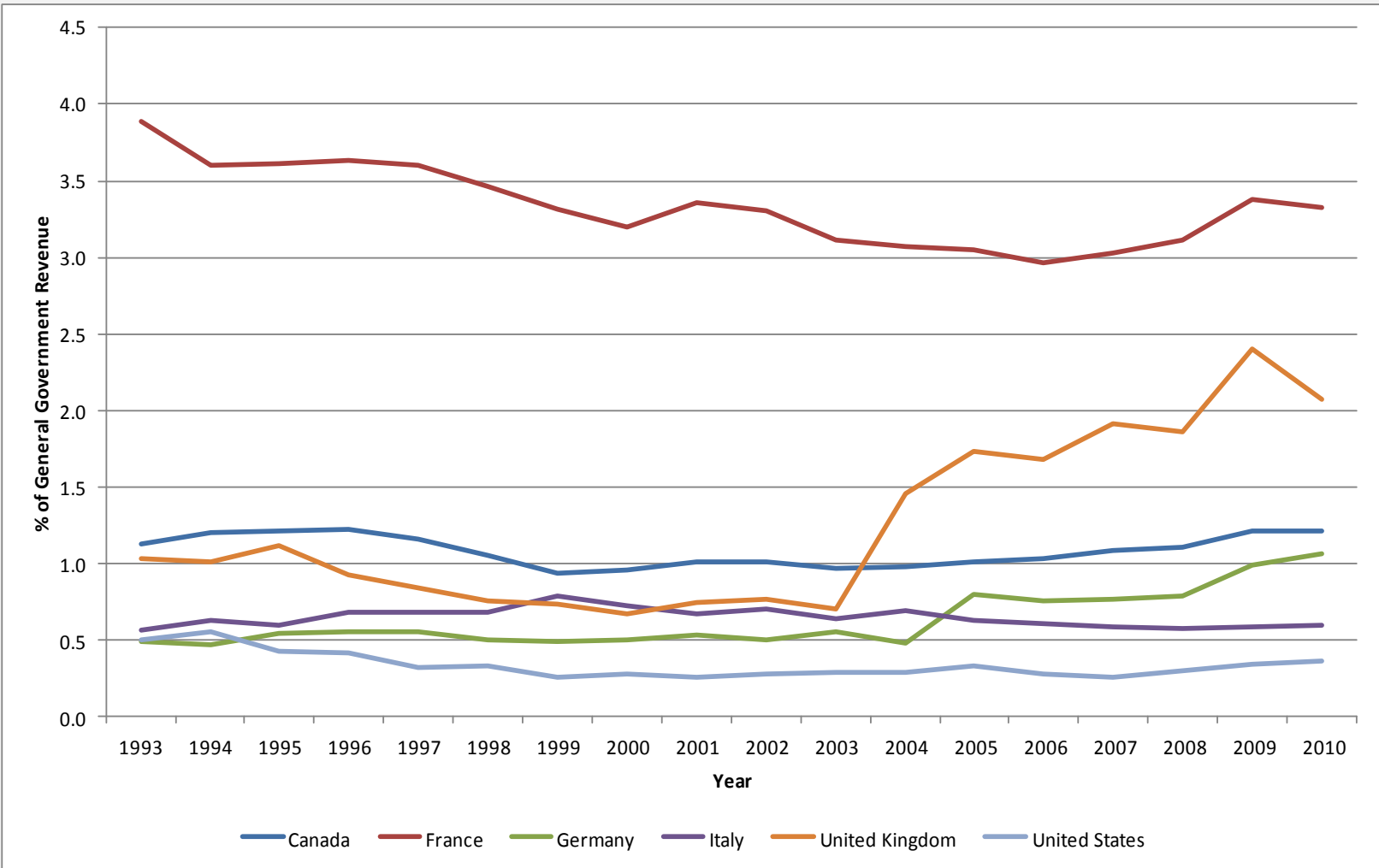
**Figure 3-3: Canadian User Fee Revenues, All Levels of Government, 1993 - 2011**



Source: OECD Fiscal Decentralisation Database: Part B: Revenue and Spending shares of state and local government: Part 7 User Fees, Table 13: User Fees as % of Total General Government Revenue (consolidated) found at: [http://www.oecd.org/document/32/0,3746,en\\_2649\\_35929024\\_47467040\\_1\\_1\\_1\\_1,00.html#SEC\\_B\\_7](http://www.oecd.org/document/32/0,3746,en_2649_35929024_47467040_1_1_1_1,00.html#SEC_B_7)

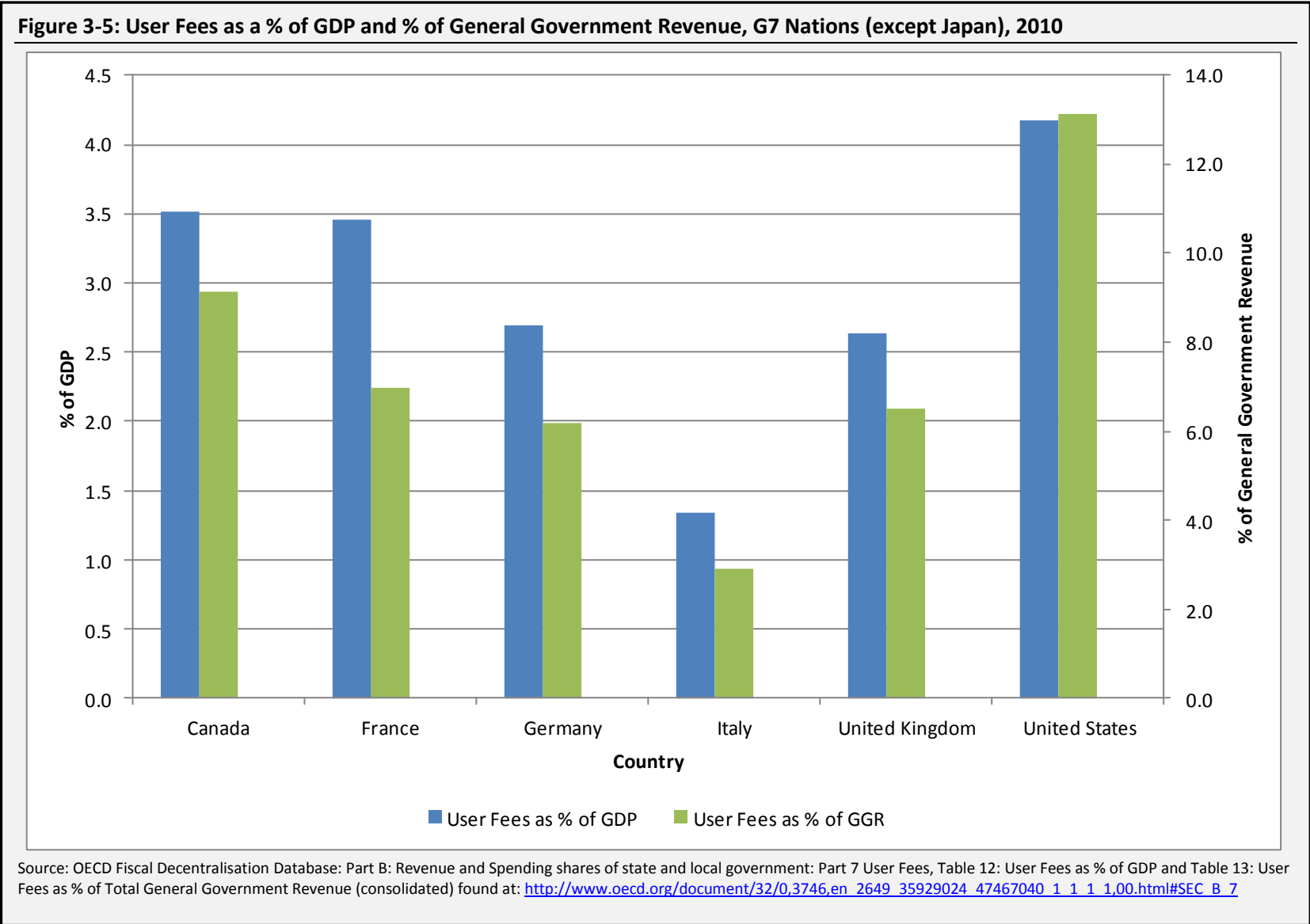
Annex D

Figure 3-4: Central Government User Fees as a % of General Government Revenue, G7 Nations (except Japan), 1993 - 2010



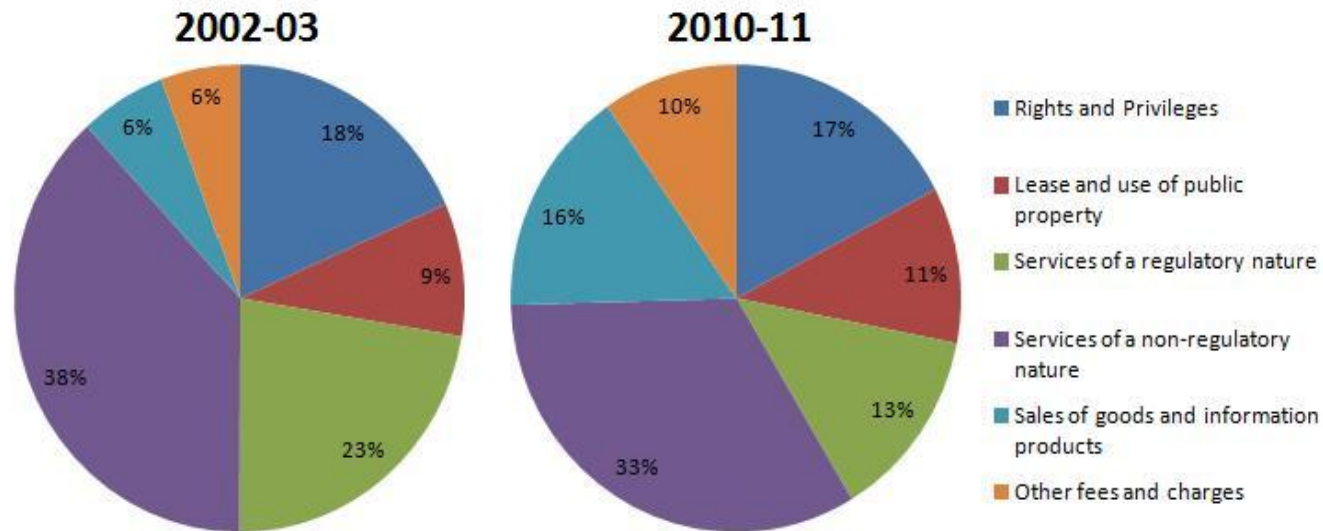
Source: OECD Fiscal Decentralisation Database: Part B: Revenue and Spending shares of state and local government: Part 7 User Fees, Table 13: User Fees as % of Total General Government Revenue (consolidated) found at: [http://www.oecd.org/document/32/0,3746,en\\_2649\\_35929024\\_47467040\\_1\\_1\\_1\\_1,00.html#SEC\\_B\\_7](http://www.oecd.org/document/32/0,3746,en_2649_35929024_47467040_1_1_1_1,00.html#SEC_B_7)

**Annex E**



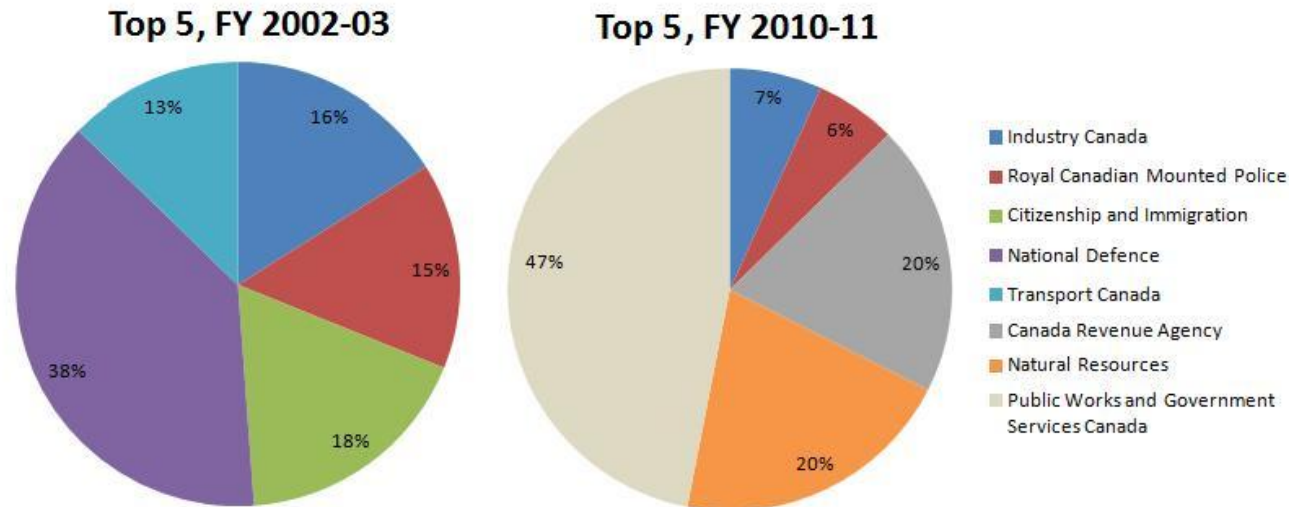
**Annex F**

**Figure 3-6: Revenue Decomposition, Sale of Goods and Services, FY 2003 – 2011**



Source: Departmental data aggregated from *Public Accounts of Canada Volume II – Table 4b: Sales of Goods and Services, FY 2002/03 - 2010/11*.

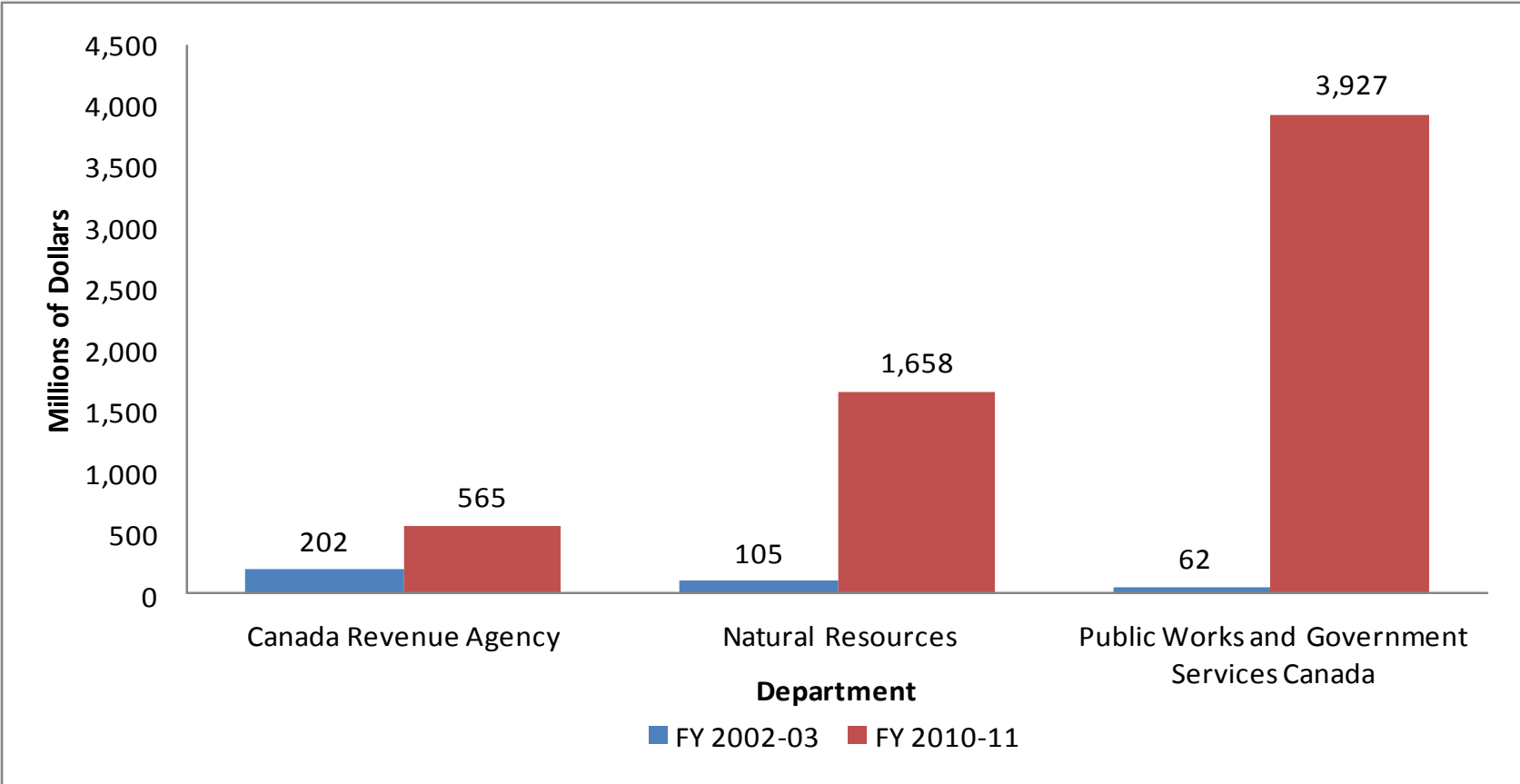
**Figure 3-7: Ministerial Revenue, Sales of Goods and Services of Top 5 Departments, 2002-03/2010-11**



Source: Departmental data collected from *Public Accounts of Canada Volume II – Table 4b: Sales of Goods and Services, FY 2003-2011*.

**Annex G**

**Figure 3-8: New Entrants to Top 5 Departments, Ministerial Revenues (SG&S) Change Analysis for FY 2002-03 and 2010-11**



Source: Departmental data collected from *Public Accounts of Canada Volume II – Table 4b: Sales of Goods and Services, FY 2002-03 – 2010-11*