



OFFICE OF THE  
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BUDGET

## Budget 2018: Issues for Parliamentarians

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The Parliamentary Budget Officer (PBO) supports Parliament by providing analysis, including analysis of macro-economic and fiscal policy, for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

To assist parliamentarians in their budget deliberations, this report highlights key issues arising from Budget 2018.

This report was written by  
Chris Matier, Senior Director  
Trevor Shaw, Economic Analyst-Advisor  
Jason Stanton, Financial Analyst

And with comments from  
Mostafa Askari, Deputy Parliamentary Budget Officer  
Jason Jacques, Senior Director

Nancy Beauchamp and Jocelyne Scrim assisted with the preparation of the report for publication.

Please contact [pbo-dpb@parl.gc.ca](mailto:pbo-dpb@parl.gc.ca) for further information.

Jean-Denis Fréchette  
Parliamentary Budget Officer

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# Executive Summary

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To assist parliamentarians in their budget deliberations, this report highlights key issues arising from Budget 2018.

## **The Government's fiscal anchors**

Despite commitments made in the Minister of Finance's mandate letter and in Budget 2016, the Government has not explicitly mentioned its fiscal anchors of balancing the budget and continuing to reduce the federal debt-to-GDP ratio in subsequent Fall Economic Statements or budgets, including Budget 2018.

Parliamentarians may wish to seek additional clarity regarding the Government's fiscal anchors and its Budget 2016 commitment to set a timeline to balance the budget.

## **Direct program expenses**

The Government revised down its status quo forecast for direct program expenses by an average of \$2.7 billion per year over 2017-18 to 2022-23. Budget 2018 lists several factors that contributed to this sizeable revision; however, the budget does not provide sufficient detail to reconcile the contributions of these factors to the \$2.7 billion forecast revision.

Given the materiality of this revision, parliamentarians may wish to request that Finance Canada begin to publish greater detail on the contributions to status quo forecast revisions for direct program expenses in future budgets and Fall Economic Statements.

## **Infrastructure lapses**

Budget 2018 provides an incomplete account of the changes to the Government's \$186.7 billion infrastructure spending plan. PBO requested the new plan but it does not exist. Roughly one-quarter of the funding allocated for infrastructure from 2016-17 to 2018-19 will lapse. Both legacy and new infrastructure programs are prone to large lapses.

Parliamentarians may wish to request more detail on plans to avoid further implementation delays, project-level progress updates and periodic updates of the Government's entire \$186.7 billion infrastructure plan.

## **National Defence**

In June 2017, the Government published *Strong, Secure and Engaged: Canada's Defence Policy* (SSE), including a 20-year plan for the Department of National Defence's operating and capital budget. This data has not been publicly reconciled to the Government's fiscal outlook.

Parliamentarians may wish to request reconciliation between the SSE framework and Budget 2018 forecasts as is provided for other spending categories.

### **Budget and Estimates alignment**

Budget 2018 includes, for the first time, detailed supplementary tables which link measures announced in the budget with the planned estimates for the 2018-19 fiscal year. Finance Canada's improvements are a step in the right direction to improve Parliament's ability to effectively scrutinize the Government's spending plans. However, it does not guarantee that all of the issues have been addressed.

As noted in previous PBO reports, the Treasury Board of Canada Secretariat has not yet shown the ability to include all budget measures in the Estimates documents for that year. In recent Estimates, there is a gap between spending identified in the budget and the results departments expect to achieve.

### **Potential real GDP**

Budget 2018 presents estimates of U.S. *potential* real GDP from the Congressional Budget Office to assess U.S. economic performance. Potential real GDP is a measure of the sustainable productive capacity of an economy.

Given the importance of potential real GDP for assessing economic performance, as well as the uncertainty surrounding estimates of potential real GDP, parliamentarians may wish to request that Finance Canada publish its own estimates of potential real GDP for the Canadian economy. This would help to inform them about the Government's view of Canada's economic performance (for example, whether the economy is operating above or below its potential).

# 1. The Government's fiscal anchors

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The 12 November 2015 mandate letter from the Prime Minister identified meeting the Government's fiscal anchors as one of the top priorities for the Minister of Finance:

Ensure that our fiscal plan is sustainable by meeting our fiscal anchors of balancing the budget in 2019/20 and continuing to reduce the federal debt-to-GDP ratio throughout our mandate.

In Budget 2016, the Government abandoned its fiscal anchor of balancing the budget in 2019-20 and committed to "returning to balanced budgets".

However, the Government did not set a new timeline for balancing the budget.<sup>1</sup> The Government did provide additional detail related to its other fiscal anchor, committing to reduce the federal debt-to-GDP ratio "to a lower level over a five-year period, ending in 2020-21".<sup>2</sup>

Despite commitments made in the Minister of Finance's mandate letter and in Budget 2016, the Government has not explicitly mentioned its fiscal anchors in subsequent *Fall Economic Statements* or budgets, including Budget 2018.

That said, the Government's Mandate Letter Tracker<sup>3</sup> (as of 31 January 2018) indicates that meeting the fiscal anchor of balancing the budget in 2019-20 is "Underway – with challenges" and that the Government now expects to balance the budget "over the long term".

In addition, the Government's Mandate Letter Tracker indicates that meeting the fiscal anchor of reducing the federal debt-to-GDP ratio throughout its mandate is underway and "on track".

Parliamentarians may wish to seek additional clarity regarding the Government's fiscal anchors and its Budget 2016 commitment to set a timeline to balance the budget.

## 2. Direct program expenses

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In Budget 2018, the Government details economic and fiscal developments between the 2017 Fall Economic Statement (FES) and Budget 2018 (Table A2.3). These developments reflect changes to the “status quo” outlook and are separate from new policy measures announced in the budget.

The largest changes in the Government’s status quo fiscal outlook are for direct program expenses, which average \$2.7 billion (lower) per year over 2017-18 to 2022-23. This amounts to an average revision of nearly 2 per cent annually to the level of direct program expenses forecast in the November 2017 FES. The Government attributes this downward revision to<sup>4</sup>:

- lower projected expenses for consolidated Crown corporations;
- year-to-date results; and
- updated departmental outlooks.

However, Budget 2018 does not provide sufficient detail to reconcile the contributions of these factors to the \$2.7 billion average annual forecast revision.

PBO requested additional detail on the contributions to this revision for direct program expenses.<sup>5</sup> In response, Finance Canada provided more detailed information to the PBO that identifies contributions from (some) specific departments and agencies, as well as contributions from provisions in the fiscal framework. Further, Finance Canada identified contributions that could have flow-through implications (that is, revisions that would result in both lower expenses and lower revenues, with no impact on the budgetary balance). Finance Canada provided this information to the PBO on the condition that the specific departments and agencies, as well as the detailed dollar amounts, remain confidential.

Given the materiality of the status quo forecast revision to direct program expenses, parliamentarians may wish to request that Finance Canada begin to publish greater detail on the factors contributing to forecast changes than were provided in Budget 2018. This information would allow parliamentarians to follow up directly with the corresponding departments, agencies and Crown corporations.

PBO plans to publish an independent forecast of direct program expenses in its April 2018 Economic and Fiscal Outlook.

### 3. Infrastructure lapses

**Table 3-1 Infrastructure lapses: Budget 2018 vs. FES 2016**

<i>lapse, \$ billions</i>	<b>2016– 2017</b>	<b>2017– 2018</b>	<b>2018– 2019</b>	<b>2019– 2020</b>	<b>2020– 2021</b>	<b>2021– 2022</b>	<b>2022– 2023</b>
<b>Total</b>	<b>-3.3</b>	<b>-4.6</b>	<b>-2.9</b>	<b>1.1</b>	<b>2.0</b>	<b>0.6</b>	<b>-0.6</b>
Budget 2016 Infrastructure Investments	-1.1	-2.5	-0.3	2.2	1.6	0.1	0.0
Budget 2017 Investing in Canada Plan	0.0	0.0	-0.8	0.1	-0.2	-0.4	-0.7
Legacy Infrastructure Programs	-2.2	-2.0	-1.7	-1.3	0.6	0.9	0.1
<i>lapse, % of planned</i>	<b>2016– 2017</b>	<b>2017– 2018</b>	<b>2018– 2019</b>	<b>2019– 2020</b>	<b>2020– 2021</b>	<b>2021– 2022</b>	<b>2022– 2023</b>
<b>Total</b>	<b>-25</b>	<b>-29</b>	<b>-16</b>	<b>8</b>	<b>14</b>	<b>4</b>	<b>-4</b>
Budget 2016 Infrastructure Investments	-28	-40	-11				
Budget 2017 Investing in Canada Plan		-4	-21	3	-3	-6	-8
Legacy Infrastructure Programs	-24	-24	-16	-16	7	13	1

Sources: Finance Canada and Parliamentary Budget Officer.

Note: PBO assumes that funding for legacy infrastructure programs not detailed in Budget 2018 lapses at the same rate as funding for other legacy infrastructure programs.  
FES denotes Fall Economic Statement.

In Budgets 2016 and 2017, the Government laid out its plan to invest \$186.7 billion in infrastructure over 12 years. Since these announcements, infrastructure spending has been prone to delays and spending has fallen short of initial plans.

In Budget 2018, the Government updated its infrastructure plan however the update is incomplete. Budget 2018 fully reconciles amounts funded through Budgets 2016 and 2017 but provides an incomplete account of funding for “existing infrastructure programs”, accounting for only \$21.2 billion of the \$91.1 billion overall (see Appendix A).

PBO requested the Government’s revised plan for the entire \$186.7 billion envelope.<sup>6</sup> The plan does not yet exist. Finance Canada has agreed to prepare the data in the coming weeks.

In the interim, PBO assumes that the entire legacy infrastructure envelope will be subject to delays in line with the \$21.2 billion legacy project envelope highlighted in Budget 2018.

Overall, PBO estimates that one-quarter of infrastructure funding for 2016-17 to 2018-19 will go unspent as planned (Table 3-1). In past reports, PBO has highlighted how infrastructure spending is especially prone to delay.<sup>7</sup> Data from Budget 2018 further demonstrate that material implementation delays are not new to recent federal infrastructure programs. Legacy infrastructure programs (that is, programs put in place prior to 2016) are prone to lapses (24 per cent lapse rate), as are infrastructure projects funded in Budgets 2016 and 2017 (33 per cent lapse rate).

The Government is currently finalizing bilateral funding agreements with the provinces and territories. Parliamentarians may wish to request additional detail from implementing departments on how they plan to avoid further implementation delays. Parliamentarians may also wish to request detail on project-level progress to date, along with a full and up-to-date account of the Government's \$186.7 billion investment plan.

## 4. National Defence

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In June 2017, the Government published *Strong, Secure and Engaged: Canada's Defence Policy* (SSE). One purpose of the report was to "bring greater clarity to how the defence budget is managed and spent".<sup>8</sup>

The document sets out a 20-year plan for the Department of National Defence's operating and capital budget, consistent with public sector accounting standards and "aligned with fiscal forecasting by Finance Canada".<sup>9</sup>

Recent budgets have provided supplementary detail on key spending categories, such as infrastructure. To date, the budget has not provided a detailed breakdown of the SSE fiscal plan consistent with the Government's overall operating and capital spending plans. Parliamentarians may wish to request a detailed and current reconciliation between the SSE framework and the Budget 2018 forecast, as is provided for infrastructure spending.

PBO has requested detailed project data for the entire SSE program, along with updated spending plans.<sup>10</sup> The Department of National Defence indicates that the information will be forthcoming. We intend to use this data to track and monitor SSE implementation as part of spending projections in upcoming PBO Economic and Fiscal Outlooks.

## 5. Budget and Estimates alignment

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Frequently, the budget has been released after the tabling of the Main Estimates. This resulted in spending announcements made in the budget not being included until, at the earliest, the first supplementary estimates. In order to address this issue, the House of Commons approved a motion in June 2017 to change Standing Order 81, which delays the tabling of the Main Estimates until mid-April. According to the Government, this change will allow for “more budget initiatives to be included in the Main Estimates on which Parliamentarians will vote.”<sup>11</sup>

In line with the Government’s commitment to “improve the reporting process to increase accountability to Parliament and Canadians”<sup>12</sup>, Finance Canada, for the first time, included detailed supplementary tables in Budget 2018, which link measures announced in the budget with the planned estimates for the 2018-19 fiscal year. The tables provide specific dollar amounts associated with each budget measure, broken down by department, which is a significant, and much needed improvement to previous budget documents.

While Finance Canada’s improvements are a step in the right direction to improve Parliament’s ability to effectively scrutinize the Government’s spending plans, it does not guarantee that all of the issues have been addressed.

As noted in previous PBO reports, the Treasury Board of Canada Secretariat has not yet shown the ability to include all budget measures in the Estimates documents for that year. In 2017-18, approximately one quarter of Budget 2017 measures were not included, or clearly identified, in Supplementary Estimates (A), (B), or (C) 2017-18.<sup>13</sup>

In recent Estimates, there is also a gap between spending identified in the budget and the results departments expect to achieve, as outlined in their departmental plans.<sup>14</sup> There remains scope for the Treasury Board of Canada Secretariat to make significant improvements in the efficiency of its internal process to achieve its goals of including all budget measures in the Main Estimates and ensuring Parliament plays a “meaningful role in reviewing the Government’s spending plans.”<sup>15</sup>

## 6. Potential real GDP

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Budget 2018 presents estimates of U.S. *potential* real gross domestic product (GDP) from the Congressional Budget Office (CBO) to assess U.S. economic performance.<sup>16</sup> Based on these estimates and *actual* U.S. real GDP, Budget 2018 notes that the “U.S. economy has been operating near or even slightly above its potential in recent years”.

PBO’s preferred metric for assessing economic performance at a macro level is also based on the concept of potential real GDP, which is not directly observable but can be estimated. Indeed, in our Economic and Fiscal Outlooks, we provide estimates of potential real GDP growth and the output gap (the percentage difference between actual and potential real GDP) for Canada.<sup>17</sup>

Potential real GDP is a measure of the sustainable productive capacity of an economy. As noted by the CBO and the Bank of Canada, it is not a technical limit on production: it is the level of output that can be achieved with available resources (labour, capital and technology) without creating inflationary pressures.<sup>18</sup>

Moreover, potential real GDP—both its level and growth rate—can be influenced by actual economic conditions as well as government policies. Ultimately, an economy’s capacity to generate increases in living standards and to support government programs is tied to potential real GDP.

Although potential real GDP provides a natural benchmark for assessing overall economic performance, it is important to keep in mind that it is an estimate and therefore subject to uncertainty.

Given the importance of potential real GDP for assessing economic performance, both over history and projection, as well as the uncertainty surrounding estimates of potential real GDP, parliamentarians may wish to request that Finance Canada publish its own estimates of potential real GDP for the Canadian economy. This would help to inform them about the Government’s view of Canada’s current economic performance (for example, whether the economy is operating above or below its potential).

These estimates could also be used to benchmark the private sector outlook for Canadian real GDP that Finance Canada uses to produce its fiscal projections. This would help to inform parliamentarians about the Government’s view of Canada’s economic performance over the medium term.

# Appendix A

**Table A-1 Infrastructure spending plan: Budget 2018**

<i>\$ billions</i>	<b>2016– 2017</b>	<b>2017– 2018</b>	<b>2018– 2019</b>	<b>2019– 2020</b>	<b>2020– 2021</b>	<b>2021– 2022</b>	<b>First 6 years</b>	
<b>Total Amount Provisioned in Budget 2018</b>	<b>9.7</b>	<b>11.1</b>	<b>14.6</b>	<b>14.4</b>	<b>16.3</b>	<b>14.4</b>	<b>80.5</b>	
Budget 2016 Infrastructure Investments	2.8	3.8	2.3	3.1	2.3	0.1	14.4	
Budget 2017 Investing in Canada Plan	0.0	0.7	3.2	4.3	5.1	6.3	19.6	
Legacy Infrastructure Programs*	6.9	6.6	9.2	6.9	8.8	8.0	46.5	
funding detailed in Budget 2018	5.9	1.1	1.5	1.8	2.2	2.4	15.0	
funding not detailed in Budget 2018*	1.0	5.5	7.7	5.1	6.6	5.6	31.5	
	<b>2022– 2023</b>	<b>2023– 2024</b>	<b>2024– 2025</b>	<b>2025– 2026</b>	<b>2026– 2027</b>	<b>2027– 2028</b>	<b>Next 6 years</b>	<b>Total</b>
<b>Total Amount Provisioned in Budget 2018</b>	<b>14.2</b>	<b>15.3</b>	<b>16.1</b>	<b>18.2</b>	<b>17.6</b>	<b>18.7</b>	<b>100.1</b>	<b>186.7</b>
Budget 2016 Infrastructure Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	14.4
Budget 2017 Investing in Canada Plan	7.2	8.4	9.3	11.4	11.7	13.0	61.1	81.2
Legacy Infrastructure Programs*	7.0	?	?	?	?	?	44.6	91.1
funding detailed in Budget 2018	2.1	?	?	?	?	?	6.2	21.2
funding not detailed in Budget 2018*	4.9	?	?	?	?	?	38.4	69.9

Sources: Finance Canada and Parliamentary Budget Officer.

Note: \* indicates PBO's assumption that funding for legacy programs not detailed in Budget 2018 lapse at the same rate as other infrastructure programs. Totals do not sum to \$186.7 billion because amortization costs on some federally-owned assets extend beyond 2027-28.

# Notes

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1. That said, in Budget 2016, the Government did commit to “set a timeline for balancing the budget when growth is forecast to remain on a sustainably higher track”.
2. Given the audited financial results for 2015-16 and Statistics Canada’s current estimate of nominal GDP in 2015, this translates into a federal debt-to-GDP ratio of 30.9 per cent, or lower, in 2020-21. In Budget 2018, the Government projected the federal debt-to-GDP ratio to decline to 29.4 per cent in 2020-21.
3. Available at: <https://www.canada.ca/en/privy-council/campaigns/mandate-tracker-results-canadians.html>.
4. Budget 2018, pp. 324-325.
5. See [http://www.pbo-dpb.gc.ca/web/default/files/Documents/Info%20Requests/2018/IR0355\\_FC\\_s supplementary info Budget20018 EN.pdf](http://www.pbo-dpb.gc.ca/web/default/files/Documents/Info%20Requests/2018/IR0355_FC_s%20supplementary%20info%20Budget20018_EN.pdf).
6. See [http://www.pbo-dpb.gc.ca/web/default/files/Documents/Info%20Requests/2018/IR0355\\_FC\\_s supplementary info Budget20018 EN.pdf](http://www.pbo-dpb.gc.ca/web/default/files/Documents/Info%20Requests/2018/IR0355_FC_s%20supplementary%20info%20Budget20018_EN.pdf).
7. See [http://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2015/Lapse%202015/Lapse Analysis EN.pdf](http://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2015/Lapse%202015/Lapse%20Analysis_EN.pdf).
8. Department of National Defence, *Strong, Secure and Engaged: Canada’s Defence Policy*, p. 96. Available at: <http://dgpaapp.forces.gc.ca/en/canada-defence-policy/docs/canada-defence-policy-report.pdf>.
9. *ibid*, pp. 96-97.
10. See [http://www.pbo-dpb.gc.ca/web/default/files/Documents/Info%20Requests/2018/IR0351\\_ND SSE Jan 2018 EN.pdf](http://www.pbo-dpb.gc.ca/web/default/files/Documents/Info%20Requests/2018/IR0351_ND_SSE_Jan_2018_EN.pdf).
11. See Annex 2, Supplementary Information in Budget 2018.  
<https://www.budget.gc.ca/2018/docs/plan/anx-02-en.html>.

In its 2017-18 Departmental Plan, the Treasury Board of Canada Secretariat committed, by May 31, 2018, to include 100 per cent of budget initiatives in the next available estimates. This means that parliamentarians could expect to see virtually all Budget 2018 measures in the spring 2018-19 main estimates. Available at: <https://www.canada.ca/en/treasury-board-secretariat/corporate/reports/treasury-board-canada-secretariat-2017-18-departmental-plan.html#toc6.1.1>.

12. See <https://www.canada.ca/en/treasury-board-secretariat/services/planned-government-spending/empowering-parliamentarians-better-information.html>.
13. Supplementary Estimates (C) 2017-18. Available at: [http://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2018/Supps%20%28C%29%202017-18/Supplementary%20Estimates%20C%202017-18\\_EN.pdf](http://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2018/Supps%20%28C%29%202017-18/Supplementary%20Estimates%20C%202017-18_EN.pdf).
14. Departmental plans will be tabled on the same day as the Main Estimates.
15. See <https://www.canada.ca/en/treasury-board-secretariat/services/planned-government-spending/empowering-parliamentarians-better-information.html>.
16. See Chart A1.12 on page 296 in Budget 2018.
17. For example, in our October 2017 Economic and Fiscal Outlook, we indicated that the Canadian economy rose above its potential in the second quarter of 2017 and was projected to remain above its potential through 2022. In addition, we projected potential GDP growth to rise from 1.2 per cent in 2017 to 1.9 per cent in 2022.
18. See CBO's *Estimating and Projecting Potential Output Using CBO's Forecasting Growth Model*. Retrieved from: <https://www.cbo.gov/system/files/115th-congress-2017-2018/workingpaper/53558-cbosforecastinggrowthmodel-workingpaper.pdf>. See A. Côté's *The Promise of Potential*. Retrieved from: <http://www.bankofcanada.ca/wp-content/uploads/2013/10/remarks-291013.pdf>.