



Expenditure Monitor: 2012-13 Q2

Ottawa, Canada
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www.pbo-dpb.gc.ca

Key Points of this Note:

- This note reviews federal expenditures for the first six months of the fiscal year 2012-13 (*i.e.* April to September 2012).
- Based on data from the first six months, total federal expenditures decreased approximately 0.6 per cent from the same period in the previous fiscal year. This is lower than the 2 per cent annual increase forecast in Finance Canada's November 2012 *Update of Economic and Fiscal Projections*.
 - Decreased year-to-date expenditures are driven, in part, by lower public debt charges and reduced operating expenditures. The latter were subject to the Budget 2012 restraint exercise.
- Notwithstanding the overall decrease in expenditures, spending on internal services (*i.e.* overhead costs) increased by 8 per cent in the first six months of 2012-13.
- Many of the largest changes in expenditure authorities are explained in the quarterly reports of departments and agencies. However, there is limited detail regarding spending by program activity, which would strengthen fiscal transparency and monitoring, as the Treasury Board Secretariat reporting standards do not require this to be published.
- Summary tables of total expenditures by program activity for the first six months of 2012-13 are published on the PBO Web site (www.pbo-dpb.gc.ca).

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1. Context

The Parliamentary Budget Officer's (PBO) legislative mandate is to "provide independent analysis to the Senate and to the House of Commons about the state of the nation's finances, the estimates of the government and trends in the national economy".¹

In accordance with the mandate, the PBO performs ongoing analysis of variations to departments' and agencies' spending authorities that are outlined in the Estimates (*i.e.* the provision of spending authorities provided by Parliament), as well as tracks in-year expenditures from these allotments.²

This monitoring framework allows the PBO to identify specific items of material interest to parliamentarians as they consider additional adjustments to authorities proposed by the Government. Also, since spending restraint plans announced in Budget 2012 were not presented in the Estimates documents (*i.e.* the Main and Supplementary Estimates, as well as the Reports on Plans and Priorities) the framework provides further clarity to parliamentarians, helping identify which programs may have been affected by the spending restraint currently being implemented.³

This note reviews total spending authorities (*i.e.* Main Estimates and Supplementary Estimates A and B) and actual expenditures for the first six months of the current fiscal year (*i.e.* April to September 2012).

¹ <http://laws.justice.gc.ca/eng/PDF/P-1.PDF>. Accessed January 2013.

² An overview of the methodology used by the PBO is provided in the complementary briefing note, "Expenditure Monitor: Methodology". http://www.pbo-dpb.gc.ca/files/files/Publications/IMD_March_2011_EN.pdf. Accessed January 2013.

³ <http://www.pbo-dpb.gc.ca/files/files/Expenditure%20Monitoring%20Framework.EN.pdf>. Accessed January 2013.

2. Year-to-Date Highlights of 2012-13

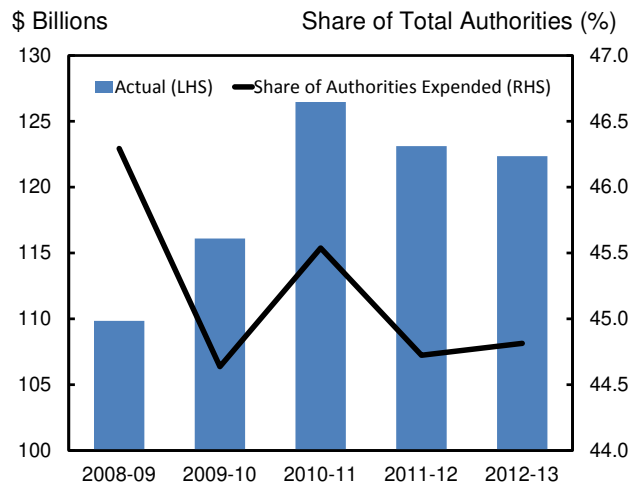
Total Expenditures

Total expenditures are comprised of four components: major transfers to individuals; major transfers to other levels of government; debt servicing costs; and direct program spending (DPS). The first three types of spending are statutory in nature and are driven by variation in economic variables. PBO analysis focuses on DPS, which has been the target of the Government's recent restraint initiatives.

Total expenditures in the first six months of 2012-13 declined by \$0.8 billion from the same period in 2011-12, a year-over-year decrease of 0.6 percent (Figure 2-1).

Figure 2-1

Total Expenditures in the First Six Months of the Fiscal Year⁴



Sources: Government of Canada; PBO calculations.

⁴ Note: Beginning in 2012-13, the Government of Canada reclassified several tax credits as expenses. Historical data are currently only available to 2011-12 onward. Hence, expenditures in 2008-09 through 2010-11 are understated by approximately \$1 billion in Figure 2-1, as these items are not presented in the Government's estimates. The share of total authorities calculation is not materially affected.

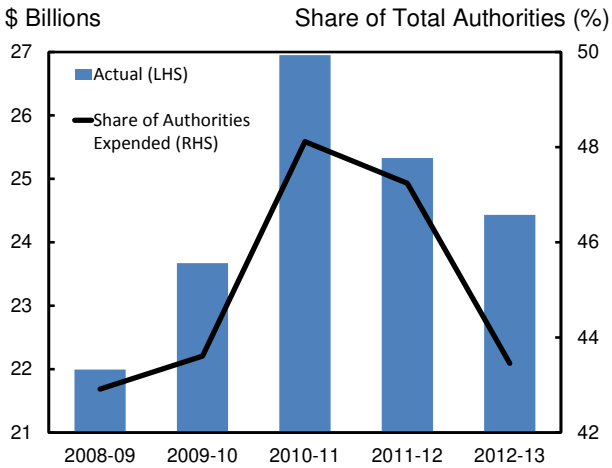
Direct Program Spending (DPS)

DPS is comprised of operating and capital expenditures, as well as other transfer payment programs (e.g. agricultural support programs).

(i) Operating Expenditures

Operating expenditures decreased almost \$0.9 billion (roughly 4 per cent) to \$24.4 billion (Figure 2-2). This decline in expenditure resulted in departments and agencies spending a smaller share of their operating authorities in the first six months (43 per cent), compared to the previous year (47 per cent).

Figure 2-2
Operating Expenditures in the First Six Months of the Fiscal Year



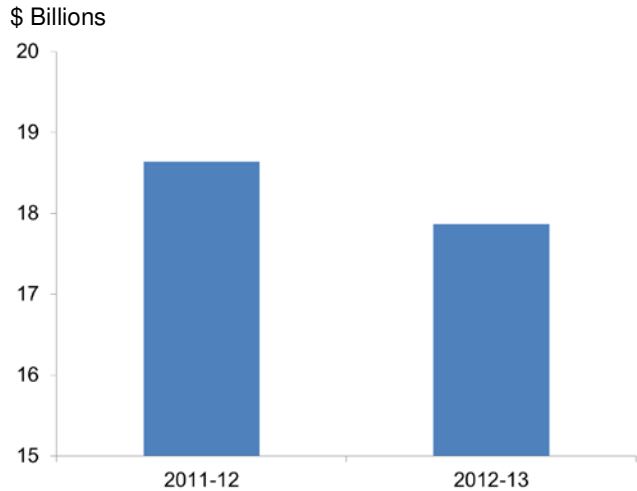
Sources: Government of Canada; PBO calculations.

The lower level of operational spending across most government departments and agencies since 2010-11 reflects the restraint measures that have been implemented in the past three federal budgets and the elevated spending levels in 2010-11 associated with stimulus spending.

Personnel spending reductions represent most of the decrease in operating expenditures. Based on the quarterly reports of departments and agencies, total year-to-date spending on

personnel decreased by approximately \$0.8 billion (4 per cent) from the previous year (Figure 2-3), reflecting the Government’s announcement that almost 11,000 positions were eliminated in the first half of 2012-13.^{5,6}

Figure 2-3
Personnel Spending in the First Six Months of the Fiscal Year



Sources: Government of Canada; PBO calculations.

(ii) Capital Expenditures

As presented in Figure 2-4, capital expenditures increased almost 7 per cent in the first six months of 2012-13 to approximately \$1.6 billion. The share of expenditures relative to authorities also increased, to 22 per cent. Capital expenditures usually increase over the course of the fiscal year, which can explain the relatively low share of authorities expended during the first six months of the fiscal year.

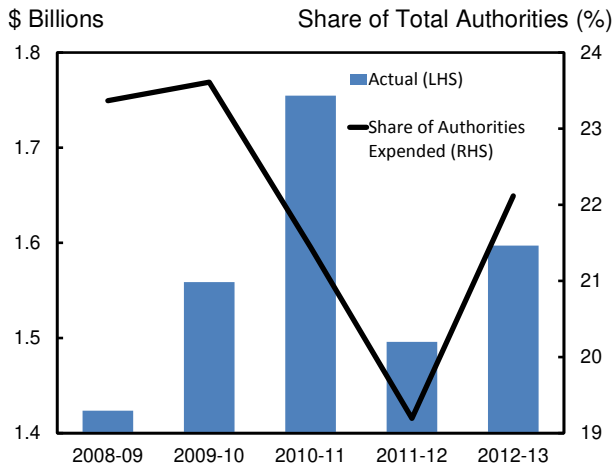
⁵ Data was taken from departments’ quarterly financial reports. Canadian Human Rights Tribunal, Military Police Complaints Commission and Truth and Reconciliation Commission have yet to publish their reports for the second quarter of 2012-13.

⁶ <http://www.tbs-sct.gc.ca/media/nr-cp/2012/1116-eng.asp>. Accessed January 2013.

Growth in capital expenditure is driven, in part, by a 5 per cent year-to-date increase in capital expenditures by the Department of National Defence.⁷

Figure 2-4

Capital Expenditures in the First Six Months of the Fiscal Year



Sources: Government of Canada; PBO calculations.

(iii) Other Transfer Payments

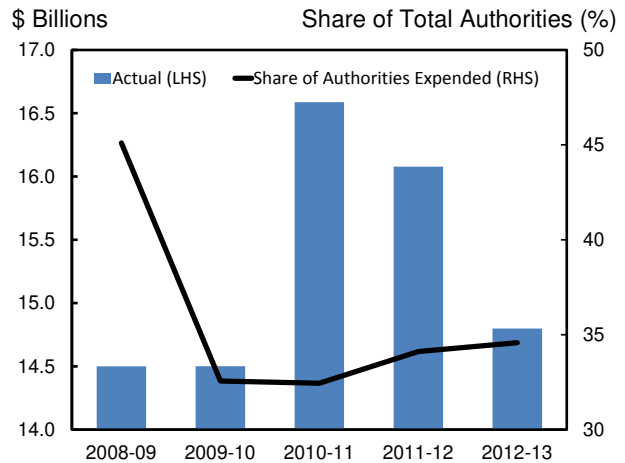
Authorized amounts for ‘other’ transfer payments (transfers other than those to persons and other levels of government) decreased by over 10 per cent compared to the previous fiscal year. Expenditures relating to non-major transfer payments decreased 8 per cent to approximately \$14.8 billion in the first six months of 2012-13 compared to the previous year (Figure 2-5).

Expenditures on other transfer payments as a share of authorities remained stable from the prior year, at approximately 35 per cent.

⁷ Capital expenditures by National Defence in the first six months increased from \$996 million in 2011-12 to \$1,044 million in 2012-13.

Figure 2-5

Other Transfer Payments Expenditures in the First Six Months of the Fiscal Year



Sources: Government of Canada; PBO calculations.

3. Internal Services

Internal Services is a distinct program activity that is common amongst most departments and agencies. It is a composite of operating and capital expenditures, and it includes areas such as communications, financial management, human resource management, and information technology.⁸

The Budget 2012 restraint exercise identified operating efficiencies and back office services as the target for the majority of savings.⁹ However, the data published by federal departments and agencies indicate that program savings targeted to Internal Services comprise 15 per cent of planned spending reductions.¹⁰

⁸ <http://www.tbs-sct.gc.ca/est-pre/20122013/me-bpd/me-bpd-eng.pdf>. Accessed January 2013.

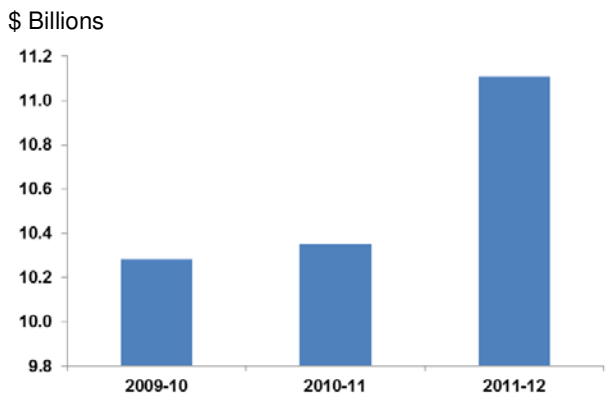
⁹ <http://www.budget.gc.ca/2012/plan/pdf/Plan2012-eng.pdf>. Accessed January 2013.

¹⁰ http://www.pbo-dpb.gc.ca/files/files/Budget%202012%20Expenditure%20Reductions_EN.pdf. Accessed January 2013.

In the first half of this fiscal year, expenditures for Internal Services were approximately \$5.3 billion, an 8 per cent increase on the previous year.^{11,12} This year-over-year increase is consistent with the direction of Internal Services spending in recent years (Figure 3-1).¹³

The continued increase in Internal Services expenditure suggests that spending growth on overhead has not been curtailed, as suggested in Budgets 2010 through 2012, and the focus of restraint exercises has instead been on reduced spending to front line services.¹⁴

Figure 3-1
Internal Services Expenditures



Source: Government of Canada; PBO calculations

4. Individual Items

PBO analyzed data from both votes and program activities for the first six months of 2012-13, to determine the level of variation in departmental spending from the previous fiscal year. The most

¹¹A PBO calculation using the financial statements of Government of Canada departments and agencies.

¹²A PBO calculation using data from the Government of Canada, accounting for inter-departmental internal services transfers and net voted revenue.

¹³The cumulative 4 per cent annual rate of growth in expenditures is consistent with a 4 per cent annual rate of growth in appropriations.

¹⁴<http://www.budget.gc.ca/2012/plan/toc-tdm-eng.html>
<http://www.budget.gc.ca/pdfarch/index-eng.html>.

Accessed January 2013.

significant changes in expenditures, both in dollar value and percentage, are presented in Annex A.

Material changes in authorities are detailed according to information provided in the quarterly financial reports of departments and agencies. Organizations are not required to report on the basis of program activities, resulting in inconsistencies in the level of detail explaining changes in expenditures by program activity.

For example, no information is provided regarding the 4,079 per cent increase in year-over-year spending for Canadian Northern Economic Development Agency's Business Development, nor the 82 per cent year-over-year decrease in Human Resources and Skills Development Canada's Citizen-Centered Service. A full description of every program activity in the Government of Canada is presented on the [Receiver General of Canada's Web site](#).

As noted in previous PBO reports, parliamentarians and Canadians have yet to see departmental and agency spending plans consistent with Budget 2012, nor have their quarterly financial reports provided useful disclosure regarding the Budget 2012 spending cuts. As such, it is difficult to determine whether the substantial changes in year-over-year spending are a result of planned spending reductions/program eliminations or some other factor.

5. Conclusion

Over the first six months of the 2012-13 fiscal year, total federal expenditures decreased by approximately 0.6 per cent compared to the same period in the previous fiscal year.¹⁵ This is lower than the 2 per cent increase (2011-12 to 2012-13) forecast in Finance Canada's November 2012 *Update of Economic and Fiscal Projections*.

¹⁵Total Estimates include Main Estimates, as well as Supplementary Estimates A and B.

Constraining direct program spending (DPS), which is one of the four components of total expenditures, has been the main area of focus of the government to achieve its balanced-budget objectives. On a year-over-year basis, DPS has decreased by 4 per cent compared to the same period in the previous fiscal year. PBO will continue to monitor the implementation of Budget 2012 and the Government's Expense Plan.

The Integrated Monitoring Database (IMD) has been updated to include expenditure data for the first six months of the 2012-13 fiscal year, including the program activity data. The input sheets are also posted on the [Research Resources](#) section of the PBO Web site.

Annex A

Table 1. Largest \$ Changes in Authorities: Total Year-to-Date Expenditures in 2012-13 versus previous year¹

Organization	Authorities	\$ Δ (000s)	Explanation from Quarterly Report
Finance	Public Debt Interest and other costs	-1,078,282	<i>Decreased interest rates</i>
Human Resources and Skills Development	Old Age Security payments	915,962	<i>Greater number of seniors; increased payment amounts</i>
Finance	Canada Health Transfer	808,569	<i>Planned legislative increase</i>
Office of Infrastructure of Canada	Contributions	-619,705	<i>Partly attributed to the completion of programs under the Economic Action Plan</i>
National Defence	Operating expenditures	-354,265	<i>Establishment of Communications Security Establishment as a stand-alone agency; transfer of operations to Shared Services Canada</i>
Human Resources and Skills Development	Operating expenditures	-303,083	<i>Mostly attributable to payments for severance pay and termination benefits due to revisions to specified collective agreements in 2011-2012 and the transfer of activities to Shared Services Canada (SSC)</i>
Human Resources and Skills Development	Guaranteed Income Supplement Payments	292,499	<i>Greater number of seniors; increased payment amounts</i>
Statistics Canada	Operating expenditures	-249,284	<i>Most of the decrease in spending is due to the completion of census-related activities.</i>
Agriculture and Agri-food Canada	Contribution payments for the Agriculture Disaster Relief program/AgriRecovery	-195,124	<i>Large payments made in the previous fiscal year due to excess moisture in Alberta, Saskatchewan, Manitoba and Quebec</i>
Natural Resources	Grants and contributions	-182,275	<i>Primarily from the decrease in the Pulp and Paper Green Transformation Program</i>

1. All Authorities listed in the 2012-13 Main Estimates with total authorities above \$100 million in 2011-12 or 2012-13; excluding non-budgetary items.

Table 2. Largest % Changes in Authorities: Total Year-to-Date Expenditures in 2012-13 versus previous year¹

Organization	Authorities	Δ %	Explanation from Quarterly Report
Industry	Contributions under the Knowledge Infrastructure Program	24,028%	<i>Reprofiling of \$52.5 million for the Knowledge Infrastructure Program (KIP) for final payments occurring in 2012–13</i>
Human Resources and Skills Development	Canada Disability Savings Bond	292%	<i>Carry-forward of grant and bond entitlements, which was implemented in January 2012</i>
Office of the Co-ordinator, Status of Women	Grants and contributions	265%	<i>Timing difference in project payment schedules</i>
Transport	Grants and contributions	218%	<i>Primarily due to an increase in expenditures for the Gateway and Border Crossings Fund</i>
Agriculture and Agri-food Canada	Payments - Agricultural Marketing Programs Act	189%	<i>None</i>
Environment	Capital expenditures	177%	<i>Capital activities were delayed in 2011-12 as a result of the limited processing of contracts that took place through the Federal Election</i>
National Research Council of Canada	Capital expenditures	175%	<i>Last fiscal year, the new framework for the NRC Investment Plan caused delays in the flow of capital expenditures</i>
Canadian Food Inspection Agency	Capital expenditures	162%	<i>Transfer from Agriculture and Agri-Food Canada; increase in carry forward</i>
Human Resources and Skills Development	Payments of compensation respecting government employees and merchant seamen	130%	<i>None</i>
Health	Capital expenditures	119%	<i>None</i>

1. All Authorities listed in the 2012-13 Main Estimates with total authorities above \$10 million in 2011-12 or 2012-13; excluding non-budgetary items.

Table 3. Largest \$ Changes in Program Activities: Total Year-to-Date Expenditures in 2012-13 versus previous year¹

Organization	Program Activities	\$ Δ (000s)	Explanation from Quarterly Report
Human Resources and Skills Development	Income Security	1,288,638	<i>Greater number of seniors; increased payment amounts</i>
Finance	Treasury and Financial Affairs	-992,175	<i>Decreased interest rates</i>
Finance	Transfer and Taxation Payment Programs	-912,886	<i>Planned legislative decreases in transfer programs</i>
National Defence	International Peace, Stability and Security	-491,118	<i>None</i>
Transport*	Transportation Infrastructure	271,102	<i>None</i>
Statistics Canada	Census, Demography and Aboriginal Statistics	-260,183	<i>2011 Census of Population held during first quarter of previous year</i>
Office of Infrastructure of Canada	Gas Tax Fund	-232,524	<i>During FY 2011-12, additional payments were made to Alberta because of the late acceptance of the provinces' FY 2010-11 Annual Expenditure Report</i>
Human Resources and Skills Development*	Learning	121,850	<i>None</i>
Public Works and Government Services*	Accommodation and Real Property Assets Management	55,470	<i>None</i>
Human Resources and Skills Development*	Skills and Employment	21,716	<i>None</i>

1. All Program Activities listed in the 2012-13 Main Estimates with total authorities above \$10 million in 2011-12 or 2012-13; excluding non-budgetary items.

*Figures have been adjusted to a cash accounting basis, rather than accrual accounting. Other findings presented in the note are unchanged.

Table 4a. Largest % Increase in Program Activities: Total Year-to-Date Expenditures in 2012-13 versus previous year¹

Organization	Program Activities	Δ %	Explanation from Quarterly Report
Canadian Northern Economic Development Agency	Business Development	4079%	<i>None</i>
Canada Mortgage and Housing Corporation	Affordable Housing Initiative	3381%	<i>Due to higher spending under the Investment in Affordable Housing as a result of delayed spending in 2011 and higher than planned expenditures for the social housing portfolio</i>
Transport	Gateways and Corridors	673%	<i>None</i>
Social Sciences and Humanities Research Council	Research Chairs/Insight: New knowledge in the social sciences and humanities	488%	<i>None</i>
Public Safety and Emergency Preparedness	Emergency Management	322%	<i>None</i>
Veterans Affairs	Remembrance Outreach/Canada Remembers Program	285%	<i>None</i>
Canada Mortgage and Housing Corporation	Research and information dissemination to promote sustainable housing and communities, as well as lead the development and implementation of federal housing policy	210%	<i>None</i>
Office of Infrastructure of Canada*	Green Infrastructure Fund	206%	<i>None</i>
Office of the Co-ordinator, Status of Women	Women's participation in Canadian society	145%	<i>None</i>
Human Resources and Skills Development*	Skills and Employment	3%	<i>None</i>

1. All Program Activities listed in the 2012-13 Main Estimates with total authorities above \$10 million in 2011-12 or 2012-13; excluding non-budgetary items.

*Figures have been adjusted to a cash accounting basis, rather than accrual accounting. Other findings presented in the note are unchanged.

Table 4b. Largest % Decrease in Program Activities: Total Year-to-Date Expenditures in 2012-13 versus previous year¹

Organization	Program Activities	Δ %	Explanation from Quarterly Report
Public Works and Government Services	Information Technology Infrastructure Service	-100%	<i>Transferred to Shared Services Canada</i>
Chief Electoral Officer	Electoral Operations	-93%	<i>41st Election held during first quarter of previous year</i>
Office of Infrastructure of Canada	Border Infrastructure Fund	-90%	<i>Due to the new forecasting methodology and the Department advancing less funds to Federal Delivery Partners (FDPs) than the prior FY</i>
Statistics Canada	Census, Demography and Aboriginal Statistics	-89%	<i>2011 Census of Population held during first quarter of previous year</i>
Human Resources and Skills Development**	Citizen-Centred Service	-82%	<i>None</i>
Privy Council Office	Commissions of Inquiry	-67%	<i>Decrease in the operations of the Commission of Inquiry into the Decline of Sockeye Salmon in the Fraser River for 2012-13 since the wrap-up of the commission is expected by December 31, 2012</i>
Office of Infrastructure of Canada	Municipal Rural Infrastructure Fund	-66%	<i>Due to the new forecasting methodology and the Department advancing less funds to Federal Delivery Partners (FDPs) than the prior FY</i>
Public Works and Government Services*	Specialized Programs and Services	-48%	<i>None</i>
Office of Infrastructure of Canada*	Canada Strategic Infrastructure Fund	-40%	<i>Due to the new forecasting methodology and the Department advancing less funds to Federal Delivery Partners (FDPs) than the prior FY</i>
Office of Infrastructure of Canada*	Building Canada Fund - Major Infrastructure Component	-32%	<i>Due to the new forecasting methodology and the Department advancing less funds to Federal Delivery Partners (FDPs) than the prior FY</i>

1. All Program Activities listed in the 2012-13 Main Estimates with total authorities above \$10 million in 2011-12 or 2012-13; excluding non-budgetary items.

*Figures have been adjusted to a cash accounting basis, rather than accrual accounting. Other findings presented in the note are unchanged.

**Accrual to cash accounting change is reflected on pp.4 for this program activity.