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PARLIAMENTARY
BUDGET OFFICER
BUREAU DU DIRECTEUR
PARLEMENTAIRE DU
BUDGET

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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 analyses the implementation of the Government's spending plan presented in Budget 2015 for the first nine months of the year.

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Executive Summary

Government expenditures for the first nine months of 2015-16 were \$187.7 billion, an increase of 4.8 per cent over the same period last year (\$179.1 billion). This increase results from increased transfer payments for the unemployed and higher capital spending.

Employment Insurance (EI) benefits increased almost \$1 billion (7.4 per cent) over the same period in 2014-15. According to Statistics Canada, the number of EI beneficiaries increased by 35,900 (7.1 per cent) between January 2015 and January 2016, largely attributable to increases in Alberta, and other energy dependent regions. Concomitant with this, the national unemployment rate has risen to a three year high of 7.3 per cent in February.

Growth in capital spending is consistent with the \$393 million in federal infrastructure investment promised in *Budget 2015* for 2015-16. *Budget 2016* also committed to spending a further \$3.4 billion on federal assets over the next five years.

Overall, the spending pattern in this fiscal year is similar to the previous two fiscal years. PBO estimates that the Government will lapse \$8.8 billion, including frozen allotments. This is higher than the most recent Department of Finance projection of \$6.5 billion.

1. Context

Each year, Parliament endorses the Government's fiscal and economic strategy outlined in the Budget. This strategy is then implemented through the appropriation bills and other enabling legislation, such as Budget Implementation acts.

Since 2010, the Parliamentary Budget Officer (PBO) has monitored the implementation of the Budget and spending among the Government's roughly 400 programs to analyze whether it is on track to implement its overall spending commitments for the current fiscal year.

This analysis of the Government's Expenditure Plan (also known as the Estimates) supports informed parliamentary scrutiny of spending. The PBO's Expenditure Monitor reports are released quarterly.

2. Highlights

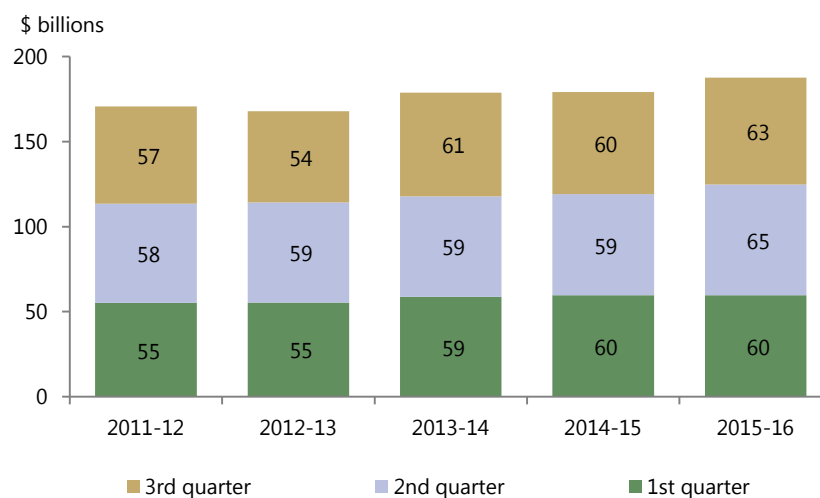
After nine months, total government expenditures in 2015-16 totalled \$187.7 billion, 4.8 per cent higher than the \$179.1 billion spent in the same interval in 2014-15. The majority of this increased spending was disbursed in the second quarter of the year (an increase of \$5.7 billion), with an additional \$2.9 billion spent in the third quarter corresponding with the months of October, November, and December of 2015 (Figure 2-1).

Contained within these total expenditures are four main categories of spending:

- Direct program spending (DPS);
- Major transfers to persons (MTP);
- Major transfers to other levels of government (OLG); and,
- Public debt charges (PD).

Of these four categories, DPS constitutes the largest spending category, followed closely by major transfers, MTP and OLG (Figure 2-2).

Figure 2-1 Total expenditures after nine months

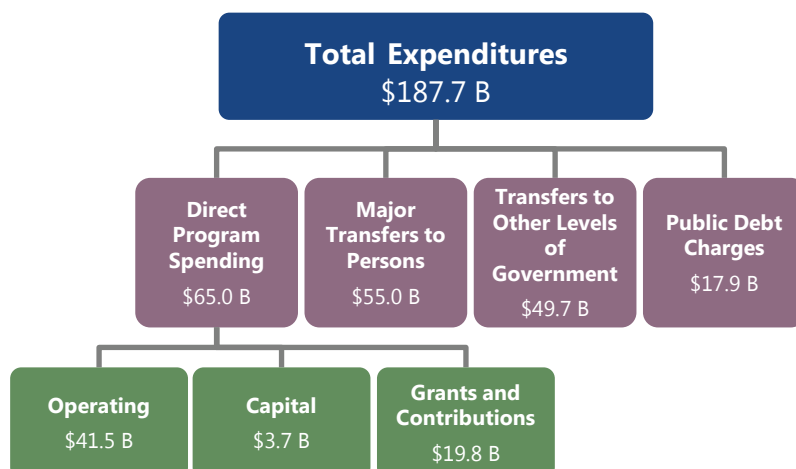


Sources: Receiver General and Parliamentary Budget Officer calculations.

Note: The totals for 2014-15 and 2015-16 exclude the one-time charge associated with moving to a "pay in arrears" salary administration system.

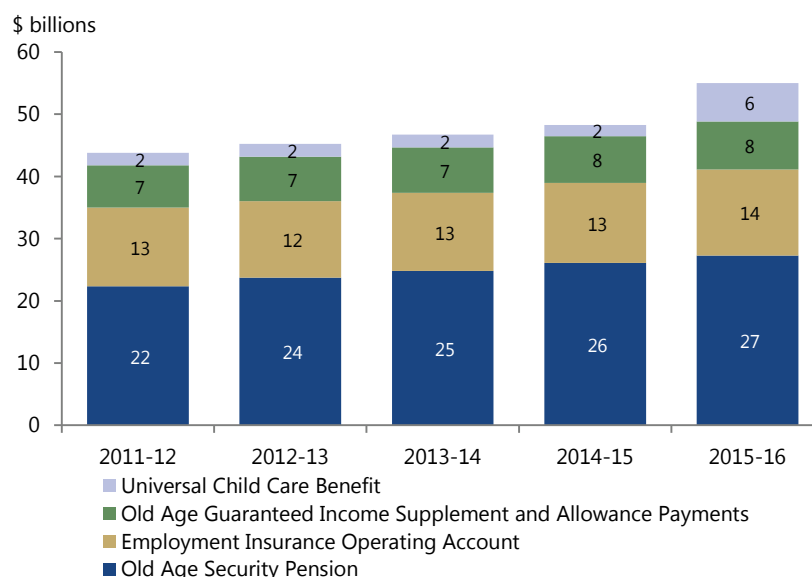
Historically, major transfers grow steadily, with this year being an exception. Major transfers to persons in 2015-16 grew 13.9 per cent, mostly as a result of the enhanced Universal Child Care Benefit (UCCB) (Figure 2-3).¹ In *Budget 2016* the Government pledged to eliminate the UCCB, as well as the Canada Child Tax Benefit and the National Child Benefit supplement, and replace it with a new Canada Child Benefit.²

Figure 2-2 Components of spending



Source: Parliamentary Budget Officer.

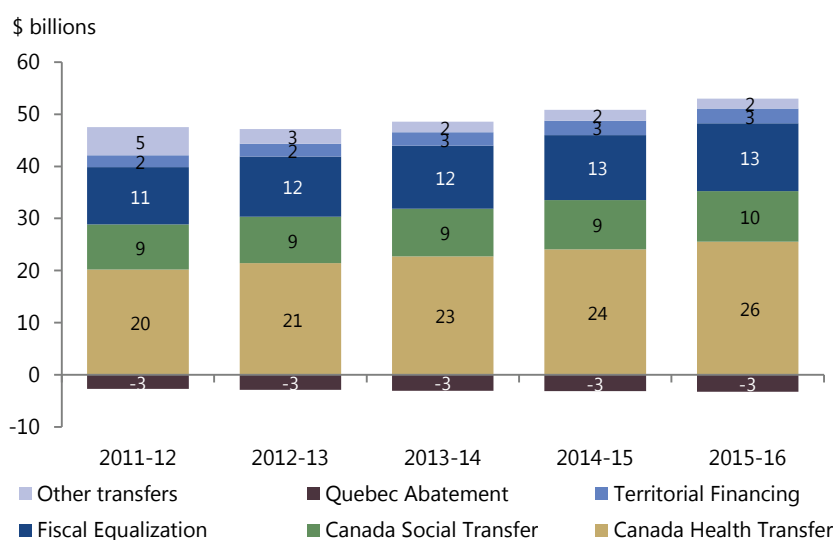
Figure 2-3 The components of major transfers to persons



Source: Parliamentary Budget Officer.

OLG transfers have shown more steady growth, owing to statutory legislation mandating annual increases in some of these transfers. In the first nine months of the fiscal year MTP has grown \$2.0 billion (4.2 per cent) compared to the same period the prior year (Figure 2-4). This increase is mostly due to increases in the Canada Health Transfer, which will grow at 6 per cent annually until 2016-17, before falling to a three-year moving average of nominal GDP, a minimum of 3 per cent, in 2017-18 onward.³

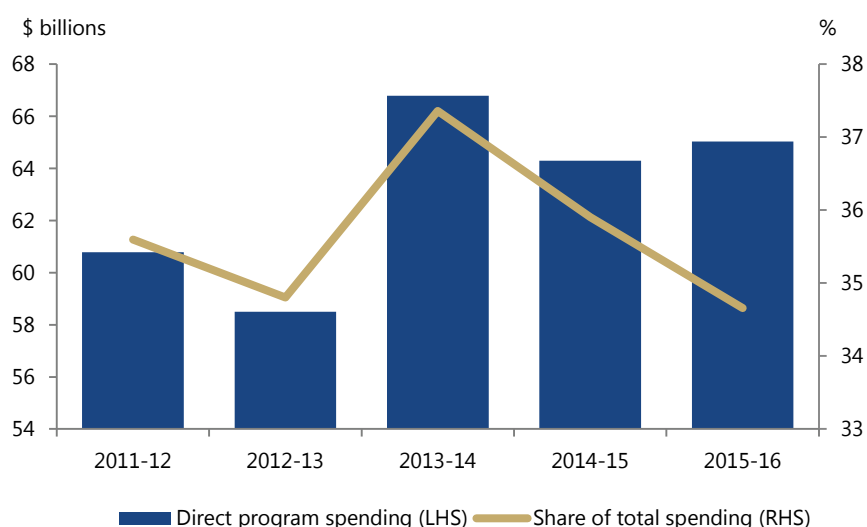
Figure 2-4 Major transfers to other levels of government



Source: Parliamentary Budget Officer.

Statutory spending increases for major transfer programs are generally fixed. These planned increases mean that variation in spending will be observed in DPS, which is comprised of government operating and capital spending, as well as targeted grant and contribution programs. While DPS rose \$742 million on a year-over-year basis to \$65.0 billion, DPS spending growth of 1.2 per cent was outstripped by an overall growth in major transfers of 6.8 per cent. As a result, DPS as a share of total spending has continued to decrease in the first three quarters of 2015-16, falling to 34.7 per cent of all expenditures (Figure 2-5).

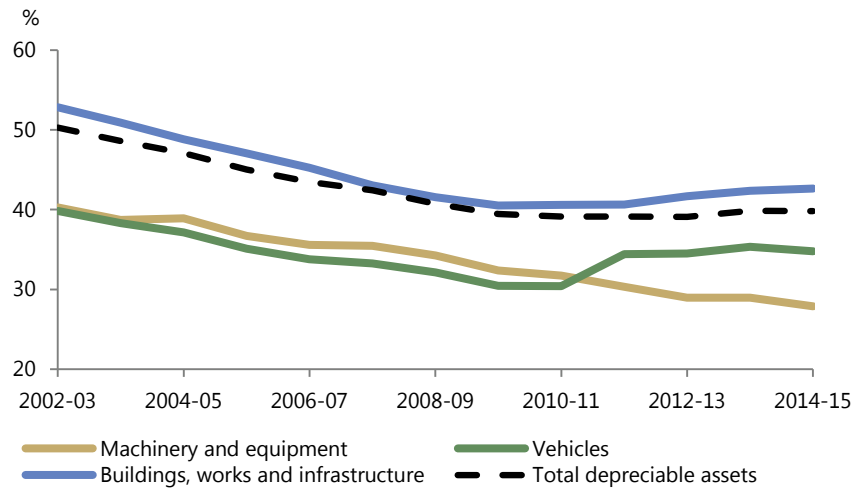
Figure 2-5 DPS share of spending after nine months



Source: Parliamentary Budget Officer.

Within DPS, only capital spending exhibited material growth, rising \$358 million (10.6 per cent). This follows the *Budget 2015* commitment to provide \$5.8 billion over six years to renew federal infrastructure assets and on-reserve schools.⁴ *Budget 2016* reiterated this support, pledging \$3.4 billion over five years towards renewing federal infrastructure. These investments will help to reduce the overall age and improve the condition of capital assets owned by the Government. While federal investments over the past seven years have stabilized the quality of federal assets, these remain generally aged. On average, most federal capital assets have already passed the half-way mark in their useful life (Figure 2-6).⁵

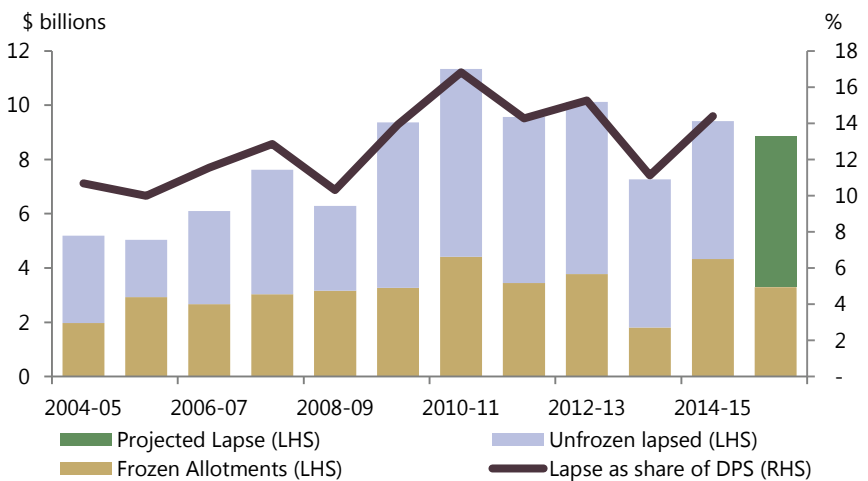
Figure 2-6 Unamortized share of non-military federal infrastructure



Sources: Public Accounts of Canada 2003 to 2015 and PBO calculations.

Other than the increase in capital spending, overall spending is generally flat. As a share of total authorities the spending in the first three quarters of 2015-16 is very similar to the last two fiscal years. Using the spending profile of these previous two years the PBO produced an estimate of lapsed spending for 2015-16. If historic trends continue, the Government is on track to spend a budgetary total of \$241.8 billion. This would mean that the Government would lapse \$8.8 billion, including frozen allotments (Figure 2-7). This total would be greater than the \$6.5 billion projected in *Budget 2015*.⁶

Figure 2-7 Lapsed spending could be larger than originally budgeted



Sources: Public Accounts of Canada 2005 to 2015 and Parliamentary Budget Officer.

3. Spending by Policy Areas

Figure 3-1 Whole of Government expenditures

Thematic Spending Area	Spending after nine months \$ millions	Spending after nine months YoY Change (%)	Change in Authorities YoY Change (%)
Economic Affairs	\$134,526	3.0%	2.3%
Strong economic growth	\$74,805	1.0%	1.2%
Income security and employment for Canadians	\$38,849	4.9%	4.9%
An innovative and knowledge-based economy	\$19,260	7.8%	4.5%
A clean and healthy environment	\$1,265	-4.0%	-8.1%
A fair and secure marketplace	\$346	19.5%	1.4%
Social Affairs	\$35,352	16.0%	10.8%
A diverse society that promotes linguistic duality and social inclusion	\$11,309	67.1%	43.0%
A safe and secure Canada	\$17,941	1.8%	1.6%
Healthy Canadians	\$4,660	1.3%	-0.9%
A vibrant Canadian culture and heritage	\$1,442	-2.1%	-1.5%
International Affairs	\$4,137	14.3%	5.3%
Global poverty reduction through international sustainable development	\$1,836	27.2%	12.6%
A safe and secure world through international engagement	\$2,149	1.2%	-1.1%
A prosperous Canada through global commerce	\$148	192.7%	8.9%
A strong and mutually beneficial North American partnership	\$4	6.0%	0.2%
Government Affairs	\$13,562	0.3%	0.3%
Well-managed and efficient government operations	\$11,757	-2.1%	-0.6%
A transparent, accountable and responsive federal government	\$1,272	27.5%	12.8%
Strong and independent democratic institutions	\$533	4.5%	5.8%
Pay adjustment	\$4		
Suspense	\$196		
Government of Canada	\$187,653	4.8%	3.9%

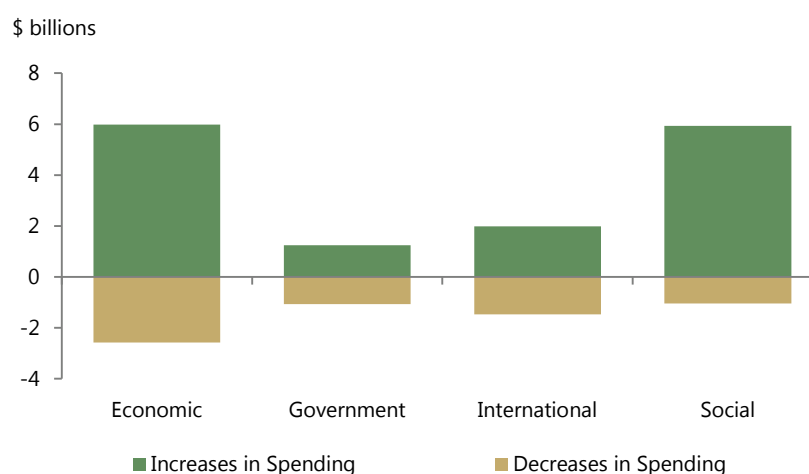
Source: Parliamentary Budget Officer.

Note: Total authorities include the Main Estimates and all Supplementary Estimates.

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 spending within this framework allows parliamentarians to focus on the policy aims and priorities of the Government.

Within each category there are a number of programs. The spending within these programs varies over time, with some programs increasing spending, and some decreasing.⁷ After nine months, the majority of the changes in spending for each category have been spending increases (Figure 3-2).

Figure 3-2 Total spending changes for programs within the Whole of Government framework



Source: Parliamentary Budget Officer.

3.1. Economic Affairs

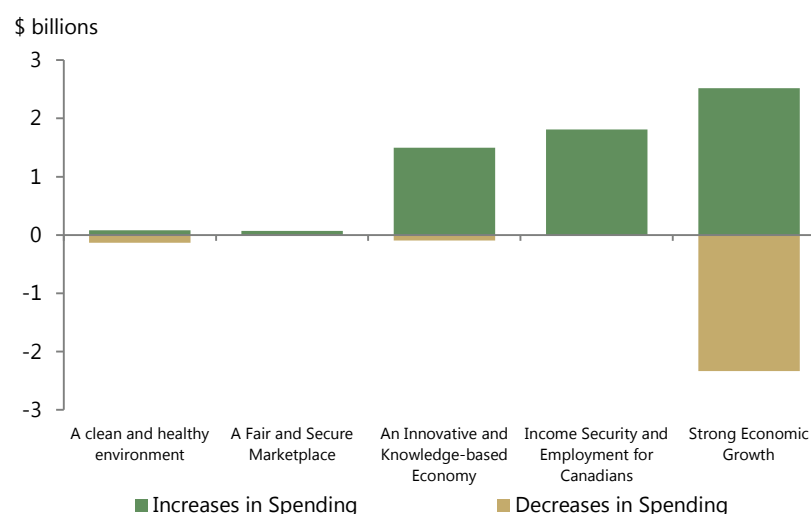
Spending within **Economic Affairs** reached \$134.5 billion after nine months in 2015-16, a 3.0 per cent increase over the previous period, while authorities for spending in this category have increased 2.3 per cent. Within each sub-category there is variation year-over-year spending (Figure 3-3). The sub-categories with the largest increases are "*An Innovative and knowledge based economy*" (up \$1.41 billion, 7.8 per cent, over the previous nine month period) and "*Income Security and Employment for Canadians*" (up \$1.8 billion, 4.9 per cent).

Within "*An innovative and knowledge-based economy*" two programs have experienced large increases in spending. The Employment and Social Development (ESDC) program Skills and Employment has increased spending

by \$1.0 billion (6.6 per cent) due to increased Employment Insurance payments, while the program associated with the Atomic Energy of Canada Limited (AECL) has increased spending by \$210 million (80 per cent).

Figure 3-3

Total spending changes for programs within Economic Affairs

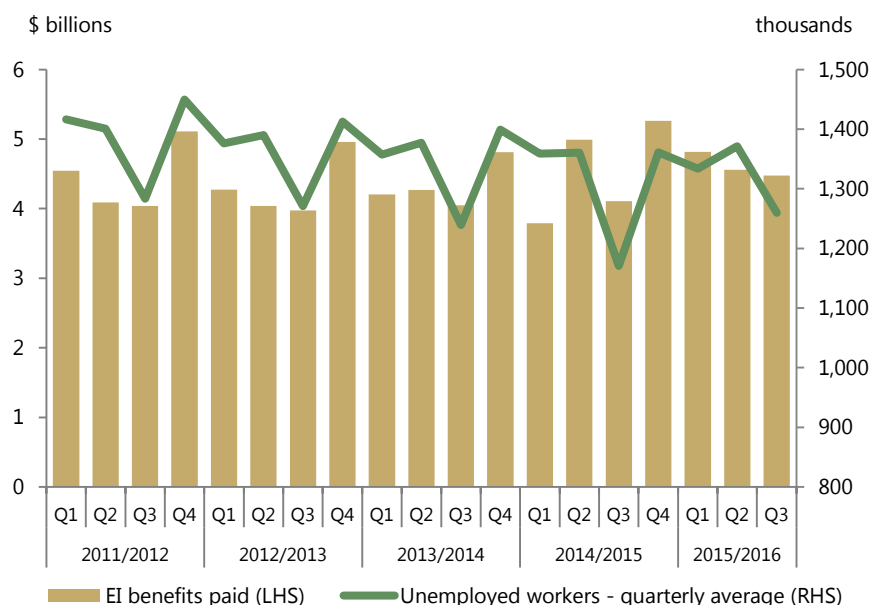


Source: Parliamentary Budget Officer.

Employment Insurance (EI) benefits totaled \$13.85 billion after the first three quarters in 2015-16, and increase of \$0.96 billion (7.4 per cent) over the same period in 2014-15 (Figure 3-4). According to Statistics Canada, the number of EI beneficiaries increased by 35,900 (7.1 per cent) between January 2015 and January 2016, largely attributable to increases in Alberta, and other energy dependent regions. Concomitant with this, the national unemployment rate has risen to a three year high of 7.3 per cent in February.

To address these pressures, *Budget 2016* pledged a number of changes to the Employment Insurance system, including reducing the EI waiting period by half to one week, and extending the duration of EI benefits by 5 weeks for regions with abnormal bouts of unemployment. The Government estimates that these changes will cost \$2.5 billion over the next two years.⁸

Figure 3-4 Quarterly Employment Insurance benefits paid



Source: Statistics Canada, Parliamentary Budget Officer.

Note: Cash benefits between April 2014 and September 2014 have been smoothed.

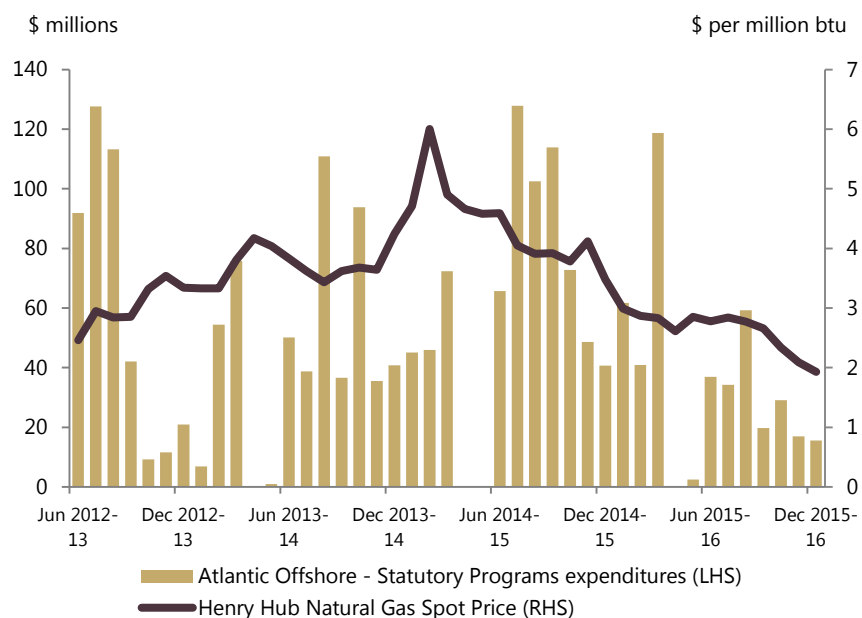
Within the sub-heading “*Income Security and Employment for Canadians*”, the ESDC program Income Security increased spending by \$1.5 billion (4.3 per cent) as a result of increased Old Age Security (OAS) payments to seniors. The increases in benefits are preset by law, which provides for an annual inflation top-up. *Budget 2016* committed to studying the merits of a “senior centric” inflation index, which could further escalate the cost of OAS benefits.

Offshore Accords

The original accords were developed in the 1980s for offshore oil and gas resources around Nova Scotia and Newfoundland and Labrador. These accords arranged the transfer of revenues collected by Canada related to these resources to be transferred to the pertinent province.

Offsetting these increases, spending by the Natural Resources Canada’s (NRCan) Atlantic Canada Statutory Programs decreased. Total expenditures after nine months in 2015-16 reached \$214 million, a decrease of \$358 million (63 per cent) from \$572 million in 2014-15. The NRCan statutory programs administer transfer payments to Nova Scotia and Newfoundland and Labrador developed by the Atlantic Offshore Accord Acts. In their most recent Quarterly Financial Report NRCan indicated that lower oil and natural gas prices has led to lower transfer payments to the two provinces.⁹ The continued decline in natural gas prices appears set to continue, further depressing transfer payments set out in the accords (Figure 3-5).

Figure 3-5 NRCan transfers to Atlantic provinces declines



Sources: Parliamentary Budget Officer and U.S. Energy Information Administration

3.2. Social Affairs

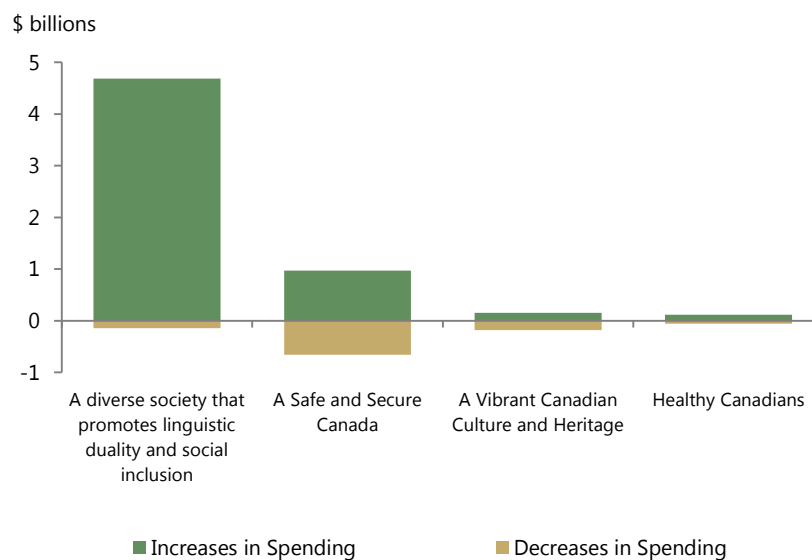
Spending within **Social Affairs** was \$35.4 billion after nine months, a \$4.9 billion (16.0 per cent) increase over the previous period, with comparable authorities having increased \$5.2 billion (10.8 per cent). The majority of this increase is the result of the enhancements to UCCB benefits, starting in July 2015. These enhanced benefits have resulted in \$4.4 billion in increased spending within "*A diverse society that promotes linguistic duality and social inclusion*" for the first nine months of the fiscal year. Earlier PBO estimates projected a fiscal cost of \$6.7 billion for an entire year of the enhanced UCCB.¹⁰

There were also variations within "*A safe and secure Canada*" policy area (up \$313 million, 1.8 per cent). Net expenditures for programs associated with this policy area within Canada Border Services Agency and Correctional Services Canada declined \$83.9 million and \$128.7 million in the first nine months of 2015-16, primarily due to personnel costs and one-time severance payments made in the previous fiscal year.^{11,12} Department of National Defence expenditures related to this policy area increased \$267 million (2.5 per cent), including higher expenses for professional services; procurement for ammunition, spare parts for ships, and weapons systems, and repair and maintenance costs.¹³ Parks Canada spent an additional

\$72.4 million on highways, bridges, and canals as part of its Asset Investment Program.¹⁴ And the purchase of new light-lift helicopters contributed to a \$63.4 million increase in Acquisition expenses at Fisheries and Oceans.¹⁵

Figure 3-6

Total spending changes for programs within Social Affairs



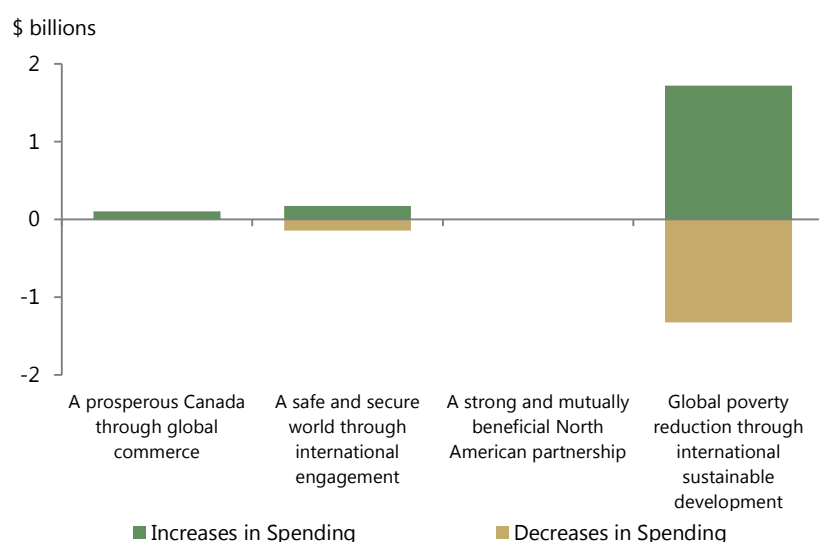
Source: Parliamentary Budget Officer.

3.3. International Affairs

Spending within **International Affairs** after nine months was \$4.1 billion, a 14.3 per cent increase over the previous period, with comparable authorities having increased 5.3 per cent. Almost all of this change stems from an increase in spending of programs within the sub-heading "*Global poverty reduction through international sustainable development*" (up \$0.39 billion, 27.2 per cent) (Figure 3-7).

Figure 3-7

Total spending changes for programs within International Affairs



Source: Parliamentary Budget Officer.

Most of the programs under the sub-heading "*Global poverty reduction through international sustainable development*" were previously administered by the Canadian International Development Agency (CIDA) and are now administered by Global Affairs Canada (GAC). Concurrent with this change was a program reorganization, making year-over-year comparisons imperfect.

3.4. Government Affairs

After nine months, spending on **Government Affairs** reached \$13.6 billion, a 0.3 per cent increase over the previous period, while authorities also increased 0.3 percent. Much of the increase was directed toward "*A transparent, accountable and responsive federal government*" (up \$275 million, 27.5 per cent) (Figure 3-8), which was largely driven by Elections Canada (departmental spending is up \$277 million year-over-year).¹⁶ The spending coincides with the 42nd General Election of October 2015. Once all party and candidate expenses are reimbursed, Election 2015 is estimated to cost \$443 million – \$153 million (52.9 per cent) more than Election 2011 (Figure 3-9).¹⁷ The rise in election costs is due, among several reasons, to the longer election period, the creation of 30 new electoral ridings, the addition of a fourth day of advanced polls, and the employment of more staff due to higher turnout.¹⁸

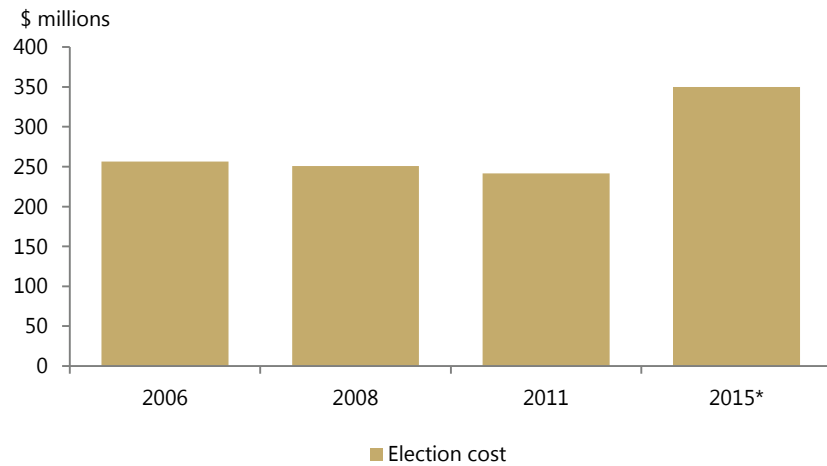
Figure 3-8 Total spending changes for programs within Government Affairs



Source: Parliamentary Budget Officer.

There are also notable shifts in spending over the first nine months of 2015-16 within "*Well-managed and efficient government operations*" (down \$255 million, 2.1 per cent). Public Services and Procurement Canada recorded a net increase in spending of \$76.0 million, including a \$129 million increase for construction and rehabilitation work (for example, the High Arctic Research Station in Cambridge Bay, the West Block Rehabilitation in Ottawa) and a \$74.8 million increase for repair and maintenance for roads, harbours, and other engineering assets. These increases were partially offset by the \$192.7 million growth in revenues for projects carried out for other departments.¹⁹

Figure 3-9 Cost of Recent Federal General Elections



Source: Office of the Chief Electoral Officer

Notes: The value for 2015 is preliminary. Figures are presented in 2002 dollars.

The Treasury Board Secretariat recorded a net decrease in spending of \$71.3 million in the first nine months of the fiscal year. Total expenditure for Public Service Insurance increased \$101 million, primarily due to design changes in the Public Service Health Care Plan (PSHCP), which eliminated the annual deductible for plan members and expanded benefits for vision care, aerotherapeutic devices, and psychological services.²⁰ Public Service Insurance net expenditures were partially offset by increased revenues, as the PSHCP incrementally moves towards a 50-50 cost-sharing ratio with pensioners by April 1, 2018.²¹

Notes

1. The majority of the enhanced UCCB payments were disbursed in July of 2015, and were discussed in greater detail in Expenditure Monitor 2015-16 Q2. Available at: http://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2016/Expenditure%20Monitor/Q2/Expenditure%20Monitor%202015-16%20Q2_EN.pdf
2. See Budget 2016 – Introducing the Canada Child Benefit. Available at: http://www.budget.gc.ca/2016/docs/plan/ch1-en.html#_Toc446106642
3. Finance Canada – Canada Health Transfer. Available at: <http://www.fin.gc.ca/fedprov/cht-eng.asp>
4. Budget 2015 – Renewing Infrastructure Across the Country (page 191). Available at: <http://www.budget.gc.ca/2015/docs/plan/budget2015-eng.pdf>
5. Within the sub-categories of vehicles, aircraft and motor vehicles have received ongoing investment, while ships and boats have received relatively less.
6. Budget 2015 – Chapter 5.2: Fiscal Outlook. Available at: <http://www.budget.gc.ca/2015/docs/plan/ch5-2-eng.html#wb-cont>
7. Analysis for the 2014-15 and 2015-16 fiscal years in this section exclude expenditures for the transfer to a “payment-in-arrears” method of compensation.
8. See Budget 2016 – Improving Employment Insurance. Available at: http://www.budget.gc.ca/2016/docs/plan/ch1-en.html#_Toc446106658
9. Natural Resources Canada Quarterly Financial Report (Unaudited) for the Quarter Ended December 31, 2015 (Revised). Available at: <http://www.nrcan.gc.ca/publications/quarterly-financial-reports/18181>
10. Parliamentary Budget Officer. (March 2015). *How much does the federal Government spend on child care and who benefits?* Available at: http://www.pbo-dpb.gc.ca/web/default/files/files/files/Child_Care_EN.pdf
11. Canada Border Services Agency Quarterly Financial Report – For the quarter ended December 31, 2015. Available at: <http://www.cbsa-asfc.gc.ca/agency-agence/reports-rapports/fs-ef/2015/qfr-rft-q3-eng.html>
12. Correctional Service Canada – Quarterly Financial Report, For the Quarter ended December 31, 2015. Available at: <http://www.csc-scc.gc.ca/reporting/007005-1000-2015-2016-03-eng.shtml>
13. National Defence and the Canadian Armed Forces – Quarterly Financial Report for the Quarter Ended December 31, 2015. Available at: <http://www.forces.gc.ca/en/about-reports-pubs-quarterly-financial/december-31-2015.page>

14. Parks Canada- Quarterly financial report for the quarter ended December 31, 2015. Available at: http://www.pc.gc.ca/eng/agen/dp-pd/rft-qfr/rep03_2015.aspx
15. Fisheries and Oceans Canada – Quarterly Financial Report for the Quarter Ended December 31, 2015. Available at: <http://www.dfo-mpo.gc.ca/qfr-rft/2015-16/Q3-eng.htm>
16. Elections Canada Quarterly Financial Report 2015-2016 – For the Quarter ended December 31, 2015. Available at: <http://www.elections.ca/content.aspx?section=res&dir=rep/est/qua2015c&document=index&lang=e>
17. Office of the Chief Electoral Officer. (August 2011). *Report of the Chief Electoral Officer of Canada on the 41st General Election of May 2, 2011*. Available at: http://www.elections.ca/res/rep/off/sta_2011/stat_report2011_e.pdf
18. Office of the Chief Electoral Officer. (February 2016). *Report on the 42nd General Election of October 19, 2015*. Available at: http://www.elections.ca/res/rep/off/sta_2015/pdf/stat_report2015_e.pdf
19. Public Works and Government Services Canada – Quarterly Financial Report for the Quarter ended December 31, 2015. Available at: <http://www.tpsgc-pwgsc.gc.ca/rapports-reports/finance/rft-qfr/rft-qfr-31122015-eng.html>
20. Public Service Health Care Plan – Frequently Asked Questions. Available at: <https://www.tbs-sct.gc.ca/psm-fpfm/benefits-avantages/health-sante/faq/general-eng.asp>
21. Treasury Board of Canada Secretariat's Quarterly Financial Report for the Quarter Ended December 31, 2015. Available at: <https://www.tbs-sct.gc.ca/ip-pi/trans/qfr-rft/2015/q3/qfr-rft-eng.asp>