



## Expenditure Monitor: 2013-14 Q2

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Ottawa, Canada  
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[www.pbo-dpb.gc.ca](http://www.pbo-dpb.gc.ca)

**Key Points of this Note:**

- This note provides a detailed review of federal program spending for the first six months of the 2013-14 fiscal year.
- Overall spending increased \$2.2 billion to \$124.6 billion, as compared to the previous period in 2012-13 (a 1.8 per cent increase). These aggregate results are consistent with the spending growth forecast in the November 2013 Update of Economic and Fiscal Projections. Direct program spending also increased, by \$500 million, a year-over-year increase of 1.2 per cent.
  - The growth in direct program spending has slowed compared to prior years, and is expected to plateau given the government's plan to reduce annual direct spending by \$9.1 billion in this fiscal year and \$13.7 billion by 2017-18.
  - If savings are fully realized in 2017-18, direct program spending as a share of total program spending would reach its lowest level since 1998-99, and comprise the smallest share of nominal GDP since 2001-02.
- The PBO has not yet received complete service level data from federal departments and agencies, which is necessary to assess the fiscal sustainability of the Budget 2012 cuts. Almost 40 per cent of programs' performance in 2012-13 cannot be evaluated due to in-year changes to targets, incomplete data or insufficient evidence.
- Within individual programs, the most notable increase pertains to the Public Safety Canada's Emergency Preparedness program activity, which increased spending from \$60 million to \$230 million in the first six months of 2013-14 (280 per cent). This increase reflects contributions toward the \$4.1 billion federal liability associated with major flooding and rainstorm events in 2011 through 2013.

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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".<sup>1</sup>

Consistent with this, 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 in-year expenditures of these authorities.<sup>2</sup>

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, as well as assess implementation of Budget 2013.

## 2 Year-to-Date Highlights of 2013-14

Total expenditures in the first six months of 2013-14 were \$124.6 billion, an increase of \$2.2 billion year-over-year (y/y). This represents a 1.8 per cent increase y/y (Figure 2-1). The share of total budgetary authorities expended remained stable at approximately 48 per cent (*i.e.* approximately half of the total budget was expended in the first half of the year).

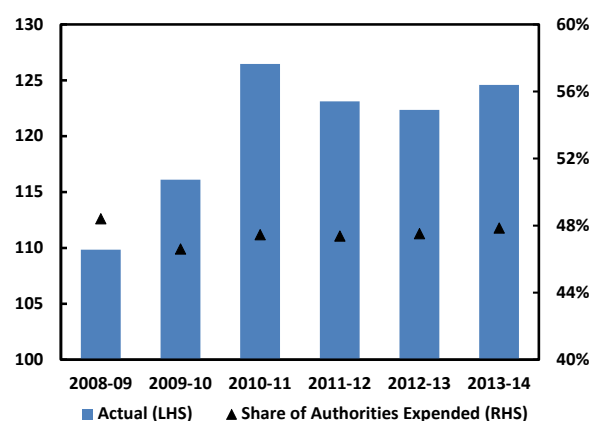
Federal expenditures are comprised of four primary components: major transfers to individuals; major transfers to other levels of government; debt servicing costs; and direct program spending (Figure 2-2).

While the first three types of spending drove much of the increase in spending through the first six months of 2013-14, these items are statutory in nature and are primarily driven by variation in economic variables (*e.g.* inflation).

**Figure 2-1**

### Total Expenditures: First Six Months of the Fiscal Year

\$ Billions



Sources: Office of the Parliamentary Budget Officer; Government of Canada.

**Figure 2-2**

### Composition of Total Federal Expenditure: First Six Months of Fiscal Year

\$ Billions

	2013-14	2012-13	\$ y/y	% y/y
<b>Total</b>	<b>124.6</b>	<b>122.4</b>	<b>2.2</b>	<b>1.8%</b>
Direct program spending	44.6	44.0	0.5	1.2%
Transfers to persons	36.3	35.5	0.8	2.3%
Other levels of government	30.3	29.6	0.8	2.5%
Debt charges	13.4	13.2	0.1	0.9%

Sources: Office of the Parliamentary Budget Officer; Government of Canada.

Note: Figures may not add due to rounding.

<sup>1</sup> <http://laws.justice.gc.ca/eng/PDF/P-1.PDF>. Accessed January 2014.

<sup>2</sup> 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/Expenditure\\_Monitor\\_Guide.pdf](http://www.pbo-dpb.gc.ca/files/files/Publications/Expenditure_Monitor_Guide.pdf). Accessed January 2014.

Thus, PBO analysis focuses on direct program spending; a discretionary category of spending that has been the target of the government's recent spending restraint initiatives.

### Direct Program Spending

Direct program spending (DPS) is comprised of operating and capital expenditures of departments and agencies, as well as other transfer payment programs (e.g. agricultural support programs) and payments to Crown Corporations.

**Figure 2-3**

#### Composition of Direct Program Spending: First Six Months of Fiscal Year

\$ Billions	2013-14	2012-13	\$ y/y	% y/y
<b>Direct program spending</b>	<b>44.6</b>	<b>44.0</b>	<b>0.5</b>	<b>1.2%</b>
Operating	24.6	24.4	0.2	0.8%
Capital	1.8	1.6	0.2	10.0%
Other transfer payments	15.1	14.8	0.3	2.1%
Payments to Crown Corps.	3.0	3.1	-0.1	-2.2%

Sources: Office of the Parliamentary Budget Officer; Government of Canada.

Note: Figures may not add due to rounding.

The government's estimates to date project a \$3.4 billion decline in DPS in 2013-14, as compared to 2012-13 levels (3.2 per cent), reflecting four straight years of targeted spending restraint since 2010-11.<sup>3</sup> However, in the first six months of 2013-14, DPS was \$0.5 billion higher (1.2 per cent) compared to the same period in 2012-13 (Figure 2-3).<sup>4</sup>

<sup>3</sup> At the time of publication, the most current government estimates are Supplementary Estimates (B) 2013-14. The corresponding appropriation bill was not approved until December 2013.

<sup>4</sup> For further analysis of fiscal projections, see the Revised PBO Outlook and Assessment of the 2013 Update of Economic and Fiscal Projections. [http://www.pbo-dpb.gc.ca/files/files/Revised\\_EFOU\\_2013.pdf](http://www.pbo-dpb.gc.ca/files/files/Revised_EFOU_2013.pdf). Accessed January 2014

<sup>5</sup> Targeted operational spending categories include personnel as well as back office services, both of which can be measured using the government's in-year and/or end-of-year spending and employment data. Departments and agencies service standards are tracked annually in departmental performance reports.

<sup>6</sup> Cumulative direct program spending restraint figures do not include upward revisions to projected departmental spending lapse amounts, as detailed in Budget 2013 and 2013 Update of Economic and Fiscal Projections.

### Box 2-4

#### Direct Program Spending Restraint

Recent government spending restraint measures have targeted direct program spending (DPS), with new DPS restraint initiatives announced in each of the past four consecutive federal budgets. The government's direct program spending restraint has focused on making "government operations leaner, while preserving fundamental programs and services".<sup>5</sup> According to government projections, these initiatives are anticipated to accrue to \$9.1 billion in annual savings in 2013-14 and \$13.7 billion in annual savings by 2017-18 (Annex A).<sup>6</sup>

By 2017-18, the cumulative impact of spending restraint measures contained in Budgets 2010 through 2013 are projected to result in 10 per cent lower direct program spending government wide.

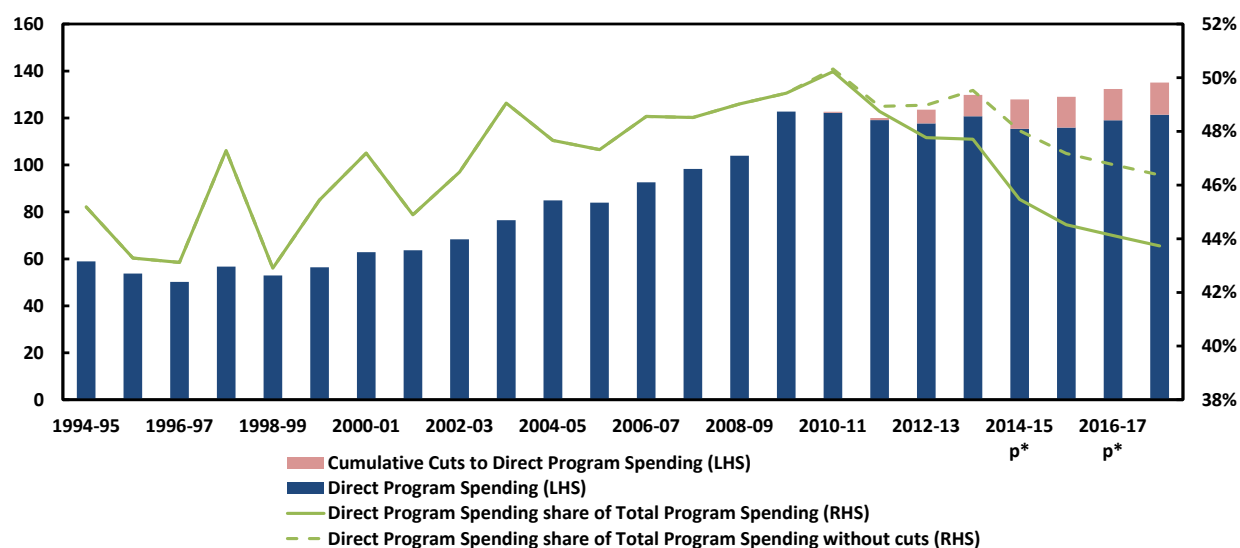
Direct program spending grew at an average annual rate of 6.0 per cent throughout the 2000-01 to 2008-09 period. This growth rate would diminish to 2.2 per cent per annum for planned spending through 2017-18.<sup>7</sup> Absent these combined savings measures, direct program spending would have grown at an average annual rate of 3.4 per cent from 2008-09 levels (Figure 2-5).<sup>7</sup>

If savings are fully realized in 2017-18, direct program spending as a share of total program spending would reach its lowest level since 1998-99, and comprise the smallest share of nominal GDP since 2001-02.

<sup>7</sup> Growth rates measured using 2000-01 and 2008-09 levels as baselines, respectively.

**Figure 2-5****Direct Program Spending**

\$ Billions (LHS), per cent (RHS)



Sources: Office of the Parliamentary Budget Officer; Government of Canada.

Note: For comparability, direct program and total program spending prior to 2012-13 has been restated to reflect accounting changes made in 2012-13. Certain tax credits previously recorded as reductions in tax revenue have been reclassified as direct program spending, with an equal and offsetting increase in government revenue.

**Personnel**

Through the first six months of 2013-14, spending on personnel is effectively unchanged year-over-year.<sup>8</sup> While the cumulative cuts to DPS have resulted in the elimination of over 20,000 full-time equivalent positions since March 2010, savings have been offset by planned wage increases through collective agreements and one-time payments related to the elimination of severance benefits (Figure 2-6).<sup>9,10</sup>

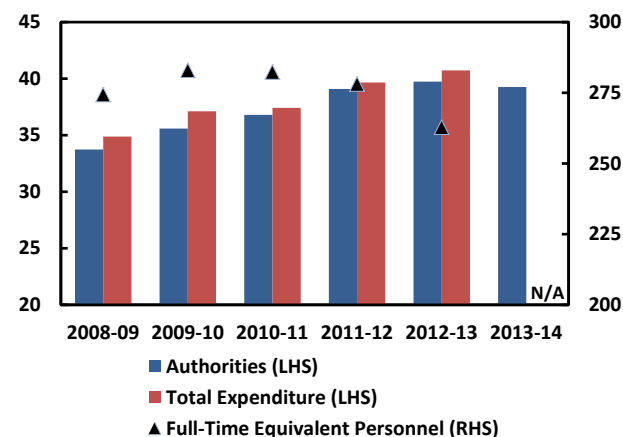
<sup>8</sup> Data was taken from departments' quarterly financial reports.

<sup>9</sup> <http://www.tbs-sct.gc.ca/res/stats/ssen-ane-eng.asp>. Accessed January 2014.

<sup>10</sup> In the 2013-14 Supplementary Estimates (B), \$955 million was appropriated to the Treasury Board Secretariat to reimburse departments, agencies and Crown corporations following the elimination of severance benefits for voluntary separation. <http://www.tbs-sct.gc.ca/media/nr-cp/2013/1107-eng.asp>. Accessed January 2014.

**Figure 2-6****Personnel Spending**

\$ Billions (LHS), FTEs (RHS)



Sources: Office of the Parliamentary Budget Officer; Government of Canada.

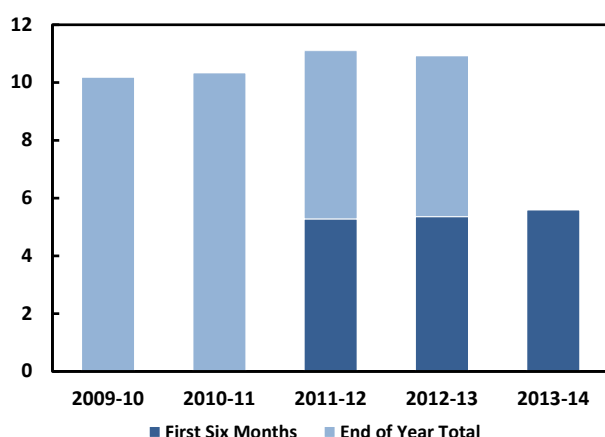
### Internal Services

Recent restraint exercises have also targeted operating efficiencies by “modernizing and reducing the back office”.<sup>11</sup> Back office services such as communications, financial management, human resource management, and information technology comprise the Internal Services category of spending common amongst most departments and agencies.

**Figure 2-7**

#### Government of Canada Internal Services Expenditure

\$ Billions



Sources: Office of the Parliamentary Budget Officer; Government of Canada.

Note: In-year spending data is unavailable prior to 2011-12. Only end-of-year totals are presented.

Consequently, 2012-13 was the first year since 2009-10 that internal services spending declined year-over-year, a decrease of 2 per cent (Figure 2-7).

In the first six months of 2013-14, expenditures on Internal Services were \$5.6 billion, an increase of \$0.2 billion (or 4 per cent) y/y.<sup>12</sup>

Internal services costs in some government entities may decline, in part, due to expenditure reclassification. In 2012-13, the Canada Revenue Agency (CRA) allocated \$264 million in real property and accommodations spending to various program activities, despite classifying these expenditures as internal services expenditures in prior years.<sup>13</sup>

### Service levels

Notwithstanding the successive rounds of spending and personnel reductions, the service objectives of federal departments and agencies have remained stable, in aggregate, over the past three years.<sup>14</sup> The PBO examined actual performance relative to these objectives by examining the government's 1,312 performance targets. In 2012-13:

- 587 targets (two-fifths) were met or exceeded;
- 203 targets (one-fifth) were not attained.
- 522 of the government's targets could not be evaluated (two-fifths), as 55 targets were changed or eliminated during the fiscal year and 467 targets had no quantifiable data or did not provide enough evidence to evaluate against the stated objective.<sup>15</sup>

<sup>12</sup> Methods used to calculate government's aggregate spending on Internal Services are detailed in Expenditure Monitor 2012-13 Q3. [http://www.pbo-dpb.gc.ca/files/files/Expenditure\\_Monitor\\_2012-13Q3\\_EN.pdf](http://www.pbo-dpb.gc.ca/files/files/Expenditure_Monitor_2012-13Q3_EN.pdf). Accessed January 2014.

<sup>13</sup> <http://www.cra-arc.gc.ca/gncy/nnnl/2012-2013/images/ar-2012-13-eng.pdf>. Accessed January 2014.

<sup>14</sup> Methods used to assess federal service standards are detailed in Expenditure Monitor 2013-14 Q1. [http://www.pbo-dpb.gc.ca/files/files/Expenditure\\_Monitor\\_2013-14Q1\\_EN.pdf](http://www.pbo-dpb.gc.ca/files/files/Expenditure_Monitor_2013-14Q1_EN.pdf). Accessed January 2014.

<sup>15</sup> Service level scoring was revised on February 6, 2014 for certain performance targets. Aggregate results and analysis remain unchanged. All figures have been updated accordingly.

<sup>11</sup> <http://www.budget.gc.ca/2012/plan/chap5-eng.html>. Accessed January 2014.

**Box 2-8****Measuring Government Service Levels**

Responding to a request of a parliamentarian, the [PBO has asked](#) for the service level data of government departments, however the data has not been fully [provided](#).

Following a Federal Court reference in 2012, the PBO subsequently issued a follow-up information request to departments and agencies that were subject to the government's \$5.2 billion in cuts. In addition, PBO staff also filed Access to Information requests seeking these data.

While there has been no official government response regarding why the PBO has not been provided with the economic data to fulfill his mandate, departments and agencies have cited various reasons, including the impact of reductions in program spending being a Cabinet Confidence and/or being outside of the PBO's remit.

Given the government's refusal to share the data essential to undertake a fiscal analysis of the Budget 2012 reductions, PBO staff have attempted to use existing public resources. This, unfortunately, has met with limited success. While the collective service objectives for government are outlined in each federal department and agency's respective report on plans and priorities, and each organization reports actual results achieved against objectives in a corresponding Departmental Performance Report (DPR) at year-end, these documents lack sufficient detail to determine the impact of the government's successive restraint exercises.

Key variances are highlighted in the [Research Resources section of the PBO website](#). A full description of each program activity in the Government of Canada is presented on the [Receiver General for Canada's website](#).

*Emergency Management*

Spending on natural disaster recovery is one source of increased DPS through six months. Provinces and territories (P/Ts) have primary responsibility for managing the consequences of emergencies within their jurisdictions. However, P/Ts may request financial assistance through the Government of Canada's Disaster Financial Assistance Arrangements (DFAA) when response and recovery costs exceed P/T capacity.<sup>16</sup>

Resulting from a recent series of flood and rainstorm incidents in the Canadian prairies, a six-fold increase in spending is anticipated on Public Safety Canada's Emergency Management program over the next five years (Figure 3-1).<sup>17</sup> Accordingly, in the first six months of the fiscal year, spending increased from \$60 million in 2012-13 to \$230 million in 2013-14 (a 280 per cent increase).

The estimated federal liability is \$4.1 billion of these events, which the government has indicated will be paid to P/Ts over the next ten years.<sup>18</sup> The planned spending represents costs only for natural disaster events approved to date and would represent the largest five-year outlay in the program's history.<sup>19</sup> The average annual expense

**3 Individual Items**

PBO analyzed data from both authorities and program activities for the first six months of 2013-14 to identify the greatest variances in absolute dollars and per cent compared to the same period in 2012-13.

<sup>16</sup> Provinces or territories may request Government of Canada disaster financial assistance when eligible expenditures exceed \$1 per capita (based on provincial or territorial population). For more information see, <http://www.publicsafety.gc.ca/cnt/mrgnc-mngmnt/rcvr-dsstr/dsstr-fnncl-sstnc-rngmnts/index-eng.aspx>. Accessed January 2014.

<sup>17</sup> <http://www.publicsafety.gc.ca/cnt/rsrscs/pblctns/qtrtl-fnncl-rprt-20130930/index-eng.aspx>. Accessed January 2014.

<sup>18</sup> Qualifying events include Alberta 2013 June Flood, the Manitoba 2011 Spring Flood, the Saskatchewan 2011 Spring Flood, and the Alberta 2010 June Rainstorm.

<sup>19</sup> <http://www.publicsafety.gc.ca/cnt/rsrscs/cndn-dsstr-dtbs/index-eng.aspx>. Accessed January 2014.



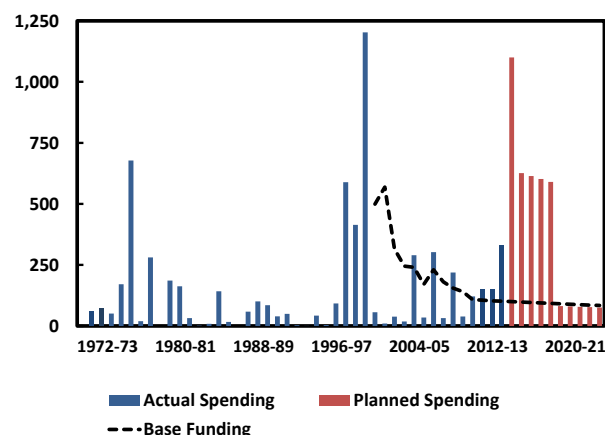
is well in excess of the program's base reference level funding of \$100 million per year.

Furthermore, Environment Canada climate models project increasing precipitation rates in Canada in future years.<sup>20</sup> Any subsequent potential natural disaster events triggering DFAA program payments would further increase the federal cost liability beyond the planned amounts portrayed in Figure 3-1.

**Figure 3-1**

### Government of Canada Disaster Financial Assistance Agreement Payments

\$ Millions, 2013 constant dollars



Sources: Office of the Parliamentary Budget Officer; Government of Canada.

Notes: Actual spending data between 2003-04 and 2010-11 reflect payments issued and may not be complete, as the timing of cash payments may be delayed by as much as ten years, in accordance with program regulations. Base Funding was established in the Main Estimates beginning in 1999-2000. Prior to this time, all appropriations for the DFAA were made in Supplementary Estimates. Planned Spending for 2014-15 onward corresponds to plans identified in Public Safety Canada's Quarterly Financial Report, September 2013-14 and PBO calculations.

### Gateways and Corridors

Transport Canada's spending on the Gateways and Corridors program activity through six months has

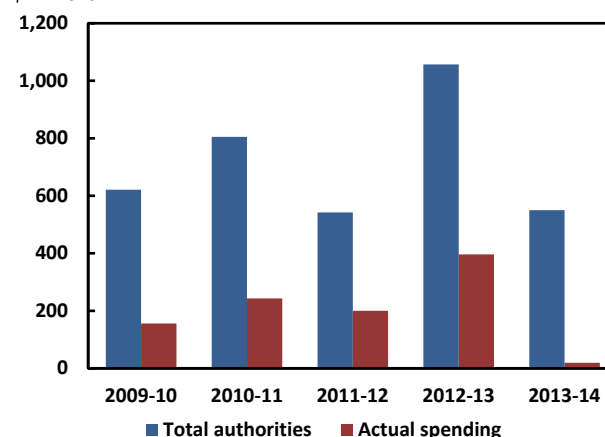
declined to \$19 million, a decrease of \$66 million, or 77 per cent y/y. The Gateways and Corridors program supports and oversees projects, fosters partnerships between all levels of government and the private sector and contributes to infrastructure concerning Canada's gateways and corridors.<sup>21</sup>

The program's authorities have decreased in 2013-14 and correspondingly increased in future years to meet deferred cash flow spending requirements of funded projects. Despite the downward revision in authorities, through the first six months of 2013-14, roughly 4 per cent of the funds authorized in parliamentary estimates have been spent on salaries and wages or transferred through a grant or contribution. Low spending rates in the first half of the year have historically corresponded with significant full-year lapses, as Gateways and Corridors program spending has not surpassed 37 per cent of total authorities in any year since 2009-10 (Figure 3-2).

**Figure 3-2**

### Transport Canada: Gateways and Corridors Program

\$ Millions



Sources: Office of the Parliamentary Budget Officer; Government of Canada.

Note: 2013-14 actual spending is through six months, while other spending figures reflect end of year totals.

<sup>20</sup> Projections obtained from Environment Canada's CanESM2 climate model.

[http://www.cccma.ec.gc.ca/diagnostics/cgcm4/pr\\_Amon\\_CanESM2\\_r\\_cp26\\_1995\\_2090\\_pct\\_amno.shtml](http://www.cccma.ec.gc.ca/diagnostics/cgcm4/pr_Amon_CanESM2_r_cp26_1995_2090_pct_amno.shtml). Accessed January 2014.

<sup>21</sup> <http://www.tc.gc.ca/eng/corporate-services/page-1025.html>.

Accessed January 2014.



## Annex A

**Direct Program Spending: Cumulative Restraint Measures**

\$ Millions, unless otherwise noted

	2010-11	2011-12	2012-13	2013-14 p*	2014-15 p*	2015-16 p*	2016-17 p*	2017-18 p*
<b>Restraint Measures</b>	<b>452</b>	<b>880</b>	<b>5,855</b>	<b>9,115</b>	<b>12,492</b>	<b>13,083</b>	<b>13,359</b>	<b>13,667</b>
Budget 2010	452	1,586	3,481	4,425	5,130	5,130	5,130	5,130
Budget 2011		194	271	569	525	534	534	534
Budget 2012		(900)	1,762	3,481	5,332	5,175	5,219	5,222
2012 Update of Economic and Fiscal Projections			341	572	791	999	1,231	1,436
Budget 2013				68	114	145	145	145
2013 Update of Economic and Fiscal Projections					600	1,100	1,100	1,200
<b>Direct Program Spending</b>	<b>122,233</b>	<b>119,093</b>	<b>117,712</b>	<b>120,700</b>	<b>115,400</b>	<b>115,900</b>	<b>119,000</b>	<b>121,400</b>
<b>Cumulative Reduction to Direct Program Spending (%)</b>	<b>0.4%</b>	<b>0.7%</b>	<b>4.7%</b>	<b>7.0%</b>	<b>9.8%</b>	<b>10.1%</b>	<b>10.1%</b>	<b>10.1%</b>

Sources: Office of the Parliamentary Budget Officer; Government of Canada.

Notes: Fiscal years denoted p\* are projections.

Figures may not add due to rounding.

A \$900 million expenditure in 2011-12 is associated with workforce adjustment costs resulting from the implementation of Budget 2012 spending restraint.

For comparability, direct program and total program spending prior to 2012-13 has been restated to reflect accounting changes made in 2012-13. Certain tax credits previously recorded as reductions in tax revenue have been reclassified as direct program spending, with an equal and offsetting increase in government revenue.