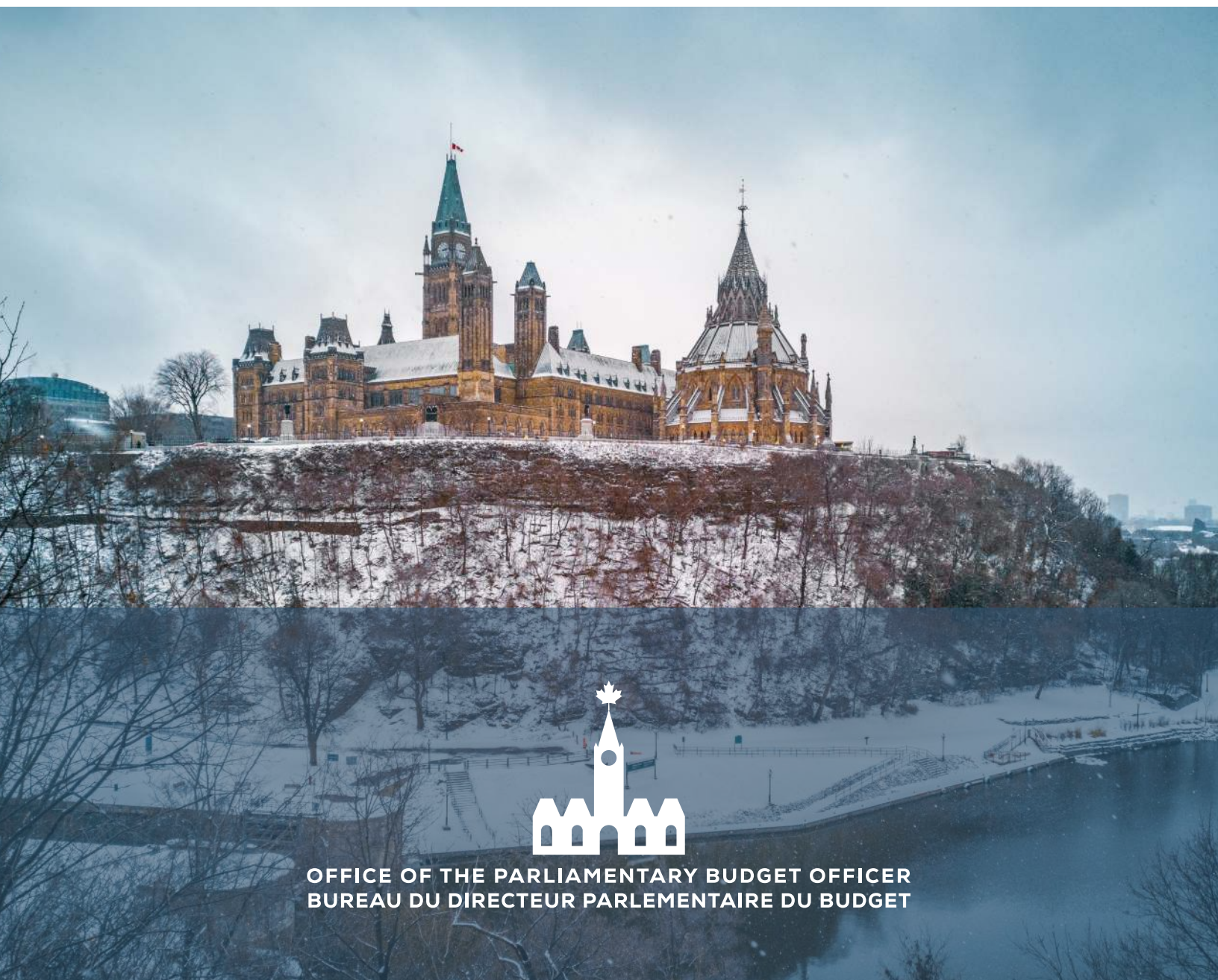


February 28, 2022



SUPPLEMENTARY ESTIMATES (C) 2021-22



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

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

This report presents a detailed analysis of the Government's third Supplementary Estimates for the 2021-22 fiscal year, which seeks Parliament's approval of \$13.2 billion.

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Executive Summary

The *Supplementary Estimates (C) 2021-22* is the third planned Supplementary Estimates in 2021-22 and supports the fifth appropriation bill for the current fiscal year. It outlines an additional \$17.1 billion in budgetary authorities. Voted authorities, which require approval by Parliament, total \$13.2 billion. Statutory authorities, for which the Government already has permission to spend, total \$3.9 billion.

Including these Supplementary Estimates, the total proposed year-to-date budgetary authorities are \$415.0 billion, which represents a \$63.7 billion (13.3 per cent) decrease over the preceding year.

In these Supplementary Estimates, COVID-19 measures account for the majority (57.6 per cent or \$9.8 billion) of budgetary authorities.¹ This brings the total COVID-19 related authorities included in the 2021-22 Estimates to \$59.8 billion, compared to \$159.4 billion in the 2020-21 Estimates.² Some notable measures highlighted in this report include:

- \$4.0 billion to Department of Health and Public Health Agency of Canada (PHAC) for the procurement and distribution of COVID-19 rapid test kits; and
- \$2.4 billion in forecasted statutory authorities to Employment and Social Development Canada (ESDC) for the Canada Worker Lockdown Benefit.

Supplementary Estimates (C) 2021-22 also includes notable items outside the Government's continued pandemic response, such as:

- \$1.6 billion in forecasted statutory authorities for an increase in interest on unmatured debt;
- Just over \$400 million to Treasury Board of Canada Secretariat (TBS) for compensation adjustments and payroll requirements; and
- \$170 million to ESDC to write-off 26,711 unrecoverable debts.

PBO is available to offer briefings or answer questions on any items included in these Supplementary Estimates.

1. Introduction

The Government can only spend public money with Parliament's permission.

This happens two ways.

Parliament can provide its permission through approval of appropriation bills, which generally provide permission to spend certain amounts of money within a given year. Alternatively, Parliament can also provide ongoing permission to spend through continuing legislation, such as the Old Age Security benefits paid under authority of the *Old Age Security Act*.³

The Supplementary Estimates reflect "additional spending requirements which were either not sufficiently developed in time for the inclusion in the Main Estimates, or have subsequently been refined to account for developments in particular programs and services."⁴

The *Supplementary Estimates (C) 2021-22* is the third planned Supplementary Estimates in 2021-22 and supports the fifth and final appropriation bill for the current fiscal year.

The 2020-21 Departmental Results Reports (DRRs), which outline the actual performance of federal organizations, were published in February 2022. When published in a timely manner, these documents provide parliamentarians with additional context when studying appropriation bills (see Box 1).

Box 1 – Alignment between Spending and Results

Part III of the Estimates includes both the Departmental Plans (DP) and Departmental Results Reports (DRR). DPs are considered as the organization's expenditure plan, highlighting its priorities, required resources, and planned results. DRRs outline the actual performance of each organization for the most recent fiscal year. They inform parliamentarians and Canadians of the actual results achieved against its plans, priorities, and expected results as outlined in their respective DPs.

As noted in recent PBO reports, there is no legislative fixed tabling date for either the DPs or the DRRs. This flexibility can result in a misalignment between what Parliament is being asked to approve and the decision-support information available to parliamentarians. For instance, the most recent DRRs (for the 2020-21 fiscal year) were published in February 2022 – ten months after the close of the fiscal year (March 31st). This meant that Parliament was required to consider virtually all new government spending without the benefit of knowing what had been previously achieved.

Beyond considerations regarding the timing of release, recent results data also raise questions regarding the content. Specifically, while targets were met for over half of the Government's 2,358 performance indicators:

- 31 per cent failed to meet their target; and,
- 16 per cent did not report actual results for the most recent fiscal year.

The lack of timely, comprehensive results data makes scrutinizing proposed spending more difficult. It is important that parliamentarians can understand the results organizations expect to achieve, how they will be measured and how these compare to previous years in order to make informed decisions.

1. Economic and Fiscal Update 2021: Issues for Parliamentarians. <https://www.pbo-dpb.gc.ca/en/blog/news/RP-2122-027-S--economic-fiscal-update-2021-issues-parliamentarians--mise-jour-economique-budgetaire-2021-enjeux-parlementaires>
2. GC Infobase: Results. Treasury Board of Canada Secretariat. [https://www.tbs-sct.gc.ca/ems-sgd/edb-bdd/index-eng.html#infographic/gov/gov/results/---\(panel_key---'gov_drr\)](https://www.tbs-sct.gc.ca/ems-sgd/edb-bdd/index-eng.html#infographic/gov/gov/results/---(panel_key---'gov_drr))

1.1. Overview – Total Authorities

Supplementary Estimates (C) 2021-22 outlines an additional \$17.1 billion in budgetary authorities (Table 1-1). Voted authorities total \$13.2 billion and statutory authorities are forecasted to increase by a total of \$3.9 billion.

Non-budgetary authorities, which include loans, investments and advances, are decreasing by \$400 million.

Table 1-1 *Supplementary Estimates (C), 2021–22: Total authorities*

	Budgetary (\$ billions)	Non-budgetary (\$ billions)
Voted	13.2	0.0
Statutory	3.9	(0.4)
Total	17.1	(0.4)

Source: Treasury Board of Canada Secretariat, *Supplementary Estimates (C), 2021-22*.

Including these Supplementary Estimates, the total proposed year-to-date budgetary authorities are \$415.0 billion, which represents a \$63.7 billion (13.3 percent) decrease over the 2020-21 Estimates to date.

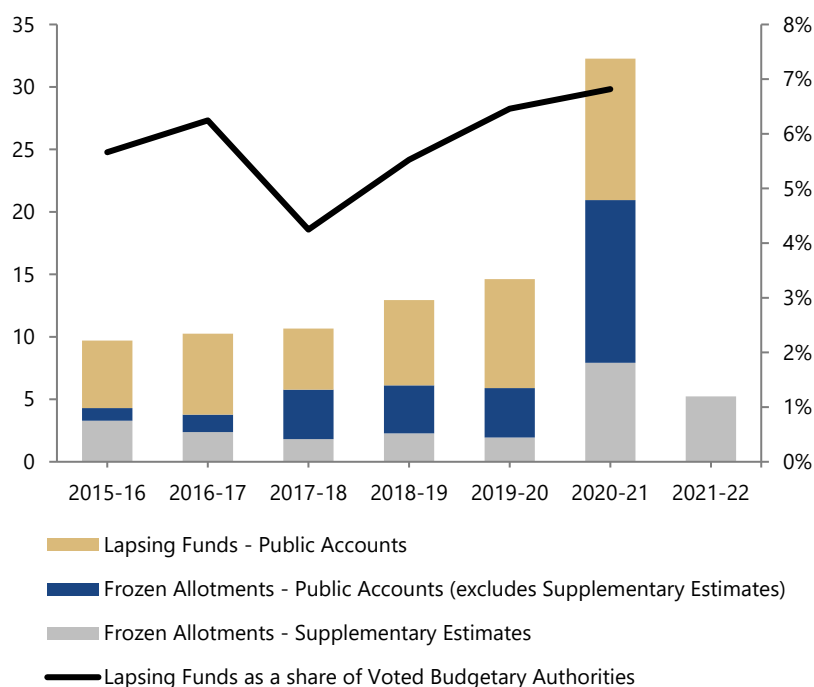
1.2. Frozen Allotments

These Supplementary Estimates indicate that \$5.5 billion in money already approved by Parliament is now administratively frozen by the Treasury Board. Frozen allotments refer to money that has been approved by Parliament, but that the Government then restricts. This represents a \$2.5 billion decrease from the final Supplementary Estimates presented last year.⁵

As shown in Figure 1-2, both frozen allotments and total overall unspent budgets (or “lapses”) reached record levels in 2020-21. This is principally attributable to the federal pandemic response, which saw an unprecedented increase in approved spending and considerable uncertainty regarding whether all the approved funding would be required.

Figure 1-2 Lapses over time

\$ billions



Sources: Public Accounts of Canada; Treasury Board of Canada Secretariat; and PBO calculations.

Note: \$0.3 billion of "Other" frozen allotments are contained within TB Central Votes in 2021-22. These amounts are lapses but were not considered frozen allotments in the Public Accounts prior to 2017-18. Therefore, PBO excluded these amounts from frozen allotments to ensure comparable year-over-year measurements. They are included in the lapsing funds amounts.

2. COVID-19 Measures

More than half (\$9.8 billion, or 57.6 per cent) of budgetary authorities included in these Supplementary Estimates relate to the Government's response to the COVID-19 global pandemic.⁶ This brings the total COVID-19 related authorities included in the 2021-22 Estimates to \$59.8 billion, compared to \$159.4 billion in the 2020-21 Estimates.⁷ As noted in previous PBO reports, not all COVID-19 measures are included in the Estimates documents, such as the Canada Emergency Wage Subsidy and the Canada Emergency Rent Subsidy, which are legislated through the *Income Tax Act*. Additional details can be found on the Treasury Board of Canada Secretariat's website.⁸

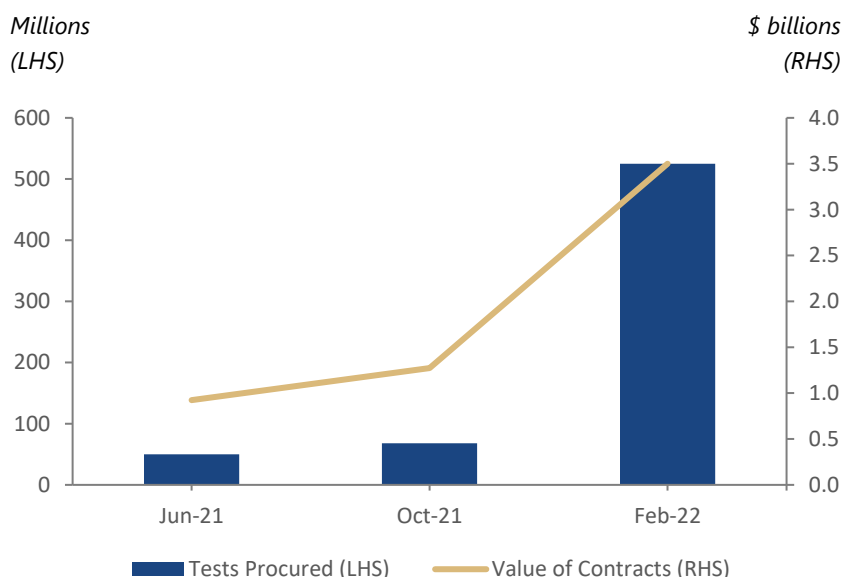
COVID-19 measures account for \$6.9 billion (52.5 per cent) of the \$13.2 billion in proposed voted authorities. Notable items include:

- \$4.0 billion to Department of Health and Public Health Agency of Canada (PHAC) for the procurement and distribution of COVID-19 rapid test kits;
- \$1.0 billion to PHAC for the procurement of additional therapeutics;
- \$1.0 billion to Department of Health and PHAC to support emergency measures related to the pandemic, such as additional rapid tests, treatments and therapeutics, or associated logistics and operations costs; and
- \$687 million to PHAC for the procurement of vaccines and personal protective equipment.

The proposed spending of \$4.0 billion on rapid tests in these Supplementary Estimates is a duplication of spending being sought through the following proposed legislation currently before Parliament:

- \$2.5 billion through Bill C-10, *An Act respecting certain measures related to COVID-19*; and
- Approximately \$1.7 billion through Bill C-8, *Economic and Fiscal Update Implementation Act, 2021*.

The Government is seeking these authorities through *Supplementary Estimates (C) 2021-22* with the intent to use the first authority available. As shown in Figure 2-1, the Government's effort to procure rapid tests increased over the course of the past four months. Parliamentarians should continue to monitor spending on rapid tests to avoid duplication of payments.

Figure 2-1 COVID-19 Rapid Test Procurement

Source: Public Services and Procurement Canada.

Supplementary Estimates (C) 2021-22 also includes increases in forecasted statutory authorities for COVID-19 measures, totalling \$2.9 billion (or 74.8 per cent of total budgetary statutory authorities). These include:

- \$2.4 billion to Employment and Social Development Canada (ESDC) for the Canada Worker Lockdown Benefit; and,
- \$300 million to PHAC for payments to the provinces and territories for proof of vaccine credentials as directed in Bill C-8, *Economic and Fiscal Update Implementation Act, 2021*.

3. Other Major Items

3.1. Student Loan Write-Offs

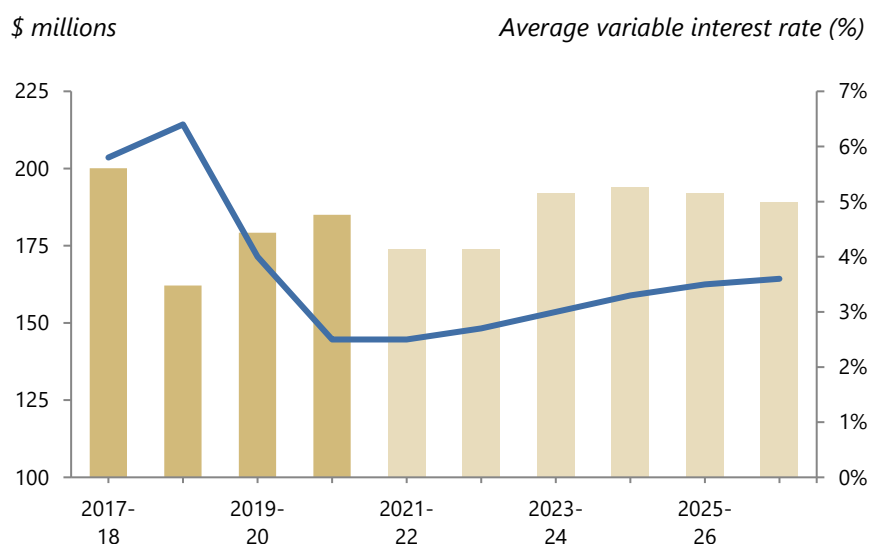
The Canada Student Loans Program provides repayable loans and non-repayable grants to help Canadians finance their participation in postsecondary education.⁹

Since 2014, the Government has sought Parliament's approval each year to write-off student loans that are deemed uncollectable. These Supplementary Estimates request \$170 million to write-off 26,711 unrecoverable debts. In comparison, the *Supplementary Estimates (C) 2020-21* sought \$188 million to write-off 30,289 unrecoverable debts.

As shown in Figure 3-1, the Office of the Chief Actuary's projections for write-offs indicate the volatility amounts written off prior to the 2021-22 loan

year. Projected loan write-offs in subsequent years are expected to continue to flatten over the medium term. This is a result of a program change introduced in 2019 and 2021 that expanded access to the Repayment Assistance Program starting in 2022-23.

Figure 3-1 Canada Student Loans – loan write-offs



Sources: Office of the Chief Actuary of Canada, PBO calculations.

Note: Annual figures represent the Canada Student Loans Program loan year (August 1 to July 31).

Write-off amounts include the loan principle and the amount of interest accrued.

Starting 1 November 2019, the variable interest rate was reduced from prime plus 2.5 percentage points to prime rate. Therefore, loan year 2019-20 has a blended interest rate.

Figures prior to 2021-22 are actuals. Figures for 2021-22 and later are projections.

3.2. Personnel Spending

Personnel spending accounts for approximately \$1.4 billion (or 8.2 per cent) in budgetary authorities in these Supplementary Estimates. A large part of this relates to the following proposed allocations:

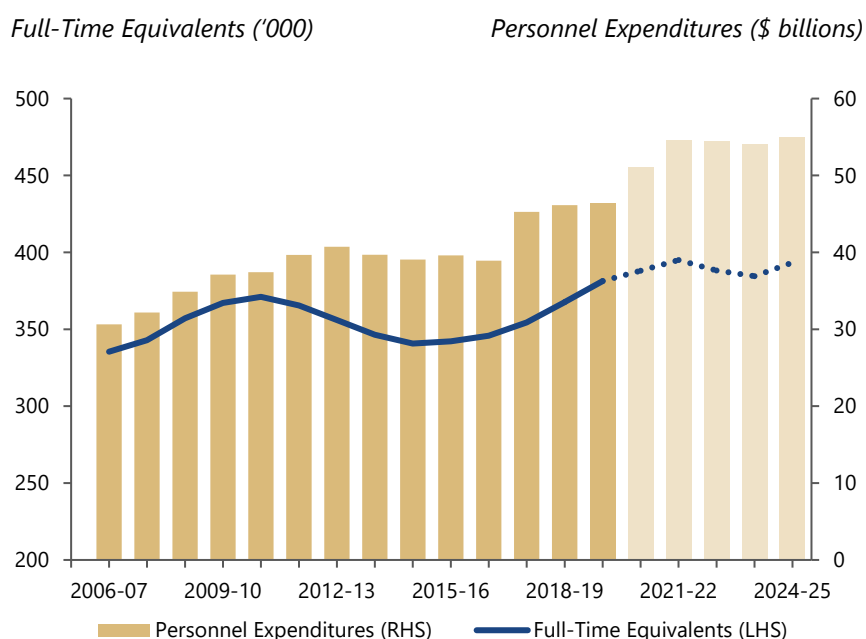
- \$206 million to the Treasury Board Secretariat (TBS) for funding for compensation adjustments; and
- \$200 million to TBS for payroll requirements.

In general, the most important cost drivers of personnel spending are the number of personnel (represented by full-time equivalents, or FTEs), and their level of compensation.

From 2006-07 to 2019-20, the number of FTEs grew by an average of 1.0 per cent annually, from roughly 335,000 to 381,000, despite the small decline between 2011-12 and 2014-15 (Figure 3-2). From 2015-16 to 2019-20, the average annual rate of growth in the number of FTEs was 2.3 per cent.

From 2006-07 to 2019-20, personnel spending, on average, grew by 3.4 per cent annually, from \$30.6 billion to \$46.3 billion. Compensation per FTE increased at an average of 2.3 per cent each year. PBO projects that over the next five years, the number of FTEs will continue to increase, reaching over 393,000 by 2024-25. By that time, personnel expenditures are projected to reach nearly \$55.0 billion.

Figure 3-2 Personnel Expenditures and Full-Time Equivalents



Sources: Departmental Results Plans, Public Accounts of Canada; Parliamentary Budget Officer.

Note: Data up until and including 2019-20 are actuals. Data from 2020-21 are projections.

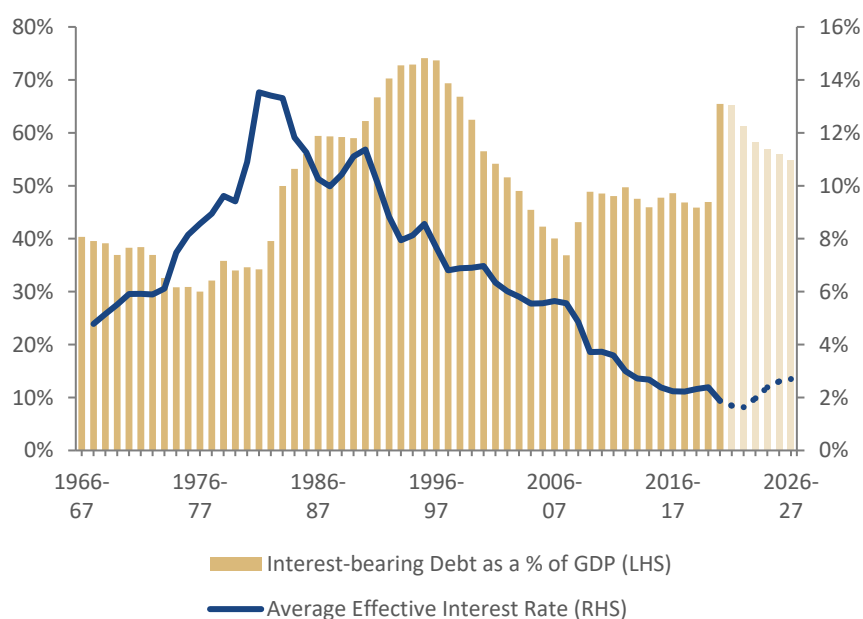
To assist in parliamentarians' scrutiny, the PBO developed the [Personnel Expenditure Analysis Tool](#) (PEAT).¹⁰ This interactive online tool allows users to explore overall government spending on personnel or focus on single departments. Additional information on PEAT and key insights regarding personnel spending can also be found in the PBO's [Personnel Expenditure Analysis Tool Report](#).¹¹

3.3. Public Debt

These Supplementary Estimates include an increase of \$1.6 billion in forecasted statutory authorities for increasing interest on unmatured debt.

The stock of public debt has increased substantially over the course of the pandemic. While the growth in stock is expected to moderate over the medium term, the anticipated increase in the effective average interest rate on the stock of debt will result in further increases in interest payments to service the federal debt (Figure 3-3).

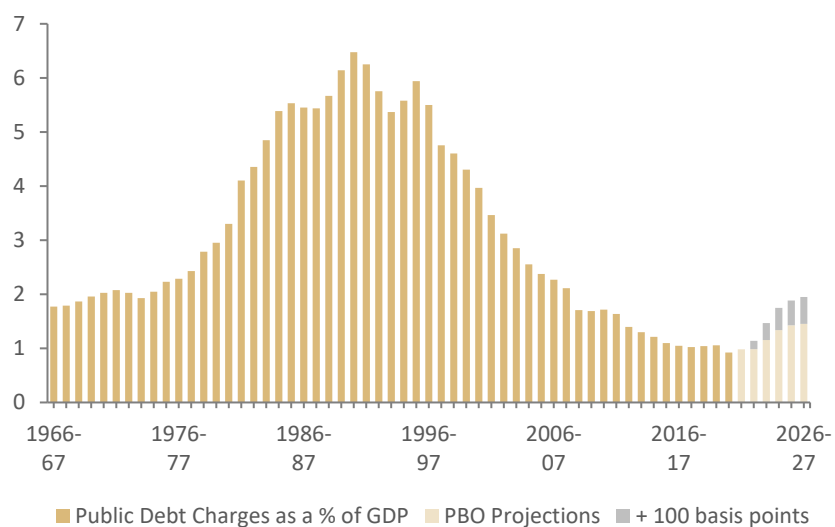
Figure 3-3 Interest-bearing Debt



Source: Parliamentary Budget Officer.

Note: Data up until and including 2020-21 are actuals. Data from 2021-22 are projections.

Overall, this is expected to lead to an increase in public debt interest costs in the medium term. PBO projects that by 2026-27, public debt charges will reach 1.5 per cent of GDP, up from its current share of 0.9 per cent (Figure 3-4).

Figure 3-4 Public Debt Charges as a Share of GDP*Per cent of GDP (%)*

Source: Parliamentary Budget Officer.

Note: Data up until and including 2020-21 are actuals. Data from 2021-22 are projections.

PBO has included an estimate of the sensitivity of public debt charges to a 100-basis point increase in the effective average interest rate (gray bar).

Notes

1. This excludes amounts for Employee Benefit Plans.
2. Ibid, Note 1.
3. *Old Age Security Act*. <https://laws-lois.justice.gc.ca/eng/acts/O-9/>
4. Treasury Board of Canada Secretariat. Supplementary Estimates (C) 2021-22. <https://www.canada.ca/en/treasury-board-secretariat/services/planned-government-spending/supplementary-estimates/supplementary-estimates-c-2021-22.html>
5. This is calculated based on all four frozen allotment categories: Reprofiled, Transferred or Reallocated, Reduction, and Other.
6. This excludes amounts for Employee Benefit Plans.
7. Ibid, Note 6.
8. Treasury Board of Canada Secretariat. COVID-19 Planned Expenditures for Supplementary Estimates (C), 2021–22. <https://www.canada.ca/en/treasury-board-secretariat/services/planned-government-spending/supplementary-estimates/supplementary-estimates-c-2021-22/covid-19-planned-expenditures.html>
9. Actuarial Report – Canada Student Financial Assistance Program. As at 31 July 2020. https://www.osfi-bsif.gc.ca/Eng/Docs/CSLP_2021.pdf
10. PBO's Personnel Expenditure Analysis Tool. <https://peat-oedp.pbo-dpb.ca/#/en>
11. PBO's Personnel Expenditure Analysis Tool – Key Insights Report. <https://www.pbo-dpb.gc.ca/en/blog/news/RP-2021-021-S--personnel-expenditure-analysis-tool--outil-examen-depenses-en-personnel>