



OFFICE OF THE  
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# Considerations for Parliament in Reforming the Business of Supply

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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 report outlines considerations for parliamentarians regarding the Government's proposals to reform the Business of Supply.

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# 1. Executive Summary

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Following inquiries from parliamentarians and their staff, the Parliamentary Budget Officer (PBO) prepared this short note outlining considerations regarding potential changes to the Business of Supply.

One of Parliament's fundamental responsibilities is to provide informed consent of the Government's proposed spending. Unfortunately, there continues to be unease among parliamentarians, in that the existing administrative framework for providing upfront scrutiny is not up to the task. Most stakeholders believe that the core issue is the lack of alignment between the budget and main estimates. There are also concerns regarding the quality of data presented in financial reports.

The Government has released a document with four proposals that it believes would improve the Business of Supply. These recommendations would provide parliamentarians with better performance data and reconciliation tables for the budget and estimates; they would also introduce "purpose-based" appropriations, and integrate budget measures in the main estimates.

PBO believes the Government's objective to enhance Parliament's role in upfront financial scrutiny is laudable. However, two of the proposals (purpose-based appropriations and delaying the main estimates) warrant further attention by parliamentarians.

In the case of purpose-based appropriations, PBO notes that the last time this issue was studied, parliamentarians recommended approving money for each program within a department and agency. The Government now proposes high-level appropriations that would provide discretion for departments and agencies to shift money among programs without parliamentary approval.

Given that what Parliament votes on and approves is the cornerstone of its financial control framework for public money, further review of the proposed change could be beneficial.

With respect to delaying the main estimates, the Government indicates that the core impediment in aligning the budget and estimates arises from the Government's own sclerotic internal administrative processes, rather than parliamentary timelines. PBO notes that the Government's Supplementary Estimates B, tabled on 3 November, contained 51 measures that were originally proposed almost seven months earlier in Budget 2016.

This example shows that it is unlikely that delaying the release of the main estimates by eight weeks would provide full alignment with the budget. To that end, parliamentarians may wish to ask for additional details regarding the Government's plan to streamline its internal budgetary approval processes.

## 2. Context

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The cornerstone of our parliamentary democracy is that no laws can be imposed on the public without the consent of their elected representatives. Thus, the government cannot impose taxes or spend money without the approval of the House of Commons. This assures a degree of accountability.

Parliament has established the Business of Supply to administratively manage the consideration of new revenue-raising measures (such as taxes and tariffs), as well as disbursements of the money it collects (for example, benefits for the elderly and unemployed). This process rests on two pillars:

- The upfront scrutiny of financial proposals before they are enacted into law; and,
- The after-the-fact review of actual spending to confirm that financial activities occurred as the government committed and Parliament intended.

The Business of Supply has evolved over the past 149 years, driven primarily by the growing aegis of government and increasing expectations of transparency among citizens and their representatives. The scope of federal spending has increased to almost 15 per cent of the economy, encompassing an increasingly complex array of activities.

In an effort to increase the ability of Parliament to fulfil its core role of providing informed consent of proposed budgets, the government's scope and detail of financial reporting has greatly proliferated. In 2015 alone, this exceeded thousands of pages of detailed financial plans, updates and assessment of results.

Unfortunately, the impressive growth in government reporting has moved in lockstep with the increasing unease among many legislators regarding their ability to provide informed consent of the government's proposed financial plans.

This wariness is most palpable in the number of parliamentary standing committee reports issued since the mid-1990s offering recommendations to improve legislative scrutiny of the Business of Supply. The vesting of the

Parliamentary Budget Officer with a mandate to perform “research and analysis regarding the Government’s Estimates” was, in part, an effort to alleviate this concern.<sup>1</sup>

The most recent parliamentary effort to reform the Business of Supply occurred in 2012; it resulted in the Seventh Report of the House of Commons Government Operations and Estimates Committee (the OGGO report).<sup>2</sup> The report offered 16 recommendations that were supported by committee members representing all major political parties.<sup>3</sup>

The recommendations principally focused on the content and procedure pertaining to Parliament’s consideration of the estimates. As noted in the report, the estimates were designed to ensure that parliamentarians were furnished with timely, relevant and comprehensible analysis presented by the Government, to support legislative financial scrutiny.

Operationally, the crux of the problem identified in the OGGO Report was the lack of alignment between the budget and estimates. It was noted that this has three dimensions:

- i. *Presentation of Initiatives.* The budget presents initiatives on the basis of their proposed policy outcomes (for example, investing in federal infrastructure). In contrast, the estimates present spending on a functional basis, such as operating, capital or transfer payments (new investments in federal infrastructure would be presented as requested increases in the capital votes of departments and agencies).
- ii. *Timing of New Budget Measures.* The estimates are prepared by the Treasury Board Secretariat (in collaboration with departments and agencies) and are required under the Standing Orders to be tabled by 1 March each year (one month prior to the beginning of the fiscal year). In comparison, the budget does not have a fixed tabling date; it is prepared by the Department of Finance (with some consultation with other departments and agencies, as required). As such, new budget measures are typically not included in the corresponding main estimates for the year.
- iii. *Differing Accounting Assumptions and Scope.* The two documents are on different bases of accounting (the budget on an accrual basis, the main estimates on a near cash basis). In addition, over the years, the government has curtailed the presentation of additional information that does not directly relate to Parliament’s vote on the appropriation bill. As a result, the documents do not fully reconcile to one another.<sup>4</sup>

The government of the day provided uneven support for the committee’s recommendations. It accepted some, but rejected a key proposal to establish a fixed budget date well before the tabling of the main estimates to allow time to incorporate new budget initiatives. In addition, the current Government only recently launched a limited pilot

project to align the presentation of policy measures in the budget and estimates.<sup>5</sup>

Four years after the OGGO's recommendations were presented to Parliament, the President of the Treasury Board published a policy paper outlining the Government's proposed reforms to the Business of Supply.<sup>6</sup> These proposals were subsequently presented in the Government's Fall Economic Statement (FES). Both are discussed in the following section.

**Table 1**      **Core problems with the business of supply**

What's the Problem	Why it Matters
<ul style="list-style-type: none"> <li>The budget presents new policy initiatives, but the estimates present functional adjustments to allotments.</li> </ul>	<ul style="list-style-type: none"> <li>Parliament does not have control over new policy initiatives, allowing money to be transferred between policy initiatives without parliamentary approval.</li> </ul>
<ul style="list-style-type: none"> <li>The main estimates do not include new budget measures.</li> </ul>	<ul style="list-style-type: none"> <li>Parliament spends its time scrutinizing a spending plan in the main estimates that does not reflect the current reality presented in the budget.</li> </ul>
<ul style="list-style-type: none"> <li>The budget and main estimates have a different scope and basis of accounting.</li> </ul>	<ul style="list-style-type: none"> <li>Parliament is asked to vote on a spending plan in the main estimates that cannot be easily reconciled with overall spending.</li> </ul>

# 3. How the Government Would Change Parliament's Financial Scrutiny

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The President of the Treasury Board released the Government's proposal to reform the Business of Supply in October 2016.<sup>7</sup> The paper begins by asserting that *"...Parliament does not currently play a meaningful role in reviewing the Government's spending plans"*. It refers to the existing estimates process as *"incoherent"* and departmental reports as *"...neither meaningful or informative"*.

To address Parliament's *"...inability...to play a meaningful role..."*, the Government proposes a "four-pillar" approach to "fundamentally change the estimates process":

- *Pillar 1*: Delay the release of the main estimates until 1 May, thus ensuring budget items are included in the main estimates;
- *Pillar 2*: Publish "high-level" accounting reconciliation tables between the budget and the estimates, similar to those already presented in Supplementary Estimates (A) earlier this year;
- *Pillar 3*: Introduce more pilot projects on "purpose-based" appropriations, whereby parliamentarians would approve funding for the broad policy outcomes of departments, rather than the administrative inputs (that is, operating budgets, capital spending and grants and contributions); and,
- *Pillar 4*: Provide higher quality information on performance targets and results in departments' and agencies' Reports on Plans and Priorities and Departmental Performance Reports, as well as publishing these data online.<sup>8</sup>

Subsequent to the release of the Government's detailed proposal to reform the Business of Supply, the Government's Fall Economic Statement (FES) reiterated its intentions. The FES declared that *"Parliament's current system of financial accountability is confusing and provides insufficient information to Parliamentarians and Canadians"*.<sup>9</sup>

Apart from the first pillar (delaying release of the main estimates), the Government's proposals are generally consistent with the 2012 OGGO report, which received all-party support.

## 4. Considerations for Parliamentarians and Stakeholders

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When considering the Government's proposals, it is essential to compare them against core principles of parliamentary review of spending, which enhance Parliament's ability to hold the government to account.

Under these principles, financial information should be clear and understandable, timely and internally consistent, and they should permit the tracking of spending from its initial announcement, to parliamentary approval and actual spending.<sup>10</sup>

The Government's proposals focus on improving the first two aspects of meaningful financial scrutiny (that is, improving the clarity of information and ensuring internal consistency). The Government indicates that the two key factors explaining existing problems in financial accountability are: i) the lack of alignment between the budget and estimates, and ii) an "insufficient focus" in the estimates documents on programs and results

With respect to the former (lack of alignment), this stems from a number of factors: insufficient time to integrate new budget measures in the main estimates; differing accounting standards; a narrower scope for measures contained in the main estimates; and appropriations based on inputs (that is, operating spending, capital budgets and transfers) instead of policies.<sup>11</sup>

The Government attributes the latter problem (performance data) to a weak policy framework for results management, which resulted in "high volumes of low quality information". This policy framework was recently updated in July 2016.<sup>12</sup>

There is a general consensus among parliamentarians that the current system for scrutinizing government spending is byzantine.<sup>13</sup> This is reflected in several parliamentary committee reports published over the past two decades regarding Parliament's financial scrutiny.

To that end, any government effort to integrate existing reporting and render it more comprehensible to parliamentarians (and the public) is a positive development.

*Better Information (Pillars 2 and 4)*

The “four pillar” proposal set out in the FES addresses a number of recommendations of the 2012 OGGO report. In particular, *Pillar 2* (reconciliation tables) and *Pillar 4* (more detailed information on performance) could directly improve Parliament’s ability to control and scrutinize proposed spending. They would also improve transparency for the public and augment internal management by the government (via more meaningful use of performance data). Moreover, there are no apparent measures required by Parliament to integrate these changes into the Business of Supply.

In the case of Pillar 2, more detailed reconciliation tables will allow parliamentarians and the public to better understand which aspects of the budget are being approved in each appropriation bill, and how these are situated in the Government’s overall fiscal plan.

The Government already returned to its practice of publishing reconciliation tables in Supplementary Estimates (A) earlier this year. Further expanding the detail (for instance, the cash and accrual profiles of proposed spending measures) would further enhance transparency.

With respect to Pillar 4, parliamentarians may wish to seek more details regarding how the “new” performance policy framework would meaningfully improve on the “old” performance policy framework. Both required detailed performance targets for government programs, which were ostensibly linked to funding allocations.

Previous PBO research was unable to establish a statistical relationship between program performance and funding allocations.<sup>14</sup> Parliamentarians may wish to solicit more details pertaining to how this enhanced performance information will be meaningfully integrated into the Government’s own internal budgeting processes.

*Policy-Based Appropriations (Pillar 3)*

Pillar 3 (piloting more “policy-based” appropriations) is also linked to the recommendations of the 2012 OGGO report. That said, while the OGGO report recommended appropriations on a “program activity” basis, the Government proposes instead to appropriate funds on the more abstract level of “core responsibilities of departments”.

In doing so, parliamentarians would accept the risk that money would be approved for very broad, weakly defined activities, with poor linkages to concrete results. For instance, Employment and Social Development

Canada's 2016-17 Report on Plans and Priorities provides a description and performance indicators for the *Service Network Supporting Government Departments* program. There are no performance indicators, or corresponding description, for the higher-level *Government-Wide Service Excellence* strategic outcome.<sup>15</sup>

The Government notes the potential operational need to appropriate at a higher level, thus ensuring departments and agencies can reallocate among programs without parliamentary approval (as is currently the case).

Parliamentarians will need to decide how to balance their control over how public money is spent, for instance, requiring departments to return to Parliament for permission to shift money between programs. This is currently the case for transfers among operating spending, capital budgets and transfer payment votes, with the Government's interest in facilitating its own operations and minimizing unspent funds (that is, lapses).

Parliamentarians may wish to further study this issue, especially as the Government's proposal is not very precise at this point. The nature of estimates votes is a key consideration as it determines over what Parliament actually exercises control.

*Delaying Tabling of the Main Estimates Until After the Start of the Fiscal Year (Pillar 1)*

The Government's first pillar is a new proposal that had not been recommended by parliamentary committees in the past. However, the proposed delay is intended to address a problem that is generally accepted by all stakeholders: the absence of new budget initiatives in the corresponding main estimates.

The policy paper of the President of the Treasury Board explains that this delay stems primarily from the Government's own internal approval processes for spending. The document notes that "*current funding decisions are sequenced such that Cabinet and Treasury Board decisions often take place many months after new initiatives are announced in the Budget*".

It further suggests that these processes could be "*greatly improved*" by ensuring that internal review by various government departments is performed in concert, noting that this could "*greatly reduce the timeline for implementing Budget priorities*".<sup>16</sup>

While the Government accepts that these procedural changes would be possible and beneficial, it also indicates it would be a significant "cultural and procedural" undertaking requiring "several years".

Instead, the FES restated what the President of the Treasury Board originally proposed: that parliamentarians change the existing Standing Order requiring the Government to table its main estimates in Parliament before 1

March, to eight weeks later on 1 May.<sup>17</sup> The Government's first supplementary estimates, typically tabled in May, would be supplanted by the new document.

Given that the Government's fiscal year begins on 1 April, the Government proposes to table an "interim estimates" in February, which would seek interim supply until the new main estimates were approved at the end of June (also known as the end of the first Supply Period). These interim estimates, and corresponding appropriation bill, would seek approval of a fraction of the total funding provided by Parliament in the previous year's main estimates.

PBO acknowledges that the Government's proposal to delay the main estimates seeks to address a problem identified by parliamentarians regarding the absence of budget initiatives in the main estimates. That said, Parliamentarians will need to determine whether the cumbersome workaround of creating a new interim estimates, appropriating money based on the previous year's financial estimates, releasing a new main estimates in May and eliminating the spring supplementary estimates, is the best approach to meet their needs.

The 2012 OGGO report recommended that the Government establish a fixed tabling date for the annual budget, well before the beginning of the fiscal year on 1 April. The Government rejected this recommendation because it preferred to retain discretion regarding the budget timing. The current proposal sidestepped the question of whether it would be willing to contemplate a fixed tabling date.

PBO notes that the OGGO recommendation is a more straightforward solution to addressing the problem of incorporating budget items in the main estimates. It could allow the Government to move delivering the budget to well before the main estimates, allowing time to integrate new initiatives. It would also ensure that Parliament is provided with a comprehensive federal spending plan before it is asked to approve money for the new fiscal year.

Before agreeing to the changes proposed by the Government, parliamentarians may wish revisit the core problem that undermines their financial scrutiny: the Government's own internal administrative processes. The President of the Treasury Board's policy paper mentions these can "*materially delay the implementation of government programs.*"<sup>18</sup> These delays also serve to undermine the efficacy of the upfront parliamentary scrutiny in the Business of Supply, by failing to bring new budget measures forward in a timely manner.

PBO notes that the Government's Supplementary Estimates B, tabled on 3 November, contained 51 measures worth \$1.7 billion that were originally proposed almost seven months earlier in Budget 2016. Unless the

Government is able to present a clear plan to reform its internal management processes, this example shows that it is unlikely that delaying the release of the main estimates by eight weeks will provide full alignment with the budget.

## 5. Reintroducing a “Meaningful” Role for Parliament in Financial Scrutiny

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The mandate of the PBO includes providing analysis and research to Parliament on the government’s estimates. This does not include advocating for a specific administrative structure for the Business of Supply. Rather, our role is to support Parliament in building the integrated processes that will serve to enhance its scrutiny of proposed government spending.

The Government asserts that Parliament does not play a meaningful role in financial scrutiny. PBO disagrees with this view. We note that notwithstanding the Government’s performance information of admittedly poor quality, and their inability to reconcile the Government’s spending proposals, parliamentarians have performed a commendable job of asking pertinent questions in standing committee hearings, Question Period and Committee of the Whole.

Based on our day-to-day work with parliamentarians, PBO believes that through this challenge function, the Government’s financial plans have been rendered more transparent (and perhaps even coherent).

Finally, PBO notes that notwithstanding the changes proposed by the Government, there is a primordial reason that parliamentarians are often frustrated by the current process for scrutinizing the estimates: their inability to amend any aspect of the Government’s proposed spending plan.

In theory, standing committees have the right to reduce individual votes brought before them. However, in practice, this is exceedingly rare, owing to the regular designation of such changes as being “matters of confidence” in the government.

Until parliamentarians are provided with more discretion to propose meaningful alternatives, there remains the risk that the existing upfront scrutiny process could be perceived as not being as “effective” as it might.

## Notes

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<sup>1</sup> The mandate of the Parliamentary Budget Officer (PBO) is presented in the [Parliament of Canada Act](#). While Budget 2006 initially focused on providing the PBO with a mandate to prepare independent fiscal and economic analysis, during House of Commons committee hearings on Bill C-2 (The Financial Accountability Act), parliamentarians amended the proposed legislation in response to witness testimony and their own experiences to include research and analysis of the Estimates. Based on Hansard transcripts, the motivation for the expansion of the proposed mandate was the recognition that more support was needed to scrutinize what, at that time, was seen as a daunting effort to scrutinize proposed spending.

<sup>2</sup> [Seventh Report of the House of Commons Government Operations and Estimates Committee](#).

<sup>3</sup> There was unanimous support for 15 of the 16 recommendations. However, for the recommendation regarding further study of the role and structure of the Parliamentary Budget Officer and whether he should be established as an independent officer of Parliament, opposition parties indicated that from their perspective no further study was required and this should be immediately undertaken.

<sup>4</sup> In practice, accrual adjustments to the cash budget rarely exceed several billion dollars each year. As such, this is a relatively minor adjustment.

<sup>5</sup> Some of Transport Canada's transfer payments have been restructured as policy envelopes in the [2016-17 Main Estimates](#). As such, rather than voting on "Transfer Payments", parliamentarians are now asked to approve funding for the "Transportation Infrastructure" and "Gateways and Corridors" programs. Each of those programs has corresponding performance measures and expected results.

<sup>6</sup> Empowering Parliamentarians Through Better Information: The Government's Vision for Estimates Reform. The document has not, as of November 2016, been published on a Government website. Rather, it has been circulated to parliamentarians.

<sup>7</sup> Ibid.

<sup>8</sup> Starting in the 2017-18 fiscal year, the Government plans to rename the Report on Plans and Priorities “Departmental Plans” and the Departmental Performance Reports “Departmental Results”.

<sup>9</sup> [Fiscal and Economic Statement 2016](#).

<sup>10</sup> [The Parliamentary Financial Cycle](#).

<sup>11</sup> The Budget is presented on an accrual accounting basis; the Estimates a modified cash basis; and the Public Accounts present data on both an accrual and modified cash basis.

<sup>12</sup> [Treasury Board Policy on Results](#).

<sup>13</sup> The most recent effort in this regard was the [2012 report of the House of Commons Government Operations and Estimates Committee](#). It provides a historical overview of previous reform efforts.

<sup>14</sup> [Analysis of Performance Budgeting During the Recent Fiscal Consolidation](#) and [Updated Analysis of Performance Budgeting During the Recent Fiscal Consolidation](#).

<sup>15</sup> [Employment and Social Development Canada: 2016-17 Report on Plans and Priorities](#).

<sup>16</sup> See reference 5.

<sup>17</sup> Subsequent to the President of the Treasury Board’s policy paper on Estimates renewal and the Fall Economic Statement, the President of the Treasury Board amended his proposal to indicate that the May 1<sup>st</sup> tabling date would be for two years only (2017-18 and 2018-19), following which the tabling date would be moved to March 31<sup>st</sup>.

<sup>18</sup> The Treasury Board Secretariat’s policy paper indicates that, in some situations, there can be up to 19 months between the announcement of a new Budget initiative and approval by Parliament of the new funding.