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BUDGET OFFICER
BUREAU DU DIRECTEUR
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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 2016 for the first three months of the fiscal year.

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Executive Summary

Government expenditures for the first three months of 2016-2017 were \$62.9 billion, an increase of 5.7 per cent over the same period last year (\$59.5 billion). The additional spending is focused on Direct Program Spending, almost entirely as increased grants and contributions to outside entities.

Budget 2016, and subsequently *Supplementary Estimates (A) 2016-17*, outlined an increased emphasis on infrastructure renewal. *Budget 2016* outlined \$5.3 billion in investment in housing and infrastructure in 2016-17, the majority of the funds as grants and contributions. In accordance, the first quarter has observed a large increase, \$1.22 billion, in grants and contributions, which have been disbursed at a rate unprecedented compared to recent years. As per the Budget, many of these transfers have been to First Nations for infrastructure purposes, and to other levels of government.

Operating spending has increased \$438 million year-over-year, despite a decrease in personnel spending stemming from flat employment levels and a shift toward more casual and term employees. Direct capital spending by the Government has decreased \$84.5 million (10.5 per cent) due to procurement timeline complexities within the Department of National Defence.

1. Context

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

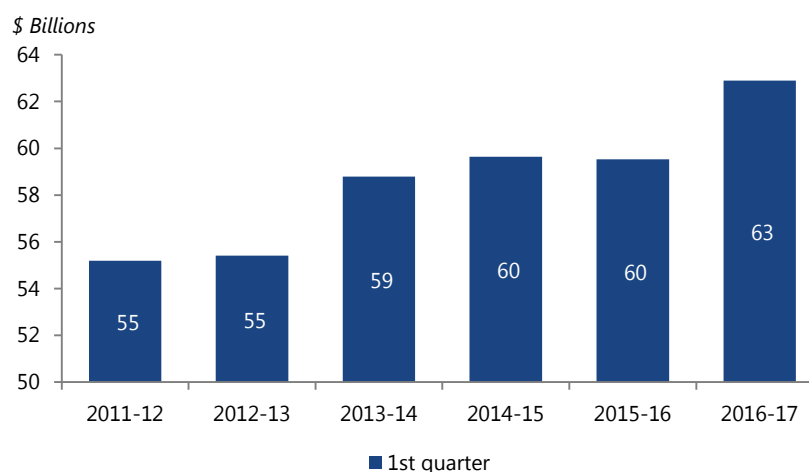
Since 2010, the Parliamentary Budget Officer (PBO) has monitored the implementation of the Budget and spending among the Government's roughly 400 programs to analyze whether it is on track to implement its overall spending commitments for the current fiscal year.

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 three months, federal government expenditures in 2016-17 totalled \$62.9 billion, 5.7 per cent higher than the \$59.5 billion spend over the same interval in 2015-16 (Figure 2-1). This is the largest increase in at least five years.

Figure 2-1 Total expenditures after three months¹



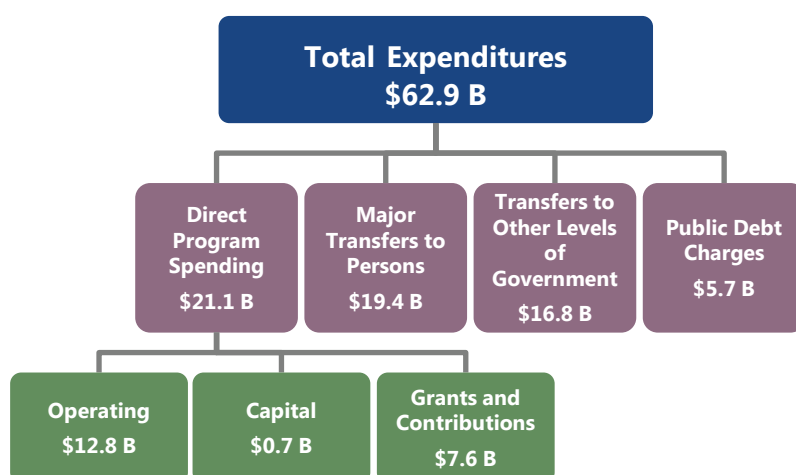
Sources: Receiver General and Parliamentary Budget Officer calculations.

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 2-2 Components of spending



Sources: Receiver General and Parliamentary Budget Officer calculations.

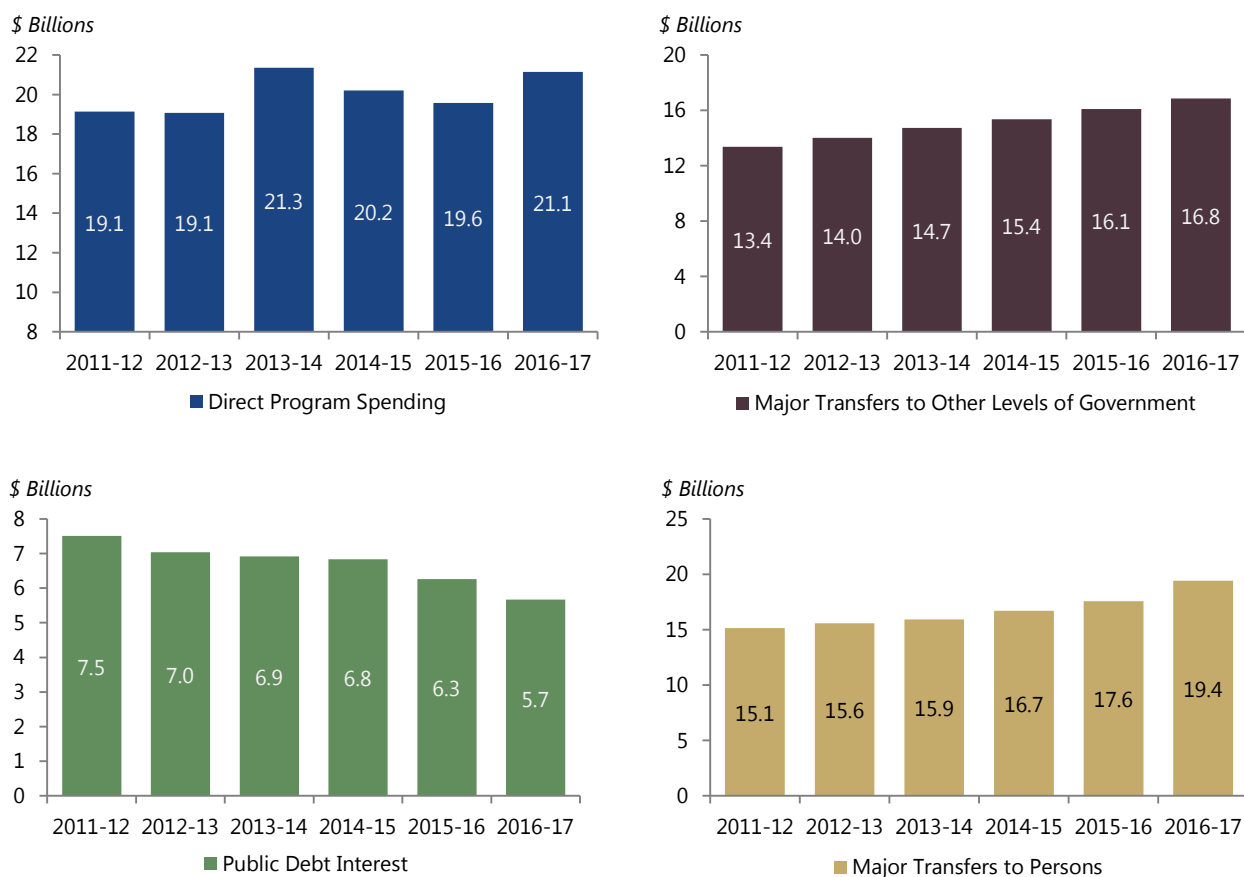
Most categories of government spending follow predictable trends. For instance, historically low interest rates have driven a declining trend in Public Debt interest costs, while major transfers to other levels of Government (such as the Canada Health Transfer and the Canada Social Transfer) are generally dictated by pre-determined escalators (Figure 2-3).

The category of major transfers to persons, which includes Old Age Security benefits and Employment Insurance payments, usually follows a similar trend. However, the introduction of the Enhanced Universal Child Care Benefit (UCCB) in the second quarter of last year has increased UCCB payments by \$1.22 billion in the first quarter of 2016-17. The Government announced in *Budget 2016* a new Canada Child Benefit (CCB) to replace both the UCCB and other support measures for parents. This new benefit will increase the benefits paid to low-income parents and phase out the benefits with income.

More variable spending is observable in Direct Program Spending, which is comprised of most federal programs and therefore will tend to reflect the Government's fiscal posture (whether expansionary or contractionary).

Budget 2016 planned to spend an additional 7.6 per cent on DPS in 2016-17, the largest increase since the Great Recession of 2008-09. Commensurate with this, spending on DPS is up \$1.57 billion in the first quarter compared with the same period last year.² This increase brings DPS to a level (\$21.1 billion) slightly below the five year historical peak in 2013-14 of \$21.3 billion, and increases the share of DPS as a portion of overall Government spending (Figure 2-4).

Figure 2-3 Historical spending patterns



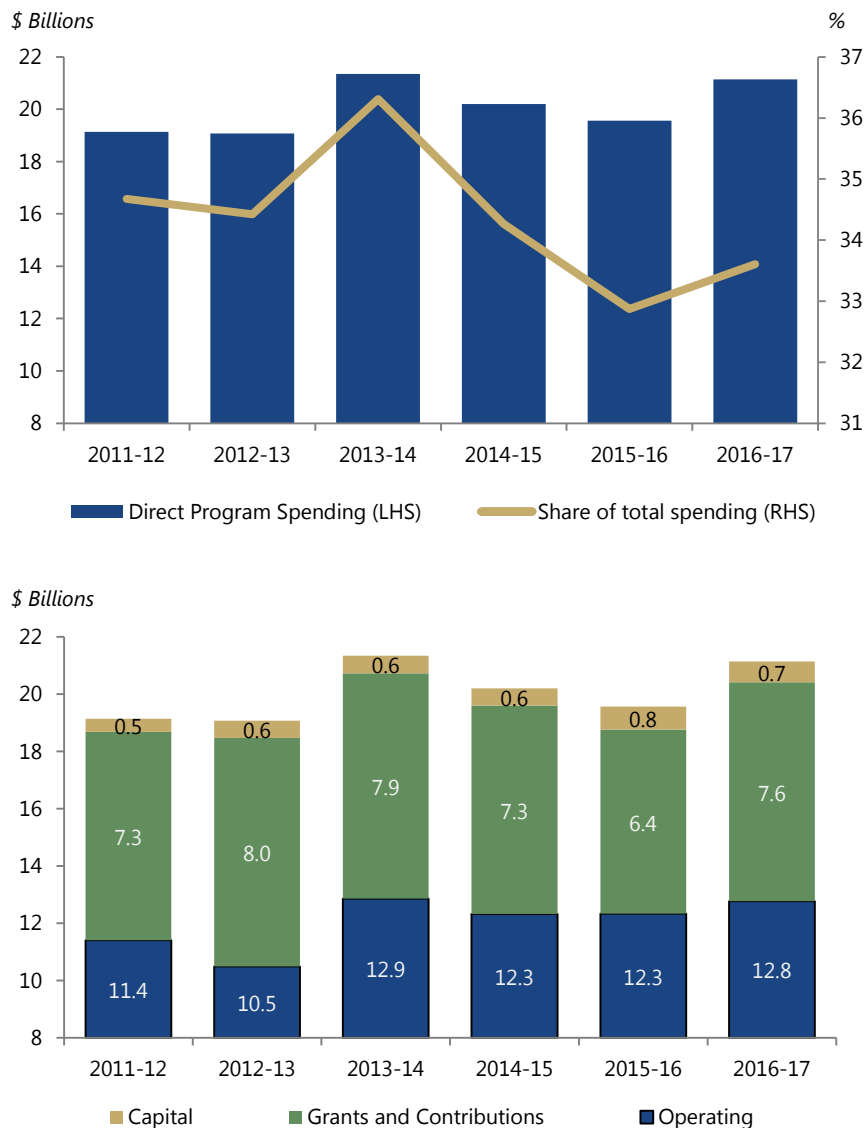
Sources: Receiver General and Parliamentary Budget Officer.

The three sub-categories of DPS are:

- Operating,
- Capital, and
- Grants and Contributions

After three months, Operating spending has increased \$0.44 billion (3.6 per cent), Grants and Contributions have increased \$1.22 billion (19.0 per cent), while Capital spending has decreased \$0.08 billion (10.5 per cent) compared to the first quarter of last year (Figure 2-4).

Figure 2-4 DPS share of spending after 3 months



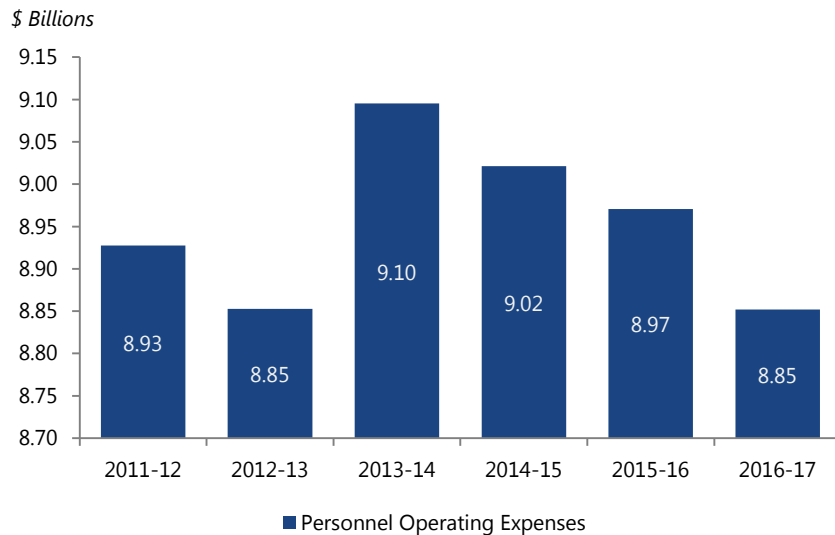
Sources: Receiver General and Parliamentary Budget Officer.

2.1. Operating

Operating consists mostly of compensation for employees (roughly two-thirds of total operating) with the remainder including such items as transportation costs, maintenance, and professional services contracts. Compared to the year previous, spending on compensation has decreased \$120 million (1.3 per cent) while other costs have increased \$585 million (18.0 per cent).

The decrease in first quarter personnel spending has continued a three-year downward trend, declining \$0.12 billion (1.3 per cent) to \$8.85 billion. This drop was the largest of the previous five years, and brings the total decline since the 2013-14 peak to \$0.24 billion (Figure 2-5). At current estimates, the Government plans to decrease spending on personnel by \$450 million (a decrease of 1.2 per cent) in 2016-17 compared to 2015-16.

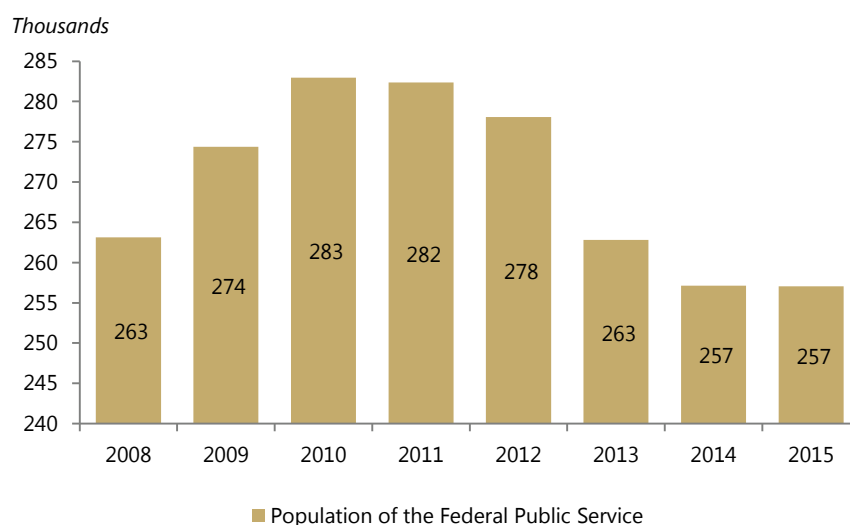
Figure 2-5 First quarter personnel spending



Sources: Receiver General and Parliamentary Budget Officer calculations.

This spending decrease has not been the result of fewer public servants. The most recent data available indicates almost no change in the overall number of public servants from 2014 to 2015 (Figure 2-6).

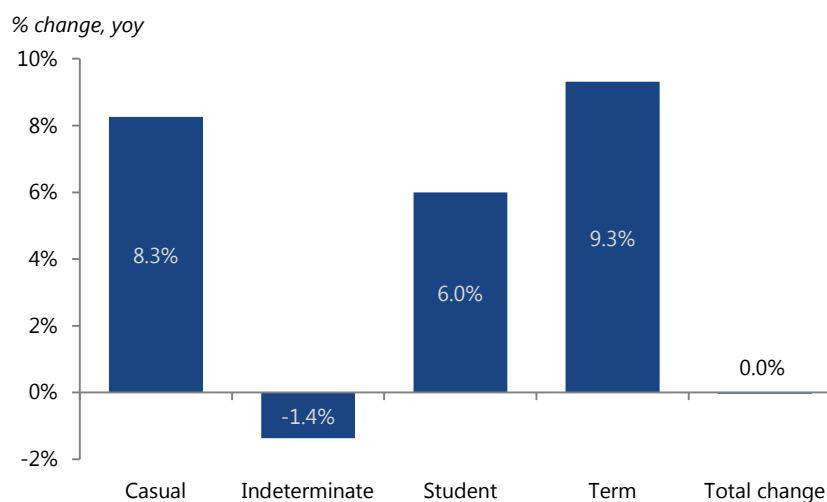
Figure 2-6 Number of full time equivalents



Source: Treasury Board of Canada Secretariat.

This recent stabilizing of employment numbers reflects a shift in the type of government employment on offer, with more federal jobs being term- or casual- positions, with a shrinking number of full-time positions (Figure 2-7).

Figure 2-7 Year-over-year changes in tenure of public service



Source: Treasury Board of Canada Secretariat.

Note: Chart represents one year change from March 31, 2014 to March 31, 2015.

The increase in other operating costs is driven primarily by the Canadian Census conducted by Statistics Canada, an increase of \$98 million over the same period last year, and shifting procurement timelines for National Defence. Complexity in developing major infrastructure projects required

increased repair and maintenance costs (\$31.1 million) and additional professional services (\$128 million), contributing the bulk of the \$170 million increase in the department's non-personnel operating spending.³

2.2. Capital

Compared to the same period last year, capital spending has decreased \$84.5 million (10.5 per cent), from \$805 million to \$720 million. While *Budget 2016* pledged \$11.9 billion over five years towards new infrastructure projects, most of these investments take the form of grants to non-governmental entities, with little direct capital spending flowing from the federal government.⁴

Of the government's capital spending, over 75 per cent is paid by four departments, with the majority of that share held by National Defence (Table 2-8).

Table 2-1 Federal government capital spending

	<i>\$ Millions</i>	2015-16	2016-17	\$ change
National Defence		466	386	-80
Public Services and Procurement Canada		92	93	1
Fisheries And Oceans		84	45	-39
Shared Services Canada		10	38	28
Other departments and agencies		152	158	6
Total		805	720	-85

Sources: Receiver General and Parliamentary Budget Officer calculations.

Compared with the year previous, National Defence has reduced capital spending by \$80 million as a result of the decreased procurement of maritime helicopters, while the decrease in Fisheries and Oceans capital outlays reflects contract payments previously made in 2015-16 relating to the new Coast Guard science vessels.⁵ The vessels are tentatively expected to be delivered in 2018-19.⁶

2.3. Grants and Contributions

The majority of the rise in DPS has been a result of increased grants and contributions. They have increased \$1.22 billion (19.0 per cent) over the same period last year. These two mechanisms are targeted measures that provide funds to eligible parties in order to undertake specific projects (Box 2-1).

Budget 2016 outlined a number of additional spending measures targeting specific groups in 2016-17, including \$814 million for green and social infrastructure for indigenous peoples, \$852 million for investments in public transit, and \$501 million for wastewater enhancements.⁷ These funds have already begun to be disbursed (Figure 2-9). Section 3 examines a number of these grants and contributions in further detail.

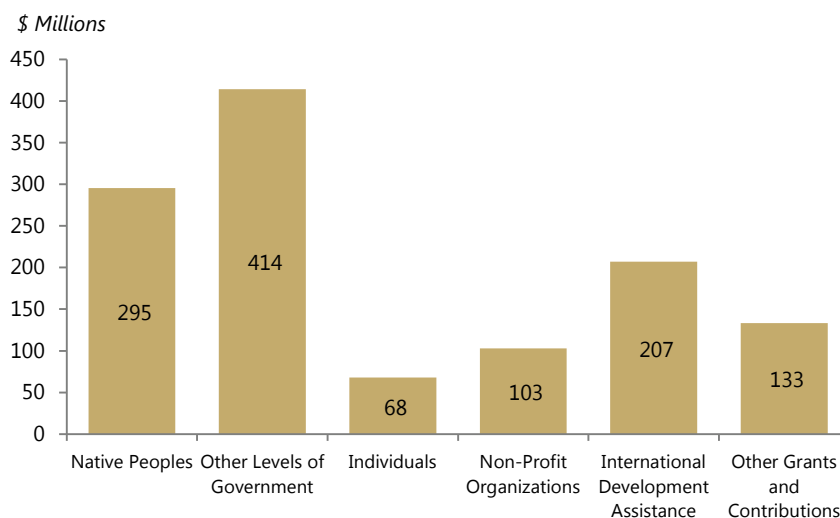
Box 2-1 Grants and Contributions

Grants – A transfer payment subject to pre-established eligibility and other entitlement criteria. A grant is not subject to being accounted for by a recipient, nor normally subject to audit by the department. The recipient may be required to report on results achieved.

Contributions – A transfer payment subject to performance conditions specified in a funding agreement. A contribution is to be accounted for and is subject to audit.

Source: TBS Policy on Transfer Payments, Appendix A: Definitions

Figure 2-9 Year-over-year change in grants and contributions



Sources: Receiver General and Parliamentary Budget Officer calculations.

3. Spending by Policy Areas

Figure 3-1 Whole of government expenditures

Thematic Spending Area	Spending after three months \$ millions	Spending after three months YoY Change (%)	Change in Authorities YoY Change (%)	
Economic Affairs	\$45,374	2.3%	4.8%	
Strong economic growth	\$24,638	0.9%	4.2%	
Income security and employment for Canadians	\$13,333	4.4%	4.7%	
An innovative and knowledge-based economy	\$7,011	4.3%	25.1%	
A clean and healthy environment	\$356	6.0%	-14.2%	
A fair and secure marketplace	\$37	-68.0%	-1.8%	
Social Affairs	\$11,286	20.7%	-11.0%	
A diverse society that promotes linguistic duality and social inclusion	\$3,717	58.9%	-37.4%	
A safe and secure Canada	\$5,233	4.8%	-1.4%	
Healthy Canadians	\$1,750	9.7%	3.3%	
A vibrant Canadian culture and heritage	\$586	39.3%	16.8%	
International Affairs	\$1,323	40.6%	-11.2%	
Global poverty reduction through international sustainable development	\$730	130.0%	-13.0%	
A safe and secure world through international engagement	\$543	-5.5%	-10.3%	
A prosperous Canada through global commerce	\$50	2.7%	4.2%	
A strong and mutually beneficial North American partnership	\$1	-4.8%	0.2%	
Government Affairs	\$4,877	4.7%	-2.2%	
Well-managed and efficient government operations	\$4,256	2.3%	-2.8%	
A transparent, accountable and responsive federal government	\$410	27.1%	3.5%	
Strong and independent democratic institutions	\$211	20.8%	4.4%	
Pay adjustment	\$4			
Suspense	\$196			
Government of Canada	\$62,899	5.7%	0.3%	

Sources: Receiver General and Parliamentary Budget Officer calculations.

3.1. Economic Affairs

Building Canada Fund

Grants and contributions under the Building Canada Fund are considered as transfers to Other Levels of Government (See Figure 2-9).

The \$45.3 billion of spending for **Economic Affairs**, an increase of 2.3 per cent over the same period last year, is a result of increased grants and contributions within the following three subheadings: *Strong Economic Growth, An Innovative and Knowledge-Based Economy*, and *A Clean and Healthy Environment*.

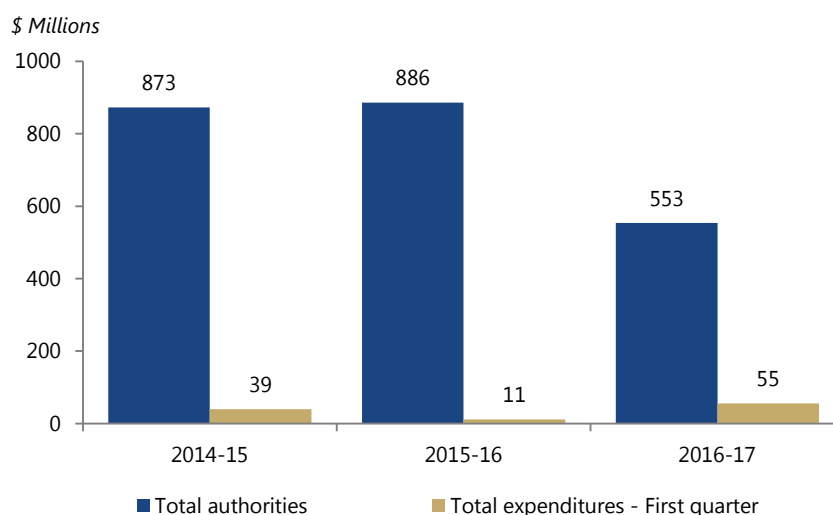
Within *Strong Economic Growth*, *Budget 2016* provided the Office of Infrastructure of Canada a significant increase in grants and contributions authorities, \$1.5 billion, for a total transfer envelope of \$5.1 billion. Accordingly, the department has spent an additional \$97.5 million (162 per cent) after three months. This increase is driven by a \$77.6 million (427 per cent) increase in contributions to the Building Canada Fund - Major Infrastructure Component, which strives to promote economic growth by funding projects related to the state of the national infrastructure. Roughly two thirds of the funding is targeted towards projects related to water, wastewater, public transit, the national highway system, and green energy.⁸ Disbursements through the fund have increased, in the form of advances, in anticipation of expenditures by Federal Delivery Partners later in 2016-17.⁹

Under the sub-heading *A Clean and Healthy Environment*, Environment and Climate Change Canada increased contributions by \$18.8 million. This increase is mainly due to a contribution of \$17.3 million to the Sustainable Development Technology Fund and statutory grant for the NextGen Biofuels Fund.¹⁰ The NextGen Biofuels Fund is a \$500 million project which facilitates the market entry of next-generation renewable fuels and co-products in Canada to ensure the growth of technological innovation and greater environmental benefits.¹¹

Atomic Energy of Canada Limited (AECL) has increased its spending, contributing to the increase in spending under *An Innovative and Knowledge-Based Economy*. This increase of \$150 million (83 per cent) stems from the process of privatizing AECL assets as discussed in previous PBO reports.¹²

3.2. Social Affairs

Spending on **Social Affairs** is up by 20.7 per cent (\$11.3 billion) after three months, despite a decrease in authorities by 11 per cent. The main increase in spending occurs under the subheading *A Diverse Society That Promotes Linguistic Duality And Social Inclusion*. This change is the result of the Rights and Interests of Indigenous Peoples program, which aims to strengthen the relationship between governments and Indigenous groups and establish partnerships that increase the well-being and inclusion of Indigenous peoples. The increase spending for this program is almost entirely in the form of grants and contributions (Figure 3-2).

Figure 3-2 Rights and interests of Indigenous peoples expenditure

Sources: Receiver General and Parliamentary Budget Officer calculations.

INAC grants

Grants and contributions by INAC are generally considered as transfers to, or on behalf of, Native Peoples (See Figure 2-9).

In 2016-17 Indigenous and Northern Affairs Canada (INAC) received a net increase in Grants and Contributions authorities of \$589 million, driven by the \$506 million in authorities available to¹³:

“... support the First Nations Student Success Program and the Education Partnerships Program and the repair and construction of on-reserve schools, affordable housing and social infrastructure projects, communities in the construction of public infrastructure on reserve, First Nations Enhances Education Infrastructure fund and Waste Management Infrastructure”.

Furthermore, Budget 2016 proposed an additional \$255 million over two years to go towards the First Nation Infrastructure Fund.¹⁴ The large increase in expenditures in the first quarter of 2016-17 compared to the first quarter of 2015-16 is for contributions in connection with First Nations infrastructure and grants to Aboriginal organizations designated to receive claim settlement payments pursuant to Comprehensive Land Claim Settlement Agreements.

First Nations infrastructure spending is primarily funding for the Capital Facilities and Maintenance Program which focuses on investment in four main areas: housing, education, water and wastewater systems, and other infrastructure. The Management and Implementation of Agreements and Treaties program increased its spending by \$100 million, which reflects changes in the approved funding for the implementation of comprehensive claims and self-government agreements¹⁵. Comprehensive Land Claims deal with Indigenous land rights that have not been explicitly addressed in treaties¹⁶.

3.3. International Affairs

The variation of spending within **International Affairs** can be attributed to the subheading *Global Poverty Reduction through International Sustainable Development* which has increased year over year spending of \$730 million (130 per cent), due in part to earlier processing of payments compare to last year.

Global Affairs grants

The largest percent of Grants and contributions by Global Affairs Canada are considered as International Development Assistance (See Figure 2-9).

After three months the International Development Program has increased spending by \$258 million (117 per cent), while the International Humanitarian Assistance Program has increased by \$166 million (735 per cent). These programs are administered by Global Affairs Canada and have a joint spending of \$668 million this quarter, almost entirely through grants and contributions. The International Humanitarian Assistance program provides protection and other basic necessities to people in crisis situations, such as armed conflicts. The large increase in spending this quarter can be attributed to the Syrian Crisis.¹⁷

3.4. Government Affairs

The \$220 million increase in **Government Affairs** is driven by increases in the subheadings *A Transparent, Accountable and Responsive Federal Government*. Statistics Canada's activities in conducting the 2016 census' of population and agriculture are the biggest contributors to this increase.

Notes

1. The totals for 2014-15 onward exclude the one-time charge associated with moving to a "pay-in-arrears" salary administration system.
2. See Budget 2016 Table A1.4 – Outlook for Program Expenses. Available at: http://www.budget.gc.ca/2016/docs/plan/anx1-en.html#_Toc446106876
3. Statistics Canada. (2016). Quarterly Financial Report for the quarter ended June 30, 2016. Available at: <http://www.statcan.gc.ca/eng/about/qfr/2016/q1/index>
4. Government of Canada. (2016). Budget 2016. Available at: <http://www.budget.gc.ca/2016/docs/plan/toc-tdm-en.html>
5. National Defence has experienced procurement delays related to replacing the ageing Sea King helicopters for a number of years. Current timelines project final delivery of the helicopters in 2021. See National Defence Report on Plans and Priorities 2016-17: <http://www.forces.gc.ca/en/about-reports-pubs-report-plan-priorities/2016-status-report-on-transformational-and-major-crown-projects.page#P18>
6. Fisheries and Oceans Canada. (2015). 2014-15 Departmental Performance Report. Available at: <http://www.dfo-mpo.gc.ca/dpr-rmr/2014-15/dpr-eng.html>
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15. Indigenous and Northern Affairs Canada. (2016). Quarterly Financial Report for the quarter ended June 30, 2016. Available at: <https://www.aadnc-aandc.gc.ca/eng/1471441013469/1471441053965#chp2>
16. General Briefing Note on Canada's Self-government and Comprehensive Land Claims Policies and the Status of Negotiations. (2016, August 16). Available at: <https://www.aadnc-aandc.gc.ca/eng/1373385502190/1373385561540#s1-2>
17. Global Affairs Canada. (2016). Quarterly Financial Report for the quarter ended June 30, 2016. Available at: http://www.international.gc.ca/finance/qfr-rft/qfr-rft_2016-2017_q1.aspx?lang=eng