



Supplementary Estimates (A) 2018-19



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

Ottawa, Canada
8 November 2018
www.pbo-dpb.gc.ca

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 note presents a detailed analysis of the Government's first supplementary estimates for the 2018-19 fiscal year, which seeks Parliament's approval of \$7.5 billion.

Lead Analyst:

Jason Stanton, Financial Analyst

Contributors:

Varun Srivatsan, Research Assistant

This report was prepared under the direction of:

Jason Jacques, Senior Director

Nancy Beauchamp and Jocelyne Scrim assisted with the preparation of the report for publication.

For further information, please contact pbo-dpb@parl.gc.ca

Yves Giroux

Parliamentary Budget Officer

Table of Contents

Executive Summary	1
1. Introduction	2
1.1. Overview – Total Authorities	2
2. Estimates Reform	4
2.1. Tracking Budget 2018 Initiatives	4
2.2. Alignment with Results	5
3. Major Expenditures	6
3.1. First Nations Water and Wastewater	6
3.2. Infrastructure	7
3.3. Marine Operations and Response	8
3.4. Personnel Spending	9
Notes	11

Executive Summary

Supplementary Estimates (A) 2018-19 seeks an additional \$8.1 billion in budgetary authorities: \$7.5 billion requiring Parliament's approval, and \$0.6 billion in spending for which legislative permission already exists. This represents the largest Supplementary Estimates in at least a decade.

In combination with the 2018-19 Main Estimates, the total proposed year-to-date budgetary authorities is \$285 billion, which represents a \$14.6 billion (5.4 percent) increase over the 2017-18 estimates to date.

About 70% of the proposed spending relates to four areas:

- Support for services and infrastructure for First Nations (\$2.9 billion), which includes \$423 million to eliminate boil water advisories;
- Continued roll-out of the Canada Infrastructure Plan (\$1.0 billion), the largest component of which is a \$477 million payment to the Canada Infrastructure Bank;
- Money to pay for personnel costs (\$0.9 billion), which includes \$541 million for retroactive salary payments arising from recently signed collective agreements; and,
- The purchase and retrofit of three icebreakers for the Canadian Coast Guard (\$0.8 billion).

The PBO has also monitored the roll-out of the Government's changes to the Estimates process. This includes the creation of a new \$7.0 billion central vote within the Treasury Board of Canada Secretariat (TBS) to more rapidly roll-out Budget 2018 measures, as well as broad reengineering of performance indicators and results for programs.

The speed of implementing Budget measures seems to be unchanged from the previous year. To date, the Treasury Board (TB) has approved and allocated \$2.9 billion for 67 unique Budget 2018 measures. This represents 45% of the total number of measures and 41% of the associated authorities included in the Budget Implementation Vote. In comparison, the PBO identified 58 Budget 2017 measures that had been brought forward in the Estimates documents by the same time last year, representing almost two-thirds of the total Budget 2017 measures.

Anticipated improvements in results reporting is also a work-in-progress. The PBO noted earlier that there is no information on how the additional funding from the Budget 2018 measures will impact planned results. Based on a review of the 2018-19 Departmental Plans, there are also gaps with respect to missing targets and past results for performance indicators. This lack of data can hinder parliamentarians' capacity to scrutinize proposed spending.

1. Introduction

Prior to spending money from the Consolidated Revenue Fund, the Government must receive either voted or statutory authority from Parliament. Voted authorities are approved annually by Parliament through an appropriation bill, while statutory authorities have already been approved through previously adopted legislation, such as Old Age Security benefits paid under the authority of the *Old Age Security Act*.¹

The *Supplementary Estimates (A) 2018-19* is the first of two planned Supplementary Estimates in 2018-19 and supports the third appropriation bill for the current fiscal year.

The Supplementary Estimates are considered part of the regular approval process in Parliament, as they "present information on additional spending requirements which were either not sufficiently developed in time for inclusion in the Main Estimates, or have subsequently been refined to account for developments in particular programs and services."²

1.1. Overview – Total Authorities

Supplementary Estimates (A) 2018-19 outlines an additional \$8.1 billion in budgetary authorities (Table 1-1). Voted authorities, which require approval by Parliament, totals \$7.5 billion. Statutory authorities, for which the Government already has Parliament's permission to spend, totals \$0.6 billion.

These estimates do not outline any additional non-budgetary authorities, which includes loans, investments and advances.

Table 1-1

Supplementary Estimates (A), 2018–19: Total authorities

	Budgetary (\$ millions)	Non-budgetary (\$ millions)
Voted	7,547	0
Statutory	555	0
Total	8,103	0

Source: Treasury Board of Canada Secretariat, *Supplementary Estimates (A), 2018-19*.

In combination with the 2018-19 Main Estimates, the total proposed year-to-date budgetary authorities is \$285 billion, which represents a \$14.6 billion (5.4 percent) increase over the 2017-18 estimates to date.

Included in these Supplementary Estimates are authorities for funding previously approved by Parliament that lapsed in the 2017-18 fiscal year for which the Government is seeking permission to spend this year (Box 1-1).

Box 1-1 Lapsing funds

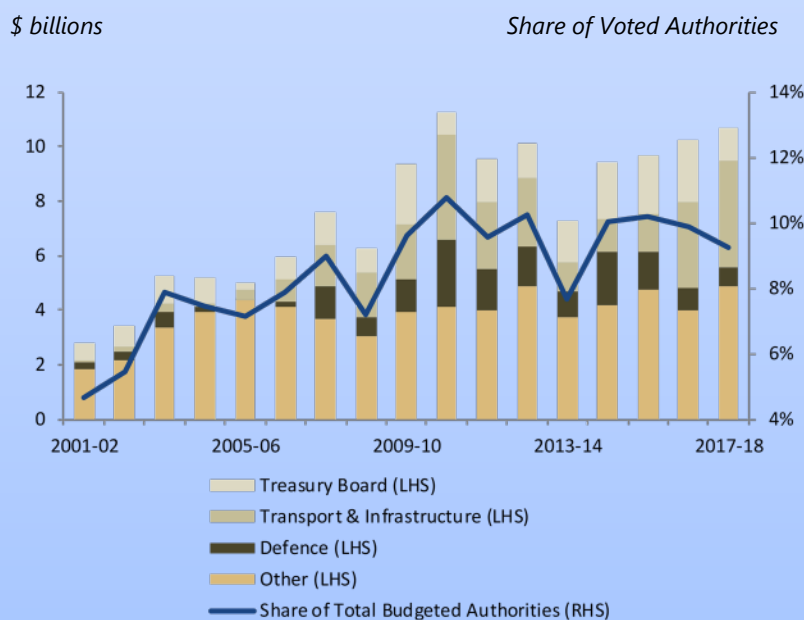
A lapse in spending represents money approved by Parliament through annual appropriation bills that has gone unspent for a specific fiscal year. Money lapses because the legal authority to spend most money authorized by Parliament expires at the end of each fiscal year.

Of the \$10.7 billion lapsed in 2017-18, over half (\$5.8 billion) can be attributed to National Defence, Transport Canada, Infrastructure Canada, and Treasury Board of Canada Secretariat. Combined lapsed funds for Transport Canada and Infrastructure Canada rose by \$727 million compared to 2016-17, primarily due to delayed spending on infrastructure projects.

According to the Main Estimates, the budget forecast “recognizes that some amount of the spending included in the Estimates will lapse at the end of the year, and either be re-profiled to future years or simply remain unspent.” A key cause of lapses is the asymmetry in authorities. Departmental spending authorities are legal spending ceilings rather than estimates of the actual level of expenditure. This means that departments are “legally prohibited from exceeding these expenditure ceilings”. Other reasons for lapses include unexpected delays in program delivery and changes in priorities.

Given these structural causes of lapses, the government maintains expedited mechanisms to move lapsed spending from one year to the next. This includes the Treasury Board’s votes for Operating and Capital Budget “carry forwards”, which are brought forward for parliamentary consideration each year.

Lapses in spending authorities



Sources: Public Accounts of Canada and Parliamentary Budget Officer.

2. Estimates Reform

As outlined in previous PBO reports, the Government made significant changes to Estimates process in 2018-19, with the goal to better align the Estimates with the Budget. The changes to Standing Order 81, which was approved by the House of Commons, delayed the tabling of the Main Estimates by several weeks in order to allow measures announced in the budget to be included in the Main Estimates. As a result, there was no longer a need to table a spring supplementary estimates, reducing the planned supplementary estimates from three to two in the fiscal year.

2.1. Tracking Budget 2018 Initiatives

The Government's effort to align the Budget and Estimates not only resulted in changes to the timing of the 2018-19 Main Estimates, but also led to changes in its composition.

Appropriation Bill #2 included a new central vote within the Treasury Board of Canada Secretariat (TBS), Treasury Board Central Vote 40, which allocated \$7.0 billion in authorities for the implementation of Budget 2018 measures. The Government indicated that this new central vote in the Main Estimates "will include 100% of Budget 2018 incremental spending measures, improving Budget-Estimates alignment and eliminating some of the time lag between announcement and implementation of programs."³

With this new Budget Implementation Vote, most Budget items had not gone through detailed TB scrutiny prior to being approved by Parliament. Therefore, the Government committed to provide Parliamentarians with monthly online updates reflecting new allocations to departments.⁴ TBS also agreed to periodically update its InfoBase to reflect these new allocations linked to specific programs.⁵

As of the most recent update, which occurred on October 31st, 2018, Treasury Board (TB) has approved and allocated \$2.9 billion, which is spread over 67 unique Budget 2018 measures, to the relevant organizations. An additional \$731 million has been withheld by TB, while \$3.4 billion has yet to be allocated.⁶

Some of the withheld amounts relate to items which require changes from the initial allocations in Table A2.11 of Budget 2018. Based on the wording of TB Vote 40 in the Appropriation Bill #2, the Government must seek Parliament's approval for any changes within the Budget Implementation Vote. In total, six Budget 2018 measures appear in these Supplementary Estimates for \$137 million. There are also seven Budget 2017 measures included in the Estimates, amounting to \$96 million.

To date, only 45% of the total number of measures and 41% of the associated authorities included in the Budget Implementation Vote have been allocated to departments.

In comparison, at the time *Supplementary Estimates (B) 2017-18* was tabled in October 2017, the PBO identified 58 Budget 2017 measures that had been brought forward in the Estimates documents. This represented almost two-thirds of the total Budget 2017 measures.⁷

It is therefore unclear whether these procedural changes have achieved their desired result of expediting the Government's implementation of Budget measures. As the President of the Treasury Board and PBO have noted previously, a significant part of Budget implementation delays stem from the Government's own internal processes. Thus, it may be difficult for parliamentarians to see significant improvements until these internal processes are streamlined.

2.2. Alignment with 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 explained in the previous report on the Main Estimates 2018-19, the PBO reviewed all 2018-19 DPs for the organizations which had planned Budget 2018 spending in the current fiscal year. The PBO was unable to identify any planned spending or results related to the Budget 2018 measures.⁸

While TBS' InfoBase has program-level planned results data, as well as information on the specific programs that have received allocations from the Budget 2018 measures, there is no information on how these additional resources impact the planned results for those programs. Providing updated information on how the Government plans to track and measure the results achieved from these additional resources can help parliamentarians perform their important role of scrutinizing Government spending.

In addition to reviewing the results information related to the Budget 2018 measures, the PBO analysed all performance indicators and associated results data in the 2018-19 DPs.⁹ The PBO found that 18% of performance indicators at the Core Responsibility level do not have specific targets. For example, in TBS' Departmental Plan, under Spending Oversight, the indicator "Degree to which Treasury Board submissions transparently disclose financial risk" does

not have an associated target. It states that a target “will be included in the 2019-20 Departmental Plan once baseline data has been collected.”¹⁰

Many organizations also do not have historical actual results data for their performance indicators. The PBO determined that:

- 48% of all indicators do not have actual results for the most recent fiscal year;
- 44% of all indicators do not have actual results for the previous two fiscal years; and,
- 42% of all indicators do not have actual results for the previous three fiscal years.

While many of these changes are due to organizations implementing their new Departmental Result Frameworks, as required in TBS’s *Policy on Results*, the lack of results data available to Parliamentarians in the DPs does increase the difficulty of scrutinizing proposed spending. It is important that parliamentarians can understand the planned results organizations expect to achieve with the additional resources, how they will measure these results, and how it compares to previous years in order to make informed decisions.

3. Major Expenditures

3.1. First Nations Water and Wastewater

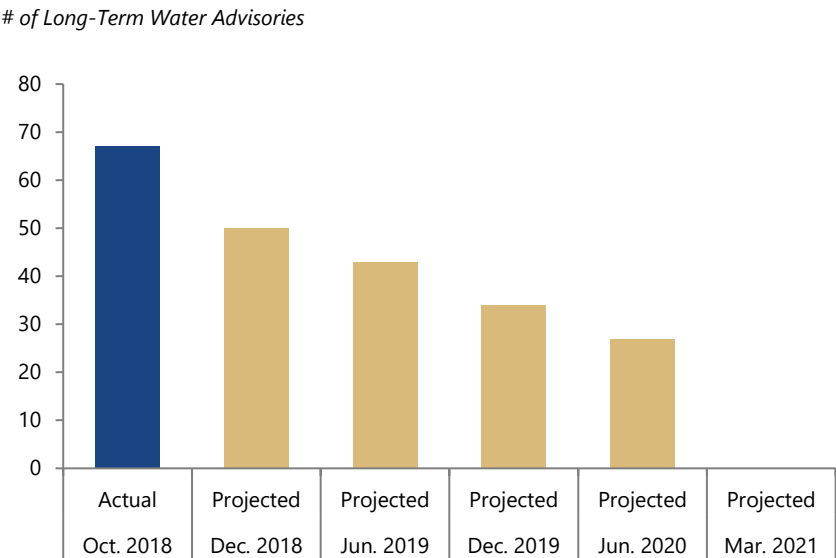
Approximately \$2.9 billion (36%) of the \$8.1 billion outlined in these supplementary estimates relate to the Department of Indigenous Services Canada (ISC) and Crown-Indigenous Relations and Northern Affairs Canada (CIRNAC), accounting for \$1.2 billion and \$1.7 billion, respectively.

One of ISC’s major items within these Supplementary Estimates is funding for the First Nations Water and Wastewater Enhanced Program and to monitor and test on-reserve drinking water. It outlines a \$423 million increase to its Water and Wastewater program, which is consistent with the additional resources outlined in both Budget 2016 and Budget 2018 to improve First Nations’ access to clean and safe drinking water on reserve.¹¹

The PBO released a report in December 2017 titled “Budget Sufficiency for First Nations Water and Wastewater Infrastructure.” In this analysis, the PBO estimated that the minimum capital investment required to end all long-term boil water advisories on reserves by 2020 would be \$3.2 billion from 2009-10 to 2020-21.¹²

As of October 2018, ISC has identified 67 long-term drinking water advisories on public systems on reserve which are currently in effect. The department projects that this will decrease to zero by the end of the 2020-21 fiscal year, as shown in Figure 3-1.¹³

Figure 3-1 Long-Term Drinking Water Advisories on Public Systems on Reserve



Source: Department of Indigenous Services Canada

3.2. Infrastructure

Infrastructure is the second largest area of spending in these supplementary estimates with almost \$1 billion in new money. About half of this relates to funding for the Office of Infrastructure Canada’s Champlain Bridge Corridor Project (\$292 million) and to deliver on the remaining P3 Canada Fund commitments of PPP Canada (\$210 million). In addition, there is also a planned transfer of \$477 million to the Canada Infrastructure Bank from Finance Canada.

The Canada Infrastructure Bank was established in June 2017 as part of the Investing in Canada infrastructure plan, for which the Government of Canada is investing more than \$180 billion over 12 years.

Under the *Canada Infrastructure Bank Act*, the Bank’s mandate is “to make investments in revenue-generating infrastructure projects that are in the public interest, and seek to attract investment from private sector and institutional investors to those projects.”¹⁴ With the *Act*, Parliament has already approved providing the Bank with \$35 billion over the next 11 years,

of which \$15 billion will be sourced from the Investing in Canada infrastructure plan.¹⁵

According to the Bank's first annual report, since the Board of Directors was appointed in the fall of 2017, the Bank has made "considerable progress in start-up activities and will continue building our internal capacity for the three parts of our mandate – Investment, Advisory, and Data and Information."¹⁶

In August 2018, the Bank announced its first investment as part of the Réseau express métropolitain project (REM) in Montreal. The investment totals \$1.28 billion, and it is structured as a 15-year senior secured loan with an initial interest rate of 1 percent, increasing to 3 percent over time.¹⁷

3.3. Marine Operations and Response

One of the largest items in these Supplementary Estimates is a request for \$883 million in capital expenditures for Fisheries and Oceans Canada's *Marine Operations and Response* Core Responsibility. According to the department's 2018-19 Departmental Plan, this Core Responsibility provides marine response services and is responsible for operating Canada's civilian maritime fleet.¹⁸

Most of the proposed funding (\$827 million) relates to the purchase and refit of three used icebreakers. The vessels are described by the Government as providing "interim capability", until replacement vessels are built as part of the Government's National Shipbuilding Strategy (NSS). Procurement documents published by the Government earlier this year indicate that the icebreakers will provide icebreaking capacity in Atlantic Canada and the St. Lawrence/Great Lakes region.¹⁹

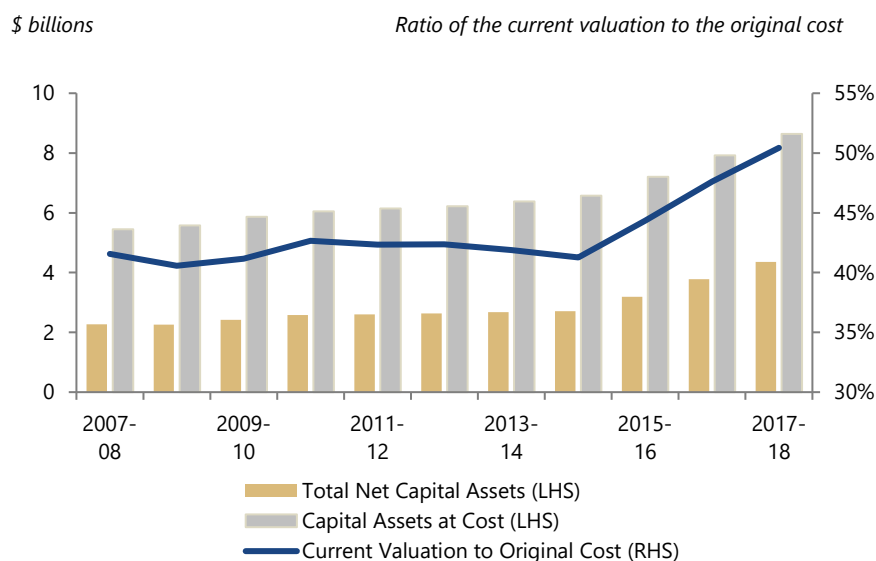
Under the NSS, the Government has entered into "strategic relationships" with shipyards in Vancouver and Halifax to build a range of military and civilian vessels.²⁰ This includes a new polar icebreaker at Seaspan's Vancouver Shipyards. This project is still in the planning stages with no specified budget.

The three icebreakers were purchased as part of a \$610 million Advanced Contract Award Notice (ACAN) for Davie Shipyard in Quebec.²¹ An ACAN is a public notice indicating to the supplier community that a department plans to enter into a contract with a specific supplier, believed to be the only one capable of performing the work, but allowing other suppliers to signal their interest in bidding by submitting a statement of capabilities.

Fisheries and Oceans Canada is one of the largest holders of federal assets. Over the past decade, the net value of these assets has almost doubled from \$2.3 billion in 2007-08 to \$4.4 billion in 2017-18, as shown in Figure 3-2. The ratio of the current valuation to the original cost has risen from 41% to 50%

as a result of investments in recent years. This suggests an improvement in the overall state of the department's assets.

Figure 3-2 Capital Assets – Fisheries and Oceans Canada



Source: Public Services and Procurement Canada

3.4. Personnel Spending

These Supplementary Estimates outline a \$945 million increase in spending for personnel costs. Over half of this increase relates to the \$541 million proposed allocation to the Treasury Board of Canada Secretariat for retroactive salary payments arising from recently signed collective agreements.

TBS is responsible for implementing the new collective agreements negotiated between the Government and federal public sector unions.²² In the first year of a new collective agreement, the Treasury Board of Canada Secretariat will ask for funding on behalf of departments and agencies affected by negotiated wage increases. Departments and agencies request ongoing funding directly through the subsequent Main Estimates.

In 2017 and 2018, federal public sector unions concluded 29 collective agreements covering over 195,000 staff.²³ The annual average wage gain in 2018 was 1.6 percent, which is less than comparable private sector gains and below the overall rate of inflation.

New collective agreements, in combination with an expansion of the public service, have pushed the Government's personnel expenses to an eighteen-year peak. As reported in the Public Accounts of Canada, total federal personnel spending rose above \$45 billion in 2017-18 (Figure 3-3).²⁴

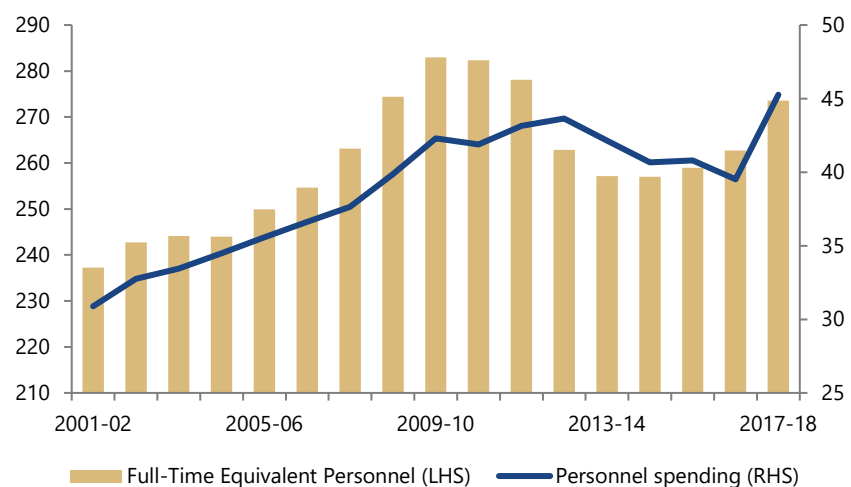
The Government reports that the number of federal public servants rose by 4.1 percent to over 274 thousand; the highest year-over-year increase since 2008-09 and the highest level since the Budget 2012 restraint exercise.²⁵

Figure 3-3

Population of the Federal Public Service and Ministerial Personnel Expenditures

'000s of full-time-equivalents

\$ billions



Sources: Treasury Board of Canada Secretariat and Public Services and Procurement Canada

Note: Personnel spending is presented as 2017-18 constant dollars.

Notes

1. *Old Age Security Act*. <http://laws-lois.justice.gc.ca/eng/acts/O-9/>.
2. Treasury Board of Canada Secretariat, *Supplementary Estimates (A) 2018-19*. <https://www.canada.ca/en/treasury-board-secretariat/services/planned-government-spending/supplementary-estimates/supplementary-estimates-a-2018-19.html>
3. Treasury Board of Canada Secretariat, *2018-19 Main Estimates* <https://www.canada.ca/en/treasury-board-secretariat/services/planned-government-spending/government-expenditure-plan-main-estimates/2018-19-estimates/introduction.html#idchapter139078832>
4. <http://www.ourcommons.ca/DocumentViewer/en/42-1/OGGO/meeting-130/evidence>
5. TBS InfoBase. <https://www.tbs-sct.gc.ca/ems-sgd/edb-bdd/index-eng.html#budget-measures/budget-measure/overview>
6. Sources and Uses of the Budget Implementation vote by Department. <https://www.canada.ca/en/treasury-board-secretariat/services/planned-government-spending/government-expenditure-plan-main-estimates/2018-19-estimates/2018-19-sources-uses-budget-implementation-vote-department.html>
7. Supplementary Estimates (B) 2017-18. [https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2017/Supps%20\(B\)%202017-18/Supps%20B%202017-18_EN_2017-11-09.pdf](https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2017/Supps%20(B)%202017-18/Supps%20B%202017-18_EN_2017-11-09.pdf)
8. The Government's Expenditure Plan and Main Estimates 2018-19. https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2018/Mains%202018-19/The%20Government's%20Expenditure%20Plan%20and%20Main%20Estimates%20for%202018-19_EN.pdf
9. Departmental Plans only include results data at the Core Responsibility level. All Program level data is available on TBS' InfoBase. The PBO's analysis was based on the data in the Departmental Plans and not InfoBase.
10. Departmental Plan 2018-19. Treasury Board Secretariat of Canada. Found at: <https://www.canada.ca/en/treasury-board-secretariat/corporate/reports/treasury-board-canada-secretariat-2018-19-departmental-plan.html>.
11. Budget 2016 proposed an investment of \$1.8 billion over five years to support First Nations communities for water and wastewater infrastructure. Budget 2018 proposed to provide an additional \$173 million over three years, beginning in 2018-19, to improve First Nations' access to clean and safe drinking water. <https://www.budget.gc.ca/2018/docs/plan/chap-03-en.html#Clean-and-Safe-Drinking-Water-on-Reserve>
12. Budget Sufficiency for First Nations Water and Wastewater Infrastructure. https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2017/FN%20Water/FN_Water_EN.pdf

The report indicates that drinking water treatment cannot be considered independently from wastewater treatment. Discharging untreated or inadequately treated wastewater can negatively affect the use of drinking water. Thus, a successful plan to improve the quality of drinking water on reserves should include efficient wastewater treatment.

13. This reflects only the status of the public on-reserve water and wastewater systems to which the Government financially supports. There are almost 500 non-public on-reserve water and wastewater systems which are not financially supported by the Government. <https://www.sac-isc.gc.ca/eng/1516134315897/1533663683531>
14. Statement of Priorities and Accountabilities – Canada Infrastructure Bank. <https://www.infrastructure.gc.ca/CIB-BIC/letter-lettre-eng.html>
15. Canada Infrastructure Bank. <https://www.infrastructure.gc.ca/CIB-BIC/index-eng.html>
16. Canada Infrastructure Bank. 2017/18 Annual Report. http://canadainfrastructurebank.ca/wp-content/uploads/2018/10/CIB_2017-18_AR_English.pdf
17. <http://canadainfrastructurebank.ca/canada-infrastructure-bank-invests-in-reseau-express-metropolitain-project-with-1-28-billion-15-year-loan/>
18. Departmental Plan 2018-19. Fisheries and Oceans Canada. Found at: <http://www.dfo-mpo.gc.ca/rpp/2018-19/dp-eng.html#B3.1.4>
19. Advance Contract Award Notice for Three Icebreakers. Found at: <https://buyandsell.gc.ca/procurement-data/tender-notice/PW-MB-004-26875>
20. Background on the National Shipbuilding Strategy. Public Services and Procurement Canada. Found at: <https://www.tpsgc-pwgsc.gc.ca/app-acq/amd-dp/mer-sea/sncn-nss/apropos-about-eng.html>.
21. Contract Award Notice for Three Icebreakers. Found at: <https://buyandsell.gc.ca/procurement-data/award-notice/PW-MB-004-26875-001>.
22. Departmental Plan 2018-19. Treasury Board Secretariat of Canada. Found at: <https://www.canada.ca/en/treasury-board-secretariat/corporate/reports/treasury-board-canada-secretariat-2018-19-departmental-plan.html>.
23. Collective Bargaining Database. Employment and Social Development Canada. Found at: <https://www.canada.ca/en/employment-social-development/services/collective-bargaining-data/wages/wages-jurisdiction-sector.html>
24. Public Accounts of Canada 2018. Receiver General of Canada. Found at: <https://www.tpsgc-pwgsc.gc.ca/recgen/cpc-pac/2018/vol2/s1/dmac-meso-eng.html>.
25. Population of the Federal Public Service. Treasury Board Secretariat of Canada. Found at: <https://www.canada.ca/en/treasury-board-secretariat/services/innovation/human-resources-statistics/population-federal-public-service.html>