



Expenditure Monitor: 2013-14 Q1

Ottawa, Canada
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www.pbo-dpb.gc.ca

Key Points of this Note:

- This note reviews federal expenditures for the first three months of the fiscal year 2013-14 (*i.e.* April to June 2013).
- Based on data from the first three months, total federal expenditures were 2.3 per cent higher than the same period in the previous fiscal year.
 - Increases in major transfers to individuals, other jurisdictions and direct program spending were partially offset by lower public debt charges. This is broadly consistent with the Government's expenditure plan and the Economic Action Plan 2013.
- Personnel expenditures were flat in the first quarter of 2013-14 compared to the same period in 2012-13, as planned increases in wages were offset by planned layoffs. Since reaching its peak in March 2010, federal employment has shrunk by over 20,000 positions.
- Summary tables of total expenditures by program activity for the first three months of 2013-14 are published on the PBO website (www.pbo-dpb.gc.ca). The Integrated Monitoring Database (IMD) has been updated to include expenditure data for the first three months of the fiscal year, including program activity data.

Prepared By: Jason Jacques and Duncan MacDonald*

*Trevor Shaw and Jason Stanton provided invaluable assistance in the preparation of this report. Contact Jason Jacques (jason.jacques@parl.gc.ca) for further information.

1. Context

The Parliamentary Budget Officer's (PBO) legislative mandate is to "provide independent analysis to the Senate and to the House of Commons about the state of the nation's finances, the estimates of the government and trends in the national economy".¹

Consistent with this, the PBO performs ongoing analysis of variations to departments' and agencies' spending authorities that are outlined in the Estimates (*i.e.* the provision of spending authorities provided by Parliament), as well as tracks in-year expenditures of these authorities.²

This monitoring framework allows the PBO to identify specific items of material interest to parliamentarians as they consider additional adjustments to authorities proposed by the Government, as well as assess implementation of the Economic Action Plan.

This note reviews actual expenditures for the first three months of the current fiscal year (*i.e.* April to June 2013).

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

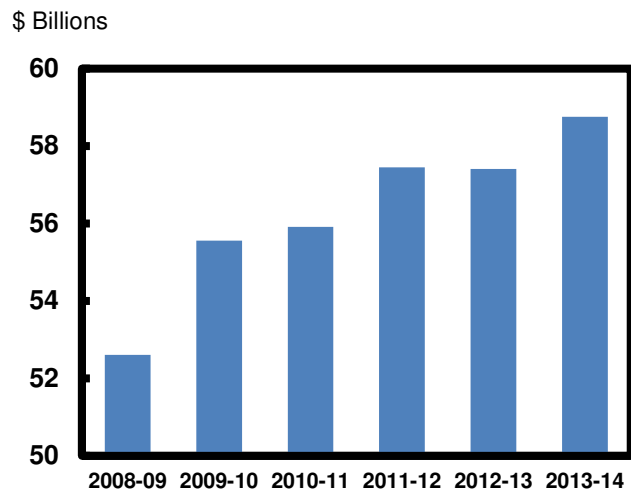
Total Expenditures

Total expenditures are comprised of four components: major transfers to individuals; major transfers to other levels of government; debt servicing costs; and Direct Program Spending (DPS). The first three types of spending are statutory in nature and are driven by variation in economic variables (*e.g.* inflation). PBO analysis focuses on DPS,

which has been the target of the Government's recent restraint initiatives.

Total expenditures in the first three months of 2013-14 rose by \$1.3 billion over the same period in 2012-13, to \$58.7 billion, a year-over-year increase of 2.3 per cent (Figure 2-1). Increases of \$1.0 billion in major transfers and \$0.4 billion in DPS are partially offset by approximately \$0.1 billion in lower debt interest costs (arising from a lower interest rate environment).

Figure 2-1
Total Expenditures in the First Three Months of the Fiscal Year³



Sources: Government of Canada; PBO calculations.

Direct Program Spending (DPS)

DPS is comprised of operating and capital expenditures of departments and agencies, as well as other transfer payment programs (*e.g.* agricultural support programs) and payments to Crown Corporations. In the first three months of 2013-14, DPS expenditures were \$0.4 billion (2.4 per cent) higher

¹ <http://laws.justice.gc.ca/eng/PDF/P-1.PDF>. Accessed October 2013.

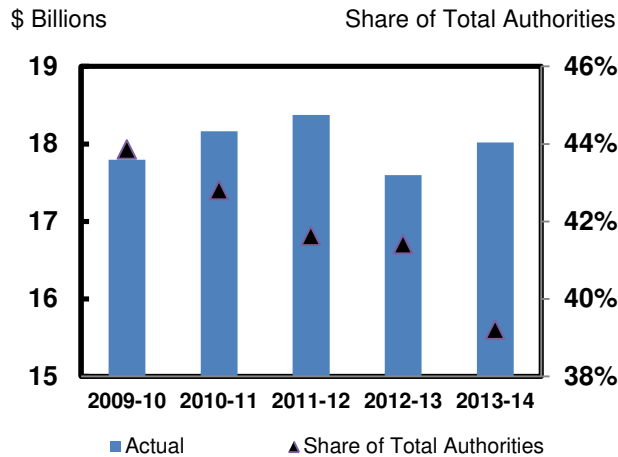
² An overview of the methodology used by the PBO is provided in the complementary briefing note, "Expenditure Monitor: Methodology". http://www.pbo-dpb.gc.ca/files/files/Publications/Expenditure_Monitor_Guide.pdf. Accessed October 2013.

³ Expenditure data are net of Canada Revenue Agency transfers for tax expenditures that are classified as "spending", but are not included in the Government's Estimates.

compared to the same period in 2012-13 (Figure 2-2). At the same time, consistent with the Government's expenditure plan, DPS as a share of total authorities continues to decline.

Figure 2-2

DPS in the First Three Months of the Fiscal Year



Sources: Government of Canada; PBO calculations.

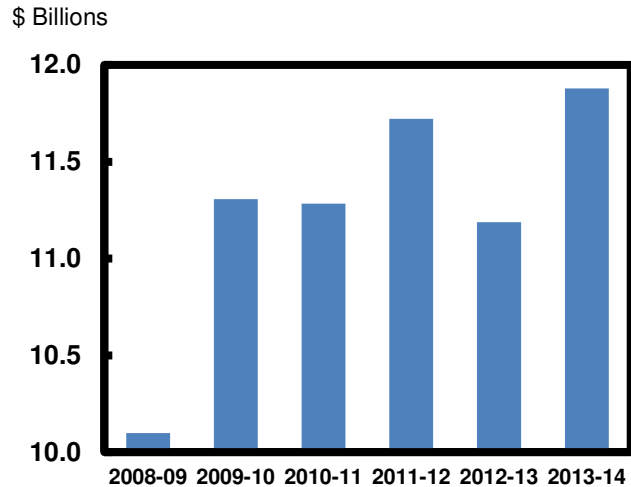
Operating Expenditures

The increase in the level of DPS is attributable to a rise in operating expenditures, which were \$700 million (6.2 per cent) higher in 2013-14 compared to the same period in 2012-13 (Figure 2-3).

Operating expenditures rose despite the stable personnel spending, which was unchanged in the first three months of 2013-14 compared to the same time period in the previous year.^{4,5}

Figure 2-3

Operating Expenditures in the First Three Months of the Fiscal Year



Sources: Government of Canada; PBO calculations.

As presented in Figure 2-4, total personnel spending is estimated to fall in 2013-14 owing to the 15,275 positions that were eliminated over the past year (a 5.5 per cent decrease) in response to the spending restraint package announced in Budget 2012.⁶

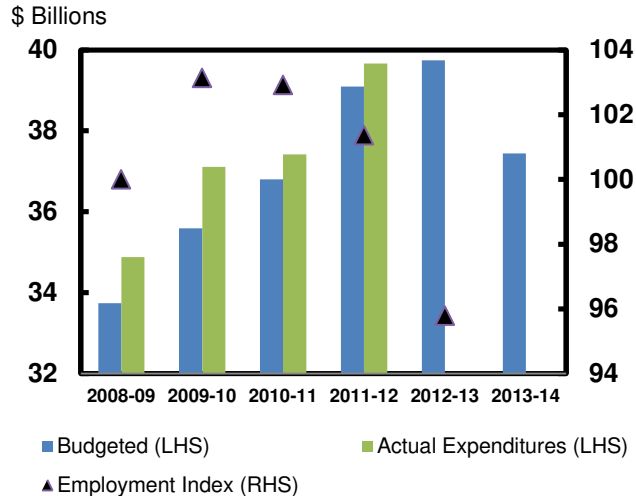
Since March 2010, over 20,000 positions have been eliminated from the federal public service.⁷

⁴ Data was taken from departments' quarterly financial reports.

⁵ <http://www.budget.gc.ca/2013/doc/plan/chap4-1-eng.html>. Accessed October 2013.

⁶ Population of the Federal Public Service - <http://www.tbs-sct.gc.ca/res/stats/ssen-ane-eng.asp>. Accessed October 2013.

⁷ See footnote 6.

Figure 2-4**Personnel Expenditures**

Sources: Government of Canada; PBO calculations.

Note: The Employment Index = 100 in 2008-09

Notwithstanding the 5.5 per cent reduction in personnel in 2013-14 compared to the previous year, the Government anticipates that service levels across departments and agencies will be slightly improved in 2013-14 (Box 2-5). Compared to the previous year, more than three quarters of the Government's program activities' performance targets are unchanged; almost one fifth of program activities have higher performance targets and the balance have reduced performance targets.^{8,9} Overall, it suggests a substantial productivity improvement across federal operations, as the quality of service improves notwithstanding fewer federal employees.

⁸ Several organizations made changes to Performance Indicators and Targets that were not comparable between reporting years. Resulting changes to service levels were deemed indeterminable. As such, approximately 35 per cent of the Government's program activities could not be included in this service standards analysis between 2011-12 and 2012-13, while 28 per cent were excluded from 2012-13 to 2013-14.

⁹ http://www.pbo-dpb.gc.ca/files/get/resources/86?path=%2Ffiles%2Ffiles%2FP%2Fperformance+Indicators+and+Targets+from+2011_12+to+2013_14.xlsx. Accessed October 2013.

Box 2-5***Measuring Changes in Service Levels***

Federal organizations prepare Reports on Plans and Priorities (RPPs) to outline specific plans and goals for a three-year planning period. Each organization provides analysis on its strategic outcomes and program activities, along with corresponding performance indicators and targets for the planning period.

The PBO compared the performance indicators and targets outlined in organizations' 2011-12, 2012-13 and 2013-14 Reports on Plans and Priorities (*i.e.* Part III of the Estimates) to identify planned service level impacts.

Comparable program activities were examined on the basis of performance targets and indicators, according to the following scoring system:

1. Performance target increases were assigned a +1
2. Performance target decreases were assigned a -1
3. Unchanged performance targets were assigned a 0

Performance target scores were then summed within program activities to determine a composite score for each program activity. Program activities with a score greater (less) than zero are deemed to have increased (decreased) performance targets. Activities with a score equal to zero are considered unchanged.

Program activities that had different performance indicators than the previous year were excluded from this analysis, as the impact on service levels cannot be easily determined.

3. Internal Services

Internal Services is a distinct program activity that is common amongst most departments and agencies. It is a composite of operating and capital expenditures, and it includes areas such as communications, financial

management, human resource management, and information technology.¹⁰

As noted in Budget 2013, these types of expenditures have been the primary target of recent restraint exercises, which focus on “making government operations leaner, while preserving fundamental programs and services”.¹¹

In the first three months of 2013-14, expenditures for Internal Services increased \$0.2 billion to \$3.0 billion compared to the first three months of the previous year. While this is consistent with the three-year growth trend identified by the Treasury Board Secretariat (Figure 3-1), the increase is principally explained by a one-time increase in National Defence (see Section 4).¹²

4. Individual Items

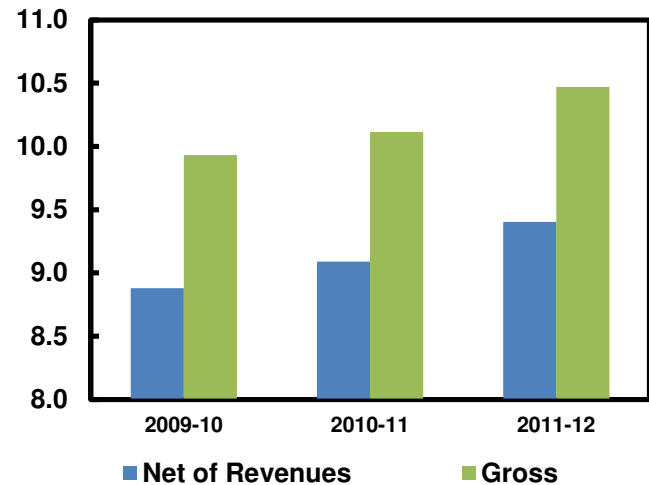
PBO analyzed data from both authorities and program activities for the first three months of 2013-14 to identify the greatest variances in absolute dollars and per cent compared to the same period in 2012-13. A list of the most significant changes is posted on the Research Resources tab of the PBO website.¹³ In addition, several of these variances are highlighted below.

A full description of each program activity in the Government of Canada is presented on the [Receiver General for Canada's website](#).

Figure 3-1

Internal Services Expenditures

\$ Billions



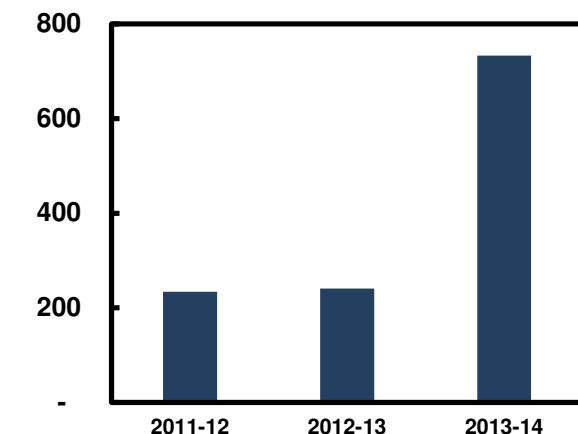
Sources: Treasury Board Secretariat of Canada, from the Public Accounts of Canada 2009-10 to 2011-12.

Note: TBS figures for 2011-12 only include Internal Service expenditures for Shared Services Canada (SSC), rather than the PBO methodology that includes all net SSC spending.

Figure 4-1

Internal Services (National Defence) - First Quarter Expenditures

\$ Millions



Source: Government of Canada.

¹⁰ <http://www.tbs-sct.gc.ca/est-pre/20122013/me-bpd/me-bpd-eng.pdf>. Accessed October 2013.

¹¹ <http://www.budget.gc.ca/2013/doc/plan/chap4-1-eng.html>. Accessed October 2013.

¹² Data sourced from Government Response to Order Paper question 1166.

¹³ <http://www.pbo-dpb.gc.ca/en/RESEARCH+RESOURCES>.

National Defence Internal Services

One of the largest year-over-year percentage changes pertains to Internal Services spending by National Defence, which is 204 per cent higher compared to the same period in 2012-13 (Figure 4-1).¹⁴ This increase represents a jump in spending of \$492 million, most of which is described in the most recent Quarterly Financial Report (QFR) as being due to the settlement of the court case of *Manuge v. Her Majesty the Queen* (Box 4-2).¹⁵

Box 4-2

Manuge v. Her Majesty the Queen

Manuge v. Her Majesty the Queen (Manuge) was a class-action lawsuit filed by Dennis Manuge, a disabled veteran of the Canadian Forces (CF) who served from 1994 to 2003.

The basis of the claim was that benefits paid through the Service Income Security Insurance Plan (SISIP) were offset by a Veterans Affairs Canada (VAC) disability benefit that he also received. After this offset Mr. Manuge received a total of 59 per cent of his pre-release income. The lawsuit claimed that this offset was unfair.

The outcome of the Manuge case was in favor of Mr. Manuge and his co-claimants, resulting in a cessation of the SISIP offset.

The New Veterans Charter of 2006 eliminated the issue of a SISIP deduction, however approximately 4,000 other CF members remained in a similar situation as Mr. Manuge after the New Veterans Charter was passed.

Source: <http://reports.fja-cmf.gc.ca/eng/2009/2008fc624.html>. Accessed October 2013.

¹⁴ PBO officials understand that the approximately \$400 million expenditure for Manuge will be reclassified to another Program Activity in subsequent months. Accounting for this pending adjustment, year-over-year Internal Service spending in the first quarter would be lower, not higher.

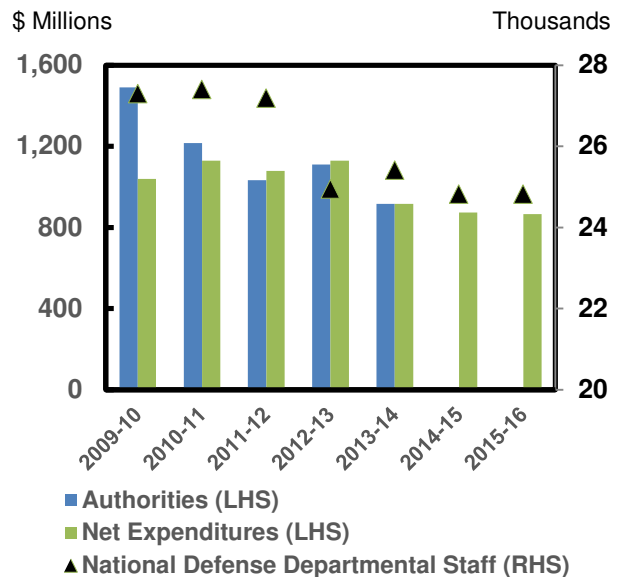
¹⁵ <http://www.forces.gc.ca/en/about-reports-pubs-quarterly-financial/june-30-2013.page?> Accessed October 2013

Of the increase, the QFR identifies \$364 million as being “primarily due to a payment related to the *Manuge* case settlement”. Another \$90 million of the increase is identified as being attributable to higher disability insurance costs, also as a result of the lawsuit.

The \$364 million payment in the current quarter is likely to represent a one-time cost. However the \$90 million in increased disability insurance costs represents at least part of an ongoing expense. Figure 4-3 depicts the historical and planned spending for the Internal Services program of National Defence from 2009-10 to 2015-16, compared with National Defence departmental staff over the same period.

Figure 4-3

Internal Services (National Defence) - Authorities and Expenditures



Sources: 2011-12 Departmental Performance Reports, 2013-14 Departmental Reports on Plans and Priorities, Receiver General for Canada, Treasury Board Secretariat of Canada.

Note: 2012-13 Net Expenditure was obtained from the National Defence 2013-14 Report on Plans and Priorities. Expenditure for fiscal years 2013-14 and beyond represent planned spending.

Planned spending on Internal Services over the years 2013-14 to 2015-16 is expected to decrease compared to previous years. Related to that decrease is a corresponding planned decrease in National Defence departmental staff.

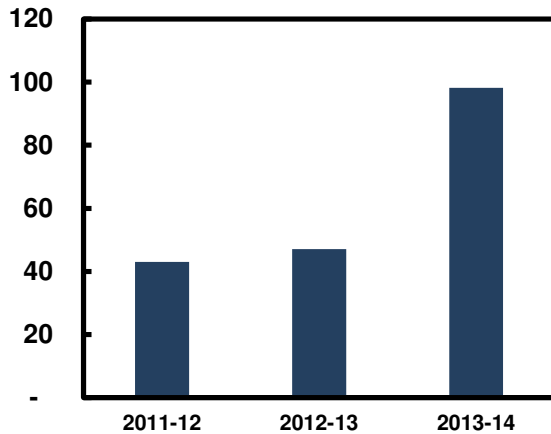
Sport Program

Another significant percentage variance in year-over-year expenditures relates to the Sport program, which promotes development and excellence in sport among Canadians and provides direct support to high performance athletes to compete in international sporting events.¹⁶

Figure 4-4

Sport - First Quarter Expenditures

\$ Millions



Source: Government of Canada.

The first-quarter expenditure for 2013-14 was 108 per cent higher than the same period in the previous year (an increase of \$51 million) (Figure 4-4). The most recent QFR released by Canadian Heritage noted that this increase was a result of an increase in funding for the Hosting Program for the Toronto 2015

Pan American and Parapan American Games (2015 Games) (Box 4-5).¹⁷

Box 4-5

2015 Toronto Pan American and Parapan American Games

The 2015 Pan American and Parapan American Games will mark the third time that Canada has hosted the games (Winnipeg hosted in 1967 and again in 1999).

The 2015 Pan American Games are scheduled to take place between July 10 - 26 in and around Toronto. Up to 10,000 athletes and coaches from 41 countries will compete in 48 sports.

The corresponding Parapan American games are scheduled to take place between August 7 - 14 and will consist of up to 2,000 athletes competing in 12 sports.

In total 250,000 tourists are anticipated.

Source:

<http://www.pch.gc.ca/eng/1358262737241/1358262886328>

Accessed October 2013.

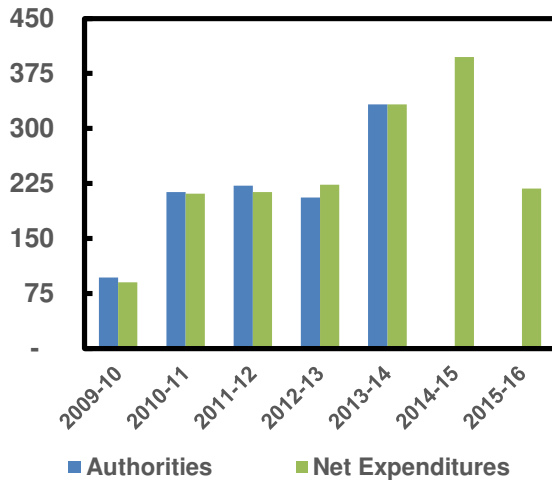
Figure 4-6 depicts historical and planned expenditure for the Sport program from 2009-10 to 2015-16. Apparent in Figure 4-6 is the build up in funding in anticipation to the 2015 Games, with a decrease in anticipated funding in the year following.

¹⁶ Receiver General for Canada Government Wide Chart of Accounts – 2013-2014. Chapter 6 – Program Codes Detailed. <http://www.tpsgc-pwgsc.gc.ca/recgen/pceaf-gwcoa/1314/6-eng.html>. Accessed October 2013.

¹⁷ <http://www.pch.gc.ca/eng/1376569187100>. Accessed October 2013.

Figure 4-6**Sport - Authorities and Expenditures**

\$ Millions



Sources: 2011-12 Departmental Performance Reports, 2013-14 Departmental Reports on Plans and Priorities, Receiver General for Canada.

Note: 2012-13 Net Expenditure was obtained from the Canadian Heritage 2013-14 Report on Plans and Priorities. Expenditure for fiscal years 2013-14 and beyond represent planned spending.

Treasury and Financial Affairs Program

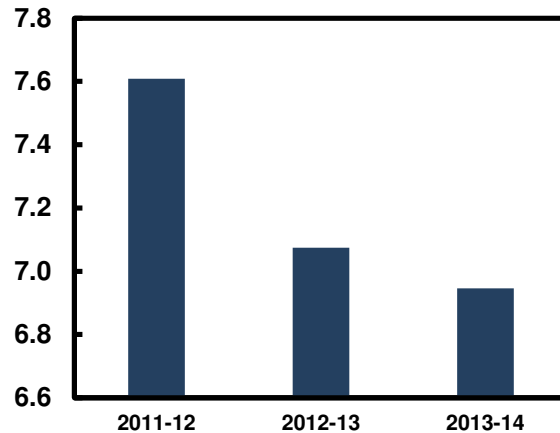
One of the most significant changes in the absolute level of spending relates to the Treasury and Financial Affairs program, which manages Canada's debt and provides other cost management services.¹⁸

Compared to the two-year moving-average, first quarter expenditures of the current year have been reduced by approximately \$395 million (approximately \$128 million on a year-over-year basis) (Figure 4-7). The most recent QFR released by the Department of Finance Canada indicated that this reduction is a result of a decrease in the "average forecast

of interest rates of private sector economists".¹⁹

Figure 4-7**Treasury and Financial Affairs - First Quarter Expenditures**

\$ Billions



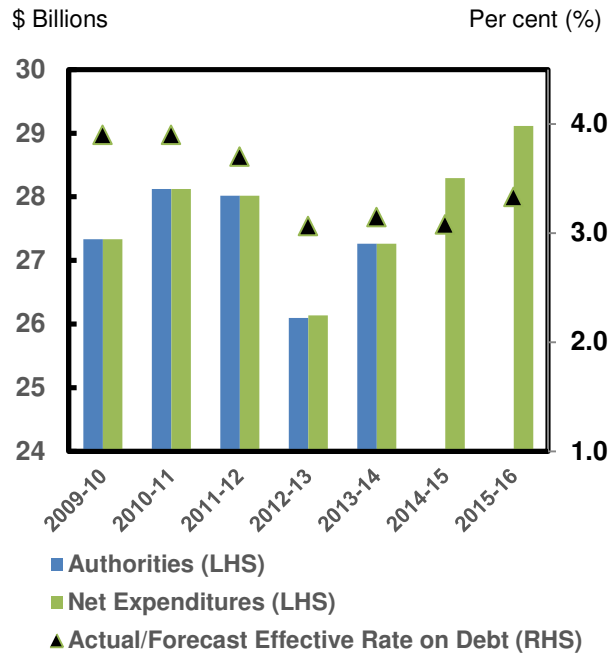
Source: Government of Canada.

Figure 4-8 depicts historical and planned annual spending within Treasury and Financial Affairs, compared with the effective rate on debt (for years 2009-10 to 2011-12) and estimated market interest rates as calculated by PBO (years 2012-13 to 2015-16).

The variability in historical and planned spending appears to match the variability in effective and forecasted interest rates on Government debt, which represents the largest year-over-year savings in planned expenditure.

¹⁸ Receiver General for Canada Government Wide Chart of Accounts – 2013-2014. Chapter 6 – Program Codes Detailed. <http://www.tpsgc-pwgsc.gc.ca/recgen/pceaf-gwcoa/1314/6-eng.html>. Accessed October 2013.

¹⁹ <http://www.fin.gc.ca/pub/qfr-rft/qfr-rft-2013-14-qt1-eng.asp>. Accessed October 2013.

Figure 4-8**Treasury and Financial Affairs -
Authorities and Expenditures**

Sources: 2011-12 Departmental Performance Reports, 2013-14 Departmental Reports on Plans and Priorities, Receiver General for Canada, Finance Canada, PBO Calculations.

Note: At the time of publication the 2012-13 Departmental Performance Report was unavailable. As a result the 2012-13 Net Expenditure was obtained from the Receiver General Public Accounts covering P1 to P12. Expenditure for fiscal years 2013-14 and beyond represent planned spending.

5. Conclusion

Over the first three months of the 2013-14 fiscal year, total federal expenditures increased by approximately 2.3 per cent compared to the same period in the previous fiscal year.

The Integrated Monitoring Database (IMD) has been updated to include expenditure data for the first nine months of the 2012-13 fiscal year, including the program activity data.