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THE GOVERNMENT'S EXPENDITURE PLAN AND MAIN ESTIMATES FOR 2020-21



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

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

This note examines the federal government's Expenditure Plan and Main Estimates for 2020-21, which supports the first two appropriation bills that will seek Parliament's approval of \$125.1 billion.

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Executive Summary

The Government's Main Estimates for 2020-21, tabled February 27, 2020 in the House of Commons, outline \$304.6 billion in total budgetary spending authorities. Parliament is responsible for voting on \$125.1 billion (41.1 per cent) of this money (that is, parliamentarians will be asked for their approval). The authority to spend the balance (\$179.5 billion, 58.9 per cent) is already provided by existing legislation.

Consistent with previous Estimates, money transferred to other levels of government, individuals and other organizations account for most of the planned spending (\$197.5 billion, 64.9 per cent).

The most notable areas of spending include:

- Elderly benefits (\$59.5 billion). Roughly one in every five dollars of federal spending is earmarked to provide a monthly payment to Canadian seniors. These benefits are fully indexed to inflation.
- The Canada Health Transfer (\$41.9 billion). The second largest component of federal spending is funding provided to the provinces and territories to help pay for health care. Overall growth in this transfer is indexed to GDP growth.
- The Indigenous portfolio (\$17.7 billion). Since 2015-16, the Government has increased investment in Indigenous services and initiatives by 66.1 per cent.

During the past two years, Parliament delayed the tabling of the Main Estimates by several weeks to allow budget measures to be included in the Government's spending plan. As of the 2020-21 fiscal year, it has reintroduced the original process, meaning that these Main Estimates are required to be tabled before March 1, 2020.

As Budget 2020 has yet to be tabled, the 2020-21 Main Estimates do not include new budget measures. As such, the 2020-21 budgetary authorities will rise with anticipated funding requests in the Supplementary Estimates.

As a result of these changes, all budget items will be required to go through detailed Treasury Board (a Committee of Ministers chaired by the President of the Treasury Board) scrutiny prior to funding being sought from Parliament. At the same time, this may mean a longer delay between the announcement of new initiatives and their implementation, as the earliest opportunity to receive approval for the funds will be in the spring Supplementary Estimates (A).

1. Introduction

The Government cannot spend public money without Parliament's permission.

Parliament can provide its permission through approval of appropriation bills, which generally provide permission to spend certain amounts of money within a given year. Alternatively, Parliament can also provide ongoing permission to spend through continuing legislation (such as Old Age Security benefits paid under the authority of the *Old Age Security Act*).¹

The 2020-21 Main Estimates support Parliament's consideration of the interim supply bill, which generally authorizes funding for the first three months of the fiscal year, and the full supply bill, which is the amount laid out in the Main Estimates, less interim supply. These first two appropriation bills seek authority for most of the total spending in the given year.

1.1. Expenditure Plan and Main Estimates – Overview

The Government's Expenditure Plan and Main Estimates for 2020-21 outline \$304.6 billion in budgetary spending authorities, as well as an overall increase of \$3.1 billion in the value of non-budgetary loans, investments and advances (Table 1-1). Of the budgetary total, \$125.1 billion relates to authorities to be voted on by Parliament.

Table 1-1 The Government's expenditure plan

| (\$ billions) | Budgetary | Non-Budgetary | Total |
|------------------|--------------|---------------|--------------|
| Voted | 125.1 | 0.1 | 125.2 |
| Statutory | 179.5 | 3.0 | 182.4 |
| Total | 304.6 | 3.1 | 307.6 |

Source: Treasury Board of Canada Secretariat, *Main Estimates 2020-21*.

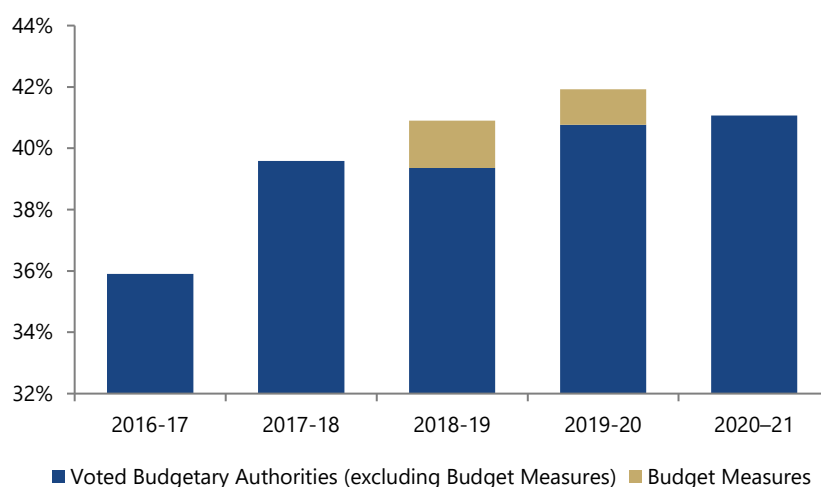
Note: Numbers might not add due to rounding.

These Main Estimates do not reflect the new spending items to be announced in Budget 2020. As such, the 2020-21 budgetary authorities will rise with these anticipated funding requests in the Supplementary Estimates.

Over the past five years, the share of annual spending voted on by Parliament in the Main Estimates has grown from 35.9 per cent of total spending to 41.1 per cent this year (Figure 1-1). This principally reflects a more expansionary fiscal policy adopted on the part of the Government.

Figure 1-1 Voted budgetary authorities over time

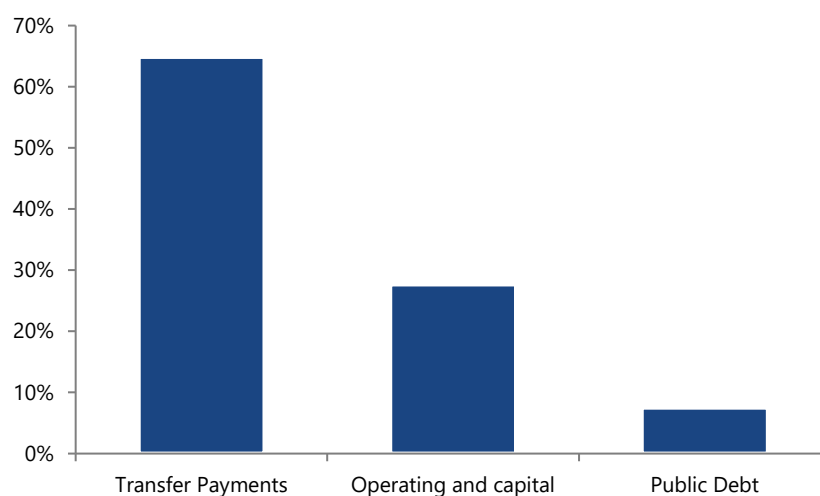
% of total budgetary authorities



Source: Treasury Board of Canada Secretariat, *2020-21 Main Estimates*.

Note: 2018-19 and 2019-20 voted budgetary authorities included funding for budget measures.

As shown in Figure 1-2, transfer payments account for the largest portion of budgetary authorities in the 2020-21 Main Estimates, at 64.9 per cent (\$197.5 billion). These include payments made to other levels of government, individuals, and other organizations.² Budgetary authorities for operating and capital represent 27.6 per cent (\$84.2 billion), while public debt charges amount to 7.5 per cent (\$22.8 billion).

Figure 1-2 Composition of budgetary authorities*% of total budgetary authorities*

Source: Treasury Board of Canada Secretariat, 2020-21 Main Estimates.

2. Estimates Reform

Historically, the Main Estimates have been prepared prior to the release of the budget. This resulted in spending announcements made in the budget not being included in the Main Estimates, and the Government having to include funding for these initiatives in Supplementary Estimates. Parliamentarians were therefore being asked to approve funding through the Main Estimates that were incomplete as they did not represent an accurate picture of the Government's planned spending.

In an effort to better align the budget and Estimates, the Government made a change to Standing Order 81 in 2018-19 to delay the tabling of the Main Estimates by several weeks.³ This change, which had been in effect for the past two years, was only temporary, meaning that Standing Order 81 has since reverted to the previous version.⁴

With the original system back in effect for the 2020-21 fiscal year, the 2020-21 Main Estimates were required to be tabled by March 1, 2020, prior to the release of Budget 2020. This reversion will also likely bring back the need for three Supplementary Estimates (Spring, Fall and Winter).

With these changes, budget items will have to be funded through the Supplementary Estimates. This will address concerns raised by some

parliamentarians that budget measures were not undergoing detailed TB scrutiny prior to their consideration by Parliament.⁵

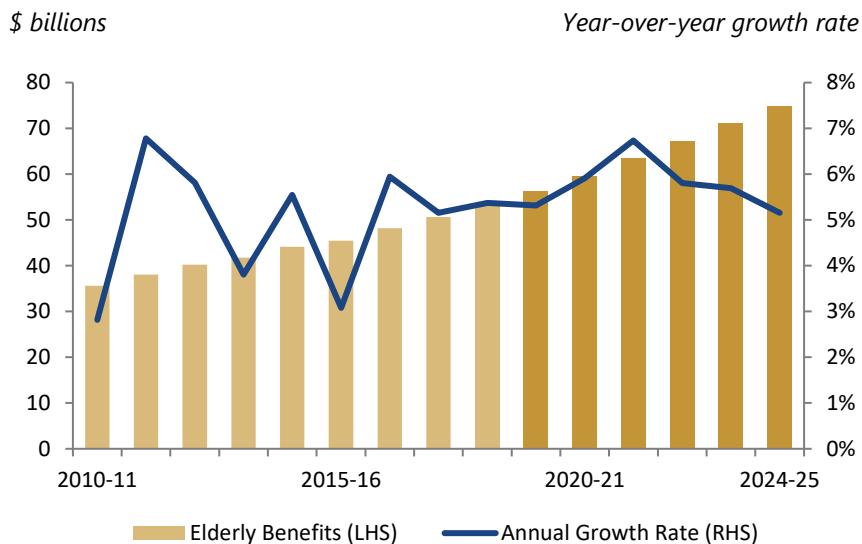
Going forward, PBO will track the implementation of budget measures as they appear in Supplementary Estimates. This analysis will be similar to what was done in previous PBO reports prior to the initial change of Standing Order 81.⁶ That being said, parliamentarians may wish to encourage TBS to provide updates of the implementation of budget measures (as was done over the past two years).

3. Major Expenditures

3.1. Federal Spending on Elderly Benefits

As the Canadian population ages, there will also be an increase in the eligibility for elderly benefits. Old Age Security (OAS), which is currently the largest federal program, provides a monthly payment to most seniors who are over 65 and meet the eligibility requirements.⁷ The OAS program also provides other benefits for low-income seniors, such as the Guaranteed Income Supplement and Allowance Payments.

Federal spending on elderly benefits are set to increase by \$3.3 billion (5.9 per cent) to a total of \$59.5 billion in 2020-21, which is the result of an increase in the number of beneficiaries and average monthly payment, which is indexed to inflation. This is consistent with historical trends, as shown in Figure 3-1.

Figure 3-1 Elderly benefits growth rate

Sources: Receiver General of Canada, Public Accounts of Canada; Treasury Board of Canada Secretariat, Main Estimates 2020-21; Parliamentary Budget Officer, Economic and Fiscal Outlook – November 2019.

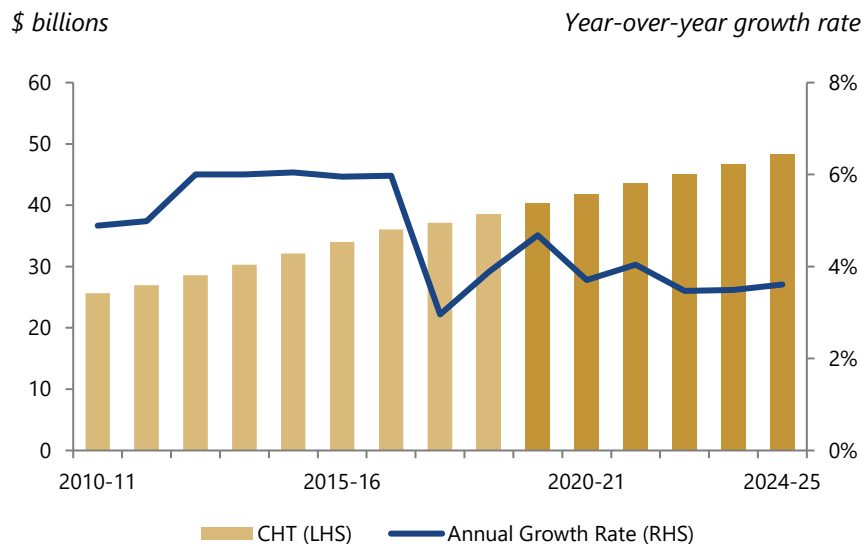
Note: Figures prior to 2019-20 are actuals. Figures for 2019-20 and 2020-21 are estimates. Figures for 2021-22 and later are PBO projections.

As part of her mandate letter, the Minister of Seniors is tasked with increasing the basic OAS pension amount by 10 per cent as of age 75.⁸ If implemented as intended on July 1, 2020, PBO estimated it would cost an additional \$1.6 billion in 2020-21, increasing to \$3.4 billion in 2028-29.⁹

3.2. Federal Spending on Health

The Canada Health Transfer (CHT) is the largest federal transfer to provinces and territories (\$41.9 billion) and it is set to increase by \$1.5 billion (3.7 per cent) from the 2019-20 Estimates to date (Figure 3-2). The CHT provides financial assistance to provinces and territories to help pay for health care.

The CHT is calculated to automatically grow in line with the three-year moving average of nominal GDP growth, with a minimum annual growth rate set at 3 per cent. The CHT is also allocated to all provinces and territories on an equal per capita basis.¹⁰

Figure 3-2 Canada Health Transfer

Sources: Receiver General of Canada, Public Accounts of Canada; Treasury Board of Canada Secretariat, Main Estimates 2020-21; Parliamentary Budget Officer, Economic and Fiscal Outlook – November 2019.

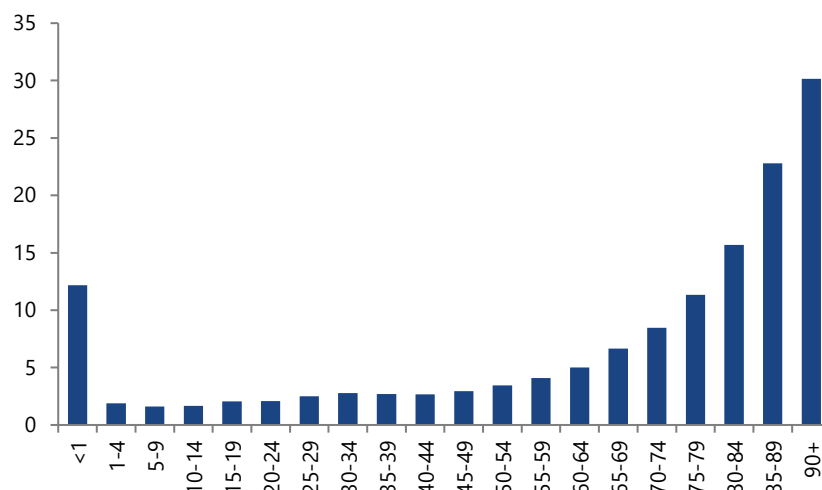
Note: Figures prior to 2019-20 are actuals. Figures for 2019-20 and 2020-21 are estimates. Figures for 2021-22 and later are PBO projections.

As noted in PBO's Fiscal Sustainability Report 2020, all provinces and territories will continue to face rising health care costs. A significant cost driver is the ageing of the population, as the baby boom generation enters the high-cost years in terms of per capita government health expenditures (Figure 3-3).

Given that growth in the CHT is tied to nominal GDP growth, it is expected that the CHT will decrease as a share of total health spending over the long term.¹¹

Figure 3-3 Per capita health care expenditures by age group in Canada, 2017

\$ thousands



Source: National Health Expenditure Trends, 1975 to 2019, Canadian Institute for Health Information.

Note: This represents the total for all health care spending by provincial and territorial governments.

3.3. Indigenous Portfolio

Prior to 2017, the majority of Indigenous spending was under Indigenous and Northern Affairs Canada (INAC), apart from the First Nations and Inuit Health Branch (FNIHB) under Health Canada.

In 2017, the Government announced the dissolution of INAC, to be replaced by two new departments: Crown-Indigenous Relations and Northern Affairs Canada (CIRNAC) and Indigenous Services Canada (ISC). The new departmental structure was introduced with the intention of supporting a renewed relationship with Indigenous Peoples that would help to advance self-determination.¹²

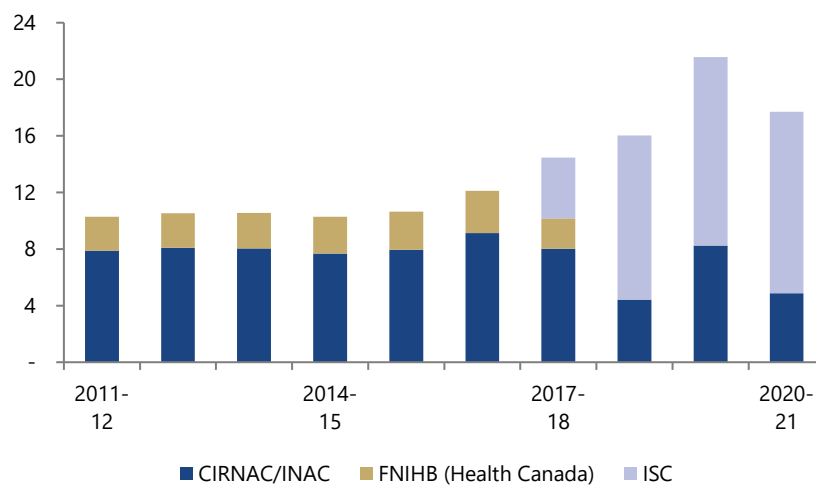
Over the past five years, Indigenous-related budgetary spending has increased (Figure 3-4). In the current Main Estimates, ISC and CIRNAC are seeking \$12.8 billion and \$4.9 billion respectively in total budgetary authorities, for a combined total of \$17.7 billion. This is a 66.1 per cent increase since 2015-16.

In their 2018-19 Departmental Results Report, 44 of Indigenous Services Canada's 65 performance indicators have targets that are expected to be achieved after March 31, 2019 or on an ongoing basis.¹³ Therefore, it is

difficult to determine whether services have improved as a result of increased total budgetary spending.

Figure 3-4 Indigenous portfolio, 2011-12 to 2020-21

\$ billions



Source: Receiver General of Canada, Public Accounts of Canada; Treasury Board of Canada Secretariat, *2020-21 Main Estimates*.

Note: Figures prior to 2019-20 are actuals. Figures for 2019-20 represent Estimates to date. Figures for 2020-21 represent the Main Estimates.

Notes

1. *Old Age Security Act*. <http://laws-lois.justice.gc.ca/eng/acts/O-9/>.
2. *2020-21 Main Estimates, Summary of Estimates*. Treasury Board Secretariat. <https://www.canada.ca/en/treasury-board-secretariat/services/planned-government-spending/government-expenditure-plan-main-estimates/2020-21-estimates.html#id2>
3. Both Budget 2018 and Budget 2019 were tabled prior to the Main Estimates, allowing for budget measures to be included in the Main Estimates of that year. However, the changes to the Standing Order did not guarantee that this would be the case, as the Government retained its flexibility regarding the budget date.
4. Additional information regarding the temporary changes to the Estimates process can be found in the following PBO reports.
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
The Government's Expenditure Plan and Main Estimates for 2019-20.
https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2019/Main_estimates_2019-20/The%20Government%E2%80%99s%20Expenditure%20Plan%20and%20Main%20Estimates%20for%202019-20_EN.pdf.pdf
5. In theory, the deferral of new budget measures to the Supplementary Estimates could delay their implementation. However, as noted in previous PBO reports, the rate of Government approvals for spending was largely unchanged.
6. *Supplementary Estimates (C) 2017-18*. [https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2018/Supps%20\(C\)%202017-18/Supplementary%20Estimates%20C%202017-18_EN.pdf](https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2018/Supps%20(C)%202017-18/Supplementary%20Estimates%20C%202017-18_EN.pdf)
7. *Old Age Security – Overview*. <https://www.canada.ca/en/services/benefits/publicpensions/cpp/old-age-security.html>
8. *Minister of Seniors Mandate Letter*. <https://pm.gc.ca/en/mandate-letters/2019/12/13/minister-seniors-mandate-letter>
9. https://www.pbo-dpb.gc.ca/web/default/files/Documents/ElectionProposalCosting/Results/32734317_EN.pdf?timestamp=1583370122853
10. <https://www.canada.ca/en/department-finance/programs/federal-transfers/canada-health-transfer.html>

11. *Fiscal Sustainability Report 2020.* https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/RP-1920-029-S/RP-1920-029-S_en.pdf
12. *New Ministers to support the renewed relationship with Indigenous Peoples.* <https://pm.gc.ca/en/news/backgrounders/2017/08/28/new-ministers-support-renewed-relationship-indigenous-peoples>
13. <https://www.tbs-sct.gc.ca/ems-sgd/edb-bdd/index-eng.html#orgs/dept/348/infograph/results>