

OFFICE OF THE
PARLIAMENTARY BUDGET OFFICER



BUREAU DU
DIRECTEUR PARLEMENTAIRE DU BUDGET

Main Estimates 2012-13

March 9, 2012

Key Points of this Note:

- This note highlights items in the 2012-13 Main Estimates that may warrant more detailed scrutiny by parliamentarians, owing to their fiscal materiality or risk.
- The 2012-13 Main Estimates outlines the Government of Canada's \$252 billion spending plan for the coming fiscal year. Compared to total authorities sought from Parliament in 2011-12, this represents a 3 per cent decrease.
 - Overall, increases in major transfers to individuals are offset by decreases in other transfer payments and operating spending.
- Notwithstanding widespread decreases in operating budgets, internal service expenditures (*i.e.* overhead costs) are planned to rise 9 per cent to \$10.6 billion in 2012-13.
- In the three appended tables, the Office of the Parliamentary Budget Officer (PBO):
 - Highlights the largest changes in authorities, compared to the previous fiscal year (\$, %).
 - Presents an evolution of authorities by standard object (*e.g.* personnel expenditures) for the past four fiscal years.
- The Integrated Monitoring Database has been updated with Main Estimates data: www.pbo-dpb.gc.ca.

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1. Context

The PBO's legislative mandate includes research and analysis regarding the Government of Canada's (Government) Estimates.¹ To implement this aspect of the mandate, the PBO reviews the Estimates and highlights proposed adjustments that warrant detailed scrutiny, including:

- Proposed changes to votes that are fiscally material to the federal budget balance; and,
- Proposed increases to votes that represent significant growth compared to the status quo.

The PBO will update this analysis to reflect additional authorities that may be requested through the 2012-13 Supplementary Estimates. Last year, the Government sought incremental budgetary authorities totaling 3 per cent of its initial request in the Main Estimates. This figure will likely be lower this year, owing to potential reductions arising from the Strategic and Operating Review to be announced in Budget 2012.

2. Main Estimates 2012-13

The Government's expenditure plan for 2012-13 includes \$91.9 billion in voted and \$160.0 billion in statutory authorities (Figure 2-1).

Figure 2-1

Main Estimates: Budgetary Authorities

	<u>2012-13</u>	<u>2011-12</u>	<u>Δ%</u>
Voted	\$91.9 B	\$99.4B	(7.5)
Statutory	\$160.0 B	\$159.7B	0.2
Total	\$251.9B	\$259.1B	(2.8)

Sources: Main and Supplementary Estimates 2011-12 to 2012-13

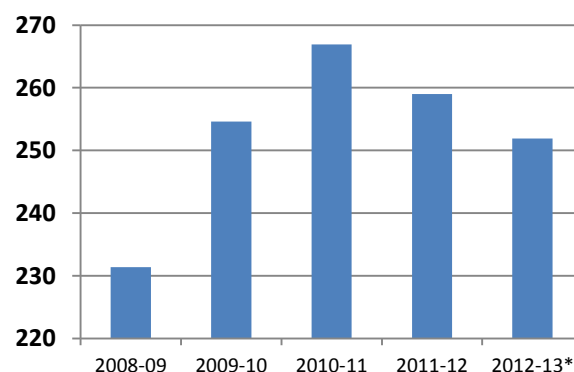
¹ <http://laws-lois.justice.gc.ca/eng/acts/P-1/FullText.html?term=79.2>. Accessed March 2012.

The total authorities presented in the 2012-13 Main Estimates are 3 per cent lower than total authorities in 2011-12 (i.e. Main and Supplementary Estimates). However, proposed expenditures remain over 10 per cent higher than prior to implementation of the Economic Action Plan (EAP) in 2009-10 (Figure 2-2).

Figure 2-2

Total Budgetary Authorities

\$ Billions



Source: Main and Supplementary Estimates: 2008-09 to 2012-13.

*Note: Figures for 2012-13 do not include subsequent reductions that may occur through the Strategic Operating Review, due to be implemented through Budget 2012.

Overall, increases in major transfers to individuals (e.g. Guaranteed Income Supplement) are more than offset by decreases in other transfer payments and the operating budgets of departments and agencies (Figure 2-3).

(i) Largest Changes by Value

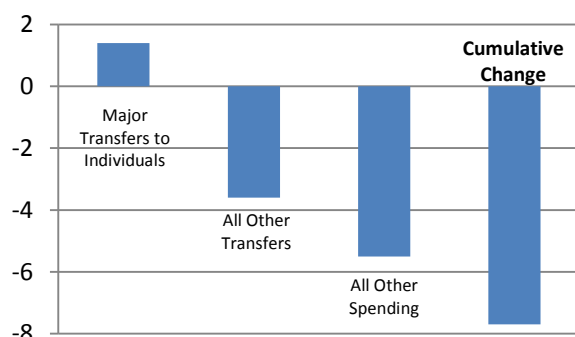
Table 1 (appended) highlights the 10 votes with the largest change in proposed spending, compared to the total authorities provided in 2011-12.²

Old Age Security expenditures are the single largest increase, rising \$1.8 billion compared to the authorities in the previous fiscal year (Figure 2-4).

² The change in value is calculated as the proposed level of annual spending in the 2012-13 Main Estimates less total spending authorities granted in the previous fiscal year (2011-12 Main and Supplementary Estimates).

Figure 2-3**Changes in Budgetary Authorities by Major Components (2011-12 vs. 2012-13)**

\$ Billions

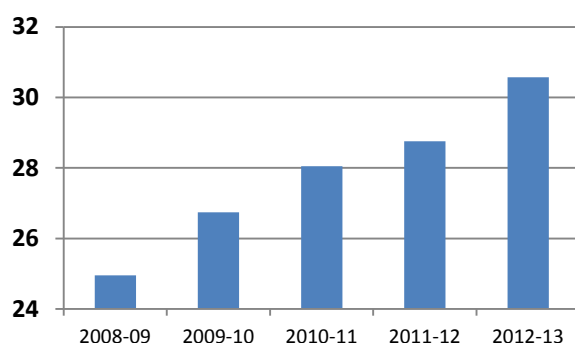


Source: Main and Supplementary Estimates: 2011-12 & 2012-13

As noted in the Main Estimates document, this 6 per cent rise is due to a combination of increased senior citizen population and growth in the value of payments they receive.

Figure 2-4**Old Age Security Expenditures**

\$ Billions



Source: Main and Supplementary Estimates: 2008-09 to 2012-13

(ii) Largest Changes by Per Cent

Table 2 (appended) lists the 10 largest changes to votes, as measured by per cent, compared to the total authorities provided in 2011-12.³

The two items with the largest percentage increase in authorities relate to *Additional Fiscal Equalization for Nova Scotia* and an *Additional Fiscal Equalization Offset for Nova Scotia*. Both items arise from agreements reached in 2005 regarding the inclusion of offshore energy revenues in the federal Equalization program, as well as further updates made in 2007. Total authorities for these two items will exceed \$470 million for 2012-13.

(iii) Internal Service Costs

The Government committed to undertake a comprehensive review of its administrative service costs in Budget 2010 and Budget 2011.⁴ As well, the Government established Shared Services Canada in August 2011 to improve “value-for-money” in information technology spending⁵ and “to reduce operating costs”.⁶

The Main Estimates present detailed data on Internal Service expenditures, which support corporate obligations of an organization, including: Communications; Human Resources; Information Technology and Financial Management.⁷ While further increases to Internal Service expenditures occur throughout the year, these changes are not

³ The growth rate is calculated as the proposed level of annual spending in the 2012-13 Main Estimates divided by total spending authorities sought in the previous fiscal year.

⁴ <http://www.budget.gc.ca/2010/pdf/budget-planbudgetaire-eng.pdf>. Accessed March 2012.

⁵ <http://www.tpsgc-pwgsc.gc.ca/medias-media/dm-ms/2011-08-04-eng.html>. Accessed March 2012.

⁶ Prime Minister's Advisory Committee on the Public Service, sixth Report to the Prime Minister, March 2012
http://www.clerk.gc.ca/local_grfx/docs/pmac-ccpm/6-2012-eng.pdf
Accessed March 2012.

⁷ <http://www.tbs-sct.gc.ca/est-pre/20122013/me-bpd/docs/me-bpd-eng.pdf>. Accessed March 2012.

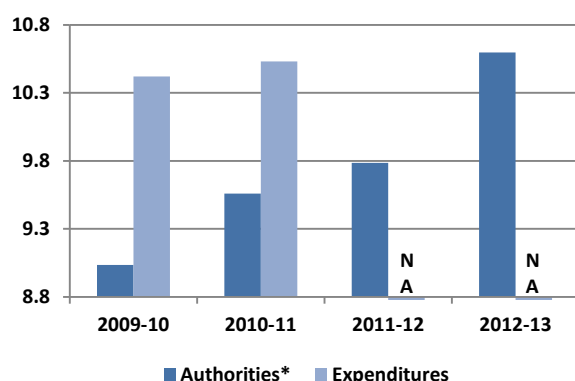
publicly reported until release of the Public Accounts.

As presented in Figure 2-5, overhead authorities are expected to increase approximately \$800 million from 2011-12 to over \$10.6 billion in 2012-13 (8 per cent).

While overall expenditures have increased, planned internal service costs for most federal organizations are lower in 2012-13 compared to the previous year, owing to the transfer of authorities to Shared Services Canada.

Figure 2-5
Internal Services Budget

\$ Billions



Source: Authorities: *Main Estimates: 2009-10 to 2012-13*.
Expenditures: *Public Accounts 2009-10 and 2010-11*.

Note: Figures exclude federal organizations that do not report Internal Service expenditures 2009-10 onward. Figures reflect planned Internal Service expenditures of each organization that reports this program activity in the Main Estimates, plus total net spending by Shared Service Canada.

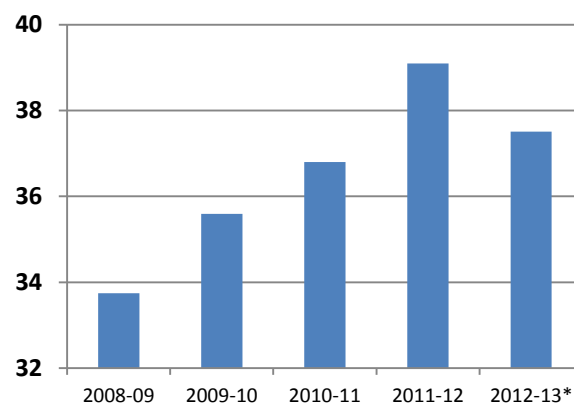
(iv) Personnel and Capital Spending

Table 3 (appended) presents planned spending by Standard Object presented in the 2012-13 Main Estimates, compared to the total authorities provided in 2011-12.

Personnel spending is expected to decrease by \$1.6 billion, or 4 per cent from 2011-12 levels, to approximately \$37.5 billion (Figure 2-6).

Figure 2-6
Personnel Expenditures

\$ Billions



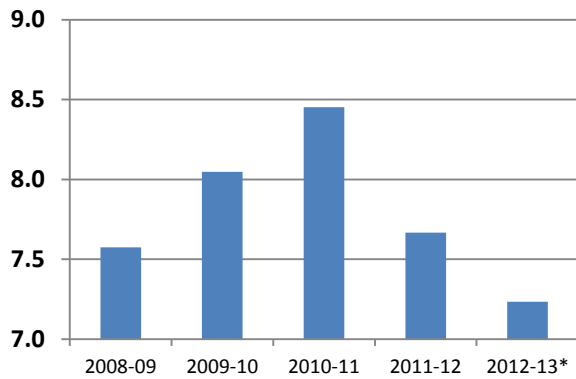
Source: *Main and Supplementary Estimates: 2008-09 to 2012-13*.

*Note: Figures for 2012-13 do not include reductions that may occur through the Strategic Operating Review, due to be implemented through Budget 2012.

Capital expenditures are expected to decrease by approximately \$430 million in 2012-13 (6 per cent). Combined with the \$780 million decrease in 2011-12, capital authorities are now 4 per cent below the level immediately prior to the EAP in 2009-10 (Figure 2-7).

Figure 2-7**Capital Expenditures**

\$ Billions

Source: *Main and Supplementary Estimates: 2008-09 to 2012-13.*

Note: Capital expenditures are calculated as the sum of two standard objects: *acquisition of land, buildings and works*, and *acquisitions of machinery and equipment*. Figures for 2011-12 onward contain the capital budget carry-forward vote.

*Figures for 2012-13 do not include reductions that may occur through the Strategic Operating Review, due to be implemented through Budget 2012.

3. Conclusion

Parliamentarians may wish to seek further details of the assumptions and reasonableness of the items in the Government's expenditure plan, which exhibit the greatest changes in value or per cent.

Further, greater scrutiny may be warranted regarding the forecast growth in internal service costs (*i.e.* overhead). These will need to be carefully managed to achieve the Government's operating expenditure savings targets and its objective to improve "value-for-money".

Finally, members may wish to seek confirmation that the planned decreases in capital spending are sustainable and will not contribute to the deterioration of federal assets (*i.e.* capital rust-out).

APPENDIX

Table 1. Largest \$ Changes in Authorities: Total Authorities in 2011-12 versus 2012-13 ¹			
Organization	Authorities	\$ (000s)	Explanation from Estimates
Human Resources and Skills Development	Old Age Security	1,822,427	<i>Increase in average rates of payment and number of beneficiaries</i>
Finance	Canada Health Transfer	1,617,112	<i>Planned legislative increase</i>
National Defence	Operating Expenditures	-1,588,893	<i>Spending review reductions; creation of Communications Security Establishment as separate agency; transfer to Shared Services Canada</i>
Infrastructure Canada	Contributions	-910,996	<i>Decrease in Green Infrastructure Fund; Provincial-Territorial Base Funding Program</i>
Natural Resources	Grants and Contributions	-884,211	<i>Sunset of Pulp and Paper Green Transformation Program, as well as other transfer payment programs</i>
Finance	Fiscal Equalization	763,933	<i>Planned legislative increase</i>
Natural Resources	Payments to Atomic Energy of Canada	-525,304	<i>None</i>
Royal Canadian Mounted Police	Operating Expenditures	-519,007	<i>Timing of new policing agreements with provinces and territories; transfer to Shared Services Canada</i>
Human Resources and Skills Development	Guaranteed Income Supplement	475,135	<i>Increase in average rates of payment and number of beneficiaries</i>
Finance	Public Debt Interest²	469,000	<i>Change in debt stock; interest rates</i>

1. All authorities listed in the 2011-12 and 2012-13 Main Estimates with total authorities above \$100 million; excluding non-budgetary items.

2. This item is a combination of two authorities: *Interest on Unmatured Debt* and *Other Interest Costs*.

Table 2. Largest % Changes in Authorities: Total Authorities in 2011-12 versus 2012-13¹

Organization	Vote	Δ % ²	Explanation from Estimates
Finance	Additional Fiscal Equalization to Nova Scotia	1711%	<i>2005 Offshore Accord and 2007 Equalization formula ensures no reduction in equalization payments</i>
Finance	Additional Fiscal Equalization Offset Payment to Nova Scotia	333%	<i>2005 Offshore Accord ensures no reduction in Equalization arising from offshore revenues</i>
Canada Revenue Agency	Softwood Lumber Products Export Charge Act	100%	<i>None</i>
Library and Archives	Capital Expenditures	87%	<i>Conversion of collection storage facility to high-density shelving</i>
Canadian Grain Commission	Program Expenditures	-86%	<i>Sunsetting of ad hoc funding; will be sought through subsequent Supplementary Estimates</i>
Canadian Museum of Human Rights	Payments for Capital and Operating	-68%	<i>Completion of payment schedule for construction project</i>
Chief Electoral Officer	Election Expenses	-68%	<i>41st General Election held in 2011 resulted in higher expenditures</i>
Transport	Grants and Contributions	64%	<i>Increase in Gateways and Border Crossings Fund to reflect planned cashflows</i>
Canada Border Services Agency	Capital Expenditures	-56%	<i>None</i>
Fisheries and Oceans	Grants and Contributions	-52%	<i>Reductions to Integrated Fisheries Resource Management and Aboriginal Strategies and Governance</i>

1. All Authorities listed in the 2012-13 Main Estimates with total authorities to date above \$10 million; excluding non-budgetary items.

2. The growth rate is calculated as the proposed authorities in Main Estimates divided by total spending authorities provided in 2011-12 Estimates (Main & Supplementary)

Table 3. Comparison of Standard Objects:
Total Authorities (\$000s) (2008-09 to 2012-13) ¹

Standard Object	2008-09	2009-10	2010-11	2011-12	2012-13	y/y ² Δ %
Personnel	33,740,001	35,589,778	36,801,189	39,093,807	37,506,043	-4%
Transportation & Communications	3,344,914	3,584,874	3,514,314	3,531,689	3,239,057	-8%
Information	432,371	475,166	415,537	387,926	267,145	-31%
Professional & Special Services	9,076,210	9,721,237	10,406,553	10,796,248	9,721,164	-10%
Rentals	2,152,659	2,769,230	2,730,785	2,706,569	2,512,272	-7%
Purchased Repair & Maintenance	3,195,074	3,918,384	4,038,740	3,841,288	3,392,237	-12%
Utilities, Materials and Supplies	3,412,410	4,045,190	3,902,555	3,441,137	2,911,697	-15%
Acquisition of Land, Buildings and Works	1,330,357	1,607,560	2,149,811	1,424,493	1,387,147	-3%
Acquisition of Machinery and Equipment	6,244,266	6,439,950	6,302,066	6,000,569	5,247,086	-13%
Transfer Payments	119,882,593	128,509,946	142,487,111	138,141,328	136,184,490	-1%
Public Debt Charges	31,509,000	30,659,000	28,432,000	28,393,087	28,862,000	2%
Other Subsidies and Payments	9,973,705	13,923,069	14,933,715	11,922,273	10,881,312	-9%
TOTAL	224,293,560	241,243,384	256,114,376	249,680,414	242,111,650	

1. Figures for 2008-09 to 2011-12 reflect **all** authorities for the year (i.e. Main and Supplementary Estimates). Figures for 2012-13 include Main Estimates only.

2. Year-over-year growth rate is 2012-13 compared to 2011-12.