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

Supplementary Estimates (B) 2018-19

Ottawa, Canada
7 February 2019
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 second supplementary estimates for the 2018-19 fiscal year, which seeks Parliament's approval of $2.5 billion.

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Executive Summary

Supplementary Estimates (B) 2018-19 seeks an additional $6.2 billion in budgetary authorities: $2.5 billion in spending which requires Parliament's approval and $3.7 billion for which legislative permission already exists.

Including the 2018-19 *Main Estimates* and *Supplementary Estimates (A)*, the total proposed year-to-date budgetary authorities is $291 billion, which represents a $21 billion (7.7 per cent) year-over-year increase.

Major spending items in these estimates include:

- Personnel costs totalling $3.5 billion, most of which is a top-up to the Public Service Superannuation Account ($3.1 billion) and employee benefits ($0.2 billion).
- $323 million for Veterans Affairs Canada to improve services to veterans and their families.
- More than 31,000 debts written off for unrecoverable Canada Student Loans, totalling $163.5 million.

Despite the Government's efforts, the speed of implementing Budget measures is largely unchanged from the previous year. To date, the Treasury Board (TB) has approved and allocated $4.3 billion for 113 Budget 2018 measures. This represents 75 per cent of the total number of measures having received funding and 62 per cent of the associated spending.

In comparison, by this time last year, PBO identified 70 Budget 2017 measures that had been brought forward in the estimates documents. This represented approximately three-quarters of the total Budget 2017 measures, but almost all (95 per cent) of the associated spending, indicating that the speed of Budget measures implementation has slowed.

1. What the Government Wants

No public money can be collected or spent without Parliament's permission.

Parliament provides its permission through voting on appropriation bills that 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 *Supplementary Estimates (B) 2018-19* is the second planned Supplementary Estimates in 2018-19 and supports the fourth and final appropriation bill for the current fiscal year.

The Supplementary Estimates reflect "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 (B) 2018-19 outlines an additional $6.2 billion in budgetary authorities (Table 1-1). Voted authorities, which require approval by Parliament, total $2.5 billion. Statutory authorities, for which the Government already has Parliament's permission to spend, total $3.7 billion.

Non-budgetary authorities, which include loans, investments and advances, are increasing by $722 million.

Table 1-1 Supplementary Estimates (B), 2018–19: Total authorities

	Budgetary ($ millions)	Non-budgetary ($ millions)
Voted	2,493	14
Statutory	3,681	708
Total	**6,174**	**722**

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

Including these supplementary estimates, the total proposed year-to-date budgetary authorities is $291 billion, which represents a $21 billion (7.7 per cent) increase over last year. This is generally consistent with the strong program spending growth outlined in the recent Fall Economic Statement.

1.2. Frozen Allotments

Frozen allotments refer to funds that have been approved by Parliament, but that the Government then restricts for various reasons (see Box 1).

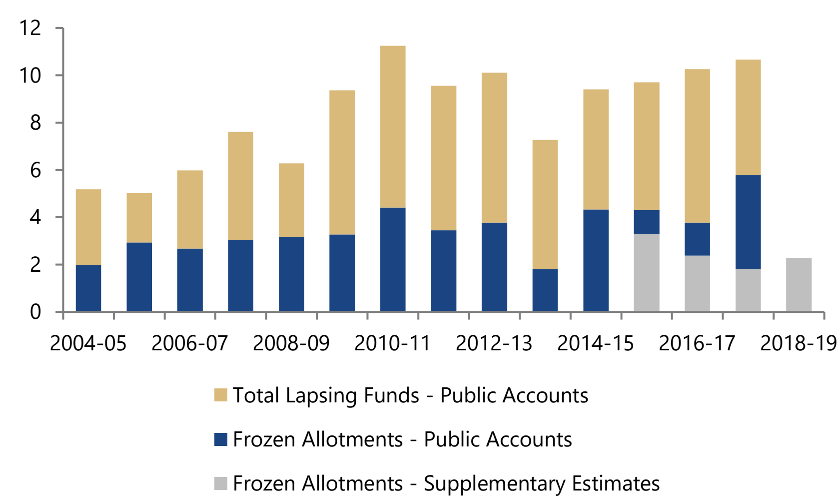
Within these supplementary estimates, $3.8 billion in appropriations are held in frozen allotments. This represents a $1.7 billion increase from the final supplementary estimates presented last year.

In theory, publishing projected frozen allotments in the final supplementary estimates could improve transparency. However, these figures are generally unrelated to the ultimate funding lapse (that is, the total amount of public money that the Government is unable to spend).

Since the Government began publishing this data in 2015-16, the value of frozen allotments published in the final supplementary estimates have fallen, while overall lapses have risen (Figure 1-1). Hence, this additional transparency has not necessarily improved Parliament's ability to predict actual Government spending.

Figure 1-1 Lapses over time

$ billions



Sources: Public Accounts of Canada; Treasury Board of Canada Secretariat; and PBO calculations.

Note: $1.5 billion of "Other" frozen allotments are contained within TB Central Votes in 2018-19. These amounts are lapses, but were not considered as frozen allotments in the Public Accounts prior to 2017-18. Therefore, PBO excluded these amounts from frozen allotments to ensure comparable year-over-year measurements. They are included in the total lapse amounts.

Box 1 – Frozen allotments

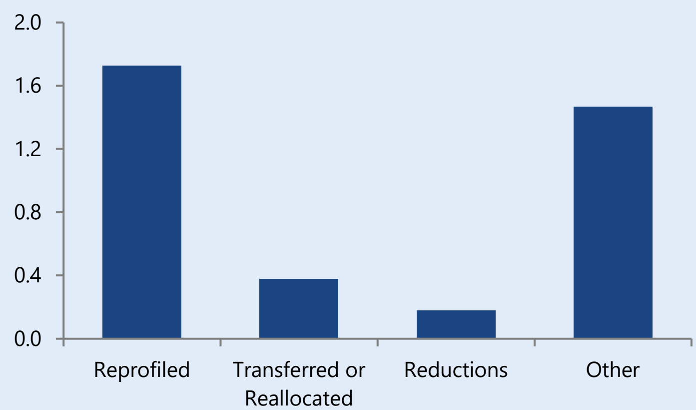
Frozen allotments are moneys approved by Parliament that the Treasury Board internally restricts. These allotments can be temporary or permanent. Temporarily frozen allotments allow the Treasury Board to stipulate certain conditions that must be met before the funds are released. Permanently frozen allotments must be lapsed by the department at the end of the fiscal year.

As noted by the Treasury Board Secretariat, frozen allotments are used for four principal purposes (Figure B-1):

1. **Re-profiling** funds, which allows unused authorities from the current year to be pushed forward to the next fiscal year, subject to Parliament's approval;
2. **Transferring or reallocating** funds, which allows departments to trade authorities across votes, for example moving capital authorities to operating;
3. **Authority reduction**, which occurs when the original purpose of the funds no longer exists, for example due to a cancelled program; and,
4. **Other** frozen allotments, which are mostly uncommitted TB Central Votes used to distribute funds to departments for specific purposes and address urgent funding requirements.

Figure B-1 Frozen allotments by category

$ billions



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

2. Is the Government Spending Budget 2018 Money?

The Government made significant changes to the Estimates process this year to better align the Estimates with the Budget and speed up their ability to spend money.

First, it delayed the tabling of the Main Estimates by several weeks 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.

The Government also created a new central vote within the Treasury Board of Canada Secretariat (TBS), Treasury Board Central Vote 40. This $7.0 billion fund contained all the money required to be spent on new Budget 2018 measures. This reduced potential delays in obtaining Parliament's approval to spend.

2.1. Tracking Budget 2018 Initiatives

With this new Budget Implementation Vote, most Budget items did not go through detailed TB scrutiny prior to being approved by Parliament.[3] Therefore, the Government committed to provide parliamentarians with monthly online updates reflecting new allocations to departments.[4]

The most recent update indicates that the Treasury Board (TB) approved and allocated $4.3 billion. This is spread over 113 Budget 2018 measures. An additional $1.6 billion has been withheld by TB, while $1.1 billion has yet to be allocated.[5]

Some of the withheld amounts relate to items which require changes from the initial allocations in Table A2.11 of Budget 2018.

Of note, 11 new Budget 2018 measures ($312 million) appear in these Supplementary Estimates, some of which is in addition to the $7.0 billion originally approved by Parliament. This is due to changes in the originally intended allocations of funds and/or the profile of the spending.

This year, 75 per cent of the total number of measures have received funding and 62 per cent of the associated money included in the Budget Implementation Vote have been allocated to departments.

In comparison, by this time last year the Government had presented a similar share of measures, but 95 per cent of spending authorities.[6] This means that the Government's changes have not accelerated its spending.

As the previous President of the Treasury Board has noted, 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.

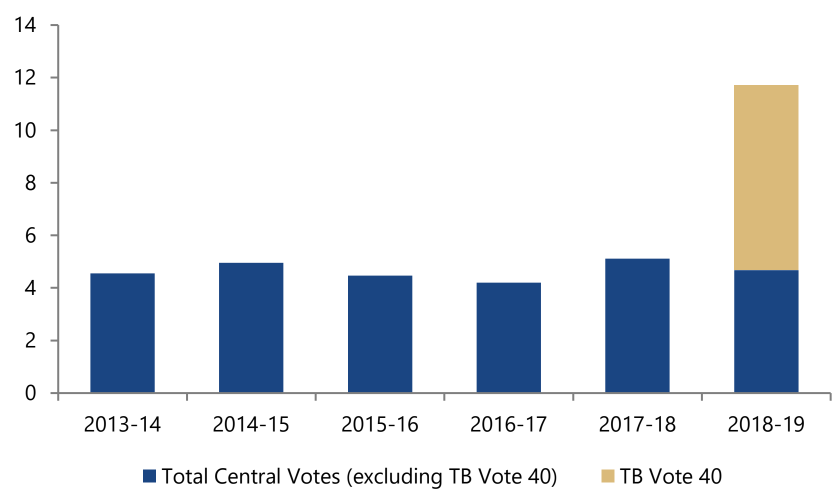
2.2. Treasury Board Central Votes

Typically, the Estimates ask Parliament to approve specific amounts of money for discrete purposes in departments. In contrast, the Government can also ask for Central Votes, which hold funds for which the Government will ultimately determine the allocation.

The use of TB central votes is not new. However, the creation and implementation of TB Vote 40 has significantly increased the extent to which the Government has used them. As shown in Figure 2-1, the total amount authorized within TB central votes has more than doubled in 2018-19, compared to the previous five fiscal years.

Figure 2-1 Use of TB Central Votes over time

$ billions



Sources: Public Accounts of Canada; Treasury Board of Canada Secretariat.

Note: For 2018-19, PBO used data from the Estimates documents. All other years use data from the Public Accounts.

While TB Vote 40 accounts for this large variance, the composition of the remaining central votes also changed in 2018-19. TB vote 10, which is used for the implementation of government-wide initiatives, has increased from $3.1 million in 2017-18 to $371 million in 2018-19.

This was more than offset by a reduction of $1.5 billion in 2017-18 to $800 million in 2018-19 for TB Vote 30. This vote, called Paylist Requirements, is for "funding to meet legal requirements of the employer such as parental and maternity leave, entitlements upon cessation of service or employment."[7]

3. Key Issues for Parliament

3.1. Public Sector Compensation

These Supplementary Estimates outline a $3.5 billion increase in spending on personnel. Virtually all of this money relates to a $3.3 billion allocation to the Treasury Board of Canada Secretariat (TBS) for a top-up to the Public Service Superannuation Account ($3.1 billion) and employee benefits ($0.2 billion).

The Public Sector Superannuation Account reflects the Government's pension benefit obligations for service prior to the 2000-01 fiscal year.

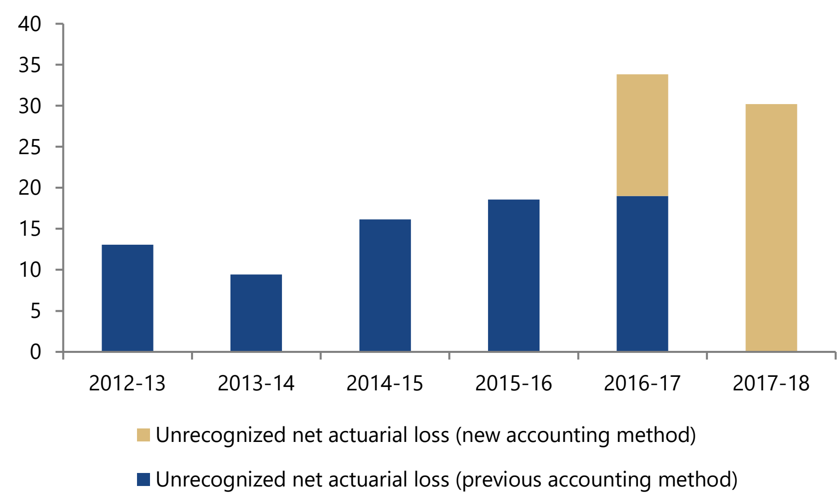
Currently, the amount of money that the Government owes to current and potential public service pensioners is more than the amount of money it has accounted for on its financial statements. As a result, it is required to make up the difference. The $3.1 billion statutory payment to the Account is to "eliminate the actuarial shortfall as of March 31, 2017 as reported by the Office of the Chief Actuary."[8]

As shown in Figure 3-1, the Office of the Chief Actuary recently estimated these pension obligations have a $30.2 billion unrecognized net actuarial loss as of 2017-18. A significant part of the growth in the unrecognized actuarial losses between 2015-16 and 2016-17 relates to an accounting change to the discount rate enacted in October 2018, and retroactively applied beginning in 2016-17.

Figure 3-1

Net future benefit liabilities - Unfunded

$ billions



Source: Public Accounts of Canada.

The request for $0.2 billion pertains to pending ratification of collective agreements. As the employer of the federal public service, TBS is responsible for implementing the new collective agreements negotiated between the Government and federal public sector unions.[9]

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.

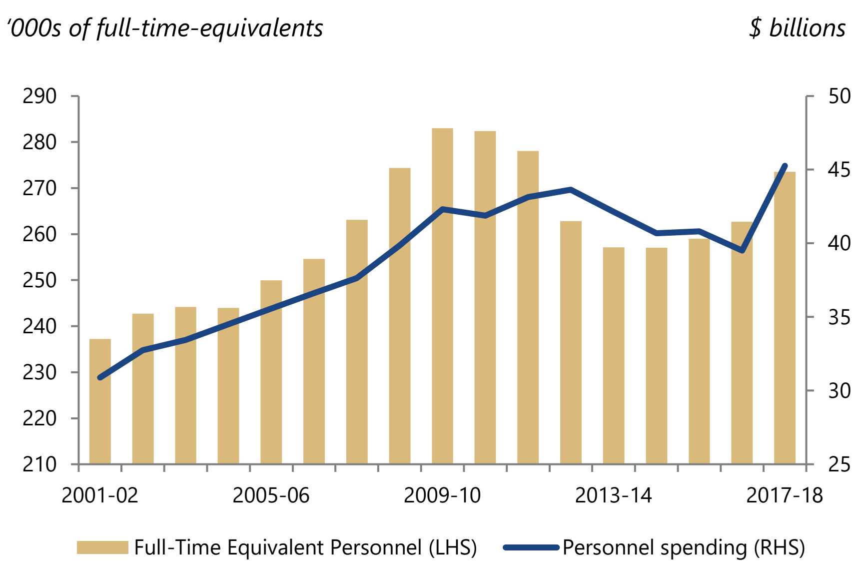
In 2017 and 2018, federal public sector unions concluded 29 collective agreements covering over 206,000 staff.[10] The annual average wage gain in 2018 was 1.6 per cent. This is less than comparable private sector gains and below the overall rate of inflation.

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 3-2).[11]

The Government reports that the number of federal public servants rose by 4.1 per cent to over 274,000 as of March 31, 2018. This is the highest year-over-year increase since 2008-09 and the highest level since the Budget 2012 restraint exercise.[12]

Figure 3-2

Population of the Federal Public Service and Ministerial Personnel Expenditures



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

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

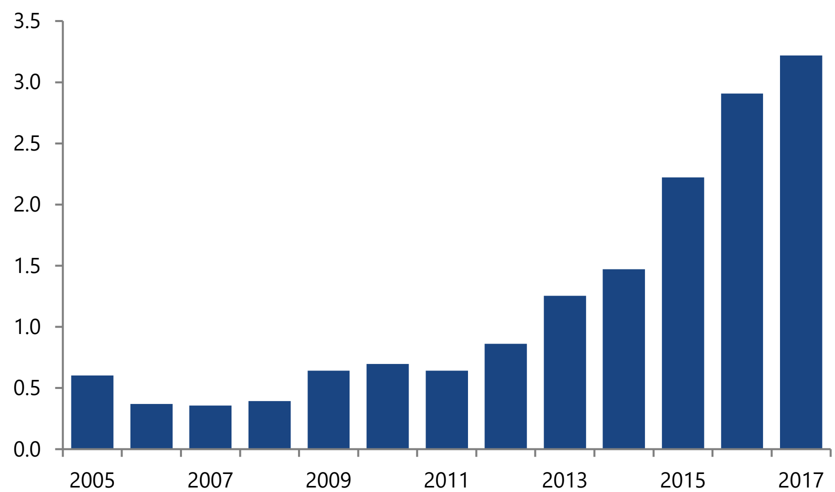
3.2. More Money for Veterans

The single largest item requiring Parliament's approval is $323 million for Veterans Affairs Canada (VAC). VAC provides services and benefits to Veterans and their families. The proposed funding would pay for greater than expected demand for several programs, including Disability Awards.[13]

The annual cost of benefits promised by the Government of Canada to Veterans has grown from $0.6 billion in 2005, to $3.2 billion in 2017 (Figure 3-3). This is primarily attributable to both enrichments in benefits, as well as greater demand.[14]

Figure 3-3 **Veterans' Benefits**

$ billions



Source: Public Accounts of Canada.

Note: Benefits are calculated on a fiscal year basis, hence 2005 reflects the 2005-06 fiscal year.

The Government of Canada has amended its regime for veterans benefits three times over the past 13 years. PBO will publish new research in February 2019 providing details of how these regime changes have affected the cost to the Government and the support provided to veterans.

3.3. Student Loans Write-offs

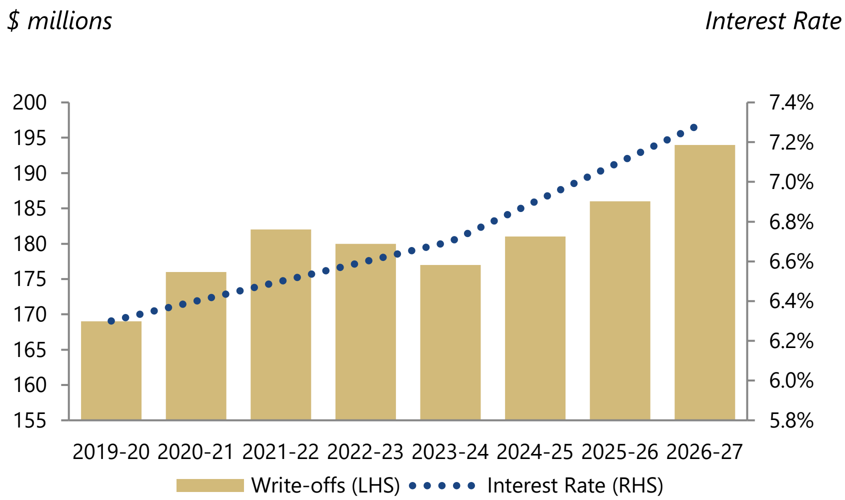
The Canada Student Loans Program provides repayable loans and non-repayable grants to help Canadians finance their participation in postsecondary education.[15]

Since 2014, the Government has annually sought Parliament's approval to write-off student loans that are deemed "uncollectable". These Supplementary Estimates request $163.5 million to write-off 31,658 unrecoverable debts.

The Office of the Chief Actuary projects write-offs will moderately increase over the medium-term, as shown in Figure 3-4. At the same time, interest rates on Canada Student Loans are expected to grow to over 7 per cent.

Interest rates on Canada Student Loans are set at either a fixed rate, which is the prime rate plus 5.0 per cent, or a variable rate (which can change), which is the prime rate plus 2.5 per cent. Students begin to pay six months after leaving their studies, but interest is charged during these six months.[16]

Figure 3-4 Canada Student Loans – write-offs and interest rate projections



Source: Office of the Chief Actuary of Canada

Note: The interest rate projection is based on the variable rate (prime rate plus 2.5 per cent).

Notes

1. *Old Age Security Act*. http://laws-lois.justice.gc.ca/eng/acts/O-9/.
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12. 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

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16. Employment and Social Development Canada (2019). Interest rates for Canada Student Loans. Retrieved from https://www.canada.ca/en/employment-social-development/services/education/student-loan/interest-rates.html