



OFFICE OF THE
PARLIAMENTARY BUDGET OFFICER



BUREAU DU
DIRECTEUR PARLEMENTAIRE DU BUDGET

The Expenditure Monitor: *2011-12 Q3*

April 13, 2012



Key Points of this Note:

- This note reviews federal expenditures for the first nine months of the fiscal year 2011-12 (*i.e.* April to December 2011).
- Based on data from the first three quarters, total federal expenditures decreased 2.4 per cent compared to the same period in the previous fiscal year. This is lower than the plan outlined in Budget 2012, which projected total expenses to rise 1.0 per cent from 2010-11 to 2011-12 (year/year).
- Overall, the rate of expenditure is largely unchanged from the previous year. Looking forward, this will be a useful indicator for parliamentarians to monitor the ability of departments to find the efficiencies promised in Budget 2012 and live within lower operating budgets.
- All significant changes in expenditures are explained in the Quarterly Financial Reports that were published last month by departments and agencies (<http://www.tbs-sct.gc.ca/fm-gf/ktopics-dossiersc/fmpr-rftm/fmpr-rftm-eng.asp>).
- The PBO's Integrated Monitoring Database (IMD) has been updated with expenditure data for the third quarter of 2011-12 (www.pbo-dpb.gc.ca).
 - The IMD will be updated with expenditure data for the last quarter of 2011-12 in mid-June.

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1. Context

The Parliamentary Budget Officer's (PBO) legislative mandate includes research and analysis regarding the Government's estimates.¹

To fulfill this aspect of the mandate, the PBO performs ongoing analysis of changes 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 track in-year expenditures from these allotments.²

This monitoring framework allows the PBO to highlight items of material interest to parliamentarians as they consider additional adjustments to authorities proposed by the Government.³

This note reviews total spending authorities (*i.e.* Main Estimates and Supplementary Estimates A, B, C) and actual expenditures for the first nine months of the current fiscal year (*i.e.* April to December 2011).⁴

2. Highlights of 2011-12 Q3

(i) 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.

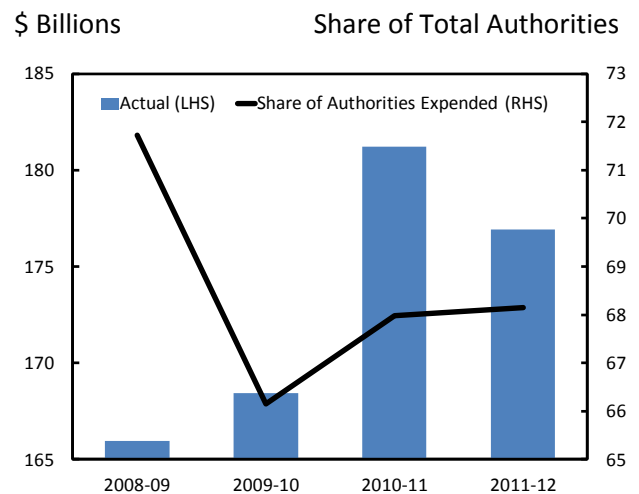
Given that the first three types of spending tend to be linear with little in-year variation, PBO analysis focuses on the last category.

As presented in Figure 2-1, total expenditures in the first nine months of 2011-12 decreased 2.4 per cent to \$177 billion, compared to the same period in 2010-11. As highlighted in earlier analysis, this is consistent with the 3 per cent decrease in total spending authorities in 2011-12.⁵

As a result, federal departments and agencies expended approximately the same share of spending authorities provided by Parliament in the first nine months of the current fiscal year, compared to the same period in the previous year (68.1 per cent).

Figure 2-1

Total Expenditures in First Nine Months of the Fiscal Year



Source: Government of Canada; PBO Calculations

Overall, increases in major transfer payment programs to individuals (*e.g.* Guaranteed Income Supplement) and other levels of government (*e.g.* Canada Social Transfer) were offset by decreases in direct program spending.

¹ <http://laws.justice.gc.ca/eng/PDF/P-1.PDF>. Accessed April 2012.

² An overview of the methodology used by the PBO is provided in the complementary briefing note, "Expenditure Monitor: Methodology". http://www.parl.gc.ca/PBO-DPB/documents/Expenditure_Monitor_Guide.pdf. Accessed April 2012.

³ PBO information request dated 2012-04-12 to Deputy Heads for data regarding implementation of Budget 2012.

<http://www.parl.gc.ca/PBO-DPB/InformationRequests.aspx?Language=E>. Accessed April 2012.

⁴ Actual expenditure authority for Supplementary Estimates C was not provided until the fourth quarter.

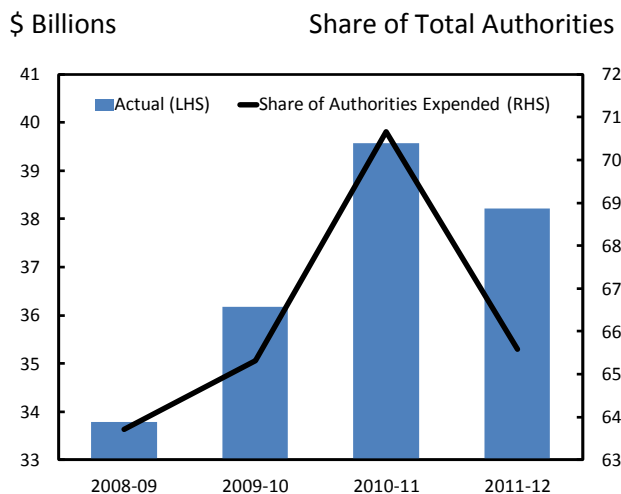
⁵ http://www.parl.gc.ca/PBO-DPB/documents/Supplementary_Estimates_C_EN.pdf. Accessed April 2012.

(ii) Direct Program Spending

Direct program spending (DPS) is comprised of operating and capital expenditures, as well as other transfer payment programs (e.g. agricultural support programs).

Operating expenditures decreased over 3 per cent to \$38 billion (Figure 2-2). This decline in expenditure resulted in departments and agencies spending less of their authorities in the first nine months (65 per cent), compared to the previous year.

Figure 2-2
Operating Expenditures in First Nine Months of the Fiscal Year



Source: Government of Canada; PBO Calculations

The lower level of spending was widespread across most organizations and likely reflects restraint measures announced in Budget 2010 (e.g. the Operating Budget Freeze) and Budget 2011 (e.g. Strategic Reviews). In combination, these exercises reduced authorities by approximately \$1.8 billion in 2011-12 (Box 1-1).

Box 1-1

Recent Budgetary Reductions

- Since March 2010, the Government has announced three successive rounds of spending reductions targeted toward Direct Program Spending.
- Budget 2010 included restraint measures totaling \$15 billion over 5 years. Following this, Budget 2011 implemented a further \$2 billion over five years. Finally, Budget 2012 proposes an additional \$20 billion over five years.

	Initial 5 Years	Ongoing Reduction
Budget 2010	\$15 B	\$5.1B
Budget 2011	\$2 B	\$0.5B
Budget 2012	\$20 B	\$5.2B
TOTAL	\$37 B	\$10.8 B

Source: The Government of Canada. Budget 2012.

As presented in Figure 2-3, capital expenditures decreased 13 per cent in the first nine months of 2011-12 to approximately \$2.9 billion. This is expected given the planned decrease in capital spending authorities, which was presented in the Main and Supplementary Estimates (A, B and C).

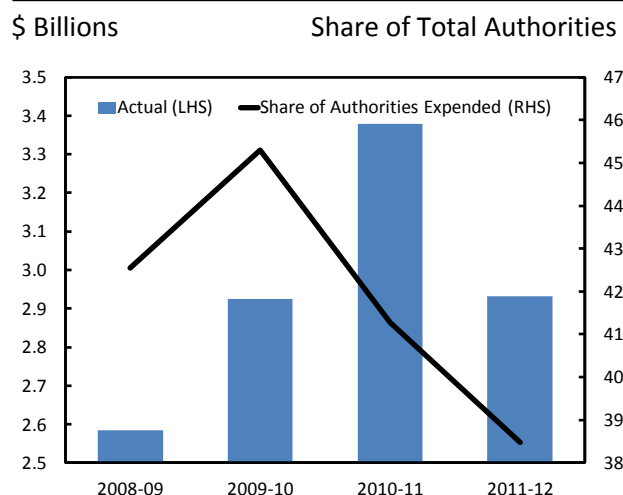
Much of the decrease in capital expenditures is attributable to National Defence (\$250 million lower compared to the same period in 2010-11). Budget 2012 confirmed that the acquisition schedule for defence assets had been lengthened and that approximately \$3.5 billion in planned spending had been pushed to a later period.⁶

The share of expenditures relative to authorities also decreased to 38 per cent. Typically, capital expenditures tend to build over the course of the fiscal year, with the majority of activity during the second half.

⁶ Budget 2012. Government of Canada.
<http://www.budget.gc.ca/2012/plan/pdf/Plan2012-eng.pdf>.
Accessed April 2012.

Figure 2-3

Capital Expenditures in First Nine Months of the Fiscal Year



Source: Government of Canada; PBO Calculations

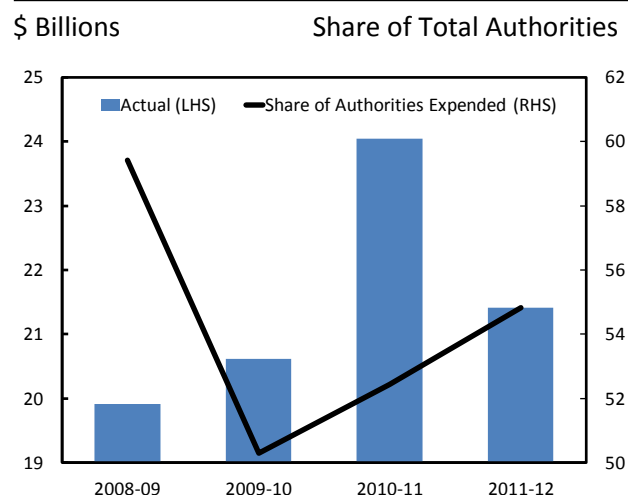
Expenditures relating to transfer payments fell 11 per cent to approximately \$21 billion in the first nine months of 2011-12 compared to the previous year (Figure 2-4).

As was the case with capital expenditures, authorized amounts for non-major transfer payments decreased substantially compared to the previous fiscal year, owing to wind-down of the Economic Action Plan (e.g. infrastructure spending, grants and contributions made by regional development agencies).

The share of expenditures relative to authorities grew to 55 per cent in the first nine months, as the level of spending decreased less than the corresponding spending authorities provided by Parliament.

Figure 2-4

Other Transfer Payments Expenditures in the First Nine Months of the Fiscal Year



Source: Government of Canada; PBO Calculations

3. Internal Services

Internal services includes communications, financial management, human resource management, and information technology.⁷ This spending falls across operating, capital and transfer payments.

Expenditures for internal services were \$7.9 billion in the first half of the year. This represents 80 per cent of the total planned amount of \$9.8 billion, which was presented in the Main Estimates.

Given that approximately 70 per cent of the planned savings from the Strategic Operating Review relates to “efficiencies”, and much of this pertains to back-office restructuring, Internal Services spending is expected to decrease over the medium term.⁸

⁷ <http://www.tbs-sct.gc.ca/est-pre/20112012/me-bpd/docs/me-bpd-eng.pdf>. Accessed April 2012.

⁸ <http://www.budget.gc.ca/2011/plan/chap5-eng.html>. Accessed April 2012.

The Government began sharing Program Activity data, which includes Internal Services, earlier this year. As such, the PBO will begin providing historical comparisons this year to track savings achieved in this area of spending.

4. Individual Items

To identify material variances among the hundreds of votes presented in the Government's Estimates, the PBO has screened all items and identified the largest expenditure changes by dollar value and per cent, compared to the same quarter of the previous fiscal year. These tables are presented in Annex A.

Overall, all items flagged by the PBO are explained in the quarterly financial reports published in March by departments and agencies.⁹

As noted in earlier PBO analysis, the quality of these reports continues to improve. Overall, they are often the exclusive source of information for parliamentarians to track the implementation of

restraint exercises. Going forward, they are expected to play an important role in monitoring implementation of the Strategic Operating Review.

5. Conclusion

Based on the first nine months of the 2011-12 fiscal year, total federal expenditures decreased 2.4 per cent compared to the same period in the previous fiscal year. This is lower than the plan outlined in Budget 2012, which projected total expenses to rise 1.0 per cent from 2010-11 to 2011-12 (year/year).¹⁰

Given the Government's focus on constraining direct program spending to achieve fiscal targets, the PBO will continue to monitor implementation of the three successive rounds of restraint exercises.

The Integrated Monitoring Database (IMD) has been updated to include expenditure data for the third quarter of 2011-12.

⁹ <http://www.tbs-sct.gc.ca/fm-gf/ktopics-dossiersc/fmpr-rftm/fmpr-rftm-eng.asp>. Accessed April 2012.

¹⁰ The Estimates/Authorities are presented on the basis of cash accounting and the Budget presented on the basis of accrual accounting. While the annual spending trends are generally consistent between each accounting method, the differences can be material from one quarter to the next.

Annex A

Table 1. Largest \$ Changes in Authorities: Total Expenditures in 2011-12 Q1 to Q3 versus previous year¹

Organization	Authorities	\$ (000s) Δ	Explanation from Quarterly Report
Finance	HST Transition Transfer	-1,889,000	<i>Planned decrease in schedule of payments</i>
Finance	Canada Health Transfer	1,008,478	<i>Increased levels of authorized spending</i>
Human Resources and Skills Development	Old Age Security	1,208,997	<i>Increased number of beneficiaries, increased payment amount</i>
Finance	Fiscal Equalization	657,532	<i>Increased levels of authorized spending</i>
National Defence	Operating Expenditures	551,106	<i>Several factors, including higher spending on professional services and maintenance</i>
Human Resources and Skills Development	Guaranteed Income Supplement	532,853	<i>Increased number of beneficiaries , increased payment amount</i>
Finance	Public Debt Interest	387,558	<i>Increased federal debt</i>
Human Resources and Skills Development	Grants and Contributions	-363,810	<i>Wind-down of Economic Action Plan Funding</i>
Office of Infrastructure	Contributions	342,461	<i>Increase in claims for projects completed under the Economic Action Program.</i>
Industry Canada	Grants and Contributions	-308,951	<i>Sunsetting funding for several initiatives, including Marquee Tourism and Events Program, the Community Adjustment Fund and Knowledge Infrastructure Program</i>

1. All Authorities listed in the 2011-12 Main Estimates with total authorities above \$100 million in 2010-11 or 2011-12; excluding non-budgetary items.

Table 2. Largest % Changes in Authorities: Total Expenditures in 2011-12 Q1 to Q3 versus previous year¹

Organization	Authorities	Δ %	Explanation from Quarterly Report
Chief Electoral Officer	Election Expenses, Operating Expenses	249%	<i>41st Canadian General Election</i>
Canada Border Service Agency	Capital Expenditures	159%	<i>Construction of a new port of entry; investments in arming</i>
Correctional Service	Capital Expenditures	90%	<i>Implementation of newly enacted legislation; projected increase in offender population</i>
Statistics Canada	Program Expenditures	65%	<i>2011 Census of Population and National Household Survey and Census of Agriculture</i>
Environment	Grants and Contributions	-69%	<i>Reductions to several programs, including the National Vehicle Scrappage Program</i>
Western Economic Diversification	Grants and Contributions	-67%	<i>Wind-down of Canadian Economic Action Program</i>
Canadian Food Inspection Agency	Grants and Contributions	-65%	<i>Wind-down of funding provided through the Canadian Economic Action Program</i>
Finance	Grants and Contributions	-63%	<i>Several factors, including reduced payments to the Toronto Waterfront Revitalization Initiative</i>
Economic Development Agency for Southern Ontario	Grants and Contributions	-57%	<i>Wind-down of Canadian Economic Action Program</i>
National Research Council	Capital Expenditures	-53%	<i>New capital budgeting processes resulting in expenditure delays</i>

1. All Authorities listed in the 2011-12 Main Estimates with total authorities above \$10 million in 2010-11 or 2011-12; excluding non-budgetary items.