OFFICE OF
THE PARLIAMENTARY BUDGET OFFICER

CANADA

BUREAU DU
DIRECTEUR PARLEMENTAIRE DU BUDGET

Expenditure Monitor: 2014-15 Q1

Ottawa, Canada
September 25, 2014*
www.pbo-dpb.gc.ca

*Subsequent to publication of this report on September 25, 2014, Figure 3-4 was revised to reflect the actual historical expenditure data from the Public Accounts of Canada.

The mandate of the Parliamentary Budget Officer (PBO) is to provide independent analysis to Parliament on the state of the nation's finances, the government's estimates and trends in the Canadian economy; and upon request from a committee or parliamentarian, to estimate the financial cost of any proposal for matters over which Parliament has jurisdiction.

This note presents detailed analysis of Government spending for the first three months of the fiscal year, highlighting the success of ongoing spending restraint and implementation of the fiscal and economic plan presented in Budget 2014.

Prepared by: Tejas Aivalli, Jason Jacques and Trevor Shaw

---

* Please contact Mostafa Askari (mostafa.askari@parl.gc.ca) for further information.

The Bottom Line

- On April 1st of this year, planned federal spending restraint jumped $3.8 billion to $14.6 billion per year in 2014-15.
- Spending levels across most programs reflect this restraint. The broadest measure of government operating spending – Direct Program Spending - is 1.6 per cent lower in the first quarter of 2014-15 compared to last year.
- The Government indicates that its restraint initiatives are ahead of schedule and generally on track to be implemented as planned.
- In contrast with broad spending declines, expenditure on “Well managed and efficient government operations” has increased by 2 per cent in 2014-15, consistent with budget plans.

1 Context

Each year, Parliament endorses the Government’s fiscal and economic strategy outlined in the Budget. This strategy is then implemented through the appropriations bills and other enabling legislation, such as Budget Implementation Acts.

Since 2010, the Parliamentary Budget Officer has monitored the implementation of the Budget and spending among the Government’s roughly 400 programs to analyse:

- Whether the Government is on track to implement its overall spending commitments for the current fiscal year; and,
- Where program spending is off-track (that is, materially different from the plan originally presented to Parliament).

This analysis of the Government’s Expenditure Plan (also known as the Estimates) supports informed parliamentary scrutiny of spending.

2 Year-to-Date Highlights of 2014-15

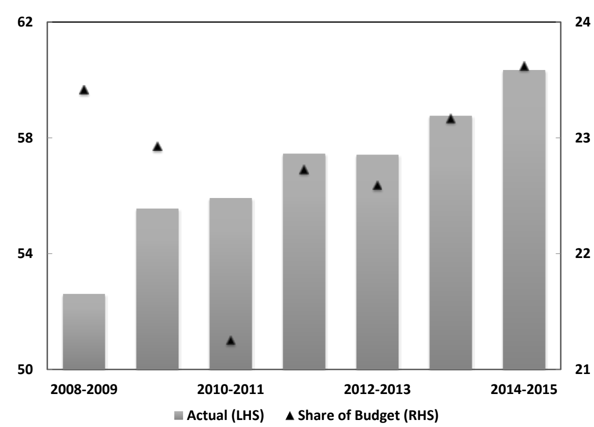
Total expenditures in the first three months of 2014-15 were $59.4 billion, an increase of $0.7 billion year-over-year. This represents a 1.1 per cent increase compared with the same three months in 2013-14 (Figure 2-1). This spending includes a one-time $700 million payment for transitioning the Government’s pay system (Box 2-2). Absent this payment, spending for the first three months would be effectively unchanged from 2013-14.

The Government spent slightly less than one quarter of its planned budget in the first three months of the year. The rate at which the Government spends the funding approved by Parliament has been increasing over the past four years. Spending cuts have forced departments and agencies to manage their budgets more tightly.

Figure 2-1

Restraint Leaves Less Wiggle Room

$ Billions — Share of Total Budget



Sources: Office of the Parliamentary Budget Officer; Government of Canada.

Note: Includes budgeted and actual spending for the Employment Insurance Account.

Federal expenditures consist of four primary components: (1) direct program spending or DPS; (2) major transfers to individuals; (3) major transfers to other levels of government; and (4) debt servicing costs (Figure 2-3).

Box 2-2: Updating the Government's Pay System

In the first quarter of 2014-15, the Government updated its pay system for employees.

Historically, federal public servants were paid for the work they performed in the two weeks prior to payday. This was changed in the first quarter to pay public servants with an additional two-week lag (that is, for the period that concluded two weeks prior to payday).

To ensure pay to federal employees was not interrupted by the additional two-week waiting period, the Government made a one-time transition payment to existing employees. This transition payment was fully offset by a claw-back of employees' final paycheque that they would have otherwise received upon departure from the public service (for example, retirement or termination).

This change to the pay system had no impact on the overall budgetary balance. However, it did result in the additional budgetary authorities being approved by Parliament and subsequently spent by departments and agencies. As such, spending on most federal programs would be expected to be slightly higher in the first quarter of 2014-15, compared to the same time in the previous year.

Figure 2-3

Composition of Total Federal Spending: First Three Months of Fiscal Year

$ Billions

	2014-15	2013-14	$ y/y	% y/y
Total	**59.4**	**58.8**	**0.7**	**1.1%**
Direct program spending	20.3	20.6	-0.3	-1.6%
Transfers to persons	16.2	15.5	0.7	4.7%
Other levels of government	16.1	15.7	0.3	2.1%
Debt charges	6.8	6.9	-0.1	-1.1%

Sources: Office of the Parliamentary Budget Officer; Government of Canada.
Note: Figures may not add due to rounding.

The Government's fiscal strategy to return to balanced budgets is the targeted application of spending cuts and restraint on government operations (that is, direct program spending), while leaving major transfers to other levels of government and individuals to grow unabated with pre-set escalators.
Commensurate with this, major transfers were the only source of spending growth in the first three months of 2014-15, compared to the same period in the previous year. This was partially offset by planned cuts to DPS and lower debt interest charges that reflect a continuing low global interest rate environment.

Direct Program Spending

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.

While DPS is less than half of overall federal program spending, it comprises almost 95% of all federal programs. Hence, analyzing whether the Government is on track to achieve its return to balanced budgets and the consequential affect on federal programs requires careful scrutiny of this budgetary component.

According to Budget 2014 projections, total federal spending cuts are expected to grow to $14.6 billion per year in 2014-15. This includes a further $3.8 billion in cuts that were implemented on April 1st 2014.[1]

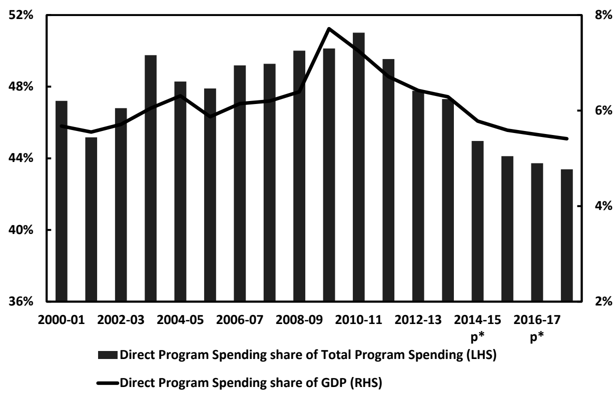
As presented in Figure 2-4, the Government projects that planned cuts will reduce Direct Program Spending as a share of total program spending to its lowest level since 1998-99, and comprise the smallest share of nominal gross domestic product since 2001-02.

[1] Budget 2014. www.budget.gc.ca. Accessed September 2014.

Figure 2-4

Government Operations Spending Falls to Historic Low

Share of Total Program Expenses — Share of GDP



Sources: Office of the Parliamentary Budget Officer; Government of Canada.

Based on a comprehensive review of each department's and agency's quarterly financial statements for the first quarter of 2014-15, the PBO estimates that only 1 per cent of the planned savings from the Budget 2012 restraint intiatives are at risk of not being achieved.

While the Government has never published data that would permit the public to assess the impacts of the proposed reductions (and hence whether the cuts are sustainable over the long term), departments and agencies generally attest in quarterly financial reports that the Government's spending reduction plan is ahead of schedule and will be fully implemented as planned.

In the first three months of the fiscal year, DPS was $0.3 billion lower (-1.6 per cent) compared to the same period in 2013-14 (Figure 2-5). This spending includes the one-time $700 million payment for transitioning the Government's pay system. Absent this payment, DPS would be about $1 billion lower than the first three months of 2013-14 (-3.4 per cent).

Figure 2-5

Composition of Direct Program Spending: First Three Months of Fiscal Year

$ Billions

	2014-15	2013-14	$ y/y	% y/y
Direct program spending	**20.3**	**20.6**	**-0.3**	**-1.6%**
Operating	12.0	11.9	0.1	0.9%
Capital	0.6	0.6	0.0	-1.3%
Other transfer payments	6.5	6.8	-0.3	-4.1%
Payments to Crown Corps.	1.3	1.4	-0.1	-10.3%

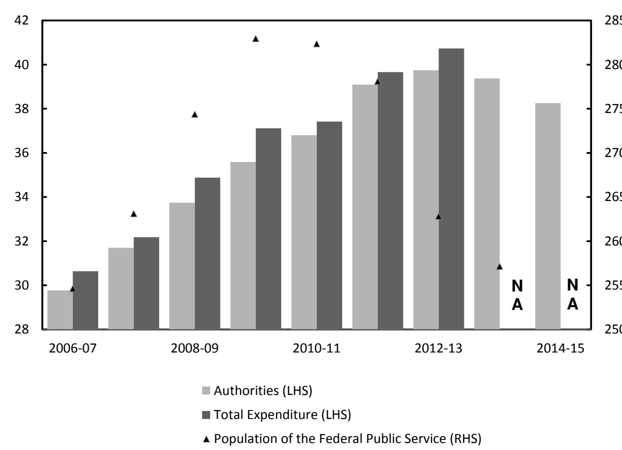
Sources: Office of the Parliamentary Budget Officer; Government of Canada.
Note: Figures may not add due to rounding.

Operating spending is the largest component of DPS and is primarily comprised of public sector salaries. Spending growth on salaries has been weighed down by public service layoffs (Figure 2-6). Through the first three months of 2014-15, spending on personnel has fallen 1 per cent to $7.9 billion compared to the same period the previous year.[2] Departments' and agencies' medium term planning documents suggest a further 8,900 position eliminations are planned over the next three years.

Figure 2-6

Over 25,000 positions cut since 2010

$ Billions — Thousands of Positions



Sources: Office of the Parliamentary Budget Officer; Government of Canada.

[2] Data collated from departments' quarterly financial reports.

As noted in previous PBO reports, eliminating personnel provides the greatest certainty of realizing the savings over the short term. However, over the long term, sustainable spending reduction will require either eliminating or reducing programs and services or restructuring government operations to provide permanent productivity improvements.

The Government has refused to release data that is necessary for the PBO to determine whether the recent spending cuts are sustainable.

3 Spending Trends By Policy Area

The Government's Whole of Government framework classifies all federal spending in four thematic areas (Figure 3-1):

- Economic Affairs
- Social Affairs
- International Affairs
- Government Affairs

Each of the four areas of spending are linked to 15 discrete "outcome areas", which identify the primary objective of the spending.[3]

National Defence's program structure underwent a major realignment in 2014-15, so spending for this organization is presented separately to ensure comparability between fiscal years.

In the first three months of the current fiscal year (that is, from April to June), changes in actual spending across the Government's policy spectrum was broadly consistent with the Government's spending plans.

Consistent with the Government's estimates plan, spending on **economic affairs** is relatively unchanged as compared to the previous year.

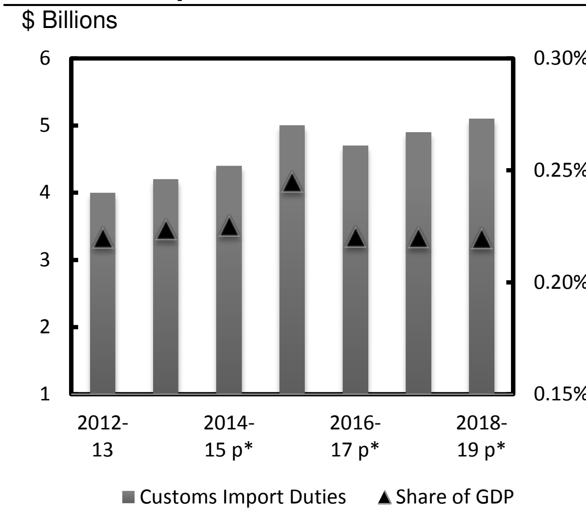
A decline in spending on "a clean and healthy environment" is offset by a large increase in spending on "a fair and secure marketplace".

One of the programs contributing to the increase in net spending on "a fair and secure marketplace" is the Canada Border Service Agency's Revenue and Trade Management program, which reported a $12 million decrease in revenues (-22 per cent). This program is principally responsible for ensuring that duties and taxes owed to the Government of Canada are collected in compliance with Canadian trade and imports reporting requirements.[4]

Revenues from Customs Import Duties generally grow in line with overall Canadian imports. However, as noted in Budget 2014, projected growth will be dampened over the medium term owing to the introduction of the Canada-European Union Comprehensive Economic and Trade Agreement (Figure 3-2).

Figure 3-2

Customs Import Duties



Sources: Office of the Parliamentary Budget Officer; Government of Canada.

[3] http://www.tbs-sct.gc.ca/ppg-cpr/descript-eng.aspx#bm04. Accessed September 2014.

[4] Industry Canada's 2014-15 Report on Plans and Priorities. Accessed September 2014.

Figure 3-1

Targeted Reductions to International Affairs on Track

Spending Area	*$ millions* Q1 Spend	*percentage change* Q1 spend y/y	Authorities
Economic Affairs	**$ 38,600**	**1%**	**1%**
Strong Economic Growth	$ 25,210	1%	0%
Income security and employment for Canadians	$ 11,890	1%	3%
An Innovative and Knowledge-based Economy	$ 1,150	1%	2%
A clean and healthy environment	$ 320	-6%	-8%
A Fair and Secure Marketplace	$ 40	23%	7%
Social Affairs	**$ 6,450**	**-1%**	**3%**
A diverse society that promotes linguistic duality and social inclusion	$ 2,460	10%	14%
A Safe and Secure Canada	$ 1,900	6%	9%
Healthy Canadians	$ 1,660	3%	5%
A Vibrant Canadian Culture and Heritage	$ 430	-42%	-38%
International Affairs	**$ 830**	**-22%**	**-5%**
Global poverty reduction through international sustainable development	$ 490	-31%	-2%
A Safe and Secure World Through International Engagement	$ 280	-4%	-8%
A prosperous Canada through global commerce	$ 50	-2%	-8%
Government Affairs	**$ 4,500**	**5%**	**7%**
Well-managed and efficient government operations	$ 4,040	2%	6%
A transparent, accountable and responsive federal government	$ 290	2%	-13%
Strong and independent democratic institutions	$ 170	-11%	-9%
Department of National Defence	**$ 3,440**	**-13%**	**4%**
Pay Adjustment (Note 1)	**$ 700**	-	-
Government of Canada	**$ 53,830**	**0%**	2%

Note 1: Reflects the one-time $700 million payment for transitioning the Government's pay system (Box 2-3).
Note 2: Spending classifications exclude the Employment Insurance Account, which the Government excludes from the "Whole of Government Framework". Finance Canada's *Transfer and Taxation Payment* program is assumed to be classified under **Economic Affairs**: Strong Economic Growth.

Like economic affairs, **social affairs** spending is also largely unchanged year-over-year. There is a large change in the composition of social affairs spending due to the government's re-categorization of the $1 billion appropriated to the Canadian Broadcasting Corporation (CBC). CBC spending is now considered as contributing to a "diverse society" rather than to "Canadian culture and heritage". Hence, decreases in spending on "culture and heritage" have generally offset increases to the other components of social spending: a "diverse society", "a safe and secure Canada" and "healthy Canadians".

Canada's spending on **international affairs** has declined by 21 per cent as compared to the first quarter of 2013-14, exceeding planned reductions of 5 per cent. The spending decline in this area is primarily driven by delayed grants and contributions associated with global poverty reduction. Performance in this thematic spending area has fallen short of the government average in the most recent three fiscal years (Figure 3-3).

Figure 3-3

Performance of global poverty reduction through international sustainable development

% of total targets

	2010-2011	2011-2012	2012-2013	Gov't Avg
Met	0%	0%	5%	41%
Not Met	0%	0%	15%	15%
N/A	100%	100%	80%	44%

Sources: Departmental Performance Reports 2010-11 to 2012-13.

Government affairs accounted for the largest spending increase out of the four thematic areas, growing 2 per cent as compared to 2013-14. This is largely consistent with the 7 per cent budgeted increase the Government received from Parliament.

Planned and actual spending increases are mainly attributable to "well managed and efficient government operations", a spending category that accounts for almost 90 per cent of spending. Activities include:

- the federal treasury;
- tax collection;
- public service recruitment and development;
- the provision of linguistic and procurement services; and,
- administrative tribunals

Among the largest programs in this category is the Canada Revenue Agency's (CRA's) *Reporting Compliance Program*, which undertakes examinations, audits, and investigations to identify and correct non-compliance.

Spending for this program rose 10 per cent to $206 million in the first quarter of 2014-15, compared to the previous fiscal year. This reflects, in part, a 4 per cent planned increase that was presented to Parliament in the Government's spending plan.

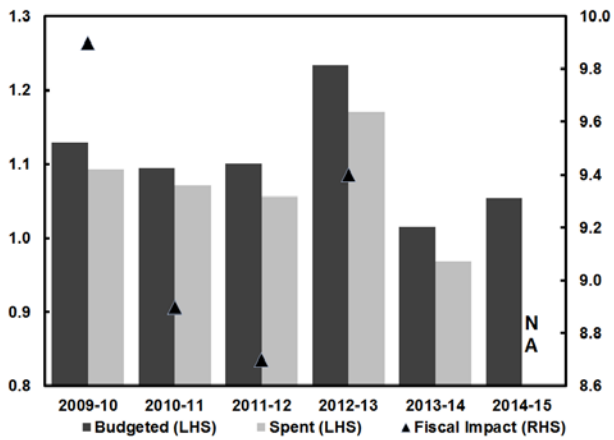
Over the past four Budgets, the Government introduced policy initiatives designed to "close tax loopholes" and strengthen tax compliance, which the Government expects to generate an additional $3.9 billion of federal revenues in the current fiscal year. Budget 2014 built on these initiatives by increasing the stringency of compliance measures and the Government projects these measures will generate a further $1.8 billion in federal revenues over the next five years.

CRA estimates that its compliance and enforcement efforts generated $9.4 billion in fiscal benefits in 2012-13 (Figure 3-4).

Figure 3-4

Reporting Compliance Program

$ Billions $ Billions



Sources: Office of the Parliamentary Budget Officer; Government of Canada.

Note: Figures for 2013-14 are based on unaudited data from the Receiver General's Central Financial Management Reporting System.

Annex A – Variation in Program Spending

PBO analysed spending data for the first three months of 2014-15 to identify the greatest variances in absolute dollars and per cent compared to the same period in 2013-14.

The most notable changes were observed in Citizenship and Immigration's *Citizenship for Newcomers and all Canadians* and Canada Revenue Agency's *Taxpayer and Business Assistance*. Detailed estimates and spending information are available on the PBO's Integrated Monitoring Database.

Citizenship for Newcomers and all Canadians

Citizenship and Immigration Canada administers citizenship legislation. This includes the development, implementation, and application, of legislation, regulations, and policies, allowing eligible applicants to receive citizenship. A key performance indicator for this program is the percentage of eligible applicants who take up Canadian citizenship.

The budget for this program has more than doubled to $109 million in 2014-15 compared to the previous fiscal year. Spending in the first three months of the year rose by $7 million (+61 per cent).

Taxpayer and Business Assistance

The Canada Revenue Agency administers Canada's self-assessment tax system. Through the *Taxpayer and Business Assistance* program, the CRA undertakes to provide taxpayers with accurate and timely information to help them comply with Canada's tax laws. The agency offers its expertise and guidance through various channels, such as the Internet and through telephone services.

In the first three months of 2014-15, expenditures on this program increased by $5 million, or 8 per cent compared with the same period last year.