



**REPORT ON THE
*SUPPLEMENTARY ESTIMATES (C), 2010–11***

**Standing Senate Committee on
National Finance**

TENTH REPORT

Chair
The Honourable Joseph A. Day

Deputy Chair
The Honourable Irving Gerstein

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TABLE OF CONTENTS

| | |
|---|----------|
| OVERVIEW OF THE <i>SUPPLEMENTARY ESTIMATES (C), 2010–11</i> | 2 |
| PLANNED SPENDING | 2 |
| EXAMINATION OF THE <i>SUPPLEMENTARY ESTIMATES (C), 2010–11</i> | 3 |
| 1. <i>Public Works and Government Services Canada</i> | 4 |
| 2. <i>Atomic Energy of Canada Limited</i> | 4 |
| 3. <i>Veterans Affairs Canada</i> | 5 |
| 4. <i>Canada Border Services Agency</i> | 6 |
| 5. <i>Office of Infrastructure Canada</i> | 8 |
| 6. <i>Human Resources and Skills Development Canada</i> | 9 |

REPORT ON THE *SUPPLEMENTARY ESTIMATES (C), 2010–11*

The *Supplementary Estimates (C), 2010–11* were tabled in Parliament on 8 February 2011 and were referred to the Standing Senate Committee on National Finance. The *Supplementary Estimates (C), 2010–11* are the third Supplementary Estimates to be tabled in the fiscal year ending on 31 March 2011. Once the committee's report on these Supplementary Estimates has been presented and approved by the Senate, the Senate may then proceed with a supply bill, initiated in the House of Commons, authorizing the associated appropriations.

The committee held three meetings to review these Supplementary Estimates. On 15 February 2011, officials from the Treasury Board of Canada Secretariat appeared, namely David Enns, Deputy Assistant Secretary, Expenditure Management Sector, Sally Thornton, Executive Director, Expenditure Operations and Estimates Division and Marcia Santiago, Senior Director, Expenditure Management Sector, Expenditure Operations and Estimates Division.

On 16 February 2011, the committee met with officials from the Canada Border Services Agency, notably Sylvain St-Laurent, Vice-President, Comptrollership Branch and Peter Hill, Director General, Post-Border Programs, and with officials from the Office of Infrastructure Canada, specifically John Forster, Associate Deputy Minister, Taki Sarantakis, Assistant Deputy Minister, Policy and Communications Branch, David Miller, Assistant Deputy Minister, Corporate Services and Nathan Gorall, Director General, Programs Operations Branch.

Finally, on 1 March 2011, officials from Veterans Affairs Canada and from Human Resources and Skills Development Canada appeared before the committee to discuss their department's appropriations requests in the *Supplementary Estimates (C), 2010–11* as well as, in the latter case, statutory expenditures. Veterans Affairs Canada was represented by Keith Hillier, Assistant Deputy Minister, Service Delivery and by André Joannette, Director General, Finance, while Alfred Tsang, Chief Financial Officer, Jacques Paquette, Senior Assistant Deputy Minister, Income Security and Social Development Branch, Kathryn McDade, Assistant Deputy Minister, Learning Branch and Martin Green, Director General, Workplace Partnerships appeared on behalf of Human Resources and Skills Development Canada.

Overview of the *Supplementary Estimates (C), 2010–11*

Planned Spending

In the Estimates documents, planned spending appears as budgetary and non-budgetary expenditures, and as voted and statutory appropriations.¹ As shown in Table 1, the *Supplementary Estimates (C), 2010–11* have net budgetary expenditures of \$701.6 million, comprised of \$919.7 million in voted appropriations and an expected reduction of \$218.1 million in statutory appropriations. Non-budgetary statutory appropriations are expected to be about \$1.1 billion; there are no non-budgetary voted appropriations in the *Supplementary Estimates (C), 2010–11*. With voted appropriations of \$919.7 million and statutory appropriations of \$886.3 million, total budgetary and non-budgetary expenditures in the *Supplementary Estimates (C), 2010–11* are \$1.8 billion.

Table 1 – *Supplementary Estimates (C), 2010–11*
(\$ millions)

| | Budgetary | Non-Budgetary | Total |
|--------------------------|------------------|----------------------|----------------|
| Voted Appropriations | 919.7 | – | 919.7 |
| Statutory Appropriations | (218.1) | 1,104.4 | 886.3 |
| Total | 701.6 | 1,104.4 | 1,806.0 |

Source: *Supplementary Estimates (C), 2010–11*, p. 8.

Total budgetary Estimates to date for the 2010-2011 fiscal year are \$267.3 billion, including \$261.6 billion in the *Main Estimates 2010–11*, \$1.9 billion in the *Supplementary Estimates (A), 2010–11*, \$3.1 billion in the *Supplementary Estimates (B), 2010–11* and \$0.7 billion in the

¹ **Budgetary expenditures** include the cost of servicing the federal public debt, operating and capital expenditures, payments to federal Crown corporations, and transfer payments and subsidies to other levels of government, organizations or individuals. **Non-budgetary expenditures** (loans, investments and advances) are outlays that represent changes in the composition of the federal government's financial assets. **Voted** appropriations are those for which parliamentary authority is sought through an appropriations bill. **Statutory** appropriations are those authorized by Parliament through enabling legislation; they are included in the Estimates documents for information purposes only.

Supplementary Estimates (C), 2010–11 in addition to total adjustments of \$10.5 billion. After adjustments, total budgetary Estimates for 2010–2011 are \$277.8 billion. These Estimates are identical to the total expenditures of \$277.8 billion indicated in the federal government’s October 2010 *Update of Economic and Fiscal Projections*² and are consistent with the total expenditures of \$280.5 billion in the 2010 federal budget.³

Examination of the *Supplementary Estimates (C), 2010–11*

During their examination of the *Supplementary Estimates (C), 2010–11*, Senators evaluated the federal government’s requested voted appropriations and explored the reasons for changes to statutory appropriation levels for selected federal departments, agencies and Crown corporations. Six items accounted for 90% of the requested voted appropriations in the *Supplementary Estimates (C), 2010–11*:

- acquisition of Nortel Carling Campus by Public Works and Government Services Canada on behalf of the Department of National Defence;
- Atomic Energy of Canada Limited’s continued operations;
- Veteran Affairs Canada’s Disability Awards and Allowances Program;
- the write-off of Canada Student Loans Program debt by Human Resources and Skills Development Canada;
- introduction of the Pay Direct Card for members of the Public Service Health Care Plan by the Treasury Board of Canada Secretariat (hereafter, the Secretariat); and
- administration of the Harmonized Sales Tax in Ontario and British Columbia as well as the Affordable Living Tax Credit in Nova Scotia by the Canada Revenue Agency, Statistics Canada and the Canada Border Services Agency.

² Department of Finance, *Update of Economic and Fiscal Projections*, October 2010, p. 30, <http://www.fin.gc.ca/ec2010/pdf/efp-pef-eng.pdf>.

³ Department of Finance, *Budget 2010*, 4 March 2010, p. 175, <http://www.budget.gc.ca/2010/pdf/budget-planbudgetaire-eng.pdf>.

1. Public Works and Government Services Canada

In the *Supplementary Estimates (C), 2010–11*, Public Works and Government Services Canada (PWGSC) requested gross voted appropriations of about \$261.4 million. The majority of that amount is attributable to a single request of \$216.8 million for the purchase of the Nortel Carling Campus for the Department of National Defence. Currently, the Department of National Defence has 17,000 employees in 48 buildings across the National Capital Region. Over the next five to seven years, the Department of National Defence will locate as much as one-half of its staff in the Nortel Carling Campus. According to Treasury Board Secretariat officials, the Nortel Carling Campus has the lowest cost per square metre of any property recently acquired by the federal government in the National Capital Region. It cost \$208 million to acquire the campus.

Senators had questions about the total cost of the acquisition, including changes to meet PWGSC standards, installation of required security features, renovations and the move to the Nortel Carling Campus. Treasury Board Secretariat officials estimated that the total cost would be \$998 million over the next several years and projected that the move to the Nortel Carling Campus would be completed in the 2016-2017 fiscal year. These costs do not consider the savings associated with the consolidation and retirement of some of the Department of National Defence's locations in the National Capital Region. Some Senators asked for the government policy regarding the acquisition of office space and the analysis for the acquisition of this facility, since a new building is estimated at \$800 million and the total cost for this facility is estimated at \$998 million.

2. Atomic Energy of Canada Limited

In the *Supplementary Estimates (C), 2010–11*, Atomic Energy of Canada Limited (AECL) requested voted appropriations of \$175.4 million. These requested appropriations for AECL are not unlike the requests for \$300.0 million in the *Supplementary Estimates (A), 2010–11* and for \$294.0 million in the *Supplementary Estimates (B), 2010–11*.

In response to questions from senators about how the funds would be spent, Treasury Board Secretariat officials told the committee that the \$175.4 million would be allocated in the following manner: \$97 million for life extension projects, most notably Point Lepreau; \$21.4 million for operational expenses; \$18 million for the development of new reactor technology; \$16 million for

isotope production; \$16 million for health, safety and security upgrades at Chalk River; and \$7 million for the safe shutdown of dedicated isotope facilities. Because of continued budget shortfalls at AECL, Natural Resources Canada has been actively monitoring AECL's financial difficulties.

3. Veterans Affairs Canada

In the *Supplementary Estimates (C), 2010–11*, Veterans Affairs Canada requested gross voted appropriations totalling approximately \$192.1 million, including about \$155.6 million to address the current demand and backlog of applicants for the Disability Awards and Allowances Program, which deals with the non-economic impacts of a service-related disability.

According to Treasury Board Secretariat officials, part of the funding for the Disability Awards and Allowances Program would be directed towards administrative costs to address the backlog of applicants. Moreover, Veterans Affairs Canada officials attributed the \$155.6 million appropriations request to three principal factors: greater take-up by veterans, applications by veterans for a second award, and reassessment of previous awards where the amount of the award is increased. Senators asked questions about the service standards associated with the Disability Awards and Allowances Program. According to officials from Veterans Affairs Canada, the program initially had a service standard of 24 weeks, which the department deemed to be unsatisfactory. Consequently, the Minister of Veterans Affairs announced a new standard of 16 weeks to begin on 1 April 2001. As of 31 January 2011, approximately 68 per cent of the cases met that 16-week standard. Some senators expressed concerns about the waiting time for the program as well as about the proportion of cases that were resolved within that time frame.

Veterans Affairs Canada's requested appropriations in the *Supplementary Estimates (C), 2010–11* also included about \$11.3 million for ex gratia payments to individuals affected by Agent Orange testing at CFB Gagetown in 1966 and 1967. Veterans Affairs Canada officials told the committee that two changes were recently made to the eligibility criteria for these payments. First, qualifying applicants did not have to be alive when the Agent Orange ex gratia payments initiative was announced on 6 February 2006, with the result that widows can now apply for the payment. Second, the deadline for a medical diagnosis for applicants has been extended until 30 June 2011.

Moreover, Veterans Affairs Canada's requested appropriations in the *Supplementary Estimates (C), 2010–11* included \$9.2 million for vocational and medical rehabilitation associated with the 2006 New Veterans Charter, and about \$1.6 million for the Legacy of Care initiative, an amount that would finance additional case managers to assist with the delivery of services to seriously injured military personnel and their families.

Some senators had concerns about the Veterans Independence Program and the fairness of the qualifying criteria by which veterans and their widows could receive benefits from this program. In response to the concerns, officials from Veterans Affairs Canada informed the committee about the criteria that widows of veterans are required to meet in order to be eligible for the Veterans Independence Program; these criteria include having a low income or being disabled.

Lastly, following questions from some senators, Veterans Affairs Canada officials indicated that militia members that have served in a theatre, such as Afghanistan, are eligible for the same benefits as regular force members.

4. Canada Border Services Agency

In the *Supplementary Estimates (C), 2010–11*, the Canada Border Services Agency (CBSA) requested gross voted appropriations of approximately \$31.4 million, the majority of which is attributable to a request for incremental funding related to the mass arrival of nearly 500 migrants in the MV Sun Sea in August 2010.

In the *Supplementary Estimates (C), 2010–11*, the CBSA requested three appropriations in relation to the MV Sun Sea migrant arrival. According to Secretariat officials, the largest of these requests – for about \$22 million – should cover the pre-arrival, arrival and post-arrival costs related to those migrants, including detention, legal and health services. Of that amount, \$16 million has been spent to date on the MV Sun Sea migrants, of which \$9 million has been spent on their detention. CBSA officials informed the committee that the daily detention cost of these migrants is \$190 per person, a figure that is comparable to that in other jurisdictions, such as Australia. At present, most of the migrants have been released from detention, having posted a surety bond and having agreed to report weekly or bi-weekly to the CBSA. Migrants whose identity cannot be established or who are deemed to be a safety or flight risk remain in detention. This requested

appropriation would cover the emergency funds issued to CBSA from the Treasury Board Management Reserve for the detention of the migrants.

Senators questioned why the costs associated with the MV Sun Sea migrants were covered by the Treasury Board Management Reserve rather than by the customary method: access to Treasury Board Vote 5 for government contingencies. CBSA officials noted that Treasury Board Vote 5 is used “for certain types of expenses such as severance pay or maternity leave,” rather than for emergency situations. They also noted that access to the Treasury Board Management Reserve required CBSA to prepare a Treasury Board submission.

The CBSA’s second requested appropriation in the *Supplementary Estimates (C), 2010–11*, which is related to the first, is for \$2.8 million to pay for the detention services provided until the end of the fiscal year by the Province of British Columbia for the approximately 100 MV Sun Sea migrants who remain in detention. Once authorized, those funds will remain frozen until Royal Assent is granted to Bill C-49, An Act to amend the Immigration and Refugee Protection Act, the Balanced Refugee Reform Act and the Marine Transportation Security Act. Some senators were critical of the process in relation to this appropriations request, because the CBSA was seeking approval for appropriations requests prior to the passage of legislation that would enable the spending associated with those requests. Generally, a federal agency or department will make appropriations requests after enabling legislation has received Royal Assent.

The CBSA’s third requested appropriation in the *Supplementary Estimates (C), 2010–11*, which is related to the first and second requests, is for \$1.5 million to conduct an investigation of international human smuggling networks to prevent more mass migrant arrivals in Canada. With these funds, hiring would occur in Thailand and Sri Lanka. Additionally, CBSA, Royal Canadian Mounted Police and Canadian Security Intelligence Service personnel, among others, would work to limit the likelihood of further mass arrivals.

Lastly, the CBSA requested an appropriation in the *Supplementary Estimates (C), 2010–11* for about \$4.7 million to make financial system changes in relation to the collection, and remittance to British Columbia and Ontario, of the revenue from provincial sales taxes as well as provincial

tobacco and alcohol excise taxes, among other fees associated with the implementation of the Harmonized Sales Tax.

5. Office of Infrastructure Canada

In the *Supplementary Estimates (C), 2010–11*, the Office of Infrastructure Canada did not request any voted appropriations. However, it saw its statutory appropriations reduced by about \$132.8 million due to re-profiled spending and changes to the cash flow requirements of the Provincial-Territorial Infrastructure Base Funding Program and the Green Infrastructure Fund to match the timing of project construction.

Senators had questions about the extension of the deadline for infrastructure projects eligible for stimulus-related funding from the original deadline of 31 March 2011 indicated in the Economic Action Plan to the current deadline of 31 October 2011. Officials from the Office of Infrastructure Canada explained to the committee that while most of the 6,300 stimulus-related infrastructure projects were expected to be completed by the original deadline, other projects would be unlikely to meet that deadline. In light of these difficulties, the federal government extended the deadline.

Senators questioned Office of Infrastructure Canada officials about the criteria applied in determining which infrastructure projects would be eligible for the deadline extension. They informed the committee that, in order to receive an extension, provinces were required to complete a submission by 31 January 2011 in which they indicated the amount that they expected would be spent in the current fiscal year and in the 2011-2012 fiscal year. Furthermore, they had to make a commitment to complete the project and to accept costs incurred beyond the 31 October 2011 deadline. For pre-approved projects to be eligible for the deadline extension, construction on the infrastructure project must have begun by, and the Office of Infrastructure Canada must have received claims for costs incurred prior to, 31 March 2011. The committee was informed that the share of expenses financed by the federal government is one-third for municipal projects and one-half for provincial highways. As well, Office of Infrastructure Canada officials noted that any cost overruns would not be borne by the federal government.

Senators also had questions about the relatively low proportion of stimulus-related infrastructure projects that received environmental assessments. Officials from the Office of Infrastructure Canada

indicated that the Office focused its efforts on exempting infrastructure projects from environmental assessments where limited environmental impact could be shown to exist, such as the repaving of Steeles Avenue in Toronto. Moreover, an identifiably limited environmental impact was among the screening criteria used by the Office of Infrastructure Canada in its approval of projects. Officials also told the committee that the Office of Infrastructure Canada attempted to avoid duplicating the efforts of municipal and provincial/territorial governments, focusing instead on particular criteria, such as an assessment of the project's costs and benefits, in determining qualifying projects.

Senators questioned why Treasury Board Vote 5 for government contingencies was used to allocate \$5 million to the Office of Infrastructure Canada's operating expenditures. Treasury Board Secretariat officials indicated that the Office of Infrastructure Canada, which was created in 2002, has never had A-base operating funding because of its size and age relative to other federal agencies and departments. Typically, the Office of Infrastructure Canada is underfunded, and it generally receives its operating funds from the amounts allocated to the programs that it administers. Officials also noted that the Office of Infrastructure Canada's operating expenditures are \$66 million in the 2010-2011 fiscal year. Given the size of the Office of Infrastructure Canada's total expenditures, this operating budget was perceived by Secretariat officials to be reasonable.

6. Human Resources and Skills Development Canada

In the *Supplementary Estimates (C), 2010–11*, Human Resources and Skills Development Canada (HRSDC) requested gross voted appropriations of approximately \$166.3 million. The largest of these appropriations is in the amount of \$149.6 million, to allow HRSDC to write off unrecoverable debts from the Canada Student Loans Program.

Secretariat officials described the conditions under which student loans would be written off by HRSDC. They noted that HRSDC would make every effort to collect outstanding student loans, including through flexible repayments, renegotiations, payment extensions and perhaps legal proceedings against the student debtor. According to HRSDC officials and subject to the *Canada Student Financial Assistance Act*, six years after the loan was last acknowledged by the student debtor, the federal government loses its legal authority to pursue the debtor; at that point, the debt is written off. They also indicated that, at present, about 13 per cent of the value of HRSDC's student loan portfolio is not recovered. Most of these unrecovered student loans – about 11 per cent of the

total student loan portfolio – are being written off. Another 1.6 per cent of the value of HRSDC's student loan portfolio is forgiven for borrowers on repayment assistance for an extended period of time. Lastly, about 0.1 per cent of the value of the student loan portfolio is retired following the death or permanent disability of the borrower.

In responding to questions from senators about the circumstances that most often result in student loans being written off, HRSDC officials stated that the majority of loan write-offs occur because the borrower has insufficient income and/or irregular employment. According to HRSDC officials, the proportion of the federal government's student loan portfolio that is not recovered has declined since the 1990s, when the proportion exceeded 20 per cent. The write-off that would occur in relation to the *Supplementary Estimates (C), 2010–11* is budgetary in nature and requires a parliamentary appropriation since it imposes a fiscal cost on the federal government, whose assets would decrease in value.

In the current fiscal year, the total loan portfolio issued under the Canada Student Financial Assistance Act is forecasted to be \$311.2 million higher than earlier estimates, raising the forecasted level of loans disbursed from \$2 billion to \$2.3 billion. In contrast to student loan write-offs, newly issued student loans are non-budgetary expenditures because the loan is generally repaid to the federal government. As of December 2010, HRSDC student loans outstanding were about \$13.5 billion, an amount below the current legislated limit of \$15 billion. The Chief Actuary of Canada has forecasted that total student loans outstanding under the Act will reach the \$15 billion limit by the 2014-2015 fiscal year. Senators had questions about the level of Canada Student Loans Program debt per student, in response to which HRSDC officials told the committee that, for students who have borrowed from the Canada Student Loans Program, the average level of debt owed to the program upon graduation exceeded \$13,000 in the 2009-2010 fiscal year.

Senators also had questions about the sudden increase in forecasted statutory expenditures for the Canada Disability Savings Grant and the Canada Disability Savings Bond associated with registered disability savings plans, which were introduced in *The Budget Plan 2007*.⁴ The Canada Disability

⁴ Department of Finance, *The Budget Plan 2007*, p. 83, <http://www.budget.gc.ca/2007/pdf/bp2007e.pdf>.

Savings Grant and the Canada Disability Savings Bond were forecasted, in the *Supplementary Estimates (B), 2010–11*, to have a federal fiscal cost of about \$10.2 million and \$5.7 million respectively in the 2010-2011 fiscal year. In the *Supplementary Estimates (C), 2010–11*, the Canada Disability Savings Grant is forecasted to have a cost of \$77.6 million in the 2010-2011 fiscal year, while the Canada Disability Savings Bond is expected to have a cost of \$38.5 million. Officials from HRSDC told the committee that the department was surprised and pleased by higher-than-forecasted take-up rates for these measures, noting that HRSDC had reached its three-year take-up rate target in the first year following introduction of the measures. Secretariat officials also noted that the Canada Disability Savings Grant is structured such that the federal government may make matching contributions of as much as 300 per cent, depending on the size of the contribution to the registered disability savings plan as well as the beneficiary's family income.

Similarly, senators asked questions about the forecasted rise in statutory spending related to the Canada Education Savings Program of about \$60 million, an increase of approximately 10 per cent. Officials from HRSDC attributed this forecasted increase to the recovery from the recent recession.

Lastly, senators were concerned about the forecasted decrease in statutory expenditures of \$356 million related to Old Age Security payments and of \$211 million related to Guaranteed Income Supplement benefits. According to HRSDC officials, when compared with the previous fiscal year, total Old Age Security and Guaranteed Income Supplement payments and the number of beneficiaries have increased, consistent with Canada's aging population. It is the forecasted level of Old Age Security and Guaranteed Income Supplement benefits that has decreased relative to earlier predictions, which overestimated the increase in Old Age Security and Guaranteed Income Supplement benefits. Secretariat officials assured the committee that these forecasted reductions are not the result of changes to payment rates or program criteria.