



Supplementary Estimates (C) 2013-14

Ottawa, Canada
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www.pbo-dpb.gc.ca

Key Points of this Note:

- Supplementary Estimates (C) 2013-14 seek approval of a further \$0.4 billion budgetary authority for the last seven weeks of the fiscal year, which ends on March 31, 2014. These proposed increases are more than offset by revisions to other budgetary estimates, resulting in a marginal net decrease in planned spending for the remainder of 2013-14.
 - Total planned budgetary authorities stand at \$259.9 billion for the current fiscal year, a marginal increase of 0.3 per cent over the previous fiscal year.
- Over three quarters of the new budgetary authorities increase pertain to new program expenditures (e.g. office space fit-up costs for public servants). This is offset by downward revisions to programs with ongoing statutory authority, such as estimated payments related to the Softwood Lumber Agreement and servicing the National Debt.
- The proposed cut to planned spending reflects ongoing austerity initiatives as well as delays in implementing key Government priorities. Over \$37 million planned to clean up Contaminated Sites, \$33 million to build schools for First Nations and \$32 million to maintain the seaworthiness of Coast Guard ships will be pushed to future years - rather than invested in the current fiscal year - as originally planned and approved by Parliament.
 - Parliamentarians may wish to clarify why the Government was unable to fulfill its spending commitments in the current year and seek guidance regarding when these investments will be made.

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1. Purpose

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

- i. Proposed changes to programs that are material to adjustments in the federal budget balance; and,
- ii. Proposed changes to programs that represent significant growth compared to the status quo.

PBO's Estimates analysis focuses on authorities delineated by program. While Parliament will continue to only appropriate on inputs (e.g. operating or capital expenditures), parliamentarians have been clear that a program lens provides greater insight.

2. Supplementary Estimates (C)

Supplementary Estimates (C) proposes to add approximately \$358 million of budgetary authorities to the Government's spending plan. This is more than offset by decreases in forecasted budgetary statutory expenditures (\$374 million), resulting in a marginal decrease in planned budgetary authorities relative to Supplementary Estimates (B) (Figure 2-1).

Overall, the adjustment would bring total budgetary authorities for 2013-14 to approximately \$259.9 billion, up 0.3 per cent over the previous year.

The marginal overall growth in total budgetary authorities is consistent with the related figures set out in Budget 2014, which projected federal spending to slowly increase as a result of federal austerity initiatives.

Figure 2-1

Supplementary Estimates (C): Budgetary Authorities

\$ Millions

| | |
|-------------------|-------------|
| Voted | 358 |
| Statutory | -374 |
| Net Change | -16 |

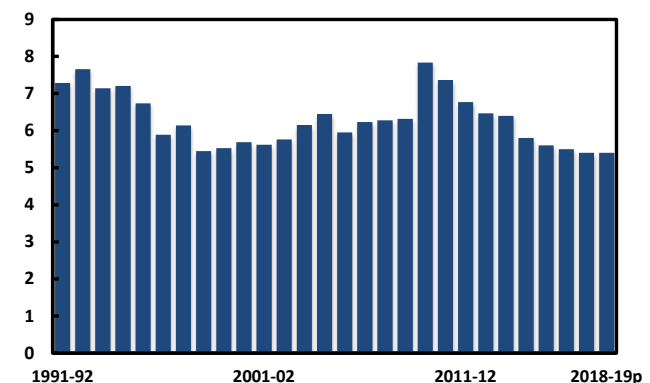
Source: Supplementary Estimates (C) 2013-14.

Reflecting the Government's targeted austerity toward Direct Program Expenses (DPE), the source of funds for the majority of proposed new budgetary authorities are the shifting of funding and deferral of spending on other Government DPE. DPE as a share of the economy is projected to fall to a generational low by 2017-18 (Figure 2-2).

Figure 2-2

Direct Program Expenses

% of the Canadian Economy



Source: Fiscal Reference Tables; Budget 2014.

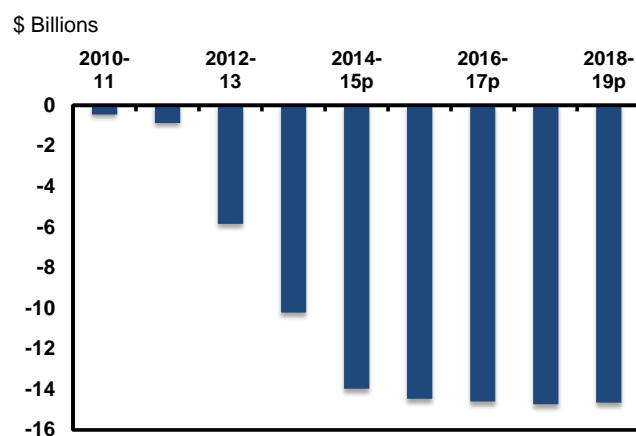
Notes: Figures from 2013-14 onward are projections.

¹ <http://laws-lois.justice.gc.ca/eng/acts/P-1/FullText.html?term=79.2>. Accessed February 2014.

Budget 2014 also expects to fund a number of initiatives by reallocating funds from other programs (\$300 million over two years) and deferring National Defence spending (\$3.1 billion over five years), but does not specify the programs that are subject to funding reduction or which acquisitions will be pushed to the medium-term.²

The Government's plan to reduce the size of the federal public sector in the economy has been implemented via five rounds of successive restraint, starting with Budget 2010. As depicted in Figure 2-3, the cumulative effect of spending restraint since 2009-10 will reduce planned DPE by \$10.2 billion in the current year (2013-14), rising to almost \$14.0 billion in the coming fiscal year (*i.e.* a further \$3.8 billion cut).

Figure 2-3
Cumulative Impact of Spending Restraint



Source: Budget 2014.

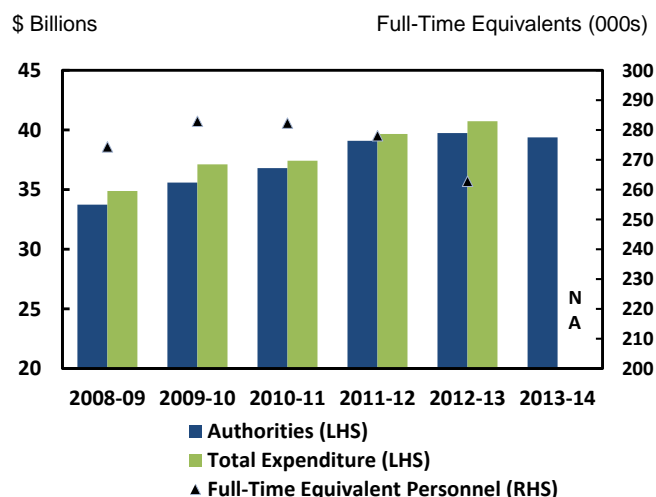
Note: Data from 2013-14 onward are projections.

While these Supplementary Estimates propose increases to two areas targeted by restraint: *Personnel* costs and *Professional Services* spending, overall spending in these categories is estimated to decrease compared to the prior year.

² <http://www.budget.gc.ca>. Accessed February 2014.

In 2013-14, spending on *Personnel* is estimated to decline by 0.9 per cent compared to 2012-13 (Figure 2-4). The decline in authorities has not kept pace with the 5.5 per cent decline in personnel employed in 2012-13 (*i.e.* over 15,000 positions eliminated; the Government has not yet released data for the current year).³ This is attributed to severance benefits for terminated staff as well as the elimination of voluntary separation benefits. With respect to the latter, an estimated 93 per cent of federal employees have opted to receive a one-time payment for accrued voluntary separation benefits, leading to a short-term increase in federal personnel costs in 2012-13 and 2013-14.⁴

Figure 2-4
Personnel Spending



Sources: Public Accounts of Canada; Main and Supplementary Estimates.

In 2013-14, planned spending on *Professional and Special Services* has decreased by 3.5 per cent to \$10.2 billion (Figure 2-5). Estimates for this spending category have declined to the lowest share of federal spending since 2010-11

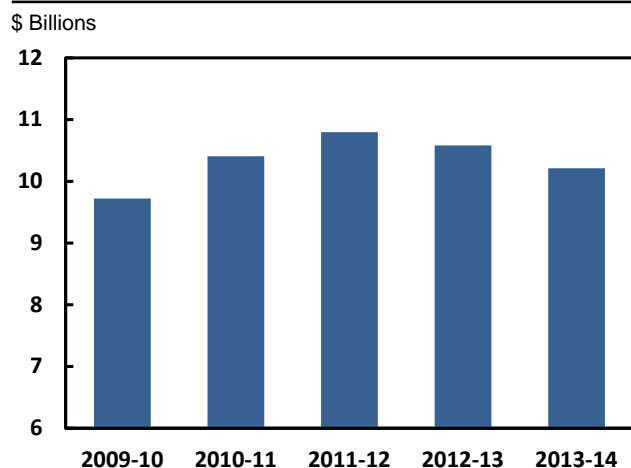
³ <http://www.tbs-sct.gc.ca/res/stats/ssen-ane-eng.asp>. Accessed February 2014.

⁴ <https://www.tbs-sct.gc.ca/lrco-rtor/collective/lru-mnc/index-eng.asp>. Accessed February 2014.

(Annex A, posted on the research tab of the PBO website).

Figure 2-5

Spending on Professional Services



Sources: Main and Supplementary Estimates.

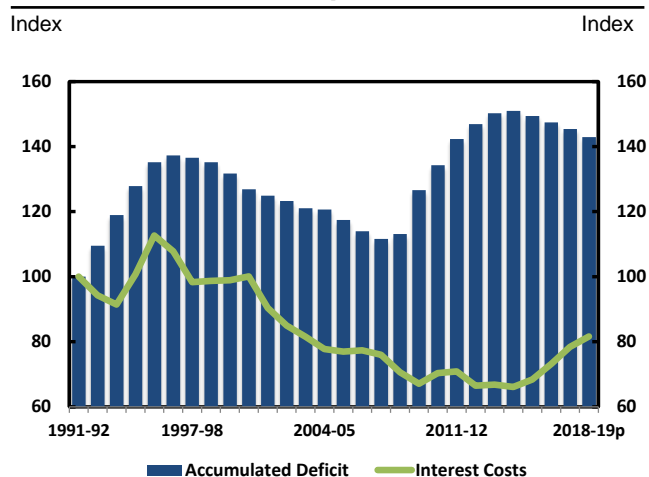
Beyond the Government's focused austerity program, these Supplementary Estimates also reflect the continued fiscal dividend from a low global interest rate environment. Estimated cash interest costs for the National Debt have been revised downward by \$241 million for the current year. As well, Budget 2014 further projects that total interest costs will fall further from an estimated total of \$29.3 billion to \$29.0 billion, even while the size of the National Debt continues to grow to a record peak (Figure 2-6).

3. Program Details

As noted earlier, PBO's analysis focuses on programs that have the largest proposed changes in budgetary authorities. In Supplementary Estimates (C), this includes programs managed by Shared Services Canada (SSC), the Canada Revenue Agency (CRA) and Fisheries and Oceans Canada (DFO).

Figure 2-6

Public Debt Interest Expenses



Source: Fiscal Reference Tables; Budget 2014.

Note: Both Accumulated Deficit and commensurate interest costs are indexed to base year of 1991-92. Data from 2013-14 onward are projections.

Shared Services Canada: IT Services

These estimates propose to increase the budgeted authorities of SSC's core business line by \$190 million, to \$1.4 billion (7.5 per cent; Figure 3-1). This is primarily related to an initiative to reduce the cost of spending on end-user devices.

Budget 2013 committed to consolidate the procurement of end-user devices to SSC, with an objective of reducing the Government's overall procurement costs by \$9 million per year, ongoing (or roughly 7 per cent; Box 3-2).⁵

The Government estimates it has 400,000 end-user devices, or roughly 1.5 devices per full-time equivalent (FTE), with a per-device expenditure of \$310 per annum. The savings initiative would reduce the per-device cost to \$290 per annum.⁶

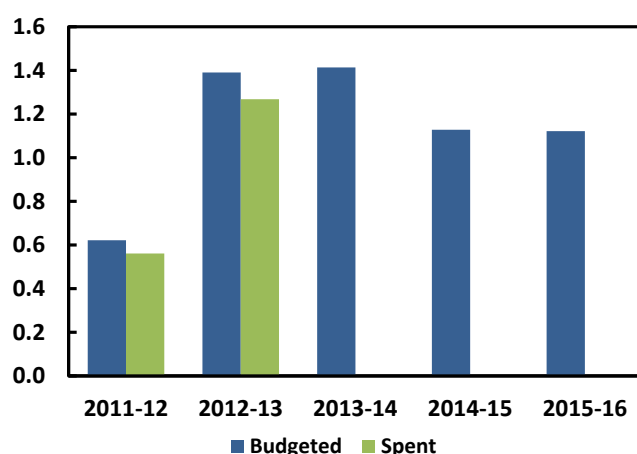
⁵ <http://www.fin.gc.ca>. Accessed February 2014.

⁶ Treasury Board Secretariat, PBO information request.

While total spending by SSC continues to grow, this reflects the ongoing transfer of resources from other federal departments and agencies. Notwithstanding the absence of a performance measurement framework or performance indicators on which to evaluate past or potential efficiency gains, the Government expects to generate ongoing savings from this consolidation of its IT spending.

Figure 3-1
SSC: IT Services

\$ Billions



Sources: Public Accounts of Canada 2011-12 to 2012-13, Supplementary Estimates (C) 2013-14. SSC Report on Plans and Priorities 2013-14, Government of Canada.

Box 3-2

Are the Planned Savings Reasonable?

A parliamentarian asked the PBO to assess the cost savings presented in Budget 2013. Data provided by the Government was insufficient to complete the work.

However, the PBO contacted other countries to determine their success with similar projects.

For its recent end-user device consolidation, the United Kingdom budgeted a savings yield of 1.5 to 4 per cent.⁷ The United States (US) Government Accountability Office (GAO) reported savings rates of between 5 and 20 per cent in various federal agencies, for a broader range of procurement areas. This suggests the budgeted savings may be achievable.⁸

End-User Device Consolidation: Comparators

| Item | Gov't of Canada | Canada - 3rd party | United Kingdom | United States |
|---------------------------------|-----------------|--------------------|----------------|---------------|
| Number of devices ('000s) | 400 | 400 | 900 | - |
| Full-time equivalents ('000s) | 270 | 270 | 600 | - |
| Devices per FTE (#) | 1.5 | 1.5 | 1.5 | - |
| Software cost per device (\$) | \$310 | \$280 | - | - |
| Baseline spending (\$ millions) | \$124 | \$111 | - | - |
| Savings target (%) | 7% | 5% | 1.5% to 4% | 5% to 20%* |
| Savings target (\$ millions) | \$8.7 | \$5.6 | | |

Sources: Budget 2013, Treasury Board Secretariat and PBO Calculations.

Note: All figures are projected unless indicated by an *

⁷ <http://ctpr.org/wp-content/uploads/2011/11/govt-ict-sip.pdf>. Accessed February 2014.

⁸ <http://www.gao.gov/products/GAO-12-919>. Accessed February 2014.

Canada Revenue Agency: Taxpayer Benefits

The Canada Revenue Agency's (CRA) Taxpayer Benefits program is subject to the largest downward revision in estimated spending due to a \$253 million reduction (90 per cent, to \$30 million) in statutory payouts for the Softwood Lumber Agreement (SLA) between Canada and the US.

The 2006 agreement provides that Canadian softwood lumber exporters in some provinces are required to pay export duties when lumber prices fall below US\$355 per thousand board feet in order to reduce Canadian lumber's price advantage in US markets. CRA administers the collection and disbursement of these duties on behalf of exporters.

During the current fiscal year, a recovery in the US housing market has pushed the export price of softwood lumber to an average of US\$383 per thousand board feet. For most of the year, Canadian exporters have not been required to remit duties and consequently the estimated payouts for this program have fallen (Figure 3-3).

The Chicago Mercantile Exchange (CME) futures prices for softwood lumber contracts are above the SLA threshold price for the coming fiscal year, suggesting payouts will remain low.

Fisheries and Oceans Canada: Sustainable Aquaculture

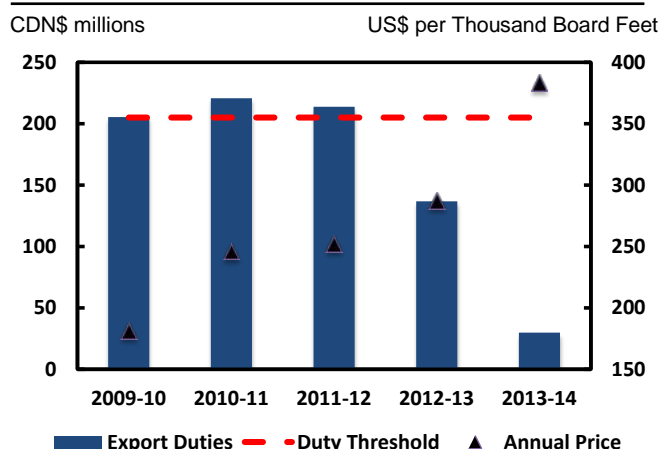
Fisheries and Oceans Canada's (DFO) Sustainable Aquaculture program provides a regulatory framework for Canada's aquaculture industry through scientific expertise and attempts to streamline regulation.⁹ The program is also responsible for the implementation of a federal licensing regime for British Columbia.¹⁰

⁹ Fisheries and Oceans Report on Plans and Priorities 2013-14. <http://www.dfo-mpo.gc.ca/rpp/2013-14/SO1/so-rs-1.3-eng.html>. Accessed February 2014.

¹⁰ Pacific Aquaculture Regulations. Canada Gazette Part II, Vol.144, No.25: SOR/2010-270.

Figure 3-3

Softwood Lumber Duties



Sources: Public Accounts of Canada 2010-11 to 2012-13, Supplementary Estimates (C) 2013-14, CRA Annual Report 2012-13.

Supplementary Estimates (C) 2013-14 proposes \$9.5 million to implement the renewed Sustainable Aquaculture program as announced in Budget 2013.¹¹ This represents a 48 per cent increase in authorities for Sustainable Aquaculture for the present year (Figure 3-4). Budget 2013 committed funding of \$57.5 million over five years in support of scientific research and environmental reporting in the aquaculture sector.

The DFO 2013-14 Report on Plans and Priorities (RPP) indicates planned spending on Sustainable Aquaculture between \$20.7 million and \$20.4 million per year through to 2015-16.¹² The funds outlined in the Renewed Sustainable Aquaculture Program appear to be already contained within the program's planned future spending.

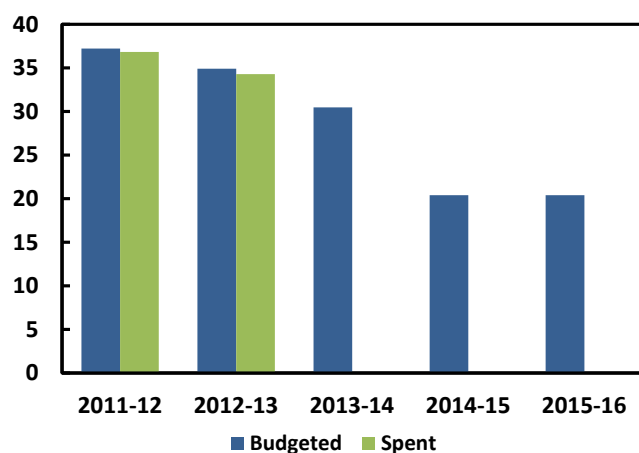
¹¹ Renewed Sustainable Aquaculture Program: <http://www.dfo-mpo.gc.ca/aquaculture/programs-programmes/sustainable-durable/renewed-renouvele-eng.html>. Accessed February 2014.

¹² Fisheries and Oceans Canada Report on Plans and Priorities 2013-14. <http://www.dfo-mpo.gc.ca/rpp/2013-14/SO1/so-rs-1.3-eng.html>. Accessed February 2014.

Figure 3-4

DFO: Sustainable Aquaculture

\$ Millions



Sources: Public Accounts of Canada 2011-12 to 2012-13, Supplementary Estimates (C) 2013-14, DFO Report on Plans and Priorities 2013-14, Government of Canada.