



Expenditure Monitor: 2013-14 Q3

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www.pbo-dpb.gc.ca

Key Points of this Note:

- Total expenditures in the first nine months of 2013-14 amounted to \$177.9 billion, an increase of \$3.8 billion year-over-year or 2.2 per cent compared with the same nine months of 2012-13. These aggregate results are consistent with the spending growth forecast in Budget 2014.
- Departments and agencies spent a larger proportion of their budgets in the first nine months of 2013-14 compared to any of the past six years. This suggests that the budgetary lapse for the current year could decline.
- Successive rounds of spending restraint are evident in declining personnel spending, which was 0.6 per cent lower in the first nine months of 2013-14 compared to the previous year.
 - Data from the 2014-15 Reports on Plans and Priorities suggest that over the next three years, the total population of the Federal Public Service is set to fall to levels last seen in 2006-07.

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1 Context

The Parliamentary Budget Officer's (PBO) legislative mandate is to "provide independent analysis to the Senate and to the House of Commons about the state of the nation's finances, the estimates of the government and trends in the national economy".¹

Consistent with this, the PBO performs ongoing analysis of variations to departments' and agencies' spending authorities that are outlined in the Estimates (that is the provision of spending authorities provided by Parliament), as well as in-year expenditures of these authorities.²

This monitoring framework allows the PBO to identify specific items of material interest to parliamentarians as they consider additional adjustments to authorities proposed by the Government, as well as assess implementation of the Government's budget.

2 Year-to-Date Highlights of 2013-14

Total expenditures in the first nine months of 2013-14 were \$177.9 billion, an increase of \$3.8 billion year-over-year (y/y). This represents a 2.2 per cent increase compared with the same nine months in 2012-13 (Figure 2-1).

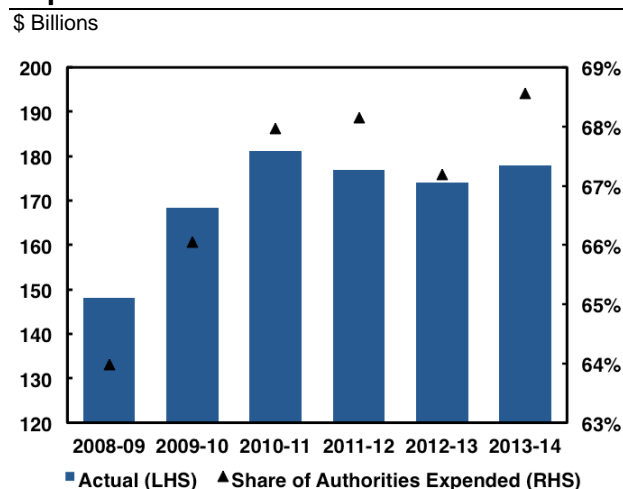
The share of total budgetary authorities expended rose to almost 69 per cent. In other words, approximately three quarters of the total budget was expended in the first three quarters of the year, suggesting that the ongoing spending restraint is resulting in greater tightness in department and agency budgets.

¹ <http://laws.justice.gc.ca/eng/PDF/P-1.PDF>. Accessed March 2014.

² An overview of the methodology used by the PBO is provided in the complementary briefing note, "Expenditure Monitor: Methodology". http://www.pbo-dpb.gc.ca/files/files/Publications/Expenditure_Monitor_Guide.pdf. Accessed March 2014.

Figure 2-1

Total Spending Levels Point to Lower Lapse



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

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

While the first two categories drove much of the spending increase through the first nine months of 2013-14, these items are statutory in nature and are primarily driven by variation in economic variables (e.g. inflation).

Figure 2-2

Composition of Total Federal Expenditure: First Nine Months of Fiscal Year

\$ Billions

	2013-14	2012-13	\$ y/y	% y/y
Total	177.9	174.0	3.8	2.2%
Direct program spending	66.1	64.2	1.9	3.0%
Transfers to persons	46.7	45.6	1.1	2.5%
Other levels of government	45.5	44.3	1.2	2.8%
Debt charges	19.5	19.9	-0.4	-2.0%

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

Note: Figures may not add due to rounding.

As such, PBO analysis focuses on direct program spending; a discretionary category of spending that has been the target of the government's recent spending restraint initiatives.

Direct Program Expenditures

Direct Program Expenditures (DPE) are 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.

Figure 2-3

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

\$ Billions	2013-14	2012-13	\$ y/y	% y/y
Direct program spending	66.1	64.2	1.9	3.0%
Operating	37.6	36.7	0.8	2.3%
Capital	3.2	3.1	0.0	0.7%
Other transfer payments	21.0	19.8	1.2	6.1%
Payments to Crown Corps.	4.4	4.5	-0.1	-2.1%

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

Note: Figures may not add due to rounding.

The government's estimates to date project a \$3.9 billion decline in DPE in 2013-14, as compared to 2012-13 levels (3.5 per cent), reflecting four straight years of targeted spending restraint since 2010-11.³ However, in the first nine months of 2013-14, DPE was \$1.9 billion higher (3.0 per cent) compared to the same period in 2012-13 (Figure 2-3).⁴

³ At the time of publication, the most current government estimates are Supplementary Estimates (C) 2013-14. The corresponding appropriation bill was not approved until March 2014.

⁴ For further analysis of fiscal projections, see the Revised PBO Outlook and Assessment of the 2013 Update of Economic and Fiscal Projections. http://www.pbo-dpb.gc.ca/files/files/Revised_EFOU_2013.pdf. Accessed March 2014

⁵ Targeted operational spending categories include personnel as well as back office services, both of which can be measured using the government's in-year and/or end-of-year spending and employment data. Departments and agencies service standards are tracked annually in departmental performance reports.

⁶ Budget 2014. www.budget.gc.ca. Accessed March 2014.

Box 2-4

Five Years of Spending Restraint

Government spending restraint measures have targeted Direct Program Expenditures (DPE), with new restraint initiatives announced in each of the past five consecutive federal budgets to make "government operations leaner, while preserving fundamental programs and services".⁵

According to Budget 2014 projections, these initiatives are anticipated to accrue to \$10.2 billion in annual savings in 2013-14 and \$14.8 billion in annual savings by 2017-18.⁶

If savings are fully realized in 2017-18, DPE as a share of total program spending would reach its lowest level since 1998-99, and comprise the smallest share of nominal gross domestic product since 2001-02.

Spending cuts have focused primarily on realizing cost savings from employee compensation through layoffs and reductions in benefits. In addition, there has also been emphasis placed on reducing overhead and administration expenses (*i.e.* Internal Services) within departments and agencies.

Shrinking the Public Service

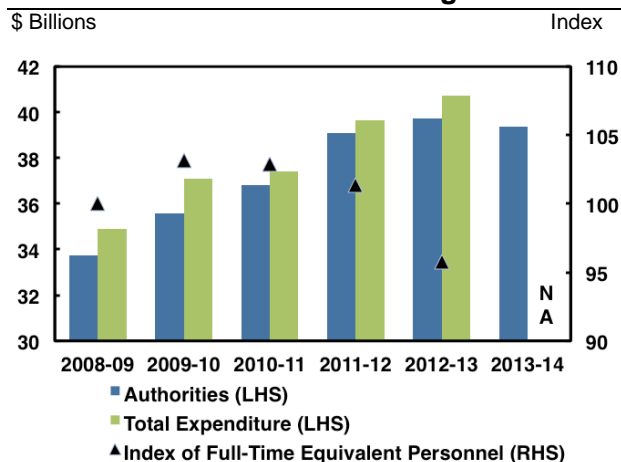
Through the first nine months of 2013-14, spending on personnel has fallen approximately \$168 million year-over-year to \$28.7 billion, representing a 0.6 per cent decrease compared to the same period in the previous year.⁷

While the cumulative cuts to DPE have resulted in the elimination of over 20,000 full-time equivalent positions since March 2010, savings have been offset by planned wage increases through collective agreements and one-time payments related to the elimination of severance benefits (Figure 2-6).^{8,9}

As noted in recent PBO publications regarding the 2014-15 Main Estimates, the government estimates that personnel expenses will fall by a further 0.9 per cent in the current fiscal year to a four-year low. The 2014-15 Reports on Plans and Priorities also suggests that staff levels in the Federal Public Service will decline by a further 8,900 between 2014-15 and 2016-17, indicating further downward pressure in this area of spending. In sum, these planned reductions would reduce the total population of the Federal Public Service to levels last seen in 2006-07.

Figure 2-6

Federal Personnel Costs Falling



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

Cutting the Back Office

Recent restraint exercises have also targeted operating efficiencies by “modernizing and reducing the back office”.¹⁰

Back office services such as communications, financial management, human resource management, and information technology comprise the Internal Services category of spending common amongst most departments and agencies.

In the first nine months of 2013-14, expenditures on Internal Services amounted to \$7.4 billion, a decline of \$68 million or 0.9 per cent compared to the same period a year earlier.¹¹ Total spending for the year is on track to hit a five-year low (Figure 2-7).

⁷ Data collated from departments' quarterly financial reports.

⁸ <http://www.tbs-sct.gc.ca/res/stats/ssen-ane-eng.asp>. Accessed March 2014.

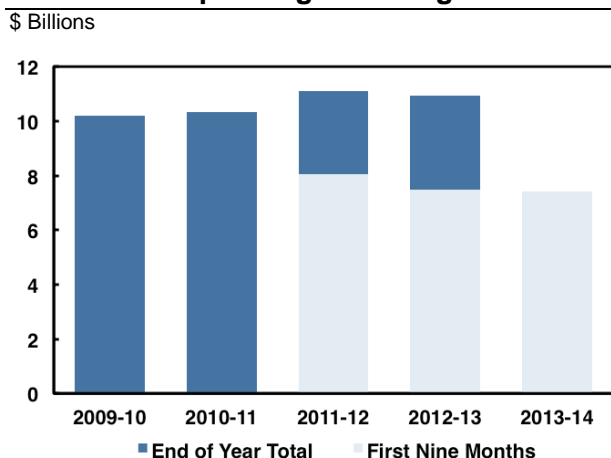
⁹ In the 2013-14 Supplementary Estimates (B), \$955 million was appropriated to the Treasury Board Secretariat to reimburse departments, agencies and Crown corporations following the elimination of severance benefits for voluntary separation. <http://www.tbs-sct.gc.ca/media/nr-cp/2013/1107-eng.asp>. Accessed March 2014.

¹⁰ <http://www.budget.gc.ca/2012/plan/chap5-eng.html>. Accessed March 2014.

¹¹ Methods used to calculate government's aggregate spending on Internal Services are detailed in Expenditure Monitor 2012-13 Q3. http://www.pbo-dpb.gc.ca/files/files/Expenditure_Monitor_2012-13Q3_EN.pdf. Accessed March 2014.

Figure 2-7

Back Office Spending Declining



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

Note: In-year spending data is unavailable prior to 2011-12. Only end-of-year totals are presented.

The government expects this downward trend in back office spending to persist over the medium term. The 2014-15 Main Estimates plan a further decrease of \$1.0 billion or 10.8 per cent to \$8.4 billion, while the 2014-15 Reports on Plans and Priorities project further declines of \$386 million over the subsequent two years. Commensurate with this decrease, the government projects staffing reductions of roughly 1,200 personnel in this area during the same period of time.

3 Programs with the Greatest Variance

PBO analyzed data from both authorities and program activities for the first nine months of 2013-14 to identify the greatest variances in absolute dollars and per cent compared to the same period in 2012-13.

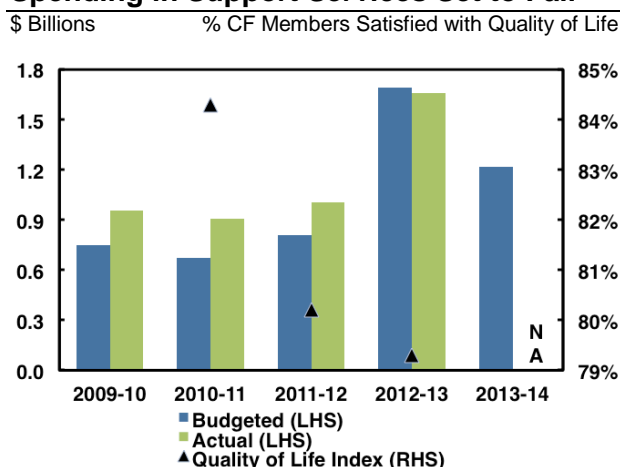
The most notable changes were observed in National Defence's *Defence Team Personnel Support* program, Fisheries and Oceans Canada's *Environmental Response Services* program and the Treasury Board Secretariat's *Government-wide Funds and Public Service Employer Payments* program.

Defence Team Personnel Support

National Defence's *Defence Team Personnel Support* program provides support services to military personnel and their families. This includes financial support for education, housing and facilities services. A key performance indicator for this program is the share of Regular Force member respondents indicating satisfaction with their quality of life in the Canadian Armed Forces, which has decreased over the past three years even as funding levels have increased.

Figure 3-1

Spending in Support Services Set to Fall



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

In the first nine months of 2013-14, expenditures on this program fell \$203 million or 20.8 per cent compared to the same period last year. As presented in Figure 3-1, this is consistent with the planned decrease in budgeted spending set out in the Government's Estimates, which forecast a spending decline of \$469 million or 27.8 per cent.

National Defence's 2012-13 Departmental Performance Report notes that spending jumped in 2012-13 owing to settlement of a Class Action lawsuit related to the Manuge v. Her Majesty the Queen class action lawsuit and for payments related to the termination of

military severance. As such, the current year decline was an anticipated return to historical levels.

Environmental Response Services

Fisheries and Oceans Canada's (DFO's) *Environmental Response Services* program minimizes the environmental, economic, and public safety impacts of marine pollution incidents. This includes establishing an appropriate and nationally consistent level of preparedness and response services in Canadian waters. A key performance indicator for this program is the percentage of marine pollution responses with trained personnel, strategically placed equipment, and a mobilization plan. Historically, DFO has greatly exceeded their 80 percent performance target with spending levels of approximately \$11 million per year.

in Figure 3-2, this increase is actually lower than the planned increase set out in the Government's Estimates, which forecast an increase of \$48.0 million or 430.4 per cent, more than a five-fold gain.

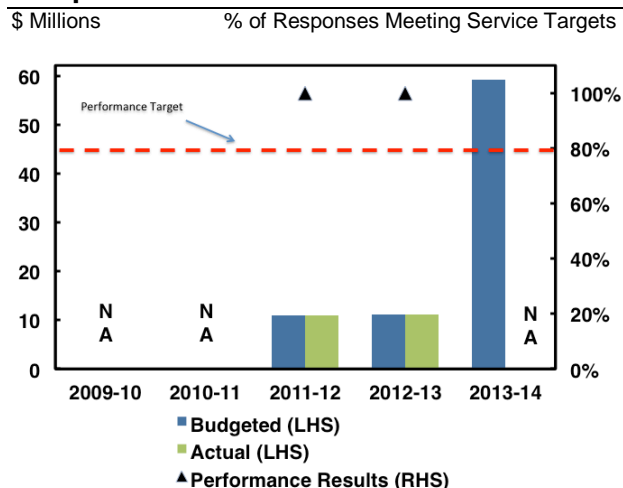
The increase is primarily attributable to \$46.3 million approved for the removal of oil and other pollutants from the vessel Brigadier M.G. Zalinski. The remaining funding is related to the Government's commitment announced in March 2013 to enhance its monitoring and response regime for marine pollution incidents. This included the creation of an Incident Command System by the Canadian Coast Guard to allow it to respond more effectively to incidents and integrate its operations with key partners.¹²

Government-wide Funds and Public Service Employer Payments

The Treasury Board Secretariat of Canada's (TBS's) *Government-wide Funds and Public Service Employer Payments* program supports the organization's role as the employer for the Federal Public Service. It accounts for funds that are held centrally to supplement other appropriations, including operating and capital funds lapsed by departments and agencies in the previous year and carried forward to the current fiscal year, as well as transfers to organizations to offset increases in employee compensation arising from collective agreements.

Expenditures on this program increased by \$157 million or 14.3 per cent in the first nine months of 2013-14 compared with the same period a year earlier.

Figure 3-2
Spending to Combat Marine Pollution Jumps



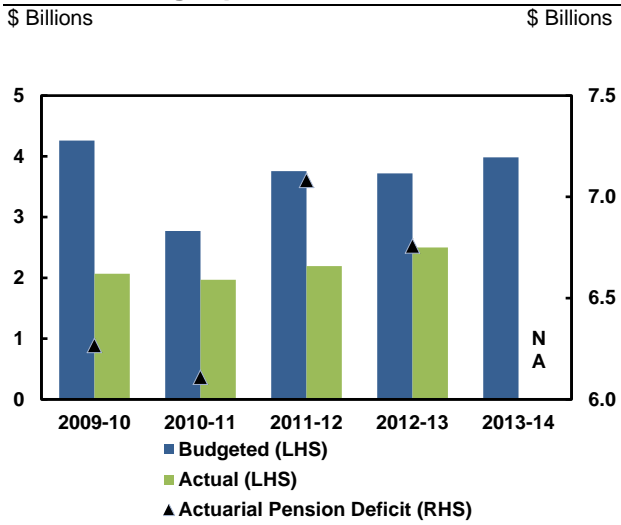
Sources: Office of the Parliamentary Budget Officer; Government of Canada.

Note: This program was created through restructuring existing government programs in 2011-12. As such historical data prior to that date do not exist.

In the first nine months of 2013-14, expenditures on this program increased by \$11.0 million or 155.3 per cent compared with the same period a year earlier. As presented

¹² <http://www.tc.gc.ca/eng/mediaroom/releases-2013-h031e-7089.html>. Accessed March 2014.

Figure 3-3
Central budget provisions



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

Note: Budgeted amounts for 2013-14 have been adjusted to reflect year-end adjustments based on actual data from 2012-13.

Over the past several years, there have been several factors that have pushed spending on this program upward, including payouts for elimination of termination benefits in collective agreements, growth in the operating budget lapses of departments and agencies and top-up payments to the Pension Fund Account to offset a deficit, which rested at \$6.8 billion as of March 31, 2013 (Figure 3-3).

The *Public Service Superannuation Act* requires that any actuarial deficit be dealt with by transferring equal instalments to the Public Service Pension Fund Account over a period of up to 15 years.

As a result, the Government plans to make an incremental contribution of \$435 million each year for the next 11 years to offset the shortfall.¹³

¹³ <http://www.osfi-bsif.gc.ca/Eng/Docs/pssa2011.pdf>. Accessed March 2014.