



**FINAL REPORT ON THE
SUPPLEMENTARY ESTIMATES (C) 2012-2013**

**Standing Senate Committee on
National Finance**

EIGHTEENTH REPORT

Chair
The Honourable Joseph A. Day

Deputy Chair
The Honourable Larry Smith

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TABLE OF CONTENTS

Introduction.....1

- 1. Treasury Board Secretariat (TBS)3
- 2. Department of Foreign Affairs and International Trade (DFAIT).....7
 - A. High Commission of Canada in London7
- 3. Department of Human Resources and Skills Development (HRSD)9
 - A. Write-off of Canada student loan debts9
- 4. Canadian International Development Agency (CIDA) 10
 - A. Funds for major international crises and disasters 12
 - B. Diamond Jubilee Trust..... 13

REPORT ON THE SUPPLEMENTARY ESTIMATES (C) 2012-2013

Introduction

The Supplementary Estimates (C) 2012–2013 were tabled in Parliament on 28 February 2013 and were referred to the Standing Senate Committee on National Finance for review. These are the third Supplementary Estimates to be tabled for the fiscal year ending on 31 March 2013. The Supplementary Estimates (C) identify the spending authorities and the amounts to be included in subsequent appropriations.

In the course of its review of these Supplementary Estimates, the Committee met with officials from three government departments and one agency.

On 27 February 2013, the Committee heard the following officials from the Treasury Board Secretariat (TBS): Bill Matthews, Assistant Secretary, Expenditure Management Sector; Sally Thornton, Executive Director, Expenditure Management Sector; and Marcia Santiago, Senior Director, Expenditure Management Sector.

On 5 March 2013, the Committee heard officials from two government departments and one agency. The Department of Foreign Affairs and International Trade (DFAIT) was represented by Nadir Patel, Assistant Deputy Minister and Chief Financial Officer; Robert Dufresne, Director General, Budgeting, Planning and Resource Management; Andrew Stirling, Director General, Locally Engaged Staff Services Bureau; and Renetta Siemens, Director General, Physical Resources Bureau.

From the Department of Human Resources and Skills Development (HRSD), the Committee heard Alain Séguin, Chief Financial Officer; Jacques Paquette, Senior Assistant Deputy Minister, Income Security and Social Development Branch; and Allen Sutherland, Assistant Deputy Minister, Learning Branch.

The Canadian International Development Agency (CIDA) was represented by Sue Stimpson, Chief Financial Officer, and Arun Thangaraj, Director General, Business Planning, Resources Management and Systems.

Overview of the Supplementary Estimates (C) 2012-2013

In the federal Estimates documents, planned spending is divided between budgetary and non-budgetary expenditures and by voted¹ and statutory expenditures.² As shown in Table 1, the Supplementary Estimates (C) 2012-2013 present Parliament with \$1.5 billion in proposed voted appropriations and provide information about a net reduction of \$100 million in planned statutory expenditures.

Table 1 – Supplementary Estimates (C) 2012-2013
(\$ billions)

	Budgetary	Non-budgetary	Total
Voted Appropriations	1.5	0.0	1.5
Statutory Expenditures	(0.1)	0.1	0.0
Total	1.4	0.1	1.5

Source: Treasury Board Secretariat, *Supplementary Estimates (C), 2012-2013*, p. 8.

Table 2 shows that budgetary expenditures for 2012-2013 total \$259.0 billion, a reduction of \$7.6 billion (2.9%) from the budgetary expenditures tabled in 2010-2011.

¹ Voted appropriations are sometimes also called voted expenditures.

² **Budgetary expenditures** include the cost of servicing the public debt; operating and capital expenditures; transfer payments to other levels of government, organizations or individuals; and payments to Crown corporations. **Non-budgetary expenditures** (loans, investments and advances) are outlays that represent changes in the composition of the financial assets of the Government of Canada. **Voted appropriations** are those for which parliamentary authority is sought through an appropriation bill and **statutory expenditures** are those authorized by Parliament through enabling legislation and for which forecasts are provided for information purposes only.

Table 2 – Total budgetary expenditures, 2010-2011 to 2012-2013
(\$ billions)

	Main Estimates	Supplementary Estimates (A)	Supplementary Estimates (B)	Supplementary Estimates (C)	Total
2012-2013	252.5	2.3	2.8	1.4	259.0
2011-2012	251.3	2.0	6.6	(0.4)	259.6
2010-2011	261.6	1.8	3.1	...	266.6

Source: Document submitted by Treasury Board Secretariat, 27 February 2013, p. 5.

Examination of the Supplementary Estimates (C) 2012-2013

During the Committee’s examination, the senators questioned the federal officials about the federal government’s rationale for voted appropriation authorization requests and the reasons for changes to statutory expenditure levels for federal departments and agencies.

1. Treasury Board Secretariat (TBS)

The TBS officials who appeared before the Committee presented the main voted and statutory items included in the Supplementary Estimates (C) 2012-2013.

The main voted items include:

- Department of National Defence – \$726.0 million for the Canadian Forces Income Security Insurance;
- Department of National Defence – \$438.0 million for the *Canada First* implementation plan and severance payments;
- Department of Human Resources and Skills Development -- \$231.0 million for the write-off of unrecoverable Canada student loans;
- Department of National Defence – \$144.0 million for the Afghanistan training mission;

- Department of Foreign Affairs and International Trade – \$108.0 million to purchase a building adjacent to Canada House that will become the office of the High Commissioner in London;
- Canadian International Development Agency, Department of the Environment and Parks Canada – \$118.8 million for financial commitments under the Copenhagen Accord;
- Canadian International Development Agency – \$100.0 million for child protection and maternal, newborn and child health; and
- Department of Public Works and Government Services – \$85 million for accommodations for federal public servants.

The main statutory items include:

- Department of Human Resources and Skills Development – \$281 million to enhance employment insurance benefits;
- Department of Human Resources and Skills Development – \$143 million for the Guaranteed Income Supplement;
- Department of Human Resources and Skills Development – \$115 million for Canada Disability Savings Grants;
- Department of Human Resources and Skills Development – \$105 million for Old Age Security; and
- Department of Finance – \$762 million for interest on unmatured debt.

The TBS officials explained to the Committee that the \$726.0 million for Canadian Forces Income Security Insurance would fund the settlement approved by the Federal Court in the *Manuge* class action concerning the reduction in disability benefits paid by the Department of National Defence (Service Income Security Insurance Plan) by the amount of disability benefits paid by the Department of Veterans Affairs. Before that class action,

the Department of National Defence and the Department of Veterans Affairs each had their own disability benefits program and the federal government reduced the amount of the disability benefits paid by the Department of National Defence Program by the amount of the disability benefits paid by the Department of Veterans Affairs program. The Federal Court held that the federal government should not have reduced the disability benefits of individuals who were eligible for both programs in that way.

The TBS officials said that the request for \$118.8 million for CIDA, the Department of the Environment and Parks Canada for financial commitments under the Copenhagen Accord represented the final payment of a total contribution of \$1.2 billion under that Accord. That contribution will support international initiatives to help the developing countries reduce their greenhouse gas emissions and adapt to the effects of climate change.

The officials also provided information to the Committee concerning a horizontal item³ of \$26 million to enable the Department of Public Works and Government Services and Shared Services Canada to modernize pay administration services, which are located in Miramichi, New Brunswick. This pay modernization project will replace the 40-year-old pay system with commercial off-the-shelf technology, and streamline and modernize the operational processes of 108 federal departments and agencies that use this pay system.

In reply to questions from some senators concerning a \$2.9-million transfer from the Canadian Food Inspection Agency to the Department of Agriculture and Agri-food, the TBS officials explained that the amount transferred would be used for the same purpose: to develop a traceability information sharing solution to enhance the capacity to conduct rapid, accurate and efficient investigations on animal health incidents. However, the Department of Agriculture and Agri-food will do part of the work instead of the Canadian Food Inspection Agency.

³ A horizontal initiative is an initiative in which partners from two or more organizations have established a formal funding agreement (e.g. Memorandum to Cabinet, Treasury Board submission, federal-provincial agreement) to work toward the achievement of shared outcomes. See: Treasury Board Secretariat, *Supplementary Estimates (C) 2012-2013*, <http://www.tbs-sct.gc.ca/ems-sgd/sups/c/20122013/index-eng.pdf>, p. 15.

Some senators wanted to know more about the expenditures for government advertising programs. The TBS officials replied that the Canada Revenue Agency was requesting \$1.4 million under the Supplementary Estimates (C) 2012-2013 to inform Canadians about the various tax credits available this year.

The officials also explained to the Committee that there are two ways for federal departments and agencies to fund their advertising programs. First, the departments and agencies can make advertising expenditures through the federal government advertising program, a horizontal item that is set out in the supplementary estimates. Second, they can fund advertising expenditures through their own operating budget. The TBS officials then suggested that the Committee consult the *Annual Report on Government of Canada Advertising*, published by the Department of Public Works and Government Services, to obtain further details about federal advertising expenditures. The report shows that the federal government spent \$86.9 million on advertising in 2006-2007, \$84.1 million in 2007-2008, \$79.5 million in 2008-2009, \$136.3 million in 2009-2010 and \$83.3 million in 2010-2011.⁴

In reply to senators' questions about the reduction in interest on the federal debt, the TBS officials replied that the reduction in interest on the debt related to interest on market debt and interest on non-market liabilities (e.g. public service pension plans, other future employee and veterans benefits, etc.). Interest on the debt has declined because of a decrease in the forecast interest rates.

Some senators asked questions about the budget of the Canadian Broadcasting Corporation (CBC). The TBS officials told the Committee that the CBC anticipated total budgetary expenditures of \$1.1 billion in 2012-2013. They also suggested that senators consult the Crown corporation's annual report because it contained more detail about expenditures. The *CBC Annual Report 2010-2011* shows total expenditures of \$1.8 billion in 2010-2011, covered by the following revenues:

- \$1.2 billion in government funding

⁴ Department of Public Works and Government Services, *2010-2011 Annual Report on Government of Canada Advertising Activities*, Section 2, Advertising Expenditures, <http://www.tpsgc-pwgsc.gc.ca/pub-adv/rapports-reports/2010-2011/chapitre-chapter-2-eng.html#ch2a>, p. 7

- \$368 million from advertising revenues
- \$153 million from specialty services revenues
- \$129 million from other revenues.⁵

2. Department of Foreign Affairs and International Trade (DFAIT)

The DFAIT officials told the Committee that their Supplementary Estimates (C) 2012-2013 contain a net increase of \$25.2 million in budgetary expenditures. That net increase includes an increase of \$106.2 million in capital expenditures, a decrease of \$48.5 million in operating expenditures and a decrease of \$32.6 million in grants and contributions expenditures.

In reply to questions from some senators about the rules governing transfers of an amount from an appropriation for operating expenditures to an appropriation for capital expenditures, the DFAIT officials told the Committee that all transfers from one type of appropriation to another within a department must always be approved by Parliament in an appropriations bill.

A. High Commission of Canada in London

A request for \$107.5 million to consolidate the High Commission of Canada in London prompted senators to ask for details about this budgetary item.⁶ The DFAIT officials

⁵ Canadian Broadcasting Corporation, [CBC Annual Report 2010-2011](#), p. 5.

⁶ **DFAIT was given \$55.0 million by Treasury Board from Treasury Board Vote 5, the government's central contingencies appropriation, to fund a portion of the cost of purchasing the building adjacent to Canada House before obtaining approval from Parliament in an appropriations bill.**

Treasury Board Vote 5 serves to supplement other appropriations in order to provide the government with sufficient flexibility to meet urgent or unforeseen expenditures where a valid cash requirement exists due to the timing of a payment or where specific authority is required to make a payment. This authority to supplement other appropriations is provided until parliamentary approval can be obtained, as long as the expenditures are within the legal mandate of the organization. The allocation from Vote 5 is provided on a temporary basis and is to be reimbursed once parliamentary authority for the expenditure has been obtained through the approval of the Supplementary Estimates. For further details on Treasury Board Vote 5, see Treasury Board Secretariat, *A Guide to Preparing Treasury Board Submissions*, 11.3 Treasury Board Vote 5 (Government Contingencies), http://www.tbs-sct.gc.ca/pubs_pol/opepubs/tbm_162/gptbs-gppct04-eng.asp.

replied that the High Commission of Canada currently consists of two buildings, Canada House, in Trafalgar Square, and Macdonald House, in Grosvenor Square.

DFAIT decided to purchase a building adjacent to Canada House and sell Macdonald House in order to consolidate the High Commission of Canada at one location.

The DFAIT officials also noted that under the business plan prepared for the transaction, the sale of Macdonald house should generate at least enough revenue to reimburse the Consolidated Revenue Fund for the cost of purchasing and renovating the building adjacent to Canada House. Depending on the price at which the federal government is able to sell Macdonald House, the transaction could also generate savings in excess of the cost of purchasing and renovating the building adjacent to Canada House.

Some senators requested further details about the nature of these savings. The DFAIT officials told the Committee that because of the condition of Macdonald House, the federal government would have had to do extensive renovation if it had decided to keep part of the High Commission of Canada in London in that building. On the other hand, the building adjacent to Canada House will require less investment to provide suitable offices for the High Commission in London, in addition to the maintenance and heating costs being lower because there is about 20% less floor space than at Macdonald House.

In reply to questions from senators about the cost of the building adjacent to Canada House that has been purchased by the federal government, the DFAIT officials told the Committee that the federal government had spent about \$114 million to purchase the building.

Some senators expressed concerns that the government might have trouble selling Macdonald House at the desired price because of the problems besetting the economy of the United Kingdom since the economic and financial crisis of 2008. The DFAIT officials told the Committee that they were very aware of those economic problems, but the location of Macdonald House, in Grosvenor Square in the heart of the Mayfair area of London, continued to be a location much sought after by some investors, and therefore the value of the surrounding buildings had not been significantly affected.

Concerning the price for which the federal government anticipates selling Macdonald House, the DFAIT officials explained to the Committee that they preferred not to disclose the price that the federal government hoped to obtain publicly at present, in order not to influence the potential revenue from that transaction.

Other senators asked about the experts who have advised the federal government on this transaction. The DFAIT officials replied that these experts were professional real estate consultants in London, lawyers and real property project experts at the Physical Resources Bureau of DFAIT.

3. Department of Human Resources and Skills Development (HRSD)

The Supplementary Estimates (C) 2012-2013 for HRSD contain a net increase of \$232.1 million in budgetary expenses. That amount includes a request for \$231.2 million for the write-off of debts owed to the Crown for unrecoverable Canada student loans and a transfer of \$990,000 from the operating budget for the personnel and employee benefit plan to other operating costs, in order to align the Department's resources with its priorities.

HRSD officials explained to the Committee that under the *Budget Implementation Act 2009*, \$2.9 billion had been credited to the Employment Insurance Operating Account in 2010-2011. That amount represented the estimated cost of temporary benefit enhancements that were not to be recovered from future premiums. Following the completion of those measures, actual costs of the temporary benefit enhancements have proven to be higher than the estimated amount, rising from \$2.9 billion to \$3.2 billion. Therefore, an amount of \$281 million was included in Supplementary Estimates (C) 2012-2013 to supply the difference.

A. Write-off of Canada student loan debts

In reply to a series of questions from senators about the \$231.2 million requested for the write-off of debts owed to the Crown for unrecoverable Canada student loan debts, the HRSD officials told the Committee that approximately 88% of students repay their loans and the Department has adopted measures to assist students who have difficulty repaying their loans. Nevertheless, some students default on part of their student loan.

In general, a separate appropriation is established to obtain approval for writing off debts. A loan to an outside organization is considered to be a non-budgetary item, given that the loan must be repaid. Loans to students are therefore an asset for the federal government, and so writing off those debts requires the approval of Parliament.

HRSD officials then explained that according to the *Debt Write-off Regulations*, debts should be written off in the year in which they are determined to be uncollectible. The *Debt Write-off Regulations* contain criteria under which accounts may be submitted for write-off. The criteria include death, bankruptcy, cost-effectiveness and hardship. The officials said that the request for \$231.2 million for the write-off of debts owed to the Crown for Canada student loans is consistent with the regulations, as the debts are uncollectible under the *Canada Student Financial Assistance Act*. That Act establishes a limitation period of six years between the time the borrowers last acknowledged their student loan liability and any legal activity the Crown can undertake to recover that debt.

4. Canadian International Development Agency (CIDA)

The CIDA officials told the Committee that their Supplementary Estimates (C) 2012-2013 contain a net increase in voted expenditures of \$5.4 million, which includes an increase in expenditures for grants and contributions of \$245.9 million less \$240.5 million available within the grants and contributions vote.

The officials told the Committee that the savings identified in the strategic and operating review remained in the reference levels of the departments and organizations in the form of funds available from within the votes. New requests to Parliament for funds are reduced by the amount of funds available within the department's votes.

Concerning a request for \$95.9 million to fund Canada's fast-start commitments under the Copenhagen Accord, the CIDA officials explained to the Committee that the funds requested would be allocated as follows:

- \$76.2 million to the Asian Development Bank for the Canadian Climate Fund for the Private Sector in Asia;

- \$16.5 million to the United Nations Development Program to improve climate resilience in less developed countries; and
- \$3.2 million for the Canada Fund for African Climate Resilience to support sustainable development and economic growth in Africa.

Some senators asked questions about a request for \$100 million for grants to fund child protection and maternal, newborn and child health initiatives. The officials replied that at the 2010 G8 Summit that was held in Muskoka, Ontario, the federal government committed to spending \$1.1 billion from 2010-2011 to 2014-2015 on these initiatives, which are known as the Muskoka initiative.

Other senators requested clarification concerning the available sources of information on the total amount allocated to international aid by the Government of Canada. The CIDA officials replied that the Minister of International Cooperation publishes a summary report every year, six months after the end of each fiscal year, entitled *Report to Parliament on the Government of Canada's Official Development Assistance*.

Table 3 from that report shows that the federal government's expenditures on international aid amounted to \$5.1 billion in 2011-2012.

Table 3 – Disbursements by department and agency, 2011-2012

Departments and Agencies	Disbursements (\$ millions)
Canadian International Development Agency	3,931.57
Department of Finance	503.65
Foreign Affairs and International Trade	280.55
International Development Research Centre	199.90
Department of Citizenship and Immigration	130.86
Department of National Defence	0.13
Royal Canadian Mounted Police	38.69
Department of Health	12.38
Department of the Environment	5.99
Labour Canada ^a	1.67
Natural Resources Canada	2.73
Industry Canada	1.16
Parks Canada	0.55
Transport Canada	0.43
Subtotal	5,110.26
Services supporting CIDA activities ^b	24.76
TOTAL	5,135.02

Note: a. The Labour Canada negotiates and administers Canada's Labour Cooperation Agreements (LCAs), which are signed alongside Free Trade Agreements. LCAs include commitments to protect internationally recognized core labour rights and to enforce domestic labour laws. LCAs are intended to protect workers' basic rights and improve working conditions and standards of living in the signatory countries. These agreements also ensure fair competition for Canadian industry in a globalized world.

b. In order to carry out its activities, CIDA receives services without charge from various federal departments: Public Works and Government Services Canada, Justice Canada, Treasury Board Secretariat, and Human Resources and Skills Development Canada.

Source: Canadian International Development Agency, *Report to Parliament on the Government of Canada's Official Development Assistance 2011-2012*, <http://www.acdi-cida.gc.ca/acdi-cida/ACDI-CIDA.nsf/eng/NAT-1011518-QB9>.

A. Funds for major international crises and disasters

The CIDA officials drew the Committee's attention to a horizontal item of \$60.0 million to enable CIDA (\$50 million) and DFAIT (\$10 million) to respond quickly to major international disasters. They then explained that this was a pilot project under which \$60 million that had previously been included in the crisis account of about \$200 million in

the International Assistance Envelope (IAE) would be included directly in the budgets of CIDA and DFAIT and managed in consultation with the Privy Council and Treasury Board, to avoid delays in accessing the funds to respond to an emergency. The balance of funds in the crisis account is maintained in the IAE financial framework.

The CIDA officials also pointed out that CIDA anticipated asking Parliament to increase the annual amount of that fund to \$100 million for major international crises and disasters that might occur in 2013-2014.

B. Diamond Jubilee Trust

The Diamond Jubilee Trust was launched on 6 February 2012 to coincide with the 60th anniversary of the accession of Queen Elizabeth II to the Throne. The Trust supports projects to improve quality of life and opportunities for people living in the Commonwealth countries, and to provide a lasting tribute to Her Majesty.

The federal government has committed to contributing a maximum of \$20 million to the Trust by making two contributions. The first is a \$10-million lump-sum contribution, and the second is an amount of up to \$10 million to match Canadian private-sector donations.

The CIDA officials explained that a transfer of \$13.7 million from DFAIT to CIDA would be used to cover part of the federal government's total \$20 million contribution to the Trust. CIDA will provide the remaining \$6.3 million from its own budget.