

Department of Finance Canada

A Report on Plans and Priorities

**2004–05
Estimates**

Ralph Goodale
Minister of Finance

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Section I: Minister's Message and Management Representation Statement

Minister's Message



The Honourable Ralph Goodale, P.C., M.P.

The Department of Finance Canada plays an integral role in the Government of Canada's efforts to raise the standard of living and improve the quality of life of all Canadians by fostering strong and sustainable economic growth. This, in turn, supports Canada's social programs and the creation of a globally competitive economy for the 21st century.

The Department's responsibilities include preparing the federal budget, developing tax and tariff policy and legislation, managing federal borrowing on financial markets, administering major transfers of federal funds to the provinces and territories, developing regulatory

policy for the country's financial sector, and representing Canada within international financial institutions.

The work done by the Department of Finance Canada has been and will continue to be vital to the government's goal of maintaining balanced budgets and a balanced approach to our nation's finances. Canadians know, and the government agrees, that sound financial management and a prudent approach to spending is the surest path to strong and sustainable social programs, as well as a better standard of living and a higher quality of life for all our citizens. We are a confident Canada. The strategy we have is the surest path to creating a distinct Canadian advantage and realizing our potential as a world-leading economy and a secure society for all.

Management Representation Statement

I submit, for tabling in Parliament, the 2004–05 *Report on Plans and Priorities* (RPP) for the Department of Finance Canada.

This document has been prepared based on the reporting principles and disclosure requirements contained in the *Guide to the Preparation of the 2004–05 Report on Plans and Priorities*:

- It accurately portrays the organization's plans and priorities.
- The planned spending information in this document is consistent with the directions provided in the Minister of Finance's budget and by the Treasury Board of Canada Secretariat.
- It is comprehensive and accurate.
- It is based on sound underlying departmental information and management systems.

The reporting structure on which this document is based will serve as the basis for accountability for the results achieved with the resources and authorities provided.

Kevin Lynch
Deputy Minister, Finance

Section II: Raison d'être and Planning Overview

Raison d'être

The goal of the Department of Finance Canada is to foster strong and sustainable economic growth, which in turn, supports Canada's social programs and the creation of a globally competitive economy. Taken together, meeting these objectives will result in higher standards of living and an improved quality of life for Canadians.

Planning Overview

The Department is actively involved in the government's policy and legislative agenda, helping to develop and implement fiscal, economic, social, and financial policies and programs. Its responsibilities include preparing the federal budget, developing tax and import policy and legislation, managing federal borrowing on financial markets, administering major transfers of funds to provinces and territories, developing regulatory policy for the country's financial sector, and representing Canada in international financial institutions and forums.

In carrying out its mandate, the Department pays close attention to key economic, social, and fiscal trends, as well as major developments in the global economy. These are outlined below.

Canadian economic growth and job creation, which had outperformed those of the other G7 countries between 1997 and 2002, were dampened considerably by a series of shocks in the spring and summer of 2003. These shocks included a strong and rapid appreciation of the Canadian dollar, Severe Acute Respiratory Syndrome (SARS), a single case of bovine spongiform encephalopathy (BSE), the Ontario electricity blackout, massive forest fires in British Columbia, and a hurricane in Nova Scotia. As a result, economic growth in 2003 fell below that of the US for the first time in four years. Despite these shocks, Canadian employment increased by 218,000 jobs in 2003, compared to a small decline in the US. With the unwinding of these shocks and the global recovery beginning to take hold, particularly in the US, private sector forecasters expect growth to rebound in 2004. However, forecasts for growth in 2004 are still below the 3.5 per cent projected at the time of the 2003 budget.

As the 2004 budget stated, this factor, together with weak growth in 2003, implies that the level of Canada's output will be substantially below what was expected at the time of the 2003 budget, limiting fiscal resources. Furthermore, much uncertainty remains about how much the recent record appreciation of the Canadian dollar will hinder net export growth and offset the benefits of stronger growth abroad.

The Government of Canada will remain prudent in its budget planning and careful in its management of taxpayer dollars. The government recorded its sixth consecutive budget

surplus in 2002–03 and is expected to record balanced budgets or better this fiscal year and for the next two years. The Organisation for Economic Co-operation and Development estimates that Canada will be the only G-7 country to have posted a budgetary surplus in 2002 and 2003. However, the fiscal constraints brought about by lower growth in 2003 will continue to affect the government's fiscal picture in 2004–05 and over the next several years.

The government has launched a wide-ranging review of all elements of its spending, led by a new Cabinet Committee on Expenditure Review, chaired by the President of the Treasury Board. This review will be ongoing and will help foster a new management culture in government. This review will build to at least \$3 billion in annual ongoing savings within four years, which will be used to fund the government's new priorities established in the Speech from the Throne. The Committee is to submit its first set of recommendations to the Prime Minister in the fall of 2004.

The Department of Finance Canada remains committed to effective stewardship of the nation's finances. To achieve this goal, the Department will consult and co-ordinate its efforts with a number of different groups in both the private and public sectors. The Department's principal partners, client groups, and the services it provides to them are as follows:

The Government, Cabinet, and the Treasury Board — The Department provides analysis, advice, and recommendations regarding economic, social, and financial affairs and tax matters. It is also responsible for providing instructions for the drafting of legislation in many of these areas.

Parliament and parliamentary committees — The Department acts as the primary sponsor of bills on taxation and financial matters and steers them through the parliamentary process. It also provides support to the Minister of Finance and the Minister of State (Financial Institutions) in the fulfillment of their parliamentary responsibilities.

The public and Canadian interest groups — The Department supports an expanded program of public information and consultation. This includes responding to requests for information and providing facts to Canadians on key economic, social, fiscal, and tax issues to facilitate wide participation in open, broad-based consultation processes.

Departments, agencies, and Crown corporations — The Department plays an active role in encouraging co-ordination and harmony among all federal initiatives that affect the economy, the financial sector, and financial markets.

Provincial and territorial governments — The Department works toward improved co-operation on transfer payments to support social programs, as well as fiscal, taxation, financial sector, and other issues of concern to all governments. It also works with the provinces and territories as joint stewards of the Canada Pension Plan to ensure that it remains financially secure and stable.

Financial market participants — The Department works with market participants to ensure that Canadian capital markets are both dynamic and efficient and that they inspire confidence, including maintaining a well-functioning market for Government of Canada

securities and ensuring that investors in Canadian government debt are well informed of financial and economic developments.

Financial institutions — The Department ensures that the legislative and regulatory framework allows financial institutions to compete effectively at home and abroad, empowers and protects consumers of financial services, and enables institutions to generate the financing necessary for Canadian businesses to grow and prosper.

International economic and finance community — The Department develops Canada's policy with respect to the World Bank, the International Monetary Fund, and the European Bank for Reconstruction and Development; it co-operates closely within the G-7, G-10, and G-20 groups of Finance Ministers to promote international growth and financial stability; it negotiates double taxation treaties with Canada's treaty partners; and it represents Canada in a broad range of official international forums.

International trade community — The Department is responsible for Canada's import policy, including the *Customs Tariff*, trade remedy legislation, and trade in financial services and participates in international forums (such as the World Trade Organization and the Organisation for Economic Co-operation and Development) and in related negotiations as they concern trade, import policy, services, and investment issues.

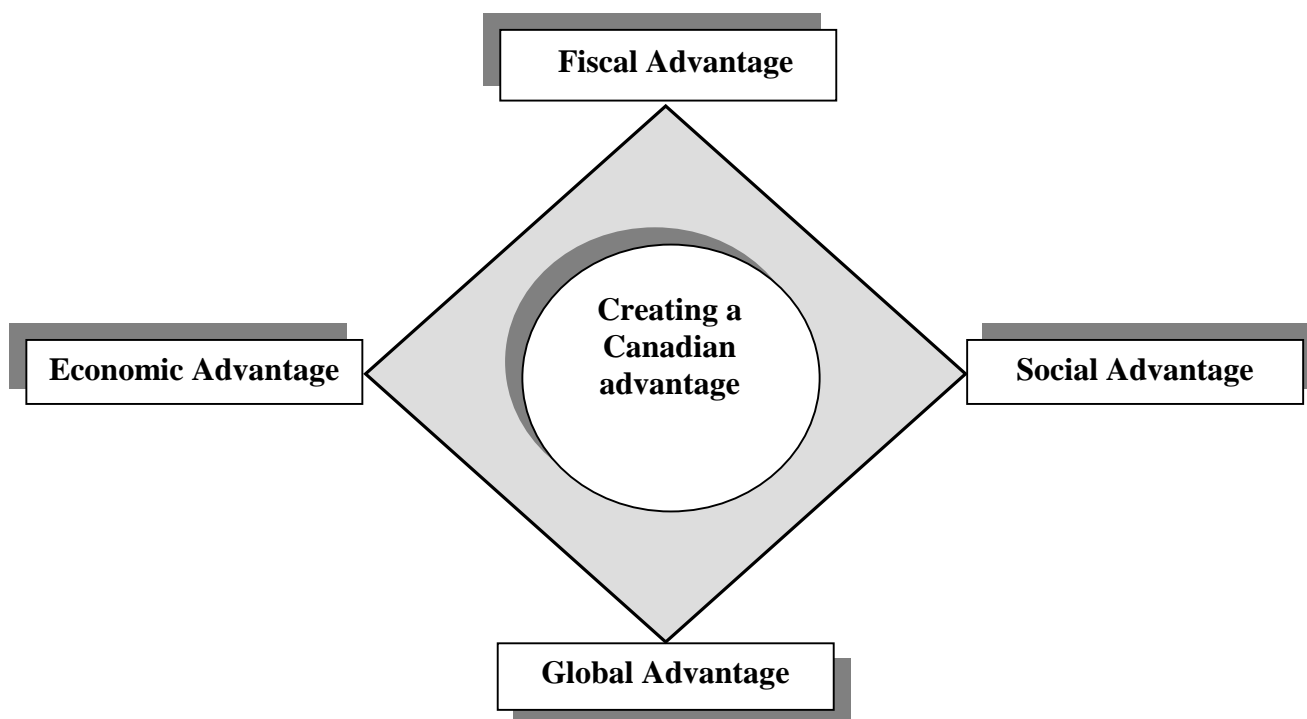
The plans and priorities put forward on the following pages demonstrate how the Department will pursue its four strategic outcomes in support of the overarching goal of fostering strong and sustainable economic growth. Also provided is an approximate time frame for the completion of specific plans, along with an indication of how the Department proposes to monitor its progress in achieving the results set out in its plans and priorities.

Section III: Plans and Priorities by Strategic Outcomes

Strategic Outcome Summary

The Department's overarching goal is to foster strong and sustainable economic growth. Its policies and programs are directed to creating a Canadian advantage and contribute to improving the quality of life of all Canadians through the pursuit of four strategic outcomes:

- ❖ **Fiscal Advantage for Canada** — Canada's fiscal structure affects the conditions under which its economy operates. Thus, the Department's aim is to maintain a stable and enduring federal fiscal structure to help ensure that Canada is in the best position to capitalize on both domestic and global economic opportunities.
- ❖ **Economic Advantage for Canada** — The way economies operate and how jobs are created are in the midst of change. Competitiveness and economic growth are increasingly linked to the creation, adoption, and transmission of new knowledge. In order to succeed, Canada must not only advance new technologies but also develop innovative ways of financing them in all sectors of the economy. The Department wants to ensure that the policies and programs adopted help create the conditions necessary for sustainable long-term economic growth, by supporting research and development, entrepreneurship, innovation, and risk taking. The Department also wants to ensure that programs and policies help Canadians acquire the skills and knowledge necessary for the knowledge-based economy.
- ❖ **Social Advantage for Canada** — To better succeed in the knowledge-based economy, countries need highly skilled, innovative workers. The quality of communities, health care, education, the social safety net, and the equality of opportunity all contribute to the creation and maintenance of such a workforce. One of the Department's objectives is, therefore, to focus on key social programs and the values they represent to support and sustain Canadian society and, in turn, to bolster Canada's economic advantage.
- ❖ **Global Advantage for Canada** — Improving and sustaining our nation's living standards and quality of life in an increasingly competitive and integrated global economy continue to be key departmental objectives. This includes maintaining secure and open borders, working to strengthen global growth and stability, advancing Canada's trade and investment interests, helping to foster development to reduce global poverty and contributing to the government's implementation strategy for meeting its commitments under the Kyoto Protocol.



Fiscal Advantage for Canada

Notional planned spending for 2004–05: \$35,495.6 million

(This includes both operating and statutory program expenditures; \$35,464.6 million are statutory program expenditures, of which \$35,283.0 million is for interest and other costs under the Public Debt Program.)

Objective: A sustainable fiscal structure to ensure that Canada is in the best position to capitalize on both domestic and global economic opportunities.

The Canadian economy has proven resilient in the face of global uncertainty and recent domestic shocks. During the period of global weakness from 1999 to 2002, growth in Canada surpassed that in the US and most other industrial countries by substantial margins. This contrasts with past periods of international weakness, where slowdowns in Canada tended to be longer and more severe than in the US. As well, the Canadian economy has rebounded from a series of adverse shocks in 2003 coming from rapid appreciation of the Canadian dollar, SARS, the mad-cow disease scare, the Ontario blackout, massive forest fires in British Columbia, and the hurricane in Nova Scotia and is now in a position to resume strong growth in 2004. This performance owes much to sound monetary and fiscal policies, as well as the structural reforms introduced since the

early 1990s, which have laid a solid foundation for growth and an increased capacity to respond to changing circumstances.

While private sector forecasters expect growth to rebound in 2004, it will not be enough to restore the level of output to that projected in the 2003 budget. In fact, there is a risk that the record appreciation of the dollar will have a more negative impact on exports, employment, and growth than generally expected, putting further constraints on government resources.

This underscores the importance of remaining prudent in our budget planning. The plans and priorities identified in this document, in the pursuit of fiscal sustainability, are similar to those put forward in previous planning documents. The government will continue to encourage economic growth and opportunity through balanced budgets, disciplined spending, a declining debt-to-GDP ratio, and a fair, efficient, and effective tax structure.

Debt-servicing costs are the largest spending program of the federal government, and the prudent and effective management of the government's debt continues to be an important element of the Department's strategy for a sustainable fiscal structure. Key considerations in public debt management are the sizeable annual refinancing needs and the interest costs of a debt structure composed of a mix of floating- and fixed-rate debt. A diversified approach to raising funds, focussing on a well-functioning domestic market, and maintaining a prudent debt structure are essential elements in achieving the government's objective of obtaining stable, low-cost funding for its operations.

Priorities:

1) A prudent fiscal planning framework

Plans	Time frame to completion	Method of monitoring progress
Develop economic and fiscal policy options for the next budget	Ongoing: updated with publication of economic update and budget	Measures of budgetary and financial balance summarized in the Annual Financial Report of the Government of Canada (http://www.fin.gc.ca/purl/afr-e.html)
Reduce federal debt-to-GDP ratio to 25 per cent within 10 years	By 2014–15	Federal debt-to-GDP ratio will be reported in the Annual Financial Report of the Government of Canada.

2) A fair, efficient, and competitive tax system

Plans	Time frame to completion	Method of monitoring progress
<p>Improve the fairness, efficiency, and competitiveness of the tax system by</p> <ul style="list-style-type: none"> • completing the implementation of the \$100-billion tax reduction plan • implementing tax initiatives set out in Budget 2003 and Budget 2004 • developing and implementing other measures to improve the tax system • reviewing, improving, and expanding the tax treaty network, consistent with the objective of promoting a fair and competitive tax system, taking into account tax policy developments in other jurisdictions • building on work by the OECD, negotiating tax information exchange agreements with selected jurisdictions 	<p>The \$100-billion tax reduction plan will be fully implemented by July 2004.</p> <p>Budget 2003 measures are all legislated and will be fully implemented by 2008. Budget 2004 measures will be legislated at the earliest opportunity and for the most part will be effective by 2004–05.</p> <p>Ongoing: A draft technical tax bill was released for public comment in February 2004, with a view to subsequent tabling in Parliament.</p> <p>Ongoing</p> <p>Ongoing</p>	<p>Average and typical reductions in personal income tax for Canadian individuals and families</p> <p>Reduction in corporate tax rates and effect on the competitiveness of the Canadian tax system for investment, innovation, jobs, and growth</p> <p>Measures to be assessed case by case against objectives and goals set out in respective budgets</p> <p>Effects of tax changes announced in budgets and technical bills on pertinent measures of fairness and efficiency of the tax system</p> <p>Treaties entered into or amended</p> <p>Tax information exchange agreements negotiated and signed</p>

2) A fair, efficient, and competitive tax system (cont'd)

Plans	Time frame to completion	Method of monitoring progress
<ul style="list-style-type: none"> renewing federal-provincial-territorial income tax collection agreements 	To be finalized as soon as possible	Effective functioning and oversight of the agreements
<ul style="list-style-type: none"> entering into personal income tax administration agreements with First Nations 	Ongoing	Tax administration agreements entered into
<ul style="list-style-type: none"> implementing and entering into First Nation Goods and Services Tax agreements 	A first set of agreements will be implemented by the end of 2004.	Tax administration agreements entered into
<ul style="list-style-type: none"> facilitating tax arrangements between provincial governments and First Nation governments. 	Legislation to this effect will be passed at the earliest opportunity.	Legislation passed

3) A stable, low-cost debt structure and a well-functioning Government of Canada securities market

Plans	Time frame to completion	Method of monitoring progress
Adjust debt programs to ensure that progress toward the debt structure target of 60 per cent fixed-rate debt announced in the 2003 budget is attained	Ongoing: subject to annual initiatives under the Debt Management Strategy (http://www.fin.gc.ca/purl/dms-e.html)	Public debt costs summarized in the Annual Financial Report of the Government of Canada (http://www.fin.gc.ca/purl/affr-e.html)

3) A stable, low-cost debt structure and a well-functioning Government of Canada securities market (cont'd)

Plans	Time frame to completion	Method of monitoring progress
		Measures of financial position, the effectiveness of financial operations, and market liquidity and efficiency as summarized in budget documents and the Debt Management Report Debt Management Report: http://www.fin.gc.ca/purl/dmr-e.html)
Sustain market liquidity and participation in Government of Canada operations through ongoing initiatives	Ongoing	Consultations with market participants Program evaluations Comparison with other countries

4) A vibrant, cost-effective retail debt program

Plans	Time frame to completion	Method of monitoring progress
<p>Ensure Canada Savings Bonds remain relevant to Canadians</p> <p>Balance efforts on sales and retention to manage the decline of the portfolio</p> <p>Improve overall efficiency and reduce costs through careful investment and streamlined administration</p>	<p>Ongoing</p> <p>Implemented during the three-year planning period</p>	<p>Comparison with the annual Business Plan prepared by Canada Investment and Savings, which is a special operating agency of the Department of Finance Canada</p> <p>The Business Plan details how these plans will be realized over the planning period, and progress will be monitored on a continual basis.</p> <p>Additional information is available at http://www.csb.gc.ca.</p>

Economic Advantage for Canada

Notional planned spending for 2004–05: \$22.8 million

Objective: To create a more productive, competitive, and dynamic Canada through policies and programs that provide appropriate support for research and development, entrepreneurship, innovation, and risk taking and to ensure that Canadians have the skills and knowledge necessary for the knowledge-based economy.

New ideas and the wellspring of innovative products and business practices frequently come from research. The effective translation of new ideas into business opportunities will fuel economic performance in a global economy where knowledge is the key to competitiveness. Challenges remain if Canada is to benefit from the high growth opportunities that will be realized by the most innovative of the world's economies. In particular, we need to improve our research and development performance, and we must also improve in bringing the results of this research to the marketplace.

To this end, the government has made significant investments in recent budgets to

- foster innovation in all regions of Canada;
- create new research opportunities at Canadian universities, research hospitals, and other research institutions;
- encourage investment in research and development by others; and
- facilitate the commercialization of knowledge.

In addition, the government's five-year tax reduction plan, announced in 2000, strengthened support for entrepreneurs and small businesses through measures such as the reduction in the inclusion rate for capital gains and the introduction of the small business capital gains rollover. The 2003 budget reinforced these initiatives through a number of tax changes, including an increase in the small business deduction limit to \$300,000 over four years and further enhancements to the small business capital gains rollover measure, by removing the original investment and reinvestment limits and extending the length of time available to make qualifying reinvestments. The 2004 budget provided additional support to small business and entrepreneurship by accelerating by one year the increase in the small business deduction limit to \$300,000, by extending the carry-forward period for non-capital losses from seven years to ten years, and by removing an impediment to full access to the enhanced scientific research and experimental development (SR&ED) tax credit by small businesses in specified circumstances.

The government's five-year tax reduction plan also established a tax advantage for investment in Canada as a fundamental component of a strategy to foster a strong and productive economy. As of 2004, the plan has lowered the general rate of corporate income tax to 21 per cent from its 2000 level of 28 per cent. The 2003 budget built on this tax advantage for investment by eliminating the federal capital tax over a period of five

years, fully eliminating it for smaller businesses as early as 2004. As a result of the reductions in corporate tax rates, the average (federal and provincial) corporate tax rate in Canada (including capital taxes) is now 2.3 percentage points below the average US federal-state rate. The 2003 budget also extended to the resource sector, over a period of five years, the reduction in the corporate income tax rate from 28 to 21 per cent, while improving the tax structure. These rate reductions level the playing field so that firms in all sectors face the same statutory rates of tax.

Budget 2003 also indicated that the government would continue to assess the appropriateness of capital cost allowance (CCA) rates that, as a general principle, should reflect the useful lives of assets and thus provide adequate recognition of capital costs. As part of this review, Budget 2004 announced an increase in the CCA rates for certain types of information and communications technology (ICT). These changes will provide CCA rates that are better aligned with the useful life of these assets and provide an enhanced environment for investment in these assets across all sectors of the economy. Higher ICT investment has been associated with improved productivity in a number of countries.

The 2003 budget encouraged savings by Canadians by increasing the annual contribution limit to registered retirement savings plans to \$18,000 by 2006 and making corresponding increases for employer-sponsored registered pension plans.

To foster innovation and entrepreneurship, the Canadian economy must have the ability to provide financing at all stages of business development. Dynamic capital markets are critical to Canada's future economic success, and the financial services sector plays a vital role in ensuring that Canada's capital markets are efficient and globally competitive. Not only is the sector a significant component of the knowledge-based economy in its own right, but it is also a key enabler of innovation and risk taking throughout the economy. The government recognizes this and will build on the measures that it has already taken to promote the efficiency and growth of this sector, assure its safety and soundness, and foster greater domestic competition while protecting consumers.

Priorities:

1) Support for research and development

Plans	Time frame to completion	Method of monitoring progress
Provide a supportive environment for research and development across all sectors	Target is to move from 15th to 5th in rank order of member countries of the Organisation for Economic Co-operation and Development, in terms of national investment in research and development, by 2010	Increase in national research and development investments as a percentage of gross domestic product

1) Support for research and development (cont'd)

Plans	Time frame to completion	Method of monitoring progress
Improve the policy framework for the commercialization of research	Over the next three years, the government will continue to refine its support for the commercialization of research findings from government laboratories, universities, and research hospitals.	Improved commercialization outcomes from research laboratories

2) A leading-edge financial services sector that is internationally competitive, safe and sound, and responsive to business and consumer needs and financial markets that meet the needs of issuers and providers of capital

Plans	Time frame to completion	Method of monitoring progress
Complete the implementation of the policy framework for the financial services sector as defined by the passage of regulations pursuant to Bill C-8	Before the end of 2004–05	Implement required regulations Roughly 10 more regulations are required to give full effect to the policy intent of Bill C-8.
Ensure that the regulatory framework for Canada's financial institutions and capital markets remains internationally competitive	Ongoing Consultations on the modernization of corporate governance provisions for financial institutions are well advanced, with a view to introducing legislation in 2004–05. Initiate consultations for the next statutorily mandated five-year review during 2004–05	Introduction of legislation Consultations initiated
Develop a supportive environment for financing Canadian companies by identifying areas for potential policy change	Ongoing	Increased availability and use of venture capital, public debt, and equity financing

2) A leading-edge financial services sector that is internationally competitive, safe and sound, and responsive to business and consumer needs and financial markets that meet the needs of issuers and providers of capital (cont'd)

Plans	Time frame to completion	Method of monitoring progress
The Department will continue to monitor, both domestically and internationally, the work of other governments, regulators, and the private sector and take action when necessary to ensure investor confidence in the integrity of Canadian capital markets.	Ongoing	Ensure that governments, regulators, and industry continue to review and take action as needed
Monitor the financial positions of Canadian pension plans and assess the regulatory framework, particularly with respect to pension funding requirements for companies in financial distress, and recommend action where appropriate	Ongoing	Develop legislative or regulatory initiatives in collaboration with regulatory agencies as needed
In June 2003, the government issued a response to the two parliamentary committee reports on bank mergers and related public interest issues. In that response, the government posed a number of questions related to financial sector consolidation and asked for submissions from stakeholders by December 31, 2003.	Conduct analysis of submissions with a view to responding in June 2004	Government issues public response to the questions posed in June 2003

2) A leading-edge financial services sector that is internationally competitive, safe and sound, and responsive to business and consumer needs and financial markets that meet the needs of issuers and providers of capital (cont'd)

Plans	Time frame to completion	Method of monitoring progress
The government is seeking views on how best to address any overlap in prudential, administrative, and corporate services functions between OSFI and CDIC.	The government is undertaking this initiative with a view to introducing any changes before the end of the year.	Changes introduced
Budget 2004 states that the government believes that the best possible securities regulatory structure for Canada is a single securities regulator, structured to be responsive to the regional capital market needs and the special requirements of small and medium-sized enterprises, with an inclusive governing structure. The government will work with provincial and territorial governments to move forward.	Ongoing	Federal-provincial-territorial collaboration to improve the structure of securities regulation in Canada

3) Programs that facilitate the adaptation of all sectors to the knowledge-based economy

Plans	Time frame to completion	Method of monitoring progress
Ensure that the government's programs and policies encourage the private sector to compete more effectively in the global, knowledge-based economy	Ongoing Will continue to be reflected within the three-year planning horizon and beyond	Evidence of innovation, adoption of technology, and success in global markets across all sectors of the economy

4) A tax system that promotes jobs, growth, entrepreneurship, and innovation

Plans	Time frame to completion	Method of monitoring progress
<p>To continue with the implementation of measures announced in the 2003 budget and to implement measures announced in the 2004 budget to promote savings, entrepreneurship, small business, and a Canadian tax advantage for investment</p> <p>To continue to review the tax structure in order to improve the efficiency of the tax system and to strengthen the Canadian tax advantage</p>	<p>A number of measures announced in Budget 2003 and subsequently legislated are being phased in over a number of years, including the increase in the annual RRSP contribution limit to \$18,000 by 2006 (with corresponding increases for employer-sponsored registered pension plans); the increase in the small business deduction limit; the phase-out of the federal capital tax; and the reduction of the corporate tax rate for the resource sector to 21 per cent while changing the tax structure for this key sector.</p> <p>Legislation will be introduced to implement measures announced in the 2004 budget, including accelerating by one year the increase in the small business limit to \$300,000, extending the carry-forward period for non-capital losses from seven years to ten years, removing an impediment to full access to the enhanced SR&ED tax credit for associated corporations in specified circumstances, and increasing the CCA rates for computers and data network infrastructure equipment assets.</p>	<p>Effect of tax measures on incentives to work, save, and invest</p> <p>Comparison with other jurisdictions, principally the US, of corporate tax rates and of tax measures to support investment, innovation, and entrepreneurship</p>

Social Advantage for Canada

Notional planned spending for 2004–05: \$30,612.8 million

(This includes both operating and statutory program expenditures; \$30,600.0 million is for transfer payments under the Federal-Provincial Transfers Program.)

Objective: To focus on key social programs and the values they represent in order to support and sustain Canadian society and bolster Canada's economic advantage.

The Department's initiatives under a Social Advantage for Canada reflect the importance of social policies and programs, and the values they represent, in supporting and sustaining a successful knowledge-based economy and a well-functioning society. The quality of communities, health care, education, the social safety net, and the equality of opportunity are all important in creating world-class knowledge-based economies and societies.

The Government of Canada recognizes that Canada's cities and communities need reliable, predictable, and long-term revenue sources in order to plan for long-term infrastructure investments. Budget 2004 provided new financial resources to municipalities through GST/HST relief amounting to an estimated \$7 billion in additional assistance over the next ten years. The government will work with provinces to share with municipalities a portion of gas tax revenues or determine other fiscal mechanisms that achieve the same goals. The Department of Finance Canada will provide fiscal and tax policy advice to the government on these matters.

Creating a social advantage bolsters a country's economic advantage. In the knowledge-based economy, highly skilled, innovative knowledge workers are a key resource. In turn, strong, productive economies generate the resources to re-invest continually in key social infrastructure. Successful knowledge economies are societies with a high quality of life. This integration of economic and social policies is the key to vibrant and dynamic cities and communities.

Priorities:

1) Support for the continuing renewal of the Canadian health care system

Plans	Time frame to completion	Method of monitoring progress
Continue to monitor and assess the implementation of the 2000 and 2003 First Ministers' Accords with the provinces related to the renewal of Canada's health system, as well as the progress of health reforms being pursued and contribute to discussion by First Ministers on the sustainability of the health care system	Ongoing	Continuing efforts to collaborate with the provinces and territories on the renewal of the health care system, discussions on sustainability, and the implementation of accords with the provinces, including reporting to Canadians
Support the government efforts to address gaps and weaknesses in Canada's public health system, including the establishment of a new Canada Public Health Agency	Next several years	Canada Public Health Agency operational, supporting programs in place, capacity increased
Complete the review of the GST rebate for health care institutions that was announced in the 2003 budget to assess and improve the current application of the GST rebate with respect to health care functions that are moved outside of hospitals	2004	The implementation of changes to the GST health care rebate system that will make it more neutral with respect to provinces' and territories' decisions as to how to structure the public delivery of health care services traditionally delivered in a hospital setting

2) Transfer programs to the provinces and territories

Plans	Time frame to completion	Method of monitoring progress
Implement the new arrangements for the Equalization Program and Territorial Formula Financing	Budget 2004—Legislation	Legislative and regulatory authorities to make payments under new arrangements in place
Commence review of programs for 2009 renewal		Commencement of discussions with provinces and territories of 2009 Renewal work plan
Assure the efficient administration of the transfer programs, including timely and accurate payments to provinces and territories consistent with legislation and regulations	Ongoing	Accurate and timely monthly payments to provinces and territories, based on official estimates The Office of the Auditor General of Canada audits these calculations annually Additional information is available at http://www.fin.gc.ca/access/fedprove.html .

3) Support to communities

Plans	Time frame to completion	Method of monitoring progress
Implement the increase in the GST rebate for municipalities from 57.14% to 100% as a first step to providing municipalities across Canada with an additional source of growing, reliable, and long-term funding	Ongoing	Enact the enabling legislation
Work with the provinces to share with municipalities a portion of the gas tax revenues or determine other fiscal mechanisms that achieve the same goals	Ongoing	Periodic progress reports

3) Support to communities (cont'd)

Plans	Time frame to completion	Method of monitoring progress
Implement improvements to the tax rules concerning registered charities set out in Budget 2004	Drafting of legislation is underway to make the regulatory process and information on the process more transparent and accessible; to introduce new intermediate sanctions; and to improve access to appeals.	Introduction of legislation

4) Support for Canadians to upgrade their skills and learning

Plans	Time frame to completion	Method of monitoring progress
<p>Develop and implement policies in collaboration with the provinces, territories, and other stakeholders that</p> <ul style="list-style-type: none"> • help Canadians upgrade their skills and acquire new ones • ensure that Canada's learning systems meet current and future needs • ensure that there is an adequate supply of skilled workers 	Ongoing	<p>Evidence of increased numbers of workers upgrading existing skills and acquiring new skills; increased math and science achievement; increased levels of post-secondary credential acquisition</p> <p>Evidence of reduced numbers of adult Canadians with low literacy skills and improved literacy levels of high school graduates</p>
Implement the tax measure announced in Budget 2004 that provides additional tax relief to Canadians pursuing lifelong learning	Budget 2004 proposed to allow part-time students to claim the education tax credit for education related to current employment, when the costs are not reimbursed by their employers. The government proposed that the measure be effective January 1, 2004.	Evidence of increase in the number of students claiming the education tax credit

4) Support for Canadians to upgrade their skills and learning (cont'd)

Plans	Time frame to completion	Method of monitoring progress
Implement measures announced in Budget 2004 to encourage low- and middle-income families to save for the post-secondary education of their children	Budget 2004 proposed the creation of the Canada Learning Bond (CLB) effective January 1, 2004, which will provide up to \$2,000 of education savings by age 16 for children in low-income families who were born in 2004 or later. In addition, Budget 2004 proposed to enhance the Canada Education Savings Grant (CESG) for low- and middle-income families to make the CESG program more responsive to the needs of these families, effective January 1, 2004.	Increased use of registered Education Savings Plans by low- and middle-income families Increased participation in post-secondary education by low- and middle-income Canadians (While the Department of Human Resources and Skills Development (HRSD) will deliver the CLB and Enhanced CESB programs, the Department of Finance Canada will work with HRSD to ensure that short-term and long-term program objectives are met.)

5) Sustainability of the Canada Pension Plan (CPP)

Plans	Time frame to completion	Method of monitoring progress
Proceed with the triennial review of the financial status of the CPP	Use best efforts to complete the next triennial review by the end of 2005, consistent with the legislative requirement	Periodic actuarial reviews of the CPP
Implement Bill C-3 which will transfer the remaining CPP assets to the CPP Investment Board	The remaining CPP assets will be transferred over a three-year period.	The CPP Investment Board publishes quarterly and annual financial statements that report the results of its investments and changes in CPP assets.
Passage and implementation of amendments to the CPP that were announced on February 27, 2004	Included in Bill C-30, tabled on March 31, 2004; changes required the consent of two-thirds of the provinces accounting for two-thirds of Canada's population before coming into force	Amendments in effect

6) Increase support for families with children

Plans	Time frame to completion	Method of monitoring progress
Implement a long-term investment plan for low-income families with children, as announced in the 2003 budget	<p>Changes to the Canada Child Tax Benefit (CCTB) announced in the \$100-billion Five-Year Tax Reduction Plan will be fully implemented by July 2004.</p> <p>Additionally, Budget 2003 announced a \$965-million per year increase in the National Child Benefit supplement of the CCTB by 2007. Further to the increase of \$150 per child per year in July 2003, there will be increases of \$185 per child in July 2005 and again in July 2006.</p>	<p>Benefits provided to low-income families with children</p> <p>The extent to which the enhanced CCTB makes it easier for poor families to break out of the welfare trap</p> <p>Contribution to reduction in depth and incidence of low incomes among families with children</p>

7) Enhance tax fairness for persons with disabilities

Plans	Time frame to completion	Method of monitoring progress
Improve tax fairness for persons with disabilities, above-average medical expenses, and those who care for them	<p>Budget 2003 set aside funds to improve tax assistance for persons with disabilities, drawing on the results of an ongoing evaluation of the Disability Tax Credit and the input of the Technical Advisory Committee on Tax Measures for Persons with Disabilities.</p> <p>Budget 2004 proposes a disability supports deduction in response to an early proposal from the Committee. The Committee will submit its final report in the fall of 2004.</p> <p>Budget 2004 also proposes a measure to better recognize medical and disability-related expenses incurred by caregivers on behalf of their dependent relatives.</p>	<p>Assessing the extent to which tax policy and legislation recognizes the effect of disability-related costs on the ability to pay tax for persons with disabilities and those who care for them</p> <p>Implementation of measures arising from the recommendations of the Technical Advisory Committee on Tax Measures for Persons with Disabilities</p>

8) Review of the Employment Insurance premium rate-setting mechanism

Plans	Time frame to completion	Method of monitoring progress
Prepare for a new rate-setting mechanism for the Employment Insurance premium	<p>Prior to the setting of the 2005 premium rate</p> <p>To ensure against the risk that such legislation may not be passed in time to set the rate for 2005, Bill C-30 includes provisions to give the Governor in Council the authority to set the rate for 2005 in the fall of 2004.</p>	Necessary legislative changes in place by January 1, 2005

Global Advantage for Canada

Notional planned spending for 2004–05: \$1,272.3 million

(This includes both operating and statutory program expenditures; \$1,248.9 million are statutory program expenditures comprised of budgetary and non-budgetary items under the Economic, Social, and Financial Policies Program, of which \$1,117.6 million is for budgetary items.)

Objective: To promote strong sustained global economic growth and development, as well as Canada's trade and investment interests, international financial stability, and more secure, open, and efficient borders; also to support the government's commitment to a healthy environment.

The Department will contribute to the pursuit of a global advantage for Canada in a number of important areas. As a participant in the G-7 and G-20 Finance Ministers' forums, as well as other forums, including the IMF, World Bank, European Bank for Reconstruction and Development, APEC, and Commonwealth, Canada will co-operate with other governments on policies and measures to increase global economic growth, promote global financial stability, and encourage policies to reduce poverty in developing countries. Canada will also work in these and other forums, including the Financial Action Task Force on Money Laundering, to advance both international standards to prevent abuses to the international financial system and measures to cut off terrorist financing.

The Department will work closely with concerned stakeholders to assure the effective implementation of measures to enhance the security and efficiency of Canada's borders. It will also work to foster a better appreciation of Canada's economic advantages by global financial markets and investors and will continue to play a key role in the development and management of Canada's trade and investment policies and in the advancement of Canada's interests in the context of a strong, rules-based trading system. As well, the Department will play a role in the assessment of environmental policy options to help Canada meet its commitments under the Kyoto Protocol.

Priorities:

1) Promote reforms to increase global growth, development, and financial stability

Plans	Time frame to completion	Method of monitoring progress
Support the Minister's participation in G-7, G-10, and G-20 Finance Ministers' forums and in other forums, such as APEC and Commonwealth Finance Ministers' meetings; support the Minister as Governor for Canada of the IMF, World Bank, and European Bank for Reconstruction and Development	Ongoing	Outcomes of G-7, G-10, G20 Finance Ministers' meetings in fostering global growth, financial stability, and better progress on development, e.g. better surveillance of the world economy and more effective responses to future inevitable financial crises
Support the Minister's participation in the International Commission for Africa	Spring 2005	The Commission report due in Spring 2005 will make concrete recommendations to G-8 leaders to improve development assistance to Africa. This is expected to be a major outcome of the G-8 Summit in the UK in 2005.
Collaborate with other governments, international organizations, and financial institutions to develop policies and instruments to increase global growth, reduce the likelihood of international financial crises, and improve the management of those that do occur and reduce global poverty	Ongoing, given the evolving nature of the global economy; various groups, such as the G-7 and G-20, periodically review progress in areas such as crisis prevention and resolution and aid effectiveness	Global economic indicators, including the incidence, duration, and severity of international financial crises Progress towards achieving the Millennium Development Goals to halve global poverty by 2015

1) Promote reforms to increase global growth, development, and financial stability (cont'd)

Plans	Time frame to completion	Method of monitoring progress
Participate in negotiations to complete the 14 th replenishment of the International Development Association	The World Bank's schedule calls for these negotiations to be completed by the end of 2004.	Progress of negotiations through 2004

2) Ensure that Canada's financial system is secure and meets international standards for combating financial abuses and terrorist financing activities

Plans	Time frame to completion	Method of monitoring progress
Participate in the Financial Action Task Force (FATF) and implement its 40 revised recommendations	The FATF work was completed in 2003; legislation and regulations will be updated as needed to reflect changes adopted by the FATF.	Development of legislation and regulations following consultations

3) New Currency

Plans	Time frame to completion	Method of monitoring progress
Work with the Bank of Canada to ensure the successful issuance of the new series of high-denomination (\$20, \$50 and \$100) bank notes to strengthen confidence in Canadian currency	The first of the new notes was issued in the first quarter of 2004; the remaining two notes will be issued later in the fiscal year.	Counterfeiting levels for the high-denomination notes Acceptance level by retailers and the public of high denomination notes

4) More efficient and secure borders

Plans	Time frame to completion	Method of monitoring progress
Participate in work to improve the efficiency and security of Canada's borders	Ongoing The 2001 budget provided multi-year funding for border-related security and efficiency initiatives. The 2003 and 2004 budgets provided further multi-year funding for security, including for border-related initiatives.	The effective implementation of border-related security and efficiency measures
Review the Air Travellers Security Charge to ensure that revenue from the charge remains in line with the costs of the enhanced air travel security system.	Ongoing The Air Travellers Security Charge (ATSC) took effect on April 1, 2002, to fund expenditures on enhanced air travel security. Budget 2003 and Budget 2004 each presented a review of the ATSC, including updated projections for revenue and expenditures. Budget 2004 proposed that, effective April 1, 2004, the charge be reduced to \$6 from \$7 for one-way domestic air travel, to \$12 from \$14 for roundtrip domestic air travel, to \$10 from \$12 for transborder air travel, and to \$20 from \$24 for other international air travel.	The ATSC will continue to be reviewed over time to ensure that revenue remains in line with planned expenditures for the enhanced air travel security system.

5) A stronger international trading system and enhanced security of access for Canadian exports in major foreign markets

Plans	Time frame to completion	Method of monitoring progress
Work to improve international trade rules and advance trade liberalization in the World Trade Organization, the Free Trade Area of the Americas (FTAA), and other bilateral and regional trade initiatives	Negotiations for free trade agreements with four Central American countries (El Salvador, Guatemala, Honduras, and Nicaragua) and with Singapore could conclude in 2004. The Doha Development Round of multilateral trade negotiations at the WTO, which was launched in November 2001, and the FTAA negotiations are scheduled to conclude in 2005.	The effective advancement of Canada's interests and priorities in areas where the Department has primary responsibility (e.g., market access, trade remedies, subsidy disciplines, and financial services), as developed in consultation with domestic stakeholders
Work to ensure NAFTA continues to stimulate trade and investment in North America	Ongoing; the Most-Favoured-Nation (MFN) Tariff harmonization/rules of origin liberalization initiative announced by NAFTA Trade Ministers in October 2003 is expected to conclude by the end of 2004	The effective advancement of Canada's interests and priorities as developed in consultation with domestic stakeholders
Participate in efforts to enhance Canadian producers' security of access to foreign markets and pursue Canada's rights under the international trade agreements	Ongoing	Effective management and resolution of trade disputes or problems and the advancement of strategies to strengthen security of market access for Canadian firms

6) Contribute to the government's implementation strategy for meeting commitments under the Kyoto Protocol

Plans	Time frame to completion	Method of monitoring progress
Continue to participate, along with other federal departments, other governments, and stakeholders, in the design of a system of covenants with large final emitters to achieve reductions in their greenhouse gas emission intensities	Ongoing	Participation in inter-departmental consultations on the various aspects of the analysis and design of covenants, and development of a domestic and international permit trading system
Continue to evaluate proposals for tax-related climate change measures	Ongoing	Efficiency, fairness, and effectiveness of tax measures
Evaluate tax treatments of transactions under a proposed domestic emissions trading system, once the characteristics of such a system have been presented by supporting departments	Ongoing	Efficiency, fairness, and effectiveness of tax treatment

7) Support opportunities for Canadian trade and investment

Plans	Time frame to completion	Method of monitoring progress
Ensure that tariff and trade remedy policies support and enhance the competitiveness of Canadian businesses	Ongoing	Timely and effective responses to proposals to lower tariffs on manufacturing inputs or with respect to trade remedy measures

7) Support opportunities for Canadian trade and investment (cont'd)

Plans	Time frame to completion	Method of monitoring progress
Promote a stronger market role and greater choice for Canadian exporters in financial services in support of Canadian business abroad	Ongoing	Oversight of Export Development Canada (EDC) through participation on EDC's Board of Directors Regular contact with the commercial sector and the international trade finance community
Foster a better understanding abroad of Canada's economy	Ongoing	Canada's leadership and involvement within international financial organizations

Section IV: Organization

Strategic Outcomes and Business Lines

The following crosswalk identifies the resource relationship between Strategic Outcomes and Business Lines for 2004–05.

(\$ millions)

(\$ millions)

Program ➔	Economic, Social, and Financial Policies				Public Debt		Fed.- Prov. Transfers	Total
Business Line ➔ Strategic Outcomes ⬇	Policies and Advice	Corp. Admin	Int. Financial Org.*	Domestic Coinage	Interest and Other Costs	CI&S	Transfer Payments	
Fiscal Advantage for Canada	18.6	12.4		64.6	35,283.0	117.0		35,495.6
Economic Advantage for Canada	13.7	9.1						22.8
Social Advantage for Canada	7.9	4.9					30,600.0	30,612.8
Global Advantage for Canada	14.7	8.7	1,248.9					1,272.3
Total	54.9	35.1	1,248.9	64.6	35,283.0	117.0	30,600.0	67,403.5

Note: Notional allocation of planned spending based on best estimate.

* Includes budgetary and non-budgetary (loans, investments, and advances) items.

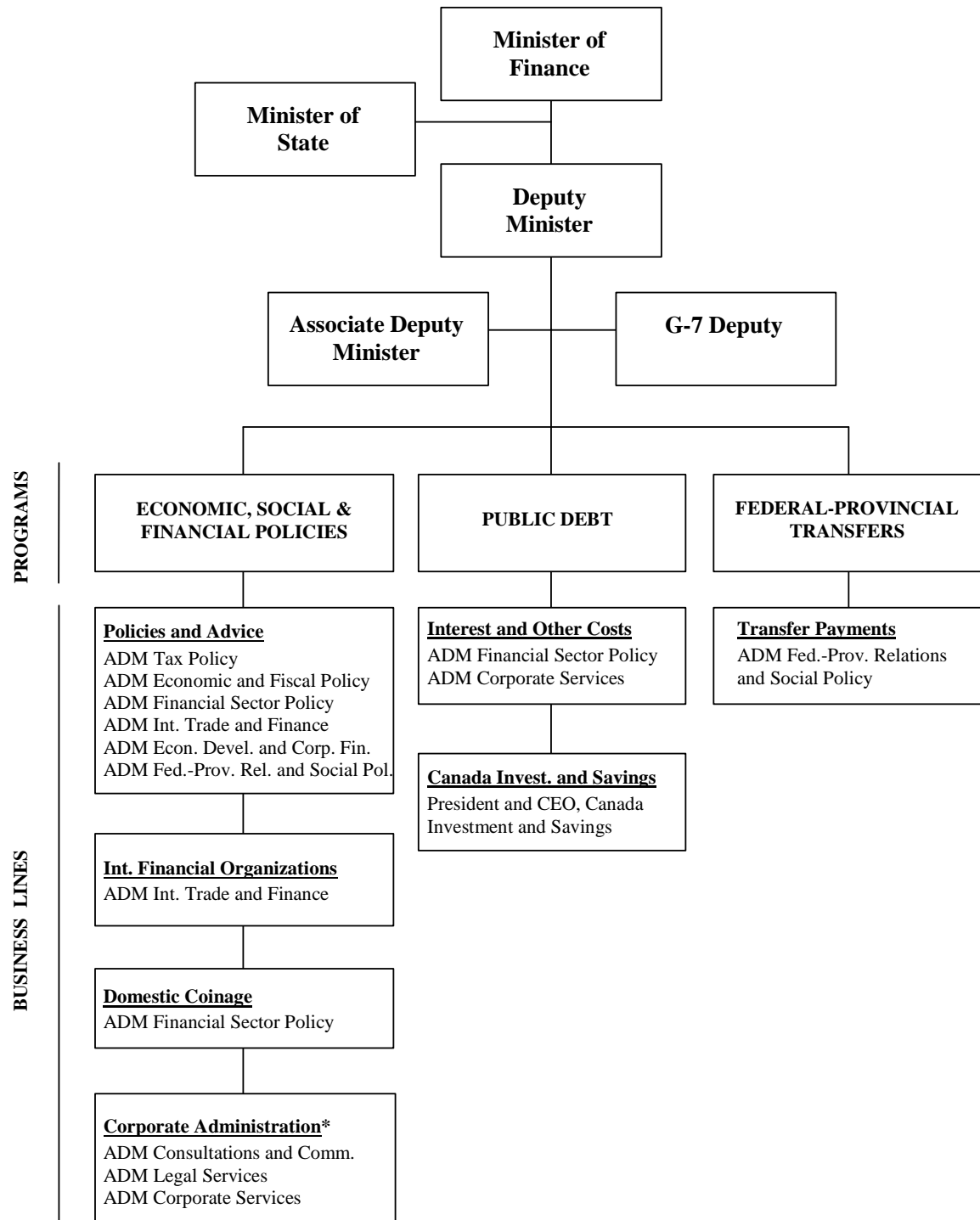
Accountability

The Department of Finance Canada operates under sections 14–16 of the *Financial Administration Act*. Section 15 provides the Minister with broad responsibility for “the management of the Consolidated Revenue Fund and the supervision, control and direction of all matters relating to the financial affairs of Canada not by law assigned to the Treasury Board or to any other minister.”

Six policy branches supported by the Consultations and Communications Branch, Law Branch, and Corporate Services Branch deliver three departmental programs, as well as the associated business lines. The organizational structure displayed on the following page shows the positions responsible for each business line.

Reference should be made to the Departmental Planned Spending Table on page 36 of this report.

Program, Business Line, and Organization Chart



* This business line also includes departmental management.

Human Resources

The Department of Finance Canada is a knowledge organization, a policy department, and a central agency with a strong culture of professionalism and excellence. Its workforce is made up of exceptionally committed employees who have joined the Department because they believe that public service is important and that they can make a real contribution to their country.

Recognizing that its employees, and the culture and environment in which they work, are the Department's key assets, the Department of Finance Canada developed and continues with the ongoing implementation of a strategic Human Resources Plan. The initial Plan was launched in September 2000, with the objective of making the Department a workplace of choice in the federal Public Service. While initiatives are ongoing in all Plan elements, a consultative process is underway with representative stakeholders to determine priority needs moving forward. Members of the Executive Committee serve as champions to provide leadership and strategic direction for a variety of projects and activities that fall under the following key elements of the Plan:

- performance management;
- succession planning;
- career development strategy;
- professional learning and networking;
- supportive work environment;
- awards and recognition;
- recruitment;
- official languages;
- physical work environment and technological tools; and
- employment equity and respect in the workplace.

To take stock of the Plan-related achievements, the Deputy Minister and the Executive Committee host an annual Town Hall meeting with all staff, planned this year for September. This forum presents a significant opportunity for the Deputy Minister and the Executive Committee champions to be accountable for what was accomplished during the year and for employees to provide feedback.

Departmental Planned Spending

Program/Business Line	Forecast Spending 2003–04	Planned Spending 2004–05	Planned Spending 2005–06
	\$millions	\$millions	\$millions
Economic, Social, and Financial Policies Program			
Policies and Advice [*]	51.5	55.5	55.1
International Financial Organizations [†]	1,090.4	1,116.6	1,075.5
Domestic Coinage [‡]	52.0	48.0	76.9
Corporate Administration [§]	42.6	35.1	34.9
Budgetary Main Estimates (gross)	1,236.5	1,255.2	1,242.4
Public Debt Program			
Interest and Other Costs ^{**}	37,479.0	36,083.0	35,585.0
Canada Investment and Savings ^{††}	121.0	117.0	115.0
Budgetary Main Estimates (gross)	37,600.0	36,200.0	35,700.0
Federal-Provincial Transfers Program			
Transfer Payments ^{‡‡}	28,249.0	31,555.0	33,935.0
Budgetary Main Estimates (gross)	28,249.0	31,555.0	33,935.0
Total Budgetary Main Estimates	67,085.5	69,010.2	70,877.4

^{*} Policies and Advice costs are increasing in 2004–05 and subsequent years, due to new initiatives, such as policy development on reforms to Canadian security regulations, the Technical Advisory Committee on Tax Measures for Persons with Disabilities, public security and anti-terrorism initiatives and increases in collective bargaining.

[†] Changes in both the Budgetary and Non-budgetary amounts of the International Financial Organizations business line are attributable to changes in the negotiated payment schedules for international assistance under the *Bretton Woods and Related Agreements Act*.

[‡] The increase in Domestic Coinage is due to revised production and distribution costs, based on forecasted volumes and decisions to issue new commemorative coins.

[§] The reduction in the Corporate Administration business line is comprised of a \$2.5 million increase in salary costs resulting from collective bargaining and a \$9.9 million decrease attributable to a change in accounting practices. In a recent review of the funding arrangements for corporate services provided by the Department of Finance Canada to the Treasury Board of Canada Secretariat (TBS), it was concluded that the funds received by the Department were more appropriately reported as recoveries against expenditures rather than as "revenues." Note the corresponding reduction in spendable revenues.

^{**} Changes in the Interest and Other Costs business line are a result of fluctuations in forecasted interest rates.

^{††} Canada Investment and Savings decrease of \$4.0 million is attributable in part to the \$1 billion savings initiative announced in Budget 2003, which will be realized by reducing marketing expenditures and systems investments.

^{‡‡} Increases in the Transfer Payments business line are attributable to items announced in Budget 2004, as well as revised forecasts of spending resulting from updating funding formulas to the provinces and territories with more current data.

Departmental Planned Spending (cont'd)

Program/Business Line	Forecast Spending 2003–04	Planned Spending 2004–05	Planned Spending 2005–06
	\$millions	\$millions	\$millions
Economic, Social, and Financial Policies Program			
International Financial Organizations [†]	205.0	132.3	88.4
Total Non-budgetary Main Estimates (gross)	205.0	132.3	88.4
Less: Respendable revenue [§]	10.6	0.6	0.6
Total Main Estimates	67,279.9	69,141.9	70,965.2
Adjustments (see Schedule 1)	2,998.3	(1,738.4)	
Revised Estimates	70,278.2	67,403.5	70,965.2
Less: Non-respendable revenue ^{§§}	71.7	106.3	111.8
Plus: Cost of services received without charge	13.2	12.3	12.3
Net Cost of Program	70,363.1	67,309.5	70,865.7
Full-time Equivalents	799.0	813.0	812.0

[†] Changes in both the budgetary and Non-budgetary amounts of the International Financial Organizations business line are attributable to changes in the negotiated payment schedules for international assistance under the *Bretton Woods and Related Agreements Act*.

[§] The reduction in the Corporate Administration business line is comprised of a \$2.5 million increase in salary costs resulting from collective bargaining and a \$9.9 million decrease attributable to a change in accounting practices. In a recent review of the funding arrangements for corporate services provided by the Department of Finance Canada to the Treasury Board of Canada Secretariat (TBS), it was concluded that the funds received by the Department were more appropriately reported as recoveries against expenditures rather than as “revenues.” Note the corresponding reduction in respendable revenues.

^{§§} Planned non-respendable revenue is expected to be higher in 2004–05 because the demand for the larger denominations of circulating domestic coinage is expected to increase.

Schedule 1: Net Planned Spending (Adjustments)

	2003–04	2004–05
(\$ millions)		
Operating costs for the provision of corporate services to the Treasury Board of Canada Secretariat (TBS)	7.0	
Increase in respendable revenue for additional corporate services provided to TBS	(7.0)	
Carrying out policy development on reforms to Canadian securities regulation	5.8	
Operating budget carry forward	4.5	
Public security and anti-terrorism initiatives	2.0	
Collective bargaining	2.0	
Technical Advisory Committee on Tax Measures for Persons with Disabilities	0.6	
Other operating costs	0.8	
Revised forecast of costs for the production and distribution of domestic circulating coinage	(3.9)	16.6
Revised forecast of public debt charges due to lower interest rates and interest savings on currency transactions	(1,800.0)	(800.0)
Reduction in Payments to the International Monetary Fund's Poverty Reduction and Growth Facility	(12.5)	
Reduction in grant payment under multilateral debt service reduction agreements	(25.0)	
Revised forecast of transfer payments to provincial governments	4,824.0	(955.0)
Total Adjustments	2,998.3	(1,738.4)

Appendix A: Financial Information

Table 1: Summary of Transfer Payments

Table 2: Details of Transfer Payments for the Estimates Year 2004–05

Table 3: Major Initiatives and/or Programs

Table 4: Sources of Respendable and Non-respendable Revenue

Table 5: Net Cost of Programs for the Estimates Year 2004–05

Table 6: Loans, Investments, and Advances (Non-budgetary)

Table 1: Summary of Transfer Payments

	Forecast Spending 2003–04	Planned Spending 2004–05	Planned Spending 2005–06
(\$ millions)			
Grants (Economic, Social, and Financial Policies Program)			
International Financial Organizations*	540.0	726.0	756.0
Total Grants	540.0	726.0	756.0
Contributions (Economic, Social, and Financial Policies Program)			
International Financial Organizations*	135.0	90.0	75.0
Total Contributions	135.0	90.0	75.0
Other Transfer Payments (Economic, Social, and Financial Policies Program)			
International Financial Organizations*	377.9	300.6	244.5
Federal-Provincial Transfer Payments Program (cash portion) †	33,073.0	30,600.0	33,935.0
Total Other Transfer Payments	33,450.9	30,960.6	34,179.5
Total Grants, Contributions, and Other Transfer Payments	34,125.9	31,776.6	35,010.5

* Changes are attributed to the negotiated payment schedules for international assistance to such organizations as the International Development Association and the International Monetary Fund's various programs under the *Bretton Woods and Related Agreements Act*.

† The amount shown as Planned Spending for 2004–05 is the cash contributions authorized by Part V of the *Federal-Provincial Fiscal Arrangements Act*. The following tables show the total federal contribution in respect of the Canada Health Transfer (CHT) and the Canada Social Transfer (CST), including the tax portion of these transfers:

Canada Health Transfer (CHT)
(\$ millions)

Total cash transfer payments	12,650.0
Plus equalized tax transfers	10,836.0
Total	23,486.0

Canada Social Transfer (CST)
(\$ millions)

Total cash transfer payments‡	7,900.0
Plus equalized tax transfers	6,642.0
Total	14,542.0

‡ Includes an additional \$75 million from the revised forecast of transfer payments.

Table 2: Details of Transfer Payments for the Estimates Year 2004–05

<p>Economic, Social, and Financial Policies Program</p> <p><i>International Financial Organizations Business Line</i></p>
<p>Objective</p> <ul style="list-style-type: none"> Responsible administration of international financial obligations and subscriptions <p>Planned Results</p> <ul style="list-style-type: none"> The efficient use of resources to promote growth and equitable development in the world economy <p>Milestones</p> <ul style="list-style-type: none"> Annual tabling in Parliament of the Report on Operations under the <i>Bretton Woods and Related Agreements Act</i>
<p>Federal-Provincial Transfers Program</p> <p><i>Transfer Payments Business Line</i></p>
<p>Objective</p> <ul style="list-style-type: none"> To make transfer payments pursuant to the <i>Federal-Provincial Fiscal Arrangements Act</i>, as well as payments pursuant to agreements with respect to Territorial Formula Financing, payments for various Statutory Subsidies, and recoveries made pursuant to the Youth Allowances Recovery Program. Payments under the <i>Federal-Provincial Fiscal Arrangements Act</i> include payments under the Canada Health Transfer (CHT) and the Canada Social Transfer (CST), as well as payments under the Health Reform Transfer and recoveries under the Alternative Payments for Standing Programs. <p>Planned Results</p> <ul style="list-style-type: none"> Efficient and effective administration of the program <p>Milestones</p> <ul style="list-style-type: none"> Timely and accurate payments consistent with statutory requirements

Table 3: Major Initiatives and/or Programs

Strategic Outcome

The federal government provides financial support to provincial and territorial governments on an annual basis to assist them in the provision of programs and services. Transfers help ensure that all Canadians receive reasonably comparable levels of public services, wherever they live. They support important provincial programs—such as health care, post-secondary education, social assistance, social services, and early childhood development.

The Department administers the following key programs:

	2004–2005 \$ millions	2005–2006 \$ millions
Planned Spending	30,600.0	33,935.0

The **Equalization Program** ensures that less prosperous provinces have sufficient revenue to provide reasonably comparable levels of public services at reasonably comparable levels of taxation. Equalization payments are unconditional; provinces can spend them as they see fit. In 2004–05, 8 provinces will receive payments under this program.

The **Territorial Formula Financing** (TFF) ensures that territorial governments can provide services to their residents while recognizing the higher costs in the North.

As of April 1, 2004, the Canada Health and Social Transfer (CHST) will be restructured and two new transfers will be created: the Canada Health Transfer (CHT) and the Canada Social Transfer (CST). This move will increase transparency and accountability of federal support to provinces and territories.

The **Canada Health Transfer** (CHT) will be the largest federal transfer to provinces and territories, providing cash payments and tax transfer support for health.

The **Canada Social Transfer** (CST) will provide cash payments and tax transfer support to provinces and territories for post-secondary education, social assistance, and social services, including early childhood development and early learning and child care services. The CST will give the provinces and territories the flexibility to allocate payments among supported areas according to their own priorities.

Federal support through the new transfers will be allocated on an equal per capita basis to ensure equal support to all Canadians, regardless of their place of residency.

In addition to the CHT and the CST, the **Health Reform Transfer (HRT)** provides cash payments to provinces and territories for the specific purpose of helping accelerate reform in priority areas identified in the First Ministers' 2003 Accord. Specifically, these are: primary health care, home care, and catastrophic drug coverage. This five-year transfer is set to expire on March 31, 2008, and, subject to a review of progress made in achieving the agreed-upon reforms, annual funding will be rolled into the CHT effective April 1, 2008.

Cash contributions under the new CHT, the new CST, and the HRT will continue to be provided for the purpose of maintaining the national criteria and conditions in the *Canada Health Act*, including those respecting the five principles and the provisions relating to extra-billing and user charges, and the prohibition against residency requirements for social assistance.

Planned Activities	Expected Results and Timelines
Implement the new arrangements for the Equalization Program and of the Territorial Formula Financing.	Legislative and regulatory authorities to make payments under new arrangements in place.
Commence review of programs for 2009 renewal.	Commencement of discussions with provinces and territories of outstanding issues.
Assure the efficient administration of the transfer programs, including timely and accurate payments to provinces and territories consistent with legislation and regulations.	Accurate and timely monthly payments to provinces and territories, based on official estimates
Regulations specifying the calculation of payments under the Equalization program, effective 2004–05.	Regulations will be finalized by the end of 2004–05. Interim regulations will be introduced to ensure that initial payments can be made.

Table 4: Sources of Respendable and Non-respendable Revenue

	Forecast Revenue 2003–04	Planned Revenue 2004–05	Planned Revenue 2005–06
(\$ millions)			
Respendable Revenue			
(Economic, Social, and Financial Policies Program)			
Policies and Advice	0.6	0.6	0.6
Corporate Administration*	17.0		
Total Respendable Revenue	17.6	0.6	0.6
Non-respendable Revenue			
(Economic, Social, and Financial Policies Program)			
Domestic Coinage†	71.7	106.3	117.3
Total Non-respendable Revenue	71.7	106.9	117.3
Total Respendable and Non-respendable Revenue	89.3	106.9	117.9

* Corporate Administration revenue in the fiscal year 2003–04 includes revenue credited to the vote for corporate services provided to the Treasury Board of Canada Secretariat. The amount in the main estimates was \$9.9 million and was subsequently increased by \$7 million. This \$7 million increase in revenue was offset by a \$7 million increase in operating costs. Both these adjustments are reflected in the 2003–04 adjustments column of the Departmental Planned Spending table. For subsequent fiscal years, these recoveries are being reflected as a recovery of expenditures.

† Planned non-respendable revenue is expected to be higher in 2004–05 because the demand for the larger denominations of circulating coinage is expected to increase.

Table 5: Net Cost of Programs for the Estimates Year 2004–05

	Economic, Social & Financial Policies Program	Public Debt Program	Federal Provincial Transfers Program	Total
(\$ millions)				
Net Planned Spending	1,403.5	35,400.0	30,600.0	67,403.5
<i>Plus: Services Received without Charge</i>				0.0
Accommodation provided by Public Works and Government Services Canada	6.3			6.3
Contributions covering employer's share of employees' insurance premiums and expenditures paid by the Treasury Board of Canada Secretariat	4.4			4.4
Workers' compensation coverage provided by Human Resources and Skills Development Canada	0.0			0.0
Salary and associated expenditures of legal services provided by the Department of Justice Canada	1.6			1.6
	1,415.8	35,400.0	30,600.0	67,415.8
<i>Less: Non-respendable Revenue</i>	106.3			106.3
2004–05 Net Cost of Programs	1,309.5	35,400.0	30,600.0	67,309.5

Table 6: Loans, Investments, and Advances (Non-budgetary)

	Forecast Spending 2003–04	Planned Spending 2004–05	Planned Spending 2005–06	Planned Revenue 2006–07
(\$ millions)				
Economic, Social, and Financial Policies Program				
International Financial Organizations*	205.0	132.3	88.4	7.6
Total	205.0	132.3	88.4	7.6

* Planned spending is expected to decrease beyond 2003–04 due to a decrease in payments related to the International Monetary Fund's Poverty Reduction and Growth Facility and the European Bank for Reconstruction and Development as a result of negotiated agreements under the *Bretton Woods and Related Agreements Act*.

Appendix B: Major Regulatory Initiatives

Legislation Regulations	Planned Results
Legislation will be introduced to update the corporate governance provisions in the financial institutions statutes, taking into account the passage of Bill S-11 (amendments to the <i>Canada Business Corporations Act</i>) and recent developments in the corporate sector more broadly.	Legislation/regulations will be developed.
<i>Customs Tariff</i> — The Tariff contains a number of provisions that allow the government to respond to the competitive needs of Canadian industry and to enforce Canada's rights and meet its obligations under international agreements and arrangements to which Canada is a party.	Through the use of orders and regulations, the government will continue to respond to the competitive needs of Canadian industry and will enforce Canada's rights and meet its obligations under international agreements and arrangements.
<i>Excise Tax Act</i> and related regulations under Part IX of the Act (GST/HST) — Amendments to the <i>Excise Tax Act</i> and regulations made under Part IX of the Act are required from time to time to address emerging policy or technical issues.	The government will propose several technical amendments that were previously announced in press releases. They include amendment in respect of social workers' services, returnable container rules, and transactions involving agents and suppliers, including bad debt deductions.
Equalization	Regulations specifying the calculation of payments under the Equalization program, effective 2004–05, will be finalized by the end of 2004–05. Interim regulations will be introduced to ensure that initial payments can be made.
Implementation of tax treaties	In 2004, the government may introduce a bill to approve and implement new and amended income tax treaties between Canada and other countries.

Legislation Regulations	Planned Results
Regulations emanating from Bill C-48 (Taxation of Resource Income)	The government plans to submit regulations for consideration and approval by the Governor in Council in 2004 in order to give effect to the measures in Bill C-48 (2003), which received Royal Assent on November 7, 2003.
2004 income tax legislation (2004 budget)	In 2004, the government plans to introduce a bill to implement income tax measures announced in the 2004 budget.
<i>An Act to Amend the Income Tax Act 2004</i> (technical bill)	On February 27, 2004, the government reissued the package of technical amendments that was released on December 20, 2003. The government plans to introduce in 2004 a bill to implement these measures, as modified by the 2004 release.
The Budget Implementation Bill, 2004 will implement generally non-tax measures arising from the 2004 budget.	Bill C-30 was tabled on March 31, 2004.
<i>An Act to Amend the Income Tax Act, 2004 (Foreign Investment Entities and Non-resident Trusts)</i>	In 2004, the government plans to proceed with the October 2003 Ways and Means Motion to implement the 1999 budget proposals relating to Non-resident Trusts and Foreign Investment entities.
2004 Income Tax proposals—other issues	The government plans, subject to the results of consultations, to re-release draft legislation relating to cross-border share-for-share exchanges in 2004. It also plans to release in the fall of 2004 draft legislation relating to the deductibility of interest and other expenses.
Amendments to the <i>Excise Act, 2001</i>	Legislation to implement refinements to the new excise framework will be introduced in 2004.

Legislation Regulations	Planned Results
Amendments to the <i>Air Travellers Security Charge Act</i>	In 2004, the government plans to introduce a bill to amend the <i>Air Travellers Security Charge Act</i> to implement the reduction in the charge announced in Budget 2004 and other technical amendments.
Amendments to the <i>Proceeds of Crime (Money Laundering) and Terrorist Financing Act</i> and its regulations	Legislation/regulations will be introduced to respond to revised FATF recommendations following consultation.
Amendments to the <i>First Nations Goods and Services Tax Act</i> and other technical amendments	In 2004, the government may introduce amendments to the <i>First Nations Goods and Services Tax Act</i> to facilitate entering into taxation arrangements between the Government of Quebec and Indian Boards in Quebec. Other technical amendments could be made to that Act and to the <i>Income Tax Act</i> .

Appendix C: Sustainable Development Strategy

“Sustainable development” is defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs, and it is a key commitment of all federal departments. In 1995, the *Auditor General Act* was amended to require each department to prepare and update a Sustainable Development Strategy (SDS). These strategies are tabled in the House of Commons, and the Commissioner of the Environment and Sustainable Development monitors the progress toward their implementation.

An SDS is intended to outline a department’s goals and action plans for integrating sustainable development into its policies, programs, and operations over three-year planning periods. The first Department of Finance Canada SDS, which was tabled in the House of Commons in 1997, helped to show how the federal government’s fiscal and economic plans contributed to sustainable development in Canada, outlined the Department’s approach and contribution to international sustainable development issues, and showed how the Department would improve environmental performance in its operations.

The Department’s updated SDS for 2001–03, built upon the 1997 strategy and the progress achieved by the Department and the government in promoting sustainable development. Like its first strategy, the Department’s 2001–03 strategy focussed on those areas where the Department can make unique and important contributions to sustainable development in Canada and around the world. Finance’s updated strategy for 2004–06 was completed in December 2003. It is built upon the solid foundation provided by the previous two versions. The Department’s 1998–2000, 2001–03, and 2004–06 strategies can be found at <http://www.fin.gc.ca/purl/susdev-e.html>.

The Department of Finance Canada confirmed two key goals in its 2004–06 SDS: to promote intergenerational equity through effective fiscal management; and to continually strive to more fully integrate economic, social, and environmental considerations and objectives into policy making. To help focus on these goals, the 2004–06 SDS identifies four themes or key issues on which to base departmental actions over the next three years: Building the Future, Integrating the Economy and the Environment, Integrating Sustainable Development into the Global Economy, and Greening Operations. The Department’s action plan for sustainable development sets out a number of objectives and targeted actions in each of these four areas over the planning period.

Over the coming year, the Department of Finance Canada will be improving its tracking of progress on sustainable development commitments through its sustainable development management regime, and continuing to raise awareness of the departmental process for fulfilling the Department’s obligations under the *Cabinet Directive on Strategic Environmental Assessment*.

A detailed outline of the Department's objectives, actions, and planned results in its sustainable development strategy in 2004–05 is available at <http://www.fin.gc.ca/purl/susdev-e.html>.

Appendix D: Other Information

Statutory and Departmental Reports

Annual Financial Report of the Government of Canada and Fiscal Reference Tables

Annual Report to Parliament on the Operations of the Exchange Fund Account

Canada Investment and Savings Annual Report (<http://www.csb.gc.ca>)

Canadian Federal Budget

Debt Management Report

Debt Management Strategy

Departmental Performance Report

Economic and Fiscal Update

Economy in Brief — Quarterly

Fiscal Monitor — Monthly

Government of Canada Securities — Quarterly

Government of Canada Tax Expenditures and Evaluations

Report on Operations under the *Bretton Woods and Related Agreements Act*

Report on Operations under the *European Bank for Reconstruction and Development Agreement Act*

Report on Plans and Priorities

Sustainable Development Strategy

Distribution Centre
300 Laurier Avenue West
Ottawa ON K1A 0G5
Tel.: (613) 995-2855

These reports can be accessed from the Department of Finance Canada Web site:
<http://www.fin.gc.ca/>

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