

OFFICE OF  
THE PARLIAMENTARY BUDGET OFFICER



BUREAU DU  
DIRECTEUR PARLEMENTAIRE DU BUDGET

## Federal Expenditure Restraint: *Monitoring Framework*

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[www.pbo-dpb.gc.ca](http://www.pbo-dpb.gc.ca)

**Key Points of this Note:**

- Over the past three Budgets, the Government of Canada has announced successive rounds of expenditure restraint totalling \$37 billion over 5 years, and \$10.8 billion ongoing.
  - This restraint exclusively targets Direct Program Expenditures, in particular operating spending.
- The Office of the Parliamentary Budget Officer (PBO) has attempted, but been unable, to identify the financial and operational impacts of these three rounds of restraint on individual organizations and programs.
- To support Parliament's ability to identify the impact of expenditure restraint on federal programs, the PBO has developed a monitoring framework. The framework relies on non-public data collected by the Receiver General of Canada pertaining to program activity expenditures, as well as non-public data shared by federal organizations regarding budgetary adjustments to planned program activity spending.
- The data from this framework will begin to be published in the Integrated Monitoring Database (IMD) beginning in September 2012 ([www.pbo-dpb.gc.ca](http://www.pbo-dpb.gc.ca)).

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## 1. Context

The Parliamentary Budget Officer's (PBO's) mandate includes research and analysis of the nation's finances. Since inception of the Office of the PBO in 2008, this aspect of the mandate has included assessment of federal initiatives with a material impact on the Government's fiscal framework (e.g. acquisition of F-35 jets for the Canadian military).

The past three federal budgets have included successive restraint exercises, totaling \$37 billion over their initial five years and almost \$11 billion ongoing (Box 1-1).

### Box 1-1

#### Recent Budgetary Reductions

Since March 2010, the Government has announced three successive rounds of spending reductions targeted toward Direct Program Expenditures.

Budget 2010 included restraint measures totaling \$15 billion over 5 years. Following this, Budget 2011 implemented a further \$2 billion over five years. Finally, Budget 2012 proposed an additional \$20 billion over five years.

	Initial 5 Years	Ongoing Reduction
Budget 2010	\$15 B	\$5.1 B
Budget 2011	\$2 B	\$0.5 B
Budget 2012	\$20 B	\$5.2 B
<b>TOTAL</b>	<b>\$37 B</b>	<b>\$10.8 B</b>

Source: The Government of Canada. Budget 2012.

These exercises focused on federal Direct Program Expenses (DPE), which include the operating budgets of departments and Crown Corporations, as well as transfers administered by departments for activities such as farm income support.<sup>1</sup>

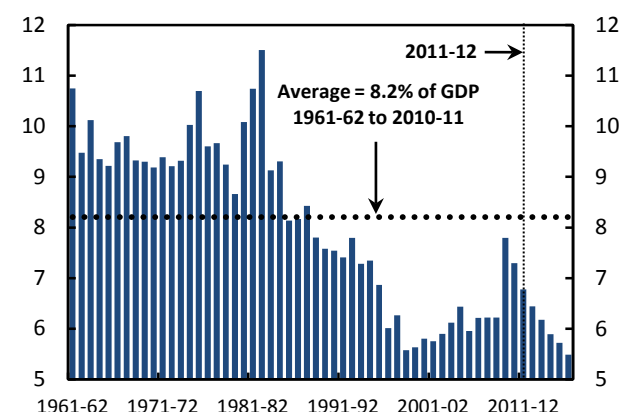
As presented in Figure 1-1, DPE as a share of GDP is projected to decline to a 50-year low of 5.5 per cent. This is almost one-third lower than the long-

term average and a similar level of decline as Program Review in the 1990s (Figure 1-1).<sup>2</sup>

Figure 1-1

#### Direct Program Expenses: Actual and Projected

\$ Billions

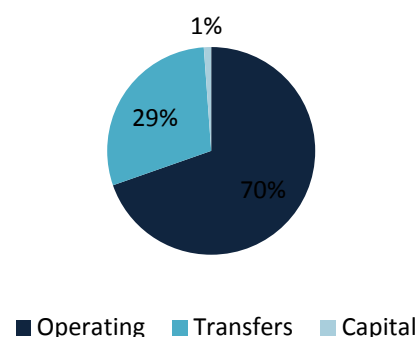


Sources: Office of the Parliamentary Budget Officer.

While part of these savings will be achieved through reduced transfer payments and capital investment, over two-thirds of the cuts will be implemented through shrinkage of other operating expenses (Figure 1-2). As noted in Budget 2012, this will require improving the efficiency of existing federal operations while maintaining service levels.

Figure 1-2

#### Cumulative Reductions: Cuts by Category



Sources: Department of Finance Canada.

<sup>1</sup> <http://www.budget.gc.ca/2012/home-accueil-eng.html>. Accessed June 2012.

<sup>2</sup> [http://www.parl.gc.ca/PBO-DPB/documents/EFO\\_April\\_2012.pdf](http://www.parl.gc.ca/PBO-DPB/documents/EFO_April_2012.pdf). Accessed June 2012.

## 2. Challenges in Assessing Restraint

While the Government has identified the aggregate fiscal savings of restraint programs, it has not consistently reported on the financial impacts across federal organizations. Nor have the operational consequences, including service level impacts, been identified.

To support parliamentary scrutiny of the restraint programs presented in the past three Budgets, the PBO has adopted a dual strategy:

- *Utilize existing Government Reports.* This included an extensive review of all Budget and Estimates documents, as well as the Public Accounts of Canada. The results of this review are presented on the PBO Web site: [Cumulative Cuts Spreadsheet September 2012](#). As noted earlier, reporting of financial impacts on specific organizations and programs is uneven, with some departments offering detail and others very little.
- *Seek additional information from the Government.* As presented in Table 2-1, the PBO has filed five separate information requests seeking further details of restraint. Only one had a complete response. In other cases, the Government indicated that the data did not exist or could not be shared.

Table 2-1

### Information Requests Pertaining to Budget Cuts

#	Subject	Response
38	Budget 2010 – Human Resource Plans	Partial Data Provided
48	Budget 2010– Operating Budget Freeze	No Data Provided
51	Budget 2012 – Assessment Base for Expenditures	Partial Response
80	Budget 2012 – Departmental Details	Partial Data Provided
81	Budget 2012 – Fiscal information	Complete Response

Sources: Office of the Parliamentary Budget Officer.

Note: Figures in first column refer to information requests posted on the PBO Web site.

The most recent information request sought data pertaining to the financial and operational impacts of spending reductions proposed in Budget 2012 (#80). While almost one quarter of recipients did respond to the request, the Clerk of the Privy Council also indicated that, in his view, federal organizations should not respond to the PBO.<sup>3</sup> Instead, he indicated that the data would be provided to Parliament through the existing reporting regime (Box 2-2).<sup>4</sup>

<sup>3</sup> [http://www.parl.gc.ca/PBO-DPB/documents/InformationRequests/Responses/Response\\_1\\_R0080\\_PCO\\_May\\_15\\_2012.pdf](http://www.parl.gc.ca/PBO-DPB/documents/InformationRequests/Responses/Response_1_R0080_PCO_May_15_2012.pdf). Accessed June 2012.

<sup>4</sup> A legal opinion was prepared in response to the Clerk's letter, which is posted on the PBO Web site: [http://www.parl.gc.ca/PBO-DPB/documents/InformationRequests/Requests/Legal\\_Opinion\\_2012-06-18\\_EN.pdf](http://www.parl.gc.ca/PBO-DPB/documents/InformationRequests/Requests/Legal_Opinion_2012-06-18_EN.pdf). Accessed July 2012.

## Box 2-2

### Federal Reporting to Parliament

The Government's framework for financial reporting to Parliament relies on the Budget, Estimates and Public Accounts.

Generally, the Budget is presented shortly before the first quarter of the fiscal year and outlines the overall fiscal framework over a 5-year period.

At approximately the same time, the Main Estimates are tabled, which provide an expenditure plan for all federal organizations that rely on parliamentary appropriations. This is followed by two or three Supplementary Estimates during the year, which generally seek authorities of less than 5% of overall expenditures.

Quarterly financial reports are published three times per year to provide an update on budgeted authorities and actual expenditures.

Reports on Plans and Priorities are tabled in the first half of the year, and provide a three-year forecast of planned activities for most federal organizations. In the second half of the year, the Departmental Performance Reports identify the results achieved for the previous fiscal year.

Finally, the Public Accounts for the previous fiscal year are usually tabled within 200 days of the previous fiscal year-end.

Source: Office of the Parliamentary Budget Officer

While the Government does regularly table financial reports with Parliament, the Clerk's approach has two potential deficiencies:

- **Timeliness.** The next opportunity to present details of the most recent spending cuts will be in the fall of this year, several months after parliamentarians have been asked to vote on Budget 2012.<sup>5</sup>

<sup>5</sup> The Treasury Board Secretariat instructed federal departments and agencies not to include the results from the Strategic Operating Review in the 2012-13 RPPs, which were tabled in May 2012.

- **Level of Disclosure.** There is no requirement to disclose the specific operating and financial impact of Budget 2012 spending reductions in departmental quarterly reports.<sup>6</sup> Further, as the Supplementary Estimates only need to request increases to authorities, there is no assurance that spending reductions will appear in these documents.<sup>7</sup>

In combination, these shortcomings could result in a full fiscal year being completed before the anticipated impacts of all planned spending cuts are presented to parliamentarians in the 2013-14 Reports on Plans and Priorities (RPPs).

### 3. The PBO's Monitoring Framework

To overcome these deficiencies, the PBO has created a monitoring framework to track planned and actual spending by Program Activity (PA). A PA is a group of related resource inputs managed to meet specific needs and results.<sup>8</sup> Each PA may include several discrete government programs.<sup>9</sup>

For instance, the Canadian Food Inspection Agency (CFIA) has five PAs, which include the Food Safety Program (Box 3-1). Each PA is also linked to specific performance indicators; in the case of the Food Safety Program this includes the "percentage

<sup>6</sup> <http://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=18292&section=text>. Accessed June 2012.

<sup>7</sup> Every year the Government creates many "frozen allotments" in departmental budgets. These allotments are part of the authorities provided by Parliament. However, the Treasury Board circumscribes these "frozen allotments", which are often forced to lapse as part of an internal control mechanism on federal expenditures. Budgetary details by allotment are published in Volume III of the Public Accounts.

<sup>8</sup> <http://www.tbs-sct.gc.ca/est-pre/20122013/me-bpd/sopa-rsap-eng.asp>. Accessed June 2012.

<sup>9</sup> In the House of Commons Standing Committee on Government Operations Seventh Report (*Strengthening Parliamentary Scrutiny of Estimates and Supply*), the Committee recommended that Parliament consider funding requests on the basis of program activities, noting that it could improve clarity and avoid unnecessary complexity. <http://www.parl.gc.ca/content/hoc/Committee/411/OGGO/Reports/RP5690996/oggorp07/oggorp07-e.pdf>. Accessed July 2012.

of domestic food products in compliance with domestic regulations” (target of 95%).<sup>10</sup>

### Box 3-1

#### Canada Food Inspection Agency: Program Activities

The Canadian Food Inspection Agency has five Program Activities (PAs), each of which has a budgeted spending level and number of full-time equivalent (FTE) employees.

The five PAs have 26 corresponding performance targets.

Program Activity	FTEs	\$M	Performance Target
Food Safety	2,997	340	<i>Domestic food products comply with regulations at least 95% of time</i>
Animal Health and Zoonotics	1,524	133	<i>Investigations of suspected diseases always commenced within 24 hours</i>
Plant Resources	830	87	<i>Notices always issued in timely manner</i>
International Collaboration	363	45	<i>At least 10 technical agreements negotiated per year</i>
Internal Services	1,015	119	N.A.

Source: 2012-13 Reports on Plans and Priorities

The PBO has been monitoring budgeted and PA actual expenditures since April 2011 using non-confidential, but non-public, data collected by the Government.<sup>11</sup>

Based on the first year of analysis, it is apparent that evaluating expenditures by PA offers significantly more insight compared to reviewing the authorities voted on by Parliament (e.g. vote 1 – operating; vote 5 – capital; vote 10 – grants and contributions). In particular, PA data highlight the shifting policy priorities of the Government during the fiscal year, as spending can significantly over- or under-shoot budgeted levels.

For instance, for the 12 months of the 2011-12 fiscal year, Environment Canada’s spending on Internal Services was 26 per cent greater than the amount originally set out in the Government’s Expenditure Plan, while spending on Sustainable Ecosystems was 50 per cent below the original estimate.

Beyond individual PAs, this framework also permits parliamentarians to better assess horizontal spending across the government. For example, as presented in Figure 3-1, the Internal Services PA (i.e. overhead costs) can be tracked for all federal organizations, highlighting that actual expenditures have consistently outstripped initial budgeted amounts over the past three years.<sup>12</sup>

A summary of the top 10 variances between budgeted and actual spending (\$, %) are presented in Annex B and the data are presented in the PBO’s Integrated Monitoring Database (IMD; [www.pbo-dpb.gc.ca](http://www.pbo-dpb.gc.ca)).

<sup>10</sup> <http://www.tbs-sct.gc.ca/rpp/2012-2013/inst/ica/ica01-eng.asp>. Accessed June 2012.

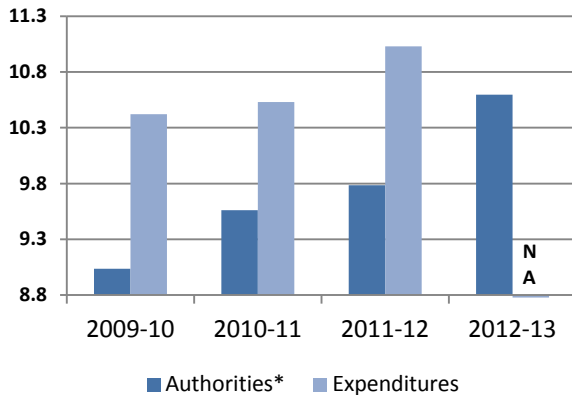
<sup>11</sup> [http://www.parl.gc.ca/PBO-DPB/documents/InformationRequests/Responses/Response\\_I\\_R0046\\_TB.pdf](http://www.parl.gc.ca/PBO-DPB/documents/InformationRequests/Responses/Response_I_R0046_TB.pdf). [http://www.parl.gc.ca/PBO-DPB/documents/InformationRequests/Responses/Response\\_I\\_R0050\\_PWGSC\\_Data.pdf](http://www.parl.gc.ca/PBO-DPB/documents/InformationRequests/Responses/Response_I_R0050_PWGSC_Data.pdf). Accessed June 2012.

<sup>12</sup> As noted in the Government of Canada’s Main Estimates, “Internal Services” support corporate obligations of an organization, including: Communications; Human Resources; Information Technology and Financial Management. <http://www.tbs-sct.gc.ca/est-pre/20122013/me-bpd/docs/me-bpdeng.pdf>. Accessed July 2012.

**Figure 3-2**

**Internal Services Spending: *Planned and Actual***

\$ Billions



Source: Authorities: *Main Estimates: 2009-10 to 2012-13*.  
Expenditures: *Public Accounts 2009-10 and 2010-11; Receiver General 2011-12*.

Note: Figures exclude federal organizations that do not report Internal Service expenditures 2009-10 onward. Figures reflect planned Internal Service expenditures of each organization that reports this program activity in the Main Estimates, plus total net spending by Shared Service Canada.

#### 4. Conclusion

The PBO will begin to publish its monitoring data through the IMD beginning in September 2012. Corresponding analysis will be published quarterly in the Expenditure Monitor.

It is expected that tracking the financial variances by PA will allow parliamentarians to identify which activities are being cut and/or eliminated, and therefore provide a starting point for dialogue with federal organizations on consequential service impacts and risks.

Given the issues identified regarding the timeliness and level of financial disclosure required by existing policies, parliamentarians may wish to provide direction regarding the type of financial data required to support consideration of spending proposals brought forward by the Government and when these should be made available.

ANNEX A

Table 1: Top 10 Program Activity Spending Variances by % (FY 2011-2012) <sup>1</sup>				
Organization	Program Activity	Estimates ('\$000s)	Expenditures ('\$000s)	Δ %
Correctional Service	Internal Services	207,134	581,602	181%
Fisheries and Oceans	Shore-Based Asset Readiness	124,021	273,001	120%
Canadian Broadcasting Corporation	Television Services	648,572	1,134,319	75%
Canadian Food Inspection Agency	Internal Services	132,828	222,738	68%
Justice <sup>2</sup>	Internal Services	107,763	181,302	68%
Environment	Internal Services	204,818	319,573	56%
Canada Border Services Agency	Internal Services	710,790	1,038,591	46%
Canadian Heritage	Cultural Industries	203,407	295,793	45%
Industry	Internal Services	116,635	160,557	38%
Natural Resources	Internal Services	179,713	247,370	38%
1. Includes all program activities presented in the Main Estimates with over \$100 million in anticipated expenditures.				
2. Estimates figure corrected on September 11, 2012 (was \$109 million).				



Table 2: Top 10 Program Activity Spending Variances by \$ (FY 2011-2012) <sup>1</sup>				
Organization	Program Activity	Estimates ('000s)	Expenditures ('000s)	Δ \$
Finance	Treasury and Financial Affairs	30,381,000	28,012,034	-2,368,966
National Defence	Equipment Acquisition and Disposal	3,498,227	2,235,878	-1,262,349
Human Resources and Skills Development	Income Security	38,234,137	39,421,199	1,187,062
Correctional Service	Custody	2,104,003	1,365,780	-738,223
Agriculture and Agri-Food	Business Risk Management	1,413,394	818,085	-595,309
Natural Resources	Economic opportunities for natural resources	1,799,079	1,253,836	-545,243
Infrastructure	Building Canada Fund - Major Infrastructure Component	1,270,430	765,574	-504,856
Transport	Transportation Infrastructure	290,638	-205,753	-496,391
Finance	Transfer and Taxation Payment Programs	54,981,671	54,684,977	-296,694
Natural Resources	Clean energy	1,327,302	1,013,745	-313,557
1. Includes all program activities presented in the Main Estimates with over \$100 million in anticipated expenditures.				