

SENATE



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CANADA

**REPORT ON THE
SUPPLEMENTARY ESTIMATES (C), 2017–18**
Standing Senate Committee on National Finance

TWENTY-FIFTH REPORT

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TABLE OF CONTENTS

EXECUTIVE SUMMARY	2
INTRODUCTION.....	4
1 TREASURY BOARD OF CANADA SECRETARIAT	6
2 DEPARTMENT OF NATIONAL DEFENCE	8
3 EMPLOYMENT AND SOCIAL DEVELOPMENT CANADA.....	10
4 GLOBAL AFFAIRS CANADA.....	12
5 HEALTH CANADA	13
6 INDIGENOUS SERVICES CANADA	16
7 PUBLIC SERVICES AND PROCUREMENT CANADA	18
8 ROYAL CANADIAN MOUNTED POLICE	20
APPENDIX A – ORDER OF REFERENCE	22
APPENDIX B – WITNESSES WHO APPEARED BEFORE THE COMMITTEE.....	23

EXECUTIVE SUMMARY

Supplementary Estimates (C), 2017–18

As part of its oversight role, the Standing Senate Committee on National Finance considered the *Supplementary Estimates (C), 2017–18*, which were tabled in the Senate on February 13, 2018 and referred to our committee for study on February 15, 2018. These supplementary estimates request Parliament's approval for an additional \$4.0 billion in voted expenditures and lower forecasted statutory expenditures by \$336 million.

In order to examine the *Supplementary Estimates (C), 2017–18*, our committee held three meetings and questioned officials of eight organizations that are requesting total appropriations of approximately \$3.1 billion, which is 78% of the total voted amount requested in the *Supplementary Estimates (C), 2017-18*.

Our committee's observations from issues raised during our meetings include:

1. The Treasury Board of Canada Secretariat needs to improve the financial information provided on long-term, multiyear initiatives, such as the Back Office Transformation Initiative. Additionally, we look forward to working with the Secretariat to determine whether it should expand the three-year pilot project whereby Transport Canada replaced its grants and contributions vote with purpose-based votes.
2. Our committee was dissatisfied that officials from the Department of National Defence were unable to provide a clear indication of how and when the increased funding associated with the government new defence policy, *Strong, Secure, Engaged* will be phased in.
3. Employment and Social Development Canada has written off over \$850 million in Canada Student Loans over the past four years. It needs to continue to reduce the loan default rate.
4. Global Affairs Canada is the lead department organizing preparations for the G7 Summit that will take place in Charlevoix, Quebec in June 2018. It should put in place solid expense-control mechanisms so that the \$600 million forecast is not exceeded. The department also needs to provide clear public reporting on the achievement of policy objectives related to its international development assistance in general, as well as assistance to address climate change.
5. Health Canada's fees for the regulation of therapeutic products are insufficient to cover its enforcement activities, such as inspections of pharmaceutical and medical device manufacturers.
6. With the creation of Indigenous Services Canada, mechanisms must be put in place to ensure that there is no duplication, overlap and confusion among departments. Our committee was surprised that officials could not provide information on the cost to create the department.
7. Despite hundreds of millions of dollars in increased expenditures to address problems with the Phoenix pay system managed by Public Services and Procurement Canada, the government is still unable to pay its employees accurately and on time.
8. The Royal Canadian Mounted Police is planning to spend \$125 million to build infrastructure and acquire equipment in preparation for the 2018 G7 Summit in Charlevoix, Quebec, which will be a

challenge because approval for the funding will only come shortly before the end of the fiscal year.

INTRODUCTION

The Standing Senate Committee on National Finance (our committee) has an important role to play on behalf of Parliament and Canadians in examining the federal government's spending plans, as outlined in the main and supplementary estimates. Our committee reviews and presents reports on the government's proposed spending in order to examine whether it is reasonable, takes into account value-for-money and will be effective in achieving the government's objectives.

As the main estimates do not contain all of the government's spending needs for the year, the government also presents supplementary estimates to Parliament for approval, usually in the spring, fall and winter.

The *Supplementary Estimates (C), 2017–18* were tabled in the Senate on February 13, 2018 and referred to our committee for study on February 15, 2018.

According to the Treasury Board of Canada Secretariat (TBS), 48 organizations have identified additional requirements in the *Supplementary Estimates (C), 2017–18*. As shown in Table 1, the *Supplementary Estimates (C), 2017–18* provide information in support of \$4.0 billion in voted budgetary appropriations, which represents an increase of 3.9% over the *2017–18 Main Estimates*. *Supplementary Estimates (C), 2017–18* also contain information on a forecasted decrease of \$336.4 million in statutory budgetary expenditures, which represents a decrease of 0.2% compared to the *2017–18 Main Estimates*.

Table 1 – Main Estimates and Supplementary Estimates, 2017–2018 (\$)

	Main Estimates	Supplementary Estimates (A)	Supplementary Estimates (B)	Supplementary Estimates (C)	Proposed Authorities to Date
Budgetary					
Voted	102,139,294,300	3,722,404,244	4,486,681,809	4,016,119,632	115,035,108,699
Statutory	155,778,340,286	62,015,996	395,259,298	-336,354,301	155,931,666,653
Total	257,917,634,586	3,784,420,240	4,881,941,107	3,679,765,331	270,966,775,352
Non-budgetary					
Voted	26,703,002	30,400,000	–	14,000,001	71,103,003
Statutory	-246,167,112	625,000,000	–	264,483,729	643,316,617
Total	-219,464,110	655,400,000	–	278,483,730	714,419,620

Note: Proposed Authorities to Date represents the sum of all the amounts reported in the estimates of the current fiscal year and allocations from Treasury Board Central Votes.

Sources: Table prepared using data obtained from Treasury Board of Canada Secretariat, *Supplementary Estimates (A), 2017–18*, pp. 1-3 and 1-4; *Supplementary Estimates (B), 2017–18*, pp. 1-3 and 1-4; and *Supplementary Estimates (C), 2017–18*, p. 1-3.

In order to examine the *Supplementary Estimates (C), 2017–18*, our committee held three meetings and questioned twenty officials of eight organizations that are requesting total appropriations of approximately \$3.1 billion, which is 78% of the total voted amount requested in the *Supplementary Estimates (C), 2017-18*. We also met with officials from the Office of the Parliamentary Budget Officer.

This report highlights issues discussed during our examination of the supplementary estimates and presents our observations on key concerns facing each organization.

Further information about our hearings can be found in the meeting transcripts, which are available on the committee's [website](#).

1 TREASURY BOARD OF CANADA SECRETARIAT

The Secretariat supports the Treasury Board of Canada in its role as the government's management board: overseeing the operations of the federal government as a whole, providing oversight of the financial management of departments and agencies, and acting as the employer of the core public service.

Committee Observations

We were unable to obtain information on the amounts spent to date and the total expected cost for ongoing initiatives, such as the Back Office Transformation Initiative and stabilizing the Phoenix pay system, that regularly appear in the supplementary estimates. The Treasury Board of Canada Secretariat needs to improve the financial information provided on long-term, multiyear initiatives.

Additionally, we look forward to working with the Treasury Board of Canada Secretariat to determine whether it should expand the three-year pilot project whereby Transport Canada replaced its grants and contributions vote with purpose-based votes.

1.1 Estimates Overview

In the *Supplementary Estimates (C), 2017–18*, the Treasury Board of Canada Secretariat is requesting additional total voted appropriations of \$919,450,502 for six spending items:

- \$622,900,000 to address shortfalls under the Service Income Security Insurance Plan;
- \$250,000,000 for payroll requirements – funding for adjustments made to terms and conditions of service or employment of the federal public administration;
- \$36,120,434 for compensation adjustments – transfers to departments and agencies for negotiated salary adjustments;
- \$6,310,739 for the stabilization of the Government of Canada's pay system;
- \$3,230,000 for the Back Office Transformation initiative; and
- \$889,329 to extend access to information to other government departments and agencies.

This is an increase of 20.1% over the total voted authorities of \$4,581,828,148 obtained by the Secretariat in previous main and supplementary estimates. These requests are reduced by \$100,000 for transfers to other organizations, and statutory expenditures are forecasted to increase by \$784,625, due to additional contributions to employee benefit plans. As noted in *Supplementary Estimates (C), 2017–18*, the Secretariat's total proposed authorities to date are \$5,870,558,067.

1.2 Complete Financial Information

In the *Supplementary Estimates (C), 2017–18*, the Secretariat is requesting \$3.2 million for the Back Office Transformation initiative, which will replace various management platforms (for human resources, finance and other information) with government-wide systems. The Secretariat also requested \$10.8 million in the *Supplementary Estimates (B), 2017–18*, \$24.8 million in the *Supplementary*

Estimates (A), 2017–18, and \$2.0 million in the Supplementary Estimates (C), 2016–17 for the same initiative.

Officials from the Secretariat said \$110.6 million has been spent over the past three years on the initiative and the funds in these estimates would be used to start building the financial management component of the information technology system. However, they did not have information about the initiative's overall budget or planned future expenses.

The Secretariat is also requesting \$6.3 million for the stabilization of the Phoenix pay system. According to officials, the Secretariat is examining business processes that influence the system, and is setting up a claims office for public servants adversely affected by the system. However, officials did not have information about the total amount spent to date by the Secretariat on the pay system.

Lastly, along with the supplementary estimates (C), the Secretariat publishes a document on frozen allotments, which are amounts that have been approved by Parliament but the Treasury Board constrains their use because the funds have been reprofiled, transferred or reduced. However, our committee noted that it can be difficult for parliamentarians to monitor departmental spending on government infrastructure, such as by Transport Canada and Fisheries and Oceans Canada, when amounts are regularly reprofiled into future years.

1.3 Purpose-based Votes

In its 2012 report on reforming the estimates, the House of Commons Standing Committee on Government Operations and Estimates recommended that the government change the vote structure in the estimates from types of expenditure to programs because it would be more tangible and meaningful to parliamentarians, as well as more clearly link proposed expenditures to planned results.¹

In the *2016–17 Main Estimates*, Transport Canada began a pilot project with its grants and contributions expenditures, which were divided into three separate votes, based on the department's program alignment architecture. Transport Canada has not reported any difficulties with its new vote structure.

Officials from the Secretariat said they would like to work with parliamentarians to determine whether the pilot project should be expanded. For example, the Secretariat could base its estimates votes on its four core responsibilities: employer, expenditure authority, administration policy, and regulatory authority.

Officials from the Office of the Parliamentary Budget Officer indicated that a program or purpose-based vote structure would be more concrete and improve accountability for results.

¹ House of Commons, Standing Committee on Government Operations and Estimates, [Strengthening Parliamentary Scrutiny of Estimates and Supply](#), Seventh Report, 1st Session, 41st Parliament, June 2012.

2 DEPARTMENT OF NATIONAL DEFENCE

The Department of National Defence (DND) defends Canada's sovereignty, participates in defence partnerships and assists in times of natural disaster or other emergencies.

Committee Observations

The government, in its new defence policy *Strong, Secure, Engaged*, committed to increasing the Department of National Defence's annual spending from \$18.9 billion in 2016–2017 to \$32.7 billion in 2026–2027, but it is not clear how and when the increased funding associated with the defence policy will be phased in.

2.1 Estimates Overview

In the *Supplementary Estimates (C), 2017–18*, DND is requesting additional total voted appropriations of \$775,078,031 for 11 spending items:

- \$435,406,513 in support of Canada's Defence Policy: Strong, Secure, Engaged;
- \$277,640,474 for various military operations;
- \$12,208,014 for assessed contributions to the North Atlantic Treaty Organization;
- \$9,655,944 for the 2018 G7 Summit in Charlevoix, Quebec;
- \$8,996,450 for the Military Personnel Management Capability Transformation project;
- \$6,245,573 for the assessment, management and remediation of federal contaminated sites;
- \$6,231,600 for the Innovation for Defence and Security Program;
- \$6,170,233 for projects at Canadian Armed Forces bases and other defence properties;
- \$5,922,000 for the Interim and Future Fighter Capability Projects;
- \$5,801,230 to improve security for Canadian Armed Forces operations and personnel;
- \$800,000 for a strategy to prevent and address gender-based violence.

This is an increase of 4.1% over the total voted authorities of \$18,931,668,985 obtained by DND in previous main and supplementary estimates. These requests are reduced by \$4,601,594 for transfers to other organizations, and statutory expenditures are forecasted to increase by \$9,476,332, due to additional contributions to employee benefit plans. DND's total proposed authorities to date are \$20,974,141,536.

2.2 Funding for Canada's Defence Policy: *Strong, Secure, Engaged*

With its new defence policy *Strong, Secure, Engaged*, the government indicated that it would be increasing annual defence spending from \$18.9 billion in 2016–2017 to \$32.7 billion in 2026–2027.²

In the *Supplementary Estimates (C), 2017–18*, DND is requesting \$435.4 million in support of *Strong, Secure, Engaged*. These funds are for “defence engagement program expansion, health and wellness strategy, in-service support and operating funding.”³

Officials from DND said that the policy's funding is set aside in the fiscal framework: \$108 billion will be available over 20 years on an accrual basis for capital assets and \$30 billion for operations. They indicated that additional funds for in-service support costs will be brought in once new equipment is acquired. They did acknowledge some delays in the shipbuilding program from its initial 2010 timeline, but maintained that they are on track with revised timelines.

However, it was not clear to our committee how and when the additional funds will be phased in, nor was it clear how the funds for 2017–2018 would be allocated. Officials committed to provide the information to our committee, but had not yet done so.

Our committee is dissatisfied with the level of financial information provided by the department and is frustrated that the problem is ongoing.

Officials from the Office of the Parliamentary Budget Officer acknowledged the difficulty in tracking funding related to the defence policy and have requested more detailed information from the department.

² Government of Canada, [Canada Unveils New Defence Policy](#), accessed 6 March 2018.

³ Treasury Board of Canada Secretariat, *Supplementary Estimates (C), 2017–18*, Ottawa, 2018, p. 1-5.

3 EMPLOYMENT AND SOCIAL DEVELOPMENT CANADA

Employment and Social Development Canada (ESDC) manages income security payments to seniors and unemployed workers, financial assistance to post-secondary students, and payments to parents of young children. It also oversees federal labour regulatory responsibilities and funds labour market and social development projects.

Committee Observations

The Canada Student Loans program managed by Employment and Social Development Canada has a total loan portfolio of \$18.3 billion, and \$2.7 billion in loans are provided each year.

However, the department has written off over \$850 million in student loans over the past four years. It needs to continue to reduce the loan default rate.

3.1 Estimates Overview

In the *Supplementary Estimates (C), 2017–18*, ESDC is requesting additional total voted appropriations of \$228,470,823 for two spending items:

- \$203,470,823 to write off debts owed to the Crown for unrecoverable Canada Student Loans;
- \$25,000,000 for the Province of Quebec to support post-secondary education and skills training.

This is an increase of 7.1% over the total voted authorities of \$3,213,418,274 obtained by ESDC in previous main and supplementary estimates. These requests are decreased by \$10,844,743 due to transfers to other organizations, and statutory expenditures are forecasted to increase by \$58,954,351, due to increased Canada Student Grants and Canada Education Savings grant payments, but reduced Old Age Security and Guaranteed Income Supplement payments. ESDC's total proposed authorities to date are \$58,514,460,709.

3.2 Canada Student Loans

ESDC manages the Canada Student Loans program, which offers students financial assistance to help pay for their post-secondary education. In the *Supplementary Estimates (C), 2017–18*, ESDC is requesting \$203.5 million to write off debts owed to the Crown for unrecoverable Canada Student Loans.

Officials from ESDC told our committee that of the amount requested, \$50 million is interest and the rest is principal. The total loan portfolio is \$18.3 billion, and \$2.7 billion in loans are provided each year. They said the department is writing off approximately 1% of its total loan portfolio, primarily because the *Canada Student Financial Assistance Act* establishes a limitation period of six years between the time the borrower last acknowledged the loan and legal activity the Crown can take to recover the debt. The Canada Revenue Agency undertakes collection activities on ESDC's behalf. They explained that the department has lowered its three-year loan default rate over the last few years from 28% to a goal of 9% next year.

However, our committee noted that ESDC regularly writes off loans. It received \$178.4 million in *Supplementary Estimates (C), 2016–17*, \$176.0 million in *Supplementary Estimates (C), 2015–16*, and \$294.6 million in *Supplementary Estimates (C), 2014–15* for this purpose, for a total of \$852.5 million over four years.

4 GLOBAL AFFAIRS CANADA

Global Affairs Canada (GAC) manages diplomatic and consular relations, encourages international trade and leads international development and humanitarian assistance.⁴ It also maintains Canadian offices abroad with diplomatic and consular status on behalf of all federal government departments.

Committee Observations

Global Affairs Canada is the lead department organizing preparations for the G7 Summit that will take place in Charlevoix, Quebec in June 2018. It should put in place solid expense-control mechanisms so the \$600 million forecast is not exceeded.

GAC also needs to provide clear public reporting on the achievement of policy objectives related to its international development assistance in general, as well as assistance to address climate change.

4.1 Estimates Overview

In the *Supplementary Estimates (C), 2017–18*, GAC is requesting additional total voted appropriations of \$422,746,753 for four spending items:

- \$202,500,000 to support international assistance priorities;
- \$169,670,000 to help developing countries address the impact of climate change;
- \$31,007,085 for the 2018 G7 Summit in Charlevoix, Quebec;
- \$12,545,000 for Canada's assessed contributions to the Organization for Security and Cooperation in Europe.

This is an increase of 6.8% over the total voted authorities of \$6,242,023,204 obtained by GAC in previous main and supplementary estimates. These requests are reduced by \$8,718,689 for transfers to other organizations, and statutory expenditures are forecasted to increase by \$9,311,279, which is due to additional payments to international financial institutions and contributions to employee benefit plans. GAC's total proposed authorities to date are \$7,037,137,558.

4.2 G7 Summit

On 8 and 9 June 2018, the G7 Summit will take place in Charlevoix, Quebec, bringing together leaders of seven major industrial democracies for a series of meetings.

Officials said GAC is the lead department organizing preparations for the summit. The *Supplementary Estimates (C), 2017–18* indicate that 11 federal organizations are requesting funding for the summit, for a total of \$224.7 million, including \$31.0 million for GAC to oversee the overall operation, logistics, protocol and finances.

⁴ The legal name of the department, and the name used in the estimates, is the Department of Foreign Affairs, Trade and Development.

They also informed our committee that the total budget for the summit for all federal organizations, including spending in both 2017–2018 and 2018–2019, is \$604.5 million.

4.3 International Assistance

In October 2017, the Government of Canada announced a Feminist International Assistance Policy. Under this policy, by 2021–2022 at least 95% of bilateral international development assistance initiatives will target or integrate gender equality and the empowerment of women and girls.

In the *Supplementary Estimates (C), 2017–18*, GAC is requesting \$202.5 million to support the government's international assistance priorities, which will be aligned with the policy.

Officials told our committee that the funding would be provided to the World Food Program to address the needs of vulnerable populations, typically in sub-Saharan Africa, as well as provide assistance to the United Nations' HIV/AIDS program. They committed to providing our committee with a list of organizations that would receive funding.

The department ensures funds are spent appropriately through fiduciary requirements built into the programs, including recipient audits and program evaluations. Additionally, the perspectives of women and girls are integrated into project design, such as having appropriate sanitation facilities when building a school. Officials also said that results objectives and indicators are established and reported on for every project.

4.4 Developing Countries and Climate Change

In 2015, the Government of Canada committed \$2.65 billion to help developing countries address climate change. In the *Supplementary Estimates (C), 2017–18*, GAC is requesting \$169.8 million as part of this commitment. The funding would be used for contributions to the International Finance Corporation and the Inter-American Development Bank to support their climate change programs.

Officials said that a number of projects have already led to a decline in carbon dioxide emissions, and committed to report back to our committee on the achievement of objectives related to the emission of greenhouse gases.

5 HEALTH CANADA

Health Canada enforces laws and regulations related to consumer products, tobacco, pest control products, drugs, biologics, medical devices and natural health products. It also supports innovation in the health care system, works to uphold the *Canada Health Act*, and provides information to help Canadians maintain and improve their health.

Committee Observations

While Health Canada operates its regulatory program for therapeutic products on a cost-recovery basis, our committee is concerned that its fees are insufficient to cover its enforcement activities, such as inspections of pharmaceutical and medical device manufacturers.

Health Canada has been allocated significant funds for public education regarding the legalization of cannabis. However, officials were unable to point to concrete results from Health Canada's education activities, which concerns our committee.

5.1 Estimates Overview

In the *Supplementary Estimates (C), 2017–18*, Health Canada is requesting additional total voted appropriations of \$34,917,223 for three spending items:

- \$31,622,303 for maintaining core regulatory operations for therapeutic products;
- \$2,932,675 for the 2018 G7 Summit in Charlevoix, Quebec;
- \$362,245 for a new Health Information and Claims Processing Services for the Non-Insured Health Benefits Program.

This is an increase of 0.8% over the total voted authorities of \$4,531,338,311 obtained by Health Canada in previous main and supplementary estimates. These requests are decreased by \$342,227 due to transfers to other organizations, and statutory expenditures are forecasted to increase by \$2,790,166, due to additional contributions to employee benefit plans. Health Canada's total proposed authorities to date are \$4,746,312,943.

5.2 Regulatory Operations for Therapeutic Products

In the *Supplementary Estimates (C), 2017–18*, Health Canada is requesting \$31.6 million for maintaining core regulatory operations for therapeutic products. Officials informed our committee that the funding would help maintain enforcement and regulatory operations with respect to inspections of pharmaceutical and medical device manufacturers.

Officials also explained that the program is intended to be operated on a cost-recovery basis from fees charged to companies seeking approval of their pharmaceuticals and medical devices. However, the fees are currently insufficient to cover costs and the department is undertaking consultations on increasing fees.

5.3 Access to Cannabis for Medical Purposes

In the *Supplementary Estimates (C), 2017–18*, Health Canada is requesting authority to transfer approximately \$340,000 to the Royal Canadian Mounted Police for security screening of references and to ensure compliance with regulations on Access to Cannabis for Medical Purposes.

Officials said they have a system of security clearances for those who are in positions of influence or control in the production of cannabis for medical purposes to ensure that organized crime does not play a role.

5.4 Public Education Regarding the Legalization of Cannabis

Budget 2017 allocated \$9.6 million over five years for public education regarding the legalization of cannabis. Budget 2018 allocated an additional \$62.5 million over five years for public education initiatives.

Officials from Health Canada informed our committee that they have begun creative work related to the design of advertising campaigns for public education, with a launch date in early spring. A second tranche of advertising will be launched once the legislation is adopted. The current advertising focus is primarily on social media, such as Twitter and Facebook.

Health Canada has also put together an education toolkit for parents, organizations in the health care sector, and community-based non-governmental organizations to use when framing conversations with teens and youth about cannabis.

However, officials were unable to point to concrete results from Health Canada's education activities, which concerns our committee, as cannabis will likely be legalized shortly.

6 INDIGENOUS SERVICES CANADA

Indigenous Services Canada (ISC) works with First Nations, Inuit and Métis to provide them access to various services, including primary health care, education, water and wastewater systems, housing, community infrastructure, social programs, and emergency management.

Committee Observations

With the creation of Indigenous Services Canada, mechanisms must be put in place to ensure that there is no duplication, overlap and confusion among departments.

As education is an important building block for success, ISC needs to ensure that First Nations and Inuit students have sufficient financial support to pursue post-secondary studies.

6.1 Estimates Overview

In the *Supplementary Estimates (C), 2017–18*, ISC is requesting voted appropriations of \$291,194,735 for eight spending items:

- \$73,853,731 to reimburse First Nations and emergency management service providers for on-reserve response and recovery activities;
- \$67,343,557 for non-insured health benefits for First Nations and Inuit;
- \$50,000,000 for Indspire and for the expansion of the Post-Secondary Student Support Program/University and College Entrance Preparation Program;
- \$33,000,000 for First Nation Child and Family Services;
- \$30,097,446 for the Pikangikum First Nation Grid Connection Project;
- \$24,000,000 for the Band Support Program;
- \$12,900,000 for the Indian Residential Schools Resolution Health Support Program;
- \$1 to authorize the inclusion and adjustment of an authority embedded in vote wording.

ISC also is requesting \$68,411,532 in transfers from other organizations, for a total of \$359,606,267. As ISC is a new organization, it does not have authorities from previous estimates.

6.2 The Creation of Indigenous Services Canada

The Minister of Indigenous Services was named on 28 August 2017. On 30 November 2017, Cabinet adopted an order in council, pursuant to the *Public Service Rearrangement and Transfer of Duties Act*, transferring the First Nations Inuit and Health Branch from Health Canada to the Department of Indigenous Services, as well as the Education and Social Development Programs and Partnership Sector and the Regional Operations Sector from Indigenous and Northern Affairs Canada.

Officials were surprisingly unable to provide information on the cost of creating the Department of Indigenous Services Canada because they were still working out governance, financial systems and

business processes for the department, as well as deciding how corporate and common services would be delivered.

When questioned whether the creation of an additional department would be cost-effective, officials pointed out that the department has a mandate for planned obsolescence, as its services would be transferred over time to First Nations, Inuit and Métis communities. However, the government did not have a plan or timeframe for that transfer, as it depends on co-development talks as part of the Recognition and Implementation Rights Framework.

6.3 Post-Secondary Financial Support

Through the Post-Secondary Student Support Program, ISC provides financial assistance to eligible First Nations and Inuit students who are enrolled in eligible post-secondary programs. ISC also funds Indspire, which is an Indigenous-led charity that provides First Nations, Inuit and Métis students with financial support to help them complete their education.

In the *Supplementary Estimates (C), 2017–18*, ISC is requesting \$50.0 million for Indspire and the expansion of the Post-Secondary Student Support Program/University and College Entrance Preparation Program.

Officials from ISC told our committee that this funding would provide scholarships and bursaries to 7,500 First Nations and Inuit students. However, the program is significantly oversubscribed and the department is not able to support the demand from First Nations and Inuit communities.

7 PUBLIC SERVICES AND PROCUREMENT CANADA

Public Services and Procurement Canada (PSPC) is the federal government's central purchasing agent, real property manager, treasurer, accountant, pay and pension administrator, procurement integrity advisor, and provider of translation services.⁵

Committee Observations

Public Services and Procurement Canada has spent approximately \$250 million to address problems related to the Phoenix pay system. Despite the increased expenditures and two years of work, the government is still unable to pay its employees accurately and on time.

The continuing problems with the Phoenix pay system are of major concern to our committee and we will continue our review and study of the matter, even though in Budget 2018 the government announced that it would eventually replace Phoenix.

7.1 Estimates Overview

In the *Supplementary Estimates (C), 2017–18*, PSPC is requesting additional total voted appropriations of \$188,741,959 for nine spending items:

- \$152,142,862 for the stabilization of the Government of Canada's pay system;
- \$11,813,717 for the 2018 G7 Summit in Charlevoix, Quebec;
- \$7,895,606 for accommodation costs related to pension administration;
- \$6,948,553 to meet additional requirements for parliamentary interpretation and translation services;
- \$3,577,501 for the reinvestment of revenues from the sale or transfer of real property;
- \$2,500,000 for government advertising programs;
- \$2,295,835 for cost audits related to defence contracting;
- \$1,050,209 for the rehabilitation project of the West Memorial Building, Ottawa;
- \$517,676 for increases in non-discretionary expenses associated with Crown-owned buildings and leased space.

This is an increase of 5.1% over the total voted authorities of \$3,719,593,508 obtained by PSPC in previous main and supplementary estimates. These requests are increased by \$25,496,324 due to transfers from other organizations, and statutory expenditures are forecasted to increase by \$13,828,072, due to additional contributions to employee benefit plans. PSPC's total proposed authorities to date are \$4,065,652,669.

⁵ The legal name of the department, and the name used in the estimates, is the Department of Public Works and Government Services.

7.2 Phoenix Pay System

In the *Supplementary Estimates (C), 2017–18*, PSPC is requesting \$152.1 million for the stabilization of the Phoenix pay system, of which \$128.0 million is for operating expenditures and \$24.1 million is for capital expenditures. PSPC is also requesting \$14.0 million in non-budgetary funding to provide advances to public service unions, as the pay system has not been accurately calculating and deducting union dues.

Officials from PSPC explained that the funds would allow PSPC to hire back compensation advisors to work through the queue of outstanding pay problems, and to work with IBM to develop technological fixes and put automation back into the system where it may have been scoped out of the project. PSPC now has approximately 1,500 compensation staff, up from about 550 when Phoenix was launched.

According to officials, PSPC has spent approximately \$250 million to address problems related to the pay system. Subsequent to the hearing, officials provided us with information that the department has paid \$66.8 million to IBM since February 2016.

8 ROYAL CANADIAN MOUNTED POLICE

The Royal Canadian Mounted Police (RCMP) provides federal policing services to all Canadians, and policing services under contract to the three territories, eight provinces (except Ontario and Quebec), approximately 150 municipalities, and more than 600 Indigenous communities.

Committee Observations

The Royal Canadian Mounted Police is requesting \$125 million to build infrastructure and acquire equipment in preparation for the 2018 G7 in Charlevoix, Quebec. However, our committee is concerned that the RCMP plans to spend this funding in a few short weeks before the end of the fiscal year.

8.1 Estimates Overview

In the *Supplementary Estimates (C), 2017–18*, the RCMP is requesting additional total voted appropriations of \$251,735,130 for six spending items:

- \$125,061,645 for the 2018 G7 Summit in Charlevoix, Quebec;
- \$70,000,000 to maintain RCMP operations pending a comprehensive resourcing review;
- \$50,840,570 for the Contract Policing Program;
- \$4,500,000 to compensate members of the RCMP for injuries received in the performance of duty;
- \$830,260 for the reinvestment of revenues from the sale or transfer of real property;
- \$502,655 for security screening of airport workers.

This is an increase of 8.8% over the total voted authorities of \$2,875,583,899 obtained by the RCMP in previous main and supplementary estimates. These requests are increased by \$2,139,359 due to transfers from other organizations, and statutory expenditures are forecasted to increase by \$5,612,426, due to additional contributions to employee benefit plans, as well as pensions and other employee benefits for Members of the Force. The RCMP's total proposed authorities to date are \$3,597,019,768.

8.2 2018 G7 Summit

In the *Supplementary Estimates (C), 2017–18*, the RCMP is requesting \$125.1 million for the 2018 G7 Summit in Charlevoix, Quebec.

Officials from the RCMP explained that the funding would be used for infrastructure, vehicles and equipment, such as radios. The RCMP plans to make a similar request in 2018–2019, for a total of \$260 million for the summit. The funding in the next fiscal year will mostly be related to the deployment of RCMP officers, including overtime costs, lodging and meals.

Even though the funding would only be approved by Parliament shortly before the end of the fiscal year, officials from the RCMP assured our committee that they would be able to make their acquisitions before the end of the fiscal year.

8.3 Legalization of Cannabis

With respect to the legalization of cannabis, officials explained that the RCMP has been building capacity in drug recognition efforts over a number of years, as drug-impaired driving has always been an offence in Canada. The RCMP currently has about 200 trained drug recognition experts, and will be running courses to bring the capacity up further.

In conjunction with Public Safety Canada, they are examining devices that could be used to screen for cannabis. Once a device is selected, the RCMP would request funding to acquire the devices and train its officers to use them.

APPENDIX A – ORDER OF REFERENCE

The Honourable Senator Bellemare moved, seconded by the Honourable Senator Harder, P.C.:

That the Standing Senate Committee on National Finance be authorized to examine and report upon the expenditures set out in the Supplementary Estimates (C) for the fiscal year ending March 31, 2018; and

That, for the purpose of this study, the committee have the power to meet even though the Senate may then be sitting, and that rule 12-18(1) be suspended in relation thereto.

February 15, 2018.

APPENDIX B – WITNESSES WHO APPEARED BEFORE THE COMMITTEE

Department of National Defence and the Canadian Armed Forces Canada

Julie Charron, Associate Assistant Deputy Minister (Finance) and Deputy Chief Financial Officer

Patrick Finn, Assistant Deputy Minister (Materiel)
(28-02-2018)

Employment and Social Development Canada

Mark Perlman, Chief Financial Officer

Jason Won, Deputy Chief Financial Officer
(27-02-2018)

Health Canada

Todd Cain, Director General, Organization and Launch Directorate

Edward De Sousa, Director General, Resource Management Directorate

Randy Larkin, Assistant Deputy Minister and Chief Financial Officer, Chief Financial Officer Branch
(28-02-2018)

Global Affairs Canada

Arun Thangaraj, Assistant Deputy Minister and Chief Financial Officer

Shirley Carruthers, Director General, Financial Resource Planning and Management Bureau
(28-02-2018)

Indigenous Services Canada

Paul Thoppil, Chief Financial, Results and Delivery Officer, Chief Finances Results and Delivery Officer Sector

Catherine Blanchard, Director General, Planning and Resource Management
(27-02-2018)

Office of the Parliamentary Budget Officer

Jason Jacques, Senior Director, Costing and Budgetary Analysis

Jason Stanton, Financial Analyst
(28-02-2018)

Public Services and Procurement Canada

Les Linklater, Associate Deputy Minister

Marty Muldoon, Chief Financial Officer, Finance and Administration Branch
(27-02-2018)

Royal Canadian Mounted Police

Daniel Dubeau, Acting Commissioner

Dennis Watters, Chief Financial and Administrative Officer
(28-02-2018)

Treasury Board of Canada Secretariat

Grace Chenette, Executive Director, Financial Management Directorate

Brian Pagan, Assistant Secretary, Expenditure Management Sector

Marcia Santiago, Executive Director, Expenditure Management Sector

(27-02-2018)