



**FIRST INTERIM REPORT ON THE
2018–19 Main Estimates**

Standing Senate Committee on National Finance

THIRTY-FIRST REPORT

Chair

The Honourable Percy Mockler

Deputy Chair

The Honourable Mobina Jaffer
The Honourable André Pratte

June 2018

ORDER OF REFERENCE

Excerpt from the *Journals of the Senate* of Wednesday, April 18, 2018:

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 Main Estimates for the fiscal year ending March 31, 2019, with the exception of Library of Parliament Vote 1; and

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

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EXECUTIVE SUMMARY

2018–19 Main Estimates

As part of its oversight role of government spending, the Standing Senate Committee on National Finance considered the *2018–19 Main Estimates*, which were tabled in the Senate on April 17, 2018 and referred to our committee for study on April 18, 2018. The main estimates request Parliament's approval for \$113 billion in voted budgetary expenditures and forecast statutory expenditures of \$163 billion, for a total of \$276 billion, which is an increase of 7% from the previous year's main estimates.

In order to examine the *2018–19 Main Estimates*, our committee held seven meetings and questioned officials of fifteen federal organizations that are requesting total voted appropriations of approximately \$69 billion, which is 61% of the total voted amount requested.

Overall, our committee continues to be concerned that information requested from departments is not provided in a timely manner. This inhibits our oversight function and our ability to hold the government to account for how it proposes to spend public funds.

More specifically, our committee's observations from issues raised during our meetings include:

1. The Treasury Board Secretariat has included a new \$7 billion budget implementation vote in the main estimates, but it needs to present a clear plan of how it intends to incorporate budget spending measures into departmental main estimates votes, similar to the system in place in Australia.
2. The Treasury Board Secretariat should clearly specify the parameters of purpose-based votes before expanding the pilot project involving Transport Canada to other departments.
3. With a rapidly increasing number of irregular migrants, Immigration, Refugees and Citizenship Canada should ensure it has sufficient resources to process them.
4. The Canada Border Services Agency has been relocating its workforce to address the increasing number of irregular migrants, but it needs to ensure that the operational efficiency of its other regions is not negatively impacted.
5. Even with additional funding in the next two years, the Immigration and Refugee Board of Canada will have difficulty reducing its backlog of 50,000 refugee claims.
6. As Shared Services Canada is responsible for several projects that have experienced delays, it should have concrete implementation plans with specific timelines for the development of critical cyber and IT security infrastructure.
7. As it considers options to replace the Phoenix pay system, the government needs to provide assurance to all employees of the public service that they will be paid accurately and on time, and that the employees of the Public Service Pay Centre will receive sufficient support and training to deal with the current pay system, as well as any future system.
8. The creation of the department of Indigenous Services Canada and the sunseting of budget measures makes it very difficult to track funding for Indigenous services from year-to-year. The Treasury Board Secretariat should ensure that the estimates of all departments more clearly distinguish ongoing funding levels and time-limited budget funding commitments.

9. As the government moves toward a new fiscal relationship with First Nations communities, including ten-year grants, it will need to put in place mechanisms to adjust funding levels over a ten-year planning horizon.
10. The government should undertake more research on the connection between housing and health in rural First Nation and northern communities, as well as develop geographically and culturally relevant building codes.
11. As the government invests additional funds in the Youth Employment Strategy, it should make sure that the strategy is meeting its goal of helping young people find and keep meaningful employment.
12. Additional funds for frontline operations should help the Royal Canadian Mounted Police attract and retain sufficient numbers of new recruits.
13. As more veterans leave active duty and return to civilian life, Veterans Affairs Canada should ensure that it has sufficient capacity to provide adequate and timely services to veterans.
14. Environment and Climate Change Canada should ensure that its carbon pricing regime takes into account the effect it would have on the competitiveness of emissions-intensive, trade-exposed industries.
15. The Department of National Defence needs to be more transparent about how its 20-year funding under the new defence policy, Strong, Secure, Engaged, is being allocated.

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.

The *2018–19 Main Estimates* were tabled in the Senate on April 17, 2018 and referred to the Standing Senate on National Finance for review on April 18, 2018. They provide information to support the federal government's request for Parliament's approval of spending to deliver programs and services during the fiscal year 2018–2019, including (not in addition to) amounts already shown in the *2018–19 Interim Estimates*.

As shown in Table 1, total voted expenditures outlined in the *2018–19 Main Estimates* are \$112.9 billion, which is an increase of 11% from the *2017–18 Main Estimates*, while statutory expenditures are forecasted to increase by 5%. Overall, total budgetary expenditures are increasing by 7%.

Table 1 – Main Estimates, 2017–2018 and 2018–2019 (\$ billions)

	2017–2018	2018–2019	Change (%)
Budgetary			
Voted	102.14	112.87	10.5
Statutory	155.78	163.10	4.7
Total	257.92	275.97	7.0
Non-budgetary			
Voted	0.03	0.06	100.0
Statutory	(.25)	0.54	316.0
Total	(.22)	0.60	372.7

Source: Table prepared using data from the Treasury Board Secretariat, *2018–19 Main Estimates*, 2018.

In order to examine the *2018–19 Main Estimates*, our committee held seven meetings and questioned officials of fifteen federal organizations that are requesting total voted appropriations of approximately \$69 billion, which is 61% of the total voted amount requested in the main estimates. We also met with officials from the Office of the Parliamentary Budget Officer.

This report highlights issues discussed during our examination of the main estimates and presents our observations on key concerns facing each organization. Of particular note is the addition of a new method of incorporating budget spending measures into a single vote managed by the Treasury Board Secretariat.

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

1 TREASURY BOARD SECRETARIAT

The Secretariat supports the Treasury Board 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

The Treasury Board Secretariat has undertaken steps to align spending information in the budget and the main estimates, such as including a new \$7 billion budget implementation vote in the main estimates.

However, it needs to present a clear plan of how it intends to incorporate budget spending measures into departmental main estimates votes, similar to the system in place in Australia, and thereby fully align the documents.

1.1 Estimates Overview

In the *2018–19 Main Estimates*, the Treasury Board Secretariat (TBS) is requesting a total voted appropriation of \$13,250,796,189, and it is forecasting statutory expenditures of \$367,983,303. Overall, the TBS's authorities are increasing by \$7.1 billion, or 108%. The increase is primarily attributable to:

- the inclusion of a \$7.0 billion budget implementation vote for new measures approved and identified in Budget 2018;
- an increase of \$25.0 million to Vote 10, Government-Wide Initiatives, for contingency funding to support the G7 Summit in Charlevoix, Quebec;
- a net increase of \$10.4 million to Vote 1, Program expenditures, primarily related to time-limited funding for the Canadian Digital Service, improvements to Access to Information, Web Renewal Initiative, Regulatory Cooperation, Joint Learning Program and ongoing funding for the Executive Leadership Development Programs and for the Joint Career Development Committee with the Association of Canadian Financial Officers. This increase is partially offset by the sunsetting of funding for the Workspace Renewal Initiative.

Budget 2018 also allocated an additional \$591 million to the TBS, which would be provided through Treasury Board Secretariat Vote 40 – Budget Implementation.

1.2 Aligning the Budget and the Main Estimates

As part of its effort to align the spending information in the budget and the main estimates, the House of Commons' Standing Orders were amended to delay the tabling of the main estimates so they would be presented after the budget. Additionally, in the *2018–19 Main Estimates*, the government introduced a new fund managed by the TBS: Vote 40 – Budget Implementation, totalling \$7.0 billion in 2018–2019. This fund would be used to finance new spending measures announced in Budget 2018, as outlined in an appendix.

However, the Parliamentary Budget Officer (PBO) noted that the wording of the vote does not oblige the government to spend the funds as outlined in the appendix. Also, the amounts included in the appendix were not validated by TBS review.

The President of the Treasury Board, the Honourable Scott Brison, informed our committee that the government would be amending the wording of the vote for more clarity. With respect to next steps, he said the government would like to move to a system similar to Australia's, where the Treasury and the Department of Finance work closely together to present the budget and the estimates at the same time. However, it would take time to implement such a system and shift operations, methodologies and cultures.

Some committee members were concerned that the new vote would reduce transparency and parliamentary oversight because, as indicated by the PBO, the budget spending measures aren't included in departmental plans, have not undergone Treasury Board review, and are being approved by Parliament in advance of this scrutiny.

1.3 Phoenix Pay System

Budget 2018 committed \$16 million to the Treasury Board Secretariat "to work with experts, federal public sector unions and technology providers on a way forward for a new pay system."¹

The President said they are looking at a new pay system at this time because new methodologies and technologies are available, and how pay systems are managed has changed.

When asked whether he agreed with the decision to launch Phoenix in January 2016, despite evidence the system was not ready, the President responded that the Minister of Public Services and Public Procurement decided to move forward because, according to the Minister, she was advised that Phoenix was ready to go and the legacy pay system was no longer available. Going forward, the government has put in place digital standards and a new governance regime with the Chief Information Officer, which will encourage the recognition of failing projects earlier in their development.

1.4 Gender-Based Analysis and Gender-Based Analysis Plus

Gender-based analysis examines the impact of legislation, policies, programs and budgetary measures on diverse groups of women, men and gender-diverse people by taking into consideration sex, gender and other identity factors. Gender-based analysis plus incorporates a range of intersecting identity factors, including age, disability, education, language, sexual orientation, culture, geography, ethnicity, indigeneity, religion, social class and income.

The President informed our committee that all proposals that go to Cabinet must include a gender-based analysis and gender-based analysis plus. Officials added that departments have been asked to include gender-based analyses and gender-based analyses plus for ongoing programs in their departmental plans.

When asked about preparing a post-report providing more transparency on the use of gender-based analysis and gender-based analysis plus by the government in its decision-making processes, the President responded that he favoured the idea of tracking the results of initiatives over time.

¹ Department of Finance Canada, [Equality + Growth: A Strong Middle Class](#), February 2018, p. 190.

1.5 Results

One of the government's proposals to provide better information to parliamentarians is to improve planning and results information in departmental reports.

However, officials from the PBO agreed with committee members that performance indicators in many cases are missing, change over time, or are poor indicators of performance. They observed that in their past work, they found minimal correlation between program performance and budget decisions. Performance budgeting, though, is a challenge across countries in the Organisation for Economic Cooperation and Development. They committed to conducting additional work on performance indicators.

1.6 Culture of the Public Service

In a recent report, the Auditor General of Canada criticized the culture of the public service, saying it prioritizes obedience and the elimination of risk and mistakes.

The President acknowledged that there is a culture of risk aversion in the public service. Instead, he is trying to encourage a culture of experimentation, whereby the public service engages in pilot projects to try ideas out and learn from failures. As an example, he mentioned the new approach to immigration in Atlantic Canada, which will respond to labour market needs.

In addition to culture, the President said the public service must ensure it has the capacity for implementation, especially with respect to project management and procurement.

2 TRANSPORT CANADA

Transport Canada promotes the safety, security, efficiency and environmental responsibility of air, marine, rail and road transportation in Canada, as well as the safety of the transportation of dangerous goods.

Committee Observations

The Treasury Board Secretariat should clearly specify the parameters of purpose-based votes before expanding the pilot project involving Transport Canada to other departments.

2.1 Estimates Overview

In the *2018–19 Main Estimates*, Transport Canada is requesting a total voted appropriation of \$1,291,127,102, and it is forecasting statutory expenditures of \$223,825,936. Transport Canada's budgetary authorities are increasing by \$212 million, or 16%. The increase is primarily attributable to:

- \$100.2 million in the operating vote as a result of Budget 2017 funding for the Oceans Protection Plan, the Trade and Transportation Corridors Initiative, and Transport Canada's modernization plan; and
- 134.5 million in the grants and contributions votes for Budget 2017 funding for the Oceans Protection Plan and the Trade and Transportation Corridors Initiative.

These increases are partially offset by a decrease of:

- \$15.6 million in the capital vote as a result of the sunseting of the Budget 2016 Federal Infrastructure Initiative, which is partially offset by increased funding for the Ferry Services Contribution Program.

Budget 2018 also allocated an additional \$60 million to the department, which would be provided through Treasury Board Secretariat Vote 40 – Budget Implementation.

2.2 Pilot Project

For the third consecutive year, Transport Canada is participating in a pilot project that divides its grants and contributions expenditures into three purpose-based votes. This project is part of the Treasury Board of Canada Secretariat's plan to improve information included in the estimates. Transport Canada was chosen to test a purpose-based approach to estimates votes because its grants and contributions are less complex than other departments.

Officials said that they continue to participate in the pilot project, but they would need more information regarding the parameters of any expansion of the project before making a recommendation.

2.3 Trade Corridors

Budget 2017 allocated \$10.1 billion over 11 years for transportation projects through the Trade and Transportation Corridors Initiative, which includes the National Trade Corridors Fund of \$2 billion that provides funding for infrastructure projects that reduce transportation bottlenecks and capacity issues,

help the transportation system withstand the effects of climate change, and address unique transportation needs in the North.

Officials told our committee that program is in high demand, with the department receiving more than 350 proposals. They will announce funding for the first phase of 30 to 40 projects this year.

2.4 Oceans Protection Plan

In November 2016, the government launched a \$1.5 billion Oceans Protection Plan. Under the plan, Transport Canada will put in place measures to prevent and respond to marine pollution incidents; to address abandoned, wrecked and hazardous vessels; to restore coastal habitats; and to mitigate the impact of day-to-day vessel operations on marine mammals.

Officials informed our committee that the program to address abandoned, wrecked and hazardous vessels is new, and it has a budget of approximately \$7 million per year. Applicants must first make an analysis of what would be required to remove a vessel, and then make a request for funding for the removal. There have been 47 analyses conducted to date and several vessels removed.

To mitigate the impact of vessels on whales, the department has requested that ships slow their speed in areas frequented by whales, and they are examining regulations and ship designs that could reduce noise.

With respect to the Budget 2018 allocation of \$26 million for “Protecting Marine Life,” officials were unable to provide details because they are in the process of developing the program and preparing a submission to the Treasury Board.

2.5 Small Airports

Budget 2018 allocated \$41 million over four years, of which \$8.9 million would be provided to Transport Canada in 2018–2019, to strengthen airports serving remote communities. The funding would address the urgent capital needs of small airports owned and operated by the Government of Canada.

Officials noted that several years ago, Transport Canada transferred many airports to municipalities and provinces, which are responsible for their operations and maintenance. Transport Canada manages an Airports Operations and Maintenance Subsidy Program of \$1.6 million per year. Transport Canada also maintains responsibility for the safety and security of all airports through regulations, certification, inspections, risk-based assessments, and compliance enforcement.

3 IMMIGRATION, REFUGEES AND CITIZENSHIP CANADA

Immigration, Refugees and Citizenship Canada (IRCC) screens and approves for admission immigrants, foreign students, visitors and temporary workers; resettles refugees; manages settlement and integration services for newcomers; and grants citizenship.²

Committee Observations

With a rapidly increasing number of irregular migrants, Immigration, Refugees and Citizenship Canada should ensure it has sufficient resources to process them.

3.1 Estimates Overview

In the *2018–19 Main Estimates*, IRCC is requesting a total voted appropriation of \$2,201,113,856, and it is forecasting statutory expenditures of \$154,549,420. Overall, IRCC's authorities are increasing by \$709 million, or 43%. The increase is primarily attributable to:

- \$236.6 million related to statutory adjustments of the Passport Canada revolving fund;
- \$287.9 million related to the 2017 and 2018 Immigration Levels Plans;
- \$112.0 million for the Canada–Quebec Accord on Immigration;
- \$89.8 million for the Interim Federal Health program; and
- \$28.1 million for the implementation of biometric screening in Canada's immigration system;

These increases are offset by a decrease of \$58.1 million related to the Syria initiatives.

Budget 2018 also allocated an additional \$86.0 million to the department, which would be provided through Treasury Board Secretariat Vote 40 – Budget Implementation.

3.2 Irregular Migration

IRCC processes refugee claims in partnership with other relevant departments as well as offers interim health care for refugee claimants. Budget 2018 proposed to provide \$173 million to IRCC over two years to support operations at the Canada–U.S. border. In 2018–2019, IRCC would be allocated \$17 million to address irregular migration through Treasury Board Secretariat Vote 40.

According to IRCC's statistics, there were 20,593 asylum seekers that entered into Canada through irregular crossings in 2017.³ With 2,560 new Royal Canadian Mounted Police (RCMP) interceptions recorded in April, the total number of irregular crossings in 2018 has reached 7,612.⁴

Officials from IRCC said that in 2017–2018, the cost for irregular migration was \$24 million. This includes all costs associated with IRCC's operations at the border and interim health care for the asylum

² The legal name of the department, and the name used in the estimates, is the Department of Citizenship and Immigration.

³ Immigration, Refugees and Citizenship Canada (IRCC), [2017 Asylum Claims](#), accessed May 30, 2018.

⁴ Immigration, Refugees and Citizenship Canada (IRCC), [Asylum Claims](#), accessed May 30, 2018.

seekers while the status of their claims was being determined. This amount, however, does not include housing costs which in 2017–2018 were absorbed by the Canada Border Services Agency (CBSA).

The officials added that IRCC is requesting funding in the *2018–19 Main Estimates* for the entire refugee claims function, as they only started making a distinction between irregular and regular immigration in 2017–2018. IRCC is in the process of consolidating the total cost with all relevant departments for irregular migration in 2017–2018 and the budgeted cost in 2018–2019 and will provide our committee with the final numbers.

When questioned about the sufficiency of the requested funding in dealing with increasing irregular migration, officials from IRCC said that while they stay vigilant, the situation so far is going well. In 2017, they were able to create innovative ways to process large number of asylum seekers. They also proposed to work with the CBSA and provinces to accommodate more people in less saturated cities through a planned sorting centre.

3.3 Biometric Screening

In the *2018–19 Main Estimates*, IRCC is requesting an increase of \$28.1 million to continue the implementation of biometric screening in Canada's immigration system. In the *2017–18 Main Estimates*, there was an increase of \$15.4 million for the same project.⁵

Officials from IRCC explained that the increased level of funding is due to the fact that the department is expanding biometric screening to all visa-required countries and all permanent residence applicants. It will be required for travellers from Europe, Africa and the Middle East in the summer of 2018, and then applied to other travellers at the end of 2018.

⁵ Treasury Board Secretariat, *2017–18 Main Estimates*, Ottawa, 2018, p. 105.

4 CANADA BORDER SERVICES AGENCY

The Canada Border Services Agency (CBSA) provides integrated border services and administers legislation that governs the admissibility of people and goods into and out of Canada. It is responsible for interdicting illegal goods at Canada's borders, as well as carrying out enforcement functions related to immigration and refugee matters. These include detention, removals, investigations, and intelligence and immigration control functions overseas.

Committee Observations

In order to address the increasing number of irregular migrants, the Canada Border Services Agency has been relocating its workforce to regions in need. The Agency should ensure that the relocation of resources will not negatively impact the operational efficiency of other regions.

Our committee is also concerned that the CBSA has issued warrants for 35,000 people but does not know whether they are still in the country.

4.1 Estimates Overview

In the *2018–19 Main Estimates*, the CBSA is requesting a total voted appropriation of \$1,639,974,352, and it is forecasting statutory expenditures of \$170,345,667. Overall, the CBSA's authorities are increasing by \$48 million, or 3%. The increase is primarily attributable to:

- \$46.4 million in funding for the 2017 Immigration Levels Plan;
- \$43.9 million in funding for the CBSA Assessment and Revenue Management project (CARM);
- \$15.4 million in funding to expand biometrics screening in Canada's Immigration proceedings; and
- \$7.3 million to implement and administer a federal framework to legalize and regulate cannabis.

The increases are offset by the following decreases:

- reductions in funding for the Beyond the Border Action Plan, including the Entry/Exit initiative (\$16.3 million), the Integrated Cargo Security Initiative (\$9.5 million), and the Border Infrastructure initiative (\$5.9 million);
- \$16.2 million reduction in funding to maintain and upgrade federal infrastructure assets;
- \$11.5 million reduction in funding for the Postal Modernization initiative due to the reprofiling of funding from 2017–2018 to 2019–2020; and
- \$8.7 million reduction in funding requirements to remove the visa requirement for citizens of Mexico;

Budget 2018 also allocated an additional \$154 million to the department, which would be provided through Treasury Board Secretariat Vote 40 – Budget Implementation.

4.2 Irregular Migration

Budget 2018 allocated \$50 million to the CBSA in 2018–2019 and \$22 million in 2019–2020 to address the issue of irregular migration at the Canada–U.S. border. This funding covers various activities starting

at the border, including post-border activities such as temporary accommodation, processing, security screening and ultimately removal, in line with the CBSA's mandate.

Some members of our committee expressed their concern about the sufficiency of the funding for the CBSA to address irregular migration, as well as the potential negative impact of the relocation of CBSA resources. Officials from the CBSA assured our committee that the funding would be sufficient with the requested increase. They added that although the CBSA has used its highly mobile workforce to respond to different challenges across the country, the impact is monitored and managed since they have a large number of deployable officers. Many of those who have been deployed were in clerical functions instead of front-line functions.

On the question of the inventory of individuals who are subject to removals or are wanted, officials from the CBSA said that in its inventory, there are 35,000 people against whom warrants have been issued. However, they stressed that those in the inventory are not high-risk individuals and a number of them might have self-removed. Individuals with active warrants against them are being monitored by police forces and will be acted upon if encountered.

5 IMMIGRATION AND REFUGEE BOARD OF CANADA

The Immigration and Refugee Board of Canada (IRB) is an independent tribunal responsible for making decisions on immigration and refugee matters, including deciding on who needs refugee protection.

Committee Observations

Even with additional funding in the next two years to resolve claims, our committee is concerned about the Immigration and Refugee Board of Canada's ability to reduce its backlog of 50,000 refugee claims.

5.1 Estimates Overview

In the *2018–19 Main Estimates*, the IRB is requesting a total voted appropriation of \$118,949,994, and it is forecasting statutory expenditures of \$14,361,361. Overall, the IRB's authorities are increasing by \$6.2 million, or 5%. The increase is primarily attributable to:

- \$4.9 million for negotiated salary adjustments; and
- \$3.5 million to support increasing Canada's annual immigration levels.

These increases are offset by the sunsetting of \$1.7 million in funding to support immigration proceedings involving applications for non-disclosure to protect classified information in immigration hearings, and a funding decrease of \$0.3 million related to the impacts of the Mexico Visa Lift.

Budget 2018 also allocated an additional \$39 million to the department, which would be provided through Treasury Board Secretariat Vote 40 – Budget Implementation.

5.2 Irregular Migration

The IRB hears and determines the legitimacy of refugee claims, as well as possible appeals. Budget 2018 allocated \$74 million to the IRB in 2018–2019 and 2019–2020 to address the issue of irregular migration at the Canada–U.S. border. After irregular migrants have been apprehended by the Royal Canadian Mounted Police, interviewed by the CBSA, and have passed security and other background checks, those who wish to make a claim would be referred to the IRB.

While the IRB has made an effort to increase efficiency in 2017 and can now finalize up to 2,500 refugee claims per month, the backlog is also growing by about 2,300 claims per month, amounting to 53,000 pending claims at the beginning of April 2018.⁶

Some members of our committee questioned the IRB's ability to reduce the growing backlog of refugee claims. Officials from the IRB admitted that there is a gap between its capability and the backlog. They said that the additional funding in the main estimates would be used to hire more commissioners and projected that they would be able to finalize an additional 8,000 claims in 2018-2019 and a further 9,000 claims in 2019-2020.

⁶ House Of Commons Standing Committee On Citizenship And Immigration, [Evidence](#), Number 108, 1st Session, 42nd Parliament, May 3, 2018

On the question of the sufficiency of funds to address the growing backlog, officials explained that the request for funding reflects the IRB's plan for responsible growth, since it takes time and effort to hire and train new commissioners. The IRB officials also stressed that they are working on the efficiency of the system.

6 SHARED SERVICES CANADA

Shared Services Canada (SSC) is responsible for delivering email, data centre and network services to partner organizations in a consolidated and standardized manner. SSC also provides certain optional technology-related services to federal organizations on a cost-recovery basis.

Committee Observations

As Shared Services Canada is responsible for several projects that have experienced delays, such as the Email Transformation Initiative, our committee believes that it should have concrete implementation plans with specific timelines for the development of critical cyber and IT security infrastructure.

6.1 Estimates Overview

In the *2018–19 Main Estimates*, SSC is requesting a total voted appropriation of \$1,466,806,686, and it is forecasting statutory expenditures of \$79,335,340. Overall, SSC's authorities are decreasing by \$179 million, or 10%. The decrease is primarily attributable to:

- the sunsetting of \$151.3 million of funding for the refresh of mission-critical infrastructure technology; and
- the decrease of \$23.4 million of funding to secure Canada's government information technology infrastructure and information.

Budget 2018 also allocated an additional \$289 million to SSC, which would be provided through Treasury Board Secretariat Vote 40 – Budget Implementation.

6.2 Cyber and IT Security

Budget 2018 allocated \$289 million to SSC in 2018–2019, \$278 million of which is designated for “Enabling Digital Services to Canadians.” This is described as part of the federal government's six-year, \$2.2 billion plan to “improve the management and provision of IT services and infrastructure within the Government of Canada, and to support related cyber security measures.”⁷

Officials from SSC said they have had a few reviews and audits on SSC's progress in fulfilling the cyber and IT security part of its mandate, including an external review led by the Treasury Board Secretariat and conducted by Gartner in 2016–2017, as well as a few other internal and external audits conducted on the same matter.

When asked about SSC's use of cloud computing and its implication on data security, officials explained that the government's classified data are kept within Canada or at missions abroad, while unclassified data could be processed by any cloud service providers with an internationally recognized security certificate, regardless of location.

⁷ Government of Canada, [Budget 2018](#), Ottawa, 2018, p. 208

6.3 Email Transformation Initiative

The Email Transformation Initiative will consolidate 50 different government email systems into one. So far, SSC has 90,000 active email accounts in 17 departments, out of a total of 550,000 email accounts, on the new system; and they will be migrating six other departments this year. These departments were chosen due to the level of risk associated with their legacy email systems. Officials admitted that there was indeed a slowdown of implementation of the initiative.

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.⁸

Committee Observations

As it considers options to replace the Phoenix pay system, the government needs to provide assurance to all employees of the public service that they will be paid accurately and on time, and that the employees of the Public Service Pay Centre will receive sufficient support and training to deal with the current pay system, as well as any future system.

7.1 Estimates Overview

In the *2018–19 Main Estimates*, PSPC is requesting a total voted appropriation of \$3,120,727,415, and it is forecasting statutory expenditures of \$114,663,690. PSPC's overall authorities are decreasing by \$459 million, or 12%.

The decrease is primarily attributable to:

- \$327.1 million due to the sunset of funding for the repair, maintenance, operation and improvements to federal buildings;
- \$60.0 million due to the sunset of funding to prepare spaces for occupancy to meet clients' program requirements;
- \$45.6 million due to the sunset of funding for modern, efficient and sustainable infrastructure by applying innovative environmental technologies;
- \$39.8 million due to the sunset of funding to support Canadian businesses by procuring and testing their late stage innovative products and services; and
- \$8.0 million decrease as a result of completion or change in requirements for other projects and activities, such as the Grande-Allée Armoury and Cape Breton Operations.

These decreases are offset by an increase of:

- \$21.8 million to provide accommodation, special events management, procurement and interpretation services, as well as project management and support services to federal organizations for the G7 Summit.

Budget 2018 also allocated an additional \$653 million to the department, which would be provided through Treasury Board Secretariat Vote 40 – Budget Implementation.

⁸ 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

Budget 2018 committed \$431.4 million over six years to address issues with the Phoenix pay system, which will involve hiring additional staff. PSPC will be allocated \$306.8 million in 2018–2019 through Treasury Secretariat Board Vote 40 – Budget Implementation.

In order to improve the efficiency of handling outstanding pay problems, officials said they intend to create additional “pods,” or groups of employees serving particular departments and their unique pay needs, such as complex schedules. They plan to create 29 pods serving all departments by 2019.

With respect to the Public Service Pay Centre, officials told our committee that the pay centre will continue operations in Miramichi, because they see results, innovation and engagement from the employees. They committed to investing in the pay centre’s employees to ensure they get the tools needed to perform.

7.3 Maintenance and Repair of Public Buildings

Budget 2018 allocated \$275 million in additional funding in 2018–2019 to PSPC for the Federal Accommodation Program to provide office accommodation and related real property services to federal departments and agencies.

According to officials, the funding is needed to address a backlog of thousands of projects for much needed repairs. The department just finished two years of funding, and it is being provided one year of additional funding. The department will prepare a longer-term plan for building maintenance and repairs.

Marty Muldoon, Chief Financial Officer at PSPC, indicated that the Long-term Vision and Plan for the Parliamentary Precinct is on time, on budget, and on scope.

7.4 Canadian Surface Combatant

PSPC manages the procurement process for major acquisitions, including defence procurement, such as the Canadian Surface Combatant.

Officials said the intention is to procure 15 surface combatant ships, and the winner of the procurement process will be identified in the fall of 2018. Our committee notes that the process is an ongoing challenge as the design of the ships has yet to be approved.

8 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

The creation of the department of Indigenous Services Canada and the sunsetting of budget funding measures makes it very difficult to track funding for Indigenous services from year-to-year.

Our committee believes the Treasury Board Secretariat should ensure that the estimates of all departments more clearly distinguish ongoing funding levels and time-limited budget funding commitments.

8.1 Estimates Overview

In the *2018–19 Main Estimates*, ISC is requesting a total voted appropriation of \$9,245,825,395, and it is forecasting statutory expenditures of \$79,386,979. As ISC was established on November 30, 2017, this is the first year the department appears in the main estimates.

Of its \$9.2 billion main estimates appropriation for 2018–2019, \$6.2 billion has been provided by Crown–Indigenous Relations and Northern Development Canada and \$3.1 billion by Health Canada, as responsibilities have been transferred from these organizations.

Budget 2018 also allocated an additional \$1.0 billion to the department, which would be provided through Treasury Board Secretariat Vote 40 – Budget Implementation.

8.2 Separating the Departments

The department of Indigenous Services Canada was created in November 2017 through an order in Council.

Officials informed our committee that Crown–Indigenous Relations and Northern Affairs (formerly Indigenous and Northern Affairs Canada) continues to provide internal services for both departments, and it will take time to finalize the organizational structures and funding levels, as well as separate the financial systems. Consultations on legislation to create the two departments are underway, with the intention of introducing a bill in Parliament in the fall of 2018.

Several members noted that it is quite difficult to track funding levels with the creation of the new department. If one simply transfers funds from Health Canada and Indigenous and Northern Affairs Canada in 2017–2018 to ISC, it would seem that funding for ISC's responsibilities are decreasing in 2018–2019. Officials explained that this is due to \$1.1 billion of time-limited budget measures that had "sunsetting," or expired, some of which are renewed in Budget 2018. Officials committed to preparing a table for our committee that would demonstrate new investments and sunsetted funding.

8.3 Health

ISC provides funding for health programs and services to First Nation and Inuit communities, as well as supplementary health benefits to eligible First Nation and Inuit individuals. Budget 2018 committed \$1.5 billion of additional funding over five years for Indigenous health, of which \$408 million would be allocated to ISC in 2018–2019 through Treasury Board Secretariat Vote 40 – Budget Implementation.

Officials said the funding will sustain access to critical medical care and services, including 24-7 nursing services in 79 remote and isolated First Nation communities. There are separate funds available to undertake 213 projects to build and upgrade health facilities, of which 71% have been completed.

Officials acknowledged that recruitment and retention of doctors and nurses in the North is a challenge, due in part to inadequate residences, concerns with pay, and isolation. The department is examining telemedicine and other technological means to deal with gaps in the physical presence of medical practitioners.

9 CROWN–INDIGENOUS RELATIONS AND NORTHERN AFFAIRS

Crown–Indigenous Relations and Northern Affairs (CIRNA) manages the relationship between the Government of Canada and First Nations, Inuit and Métis; works with Indigenous peoples to build capacity for self-determination; and leads the government’s activities in the North.⁹

Committee Observations

As the government moves toward a new fiscal relationship with First Nation communities, including ten-year grants, it will need to put in place mechanisms to adjust funding levels over a ten-year planning horizon.

9.1 Estimates Overview

In the *2018–19 Main Estimates*, CIRNA is requesting a total voted appropriation of \$2,988,157,881, and it is forecasting statutory expenditures of \$96,046,567.

CIRNA’s total authorities for 2018–2019 have decreased by \$6.9 billion from the previous year’s main estimates due to:

- the transfer of \$6.2 billion to Indigenous Services Canada;
- the sunset of \$416 million in funding to support the delivery of water and wastewater services on First Nation reserves; and
- the sunset of \$304 million in funding for affordable housing and social infrastructure projects.

Budget 2018 also allocated an additional \$337 million to the department, which would be provided through Treasury Board Secretariat Vote 40 – Budget Implementation.

9.2 New Fiscal Relationship

The government stated in Budget 2018 that to advance reconciliation with Indigenous Peoples and facilitate greater self-determination—including self-government—a new fiscal relationship is needed. Budget 2018 committed \$188.6 million over five years to support First Nations’ fiscal and administrative capacity.

Officials explained that the funds will support the development of community plans and pay for third-party management fees, which currently come out of band support funding.

As part of the new fiscal relationship, the government will be developing 10-year grants for qualified First Nations, which will provide them more financial flexibility.

Officials said all First Nation communities have been asked to decide by June 30 whether to apply for 10-year grants. The First Nations Financial Management Board will assess First Nation communities’ financial ratios and other eligibility requirements, such as having a community plan and financial and audit committees. The department is working on a mutual accountability framework that would have First

⁹ The legal name of the department, and the name used in the estimates, is the Department of Indian Affairs and Northern Development.

Nations reporting annually against their community plan, with indicators framed under the United Nations' sustainable development goals.

First Nations that are not eligible for the ten-year grants would receive funding for professional institutional development, as well as investments in IT systems and the development of financial policies.

10 CANADA MORTGAGE AND HOUSING CORPORATION

The Canada Mortgage and Housing Corporation's (CMHC) mandate is to facilitate access to housing and contribute to financial stability in helping Canadians meet their housing needs.

Committee Observations

Poor ventilation, overcrowding and mould in housing are key contributors to the risk of respiratory infections of children in remote and rural First Nation and northern communities.

Our committee believes the government should undertake more research on the connection between housing and health in these communities, as well as develop geographically and culturally relevant building codes.

10.1 Estimates Overview

In the *2018–19 Main Estimates*, the CMHC is requesting a total voted appropriation of \$2,427,435,894, and it is forecasting non-budgetary statutory expenditures of -\$259,433,000, due to the repayment of borrowings. The CMHC's budgetary authorities are decreasing by \$308 million, or 11%. The decrease is primarily attributable to:

- \$603.2 million due to the expiry of the majority of Budget 2016 initiatives;
- \$41.0 million in baseline funding resulting from the end of operating agreements for existing social housing programs; and
- \$10.4 million due to the reprofiling of funding for the Investment in Affordable Housing (On-Reserve).

These decreases are offset by increases of:

- \$47.2 million for the Rental Construction Financing Initiative;
- \$4.9 million for the Housing Internship Initiative for First Nations and Inuit Youth;
- \$3.4 million for the top-up funding for year 3 of the Shelter Enhancement Program; and
- \$278.0 million in funding for the National Housing Strategy.

Budget 2018 also allocated an additional \$447 million to the corporation, which would be provided through Treasury Board Secretariat Vote 40 – Budget Implementation.

10.2 First Nations Health and Housing

The CMHC supports the construction of new rental housing, the renovation of existing homes, ongoing subsidies for existing rental social housing and investments in capacity building for First Nation people living on-reserve. According to its *2017 Annual Report*, the CMHC spent \$60 million in 2017 for its on-reserve programs, helping 2,800 households.

Budget 2016 allocated \$416.6 million over two years to Indigenous and Northern Affairs Canada to improve on-reserve housing conditions, reduce overcrowding and increase health and safety. It also allocated \$137.7 million over two years to the Canada Mortgage and Housing Corporation to support the renovation and retrofit of existing housing on reserve. Budget 2018 announced \$600 million over three

years to support housing on reserve as part of a 10-year First Nations Housing Strategy that is being developed with First Nations.

Dr. Tom Kovesi, pediatric respirologist at the Children's hospital in Eastern Ontario and professor of pediatrics at the University of Ottawa, told our committee that respiratory infections are a key threat to the health of First Nation and Inuit children, particularly babies. Rates of hospitalization for Inuit babies for bronchiolitis and pneumonia are up to 30 times higher than for infants living in southern Canada. Rates of tuberculosis in Nunavut are over 200 times higher than among non-Indigenous people.

Studies conducted by Dr. Kovesi and his colleague, J. David Miller, professor in the Department of Chemistry at Carleton University, have shown that poor ventilation, overcrowding and mould in housing are key contributors to the risk of respiratory infections in remote and rural First Nations and northern communities.

They argued that Indigenous communities urgently need more housing, increased budgets for the maintenance and refitting of existing housing, and access to potable water. Additionally, further research is needed to examine the link between housing and health in Indigenous communities. While research has been conducted in southern communities, it cannot be assumed that findings from the south will apply to northern, rural and remote communities. Instead, the government needs to develop building codes that are geographically and culturally relevant, along with providing education on how to maintain healthy homes.

10.3 Human-Rights Research

The CMHC is requesting \$4.1 million in 2018–2019 to support the development of a human-rights approach to housing. According to officials, this funding would support consultations to inform this approach, as well as the examination of whether legislation is needed to strengthen the right to housing. The CMHC is also putting in place governance mechanisms, including a National Housing Council and a federal housing advocate who would examine housing barriers and challenges.

10.4 Mortgage Insurance and Affordable Housing

One of the CMHC's principal activities is to provide mortgage insurance, which is mandatory for federally regulated lenders in Canada when the buyer of a home has less than a 20% down payment. According to officials, the CMHC currently has a portfolio of approximately \$450 billion in mortgage insurance and earns a profit of about \$1 billion annually through these services.

The CMHC also makes investments in affordable housing, including funding for social housing. According to officials, CMHC spends approximately \$2 billion annually to help Canadians in housing need.

11 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

As the government invests additional funds in the Youth Employment Strategy, it should make sure that the strategy is meeting its goal of helping young people find and keep meaningful employment.

11.1 Estimates Overview

In the *2018–19 Main Estimates*, ESDC is requesting a total voted appropriation of \$3,116,543,537, and it is forecasting statutory expenditures of \$57,808,926,247. Overall, ESDC's authorities are increasing by \$3.5 billion, or 6%. The increase in statutory expenditures is primarily attributable to:

- \$2.0 billion for the Old Age Security Pension;
- \$118.2 million for the Canada Student Loans and Grants for Students and Apprentices Program; and
- \$96.6 million to the Canada Disability Savings Grants and Bonds.

ESDC plans to increase its operating expenditures by \$100 million, mainly due to the funding renewal in Budget 2017 for the Temporary Foreign Worker Program and new funding for the Old Age Security program workload to support the demographically driven increase in beneficiaries.

Grants and contributions are increasing by \$593 million due to investments announced in Budget 2017 for Early Learning and Child Care, the Workforce Development Agreement, the Youth Employment Strategy and the Homelessness Partnering Strategy.

Non-budgetary loans are increasing by \$376 million as a result of introducing a fixed student contribution model to determine Canada Student Loans Program eligibility.

Budget 2018 also allocated an additional \$308 million to ESDC, which would be provided through Treasury Board Secretariat Vote 40 – Budget Implementation.

11.2 Youth Employment Strategy

The Youth Employment Strategy, which includes Skills Link, Career Focus and Summer Work Experience programs, is intended to help young people gain the skills and experience they need to find and keep good jobs. It is delivered by 11 federal departments. Budget 2016 provided \$165.4 million to the strategy, nearly doubling the Canada Summer Jobs program. Budget 2017 provided an additional \$395.5 million over three years. ESDC is receiving an increase of \$62.2 million in 2018–2019 as a result of Budget 2017 investments.

Officials explained that performance indicators for the strategy, including the Skills Link program, are reported in ESDC's departmental results report. As the most recent report is for 2016–2017, the results of the recent investments are not yet available.

11.3 Canada Student Loans

ESDC is forecasting non-budgetary loans of \$735 million in 2018–2019, of which \$669 million is attributable to the Canada Student Loans program and the remainder is for apprenticeship loans. Student loans help pay for post-secondary education and are increasing as a result of the introduction of a new model to determine eligibility.

Officials explained that the default rate for the student loans is around 10%, which compares favourably to the US rate of 11.5%. The default rate has been going down over the last six years.

12 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

Additional funds for frontline operations should help the Royal Canadian Mounted Police attract and retain sufficient numbers of new recruits.

12.1 Estimates Overview

In the 2018–19 *Main Estimates*, the RCMP is requesting a total voted appropriation of \$3,074,815,973, and it is forecasting statutory expenditures of \$465,837,241. Overall, the RCMP's authorities are increasing by \$658 million, or 23%. The increase is primarily attributable to:

- \$517.9 million in 2018–2019 in support of a new funding model with revised financial authorities and incremental funding for the Contract Policing program;
- \$132.6 million to support incremental costs associated with hosting the 2018 G7 Summit in Charlevoix, Quebec;
- \$81.3 million for negotiated salary adjustments for RCMP regular members, Civilian Members and Public Service employees; and
- \$30.1 million to compensate members injured in the performance of their duties.

The increases are offset by decreases of:

- \$24.7 million related to an Employee Benefit Plans adjustment;
- \$63.7 million for technical adjustments related to the Merlo Davidson class action settlement agreement; and
- \$22.3 million related to the Federal Infrastructure Initiative.

Budget 2018 also allocated an additional \$159 million to the RCMP, which would be provided through Treasury Board Secretariat Vote 40 – Budget Implementation.

12.2 Frontline operations

Budget 2018 allocated \$105 million to the RCMP to support frontline operations. According to the Commissioner of the RCMP, this funding would support the recruitment and training of new RCMP cadets to help meet the demands of frontline operations for new officers. The RCMP tends to have 5% to 7% of its approximately 18,000 regular member positions vacant, mostly due to attrition.

The funding would also be used to acquire new digital radio systems that allow voice encryption. The radios would cost \$60.2 million over five years, and \$9.5 million ongoing.

12.3 G7 Summit

In June 2018, Canada hosted the leaders of the Group of Seven (G7) countries for a summit in Charlevoix, Quebec.

The RCMP is requesting \$132.6 million for costs associated with the summit in 2018–2019. According to the Commissioner of the RCMP, the RCMP provided 4,000 officers to the summit, which was supplemented by approximately 5,000 officers from the Sûreté du Québec. The majority of the RCMP's officers were involved in federal policing, and the rest were transferred from contract policing by taking no more than 10% of the resources available.

12.4 Irregular Migration

Canada has experienced a recent surge of people entering the country illegally between ports of entry. As the RCMP is responsible for border security between ports of entry, it intercepts and arrests these individuals under the *Customs Act*, interviews them, conducts criminality and security checks, and then transfers them to the CBSA within 24 hours.

The Commissioner for the RCMP informed our committee that the RCMP did not receive extra funds for the overtime and travel costs of handling irregular migration but has used existing resources. The total cost in 2017–2018 for these activities was approximately \$7 million. Budget 2018 allocated \$9.5 million to the RCMP in 2018–2019 for irregular migration. The RCMP is in the process of developing a request for sustainable funding for this purpose for the next two years.

13 VETERANS AFFAIRS CANADA

Veterans Affairs Canada (VAC) is responsible for the care, treatment and re-establishment in civil life of veterans and the care of their dependants and survivors. VAC meets its responsibilities through its programs for disability pensions, veterans allowances, pension advocacy, health care and commemoration.

Committee Observations

As more veterans leave active duty and return to civilian life, Veterans Affairs Canada should ensure that it has sufficient capacity to provide adequate and timely services to veterans.

13.1 Estimates Overview

In the *2018–19 Main Estimates*, VAC is requesting a total voted appropriation of \$ 4,363,061,570, and it is forecasting statutory expenditures of \$31,492,862. Overall, VAC's authorities are decreasing by \$296.8 million, or 6.3%. The decrease is primarily attributable to the sunseting of a one-time retroactive payment made in 2017–18 to all veterans who received a Disability Award since 2006.

These decreases are offset by an increase in funding for benefits, services and support due to an increase in the number of eligible Canadian Armed Forces veterans and their families.

Budget 2018 also allocated an additional \$26 million to the department, which would be provided through Treasury Board Secretariat Vote 40 – Budget Implementation.

13.2 Service Delivery Capacity

Budget 2018 allocated \$21 million in 2018–2019 for better service delivery for veterans.

Officials from VAC said that this funding will be used to hire more staff to facilitate application processing and ensure that veterans in need have dedicated personnel assigned to help them navigate VAC's programs.

13.3 Performance Measurement

In VAC's departmental plans and results reports, targets and achievements for various performance indicators are listed. Officials from VAC said the information for these indicators is monitored and determined through a veteran's national survey, as well as through engagements with stakeholders at veteran's events.

When asked why the percentage of complaints closed within 60 days was decreasing, officials responded that their successful outreach efforts had brought in more applicants, leading to a higher workload, which has stretched VAC's resources. They stated that the allocated funding from Budget 2018 should help improve their performance.

13.4 Backlog of Disability Awards

The *2017–18 Main Estimates* included a one-time retroactive payment to all veterans who have received a Disability Award since 2006. However, due to the high number of eligible individuals that submitted applications in the last year, there is a backlog in processing the applications.

Officials from VAC explained that they have made an effort to process all applications in a timely manner. While VAC has tried to track the time needed to process applications, it is difficult to predict human behaviour in order to staff at an appropriate level. They committed to provide more detailed information on the backlog to our committee.

14 ENVIRONMENT AND CLIMATE CHANGE CANADA

Environment and Climate Change Canada (ECCC) is responsible for preserving and enhancing the natural environment and renewable resources as well as coordinating environmental policies and programs with other federal departments.¹⁰

Committee Observations

Environment and Climate Change Canada should ensure that its carbon pricing regime takes into account the effect it would have on the competitiveness of emissions-intensive, trade-exposed industries.

14.1 Estimates Overview

In the *2018–19 Main Estimates*, ECCC is requesting a total voted appropriation of \$1,429,418,263, and it is forecasting statutory expenditures of \$86,447,045. Overall, ECCC's authorities are increasing by \$528.6 million, or 53.5%. The increase is primarily attributable to:

- \$473.0 million for the Low Carbon Economy Fund;
- \$16.6 million for negotiated salary adjustments;
- \$14.5 million for the Pan-Canadian Framework on Clean Growth and Climate Change;
- \$14.4 million for the Freshwater Action Plan;
- \$13.8 million for the Federal Contaminated Sites Action Plan; and
- \$11.3 million for the Youth Employment Strategy.

These increases are offset by a decrease of \$15.2 million for the Randle Reef Contaminated Sediment Remediation Project, and a decrease of \$12.0 million for the *Species at Risk Act*.

Budget 2018 also allocated an additional \$71 million to the department, which would be provided through Treasury Board Secretariat Vote 40 – Budget Implementation.

14.2 The Low Carbon Economy Fund

The federal government has pledged \$2 billion for the Low Carbon Economy Fund (the Fund) as part of the Pan-Canadian Framework on Clean Growth for Climate Change (the Framework). \$1.4 billion of the Fund is allocated to the Low Carbon Economy Leadership Fund (the Leadership Fund), which would help the provinces and territories who sign on to the Framework deliver on their commitments to reduce greenhouse gas emissions. So far, all but one jurisdiction has signed on to the Framework. In addition to provinces and territories, other organizations are also eligible to apply for funding from the Low Carbon Economy Challenge, including municipalities, Indigenous groups, businesses and both not-for-profit and for-profit organizations.

When asked about the possible withdrawal of jurisdictions from the Framework, officials said that if provinces or territories decide to not implement the Framework, then the Leadership Fund would be no

¹⁰ The legal name of the department, and the name used in the estimates, is the Department of the Environment.

longer available, since it is explicitly tied to the implementation of the Framework. As ECCC is finalizing funding agreements with a few jurisdictions, the issue will be addressed as it comes up.

For jurisdictions that do not want to be part of the Framework, they are still eligible to apply for the Low Carbon Economy Challenge fund. ECCC is in the process of evaluating emission reduction proposals submitted through the challenge fund. ECCC would also redirect proposals that are outside the scope of the Low Carbon Economy Fund to other appropriate funds.

With regard to the government's engagement with Indigenous peoples on the design and implementation of the Framework, officials stated that as a result of feedback from First Nations, ECCC has since split the challenge fund into two, with one part dedicated to smaller communities and organizations so that they don't have to compete with large organizations.

Officials said that they will report on the Low Carbon Economy Fund through multiple measures and fully anticipate detailed auditing on the Fund. The performance indicators include emission reductions achieved and emission reductions per dollar of federal investment; however, they admitted that they were struggling to determine appropriate indicators and data sources to support adaptation programming indicators because of the difficulties in evaluating vulnerability to the impacts of climate change.

14.3 Impact of Carbon Pricing

The Pan-Canadian Framework on Clean Growth and Climate Change is the government's plan to meet Canada's greenhouse-gas emissions reduction targets. One of the four main pillars is pricing carbon pollution.¹¹

When asked about the impact of carbon pricing on emissions-intensive, trade-exposed industries, officials from ECCC said that they are in the process of developing the federal approach to carbon pricing in consultations with industries, as well as provinces and territories. The system being developed would take into account the competitiveness and carbon leakage risks for energy-intensive sectors. The proposed system would aim at using a price signal to create incentives to reduce emissions from these sectors. Emissions-intensive, trade-exposed industries that produce their products in a clean way would get surplus credits that they can trade.

With regard to the impact on the forestry industry, officials explained that among the compliance options available to industries under this output-based pricing system would be using offset credits, which would be relevant for sectors like agriculture, waste and forestry.

¹¹ Government of Canada, [Introduction](#), Pan-Canadian Framework on Clean Growth and Climate Change, Ottawa, 2018

15 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's new defence policy, Strong, Secure, Engaged, includes capital spending of \$108 billion, operating expenditures of \$284 billion and sustainment expenditures of \$105 billion over 20 years.

However, our committee is concerned about the lack of details with respect to the allocation of this funding in the Department of National Defence's spending plans. The Department needs to be more transparent on how these funds will be used.

15.1 Estimates Overview

In the *2018–19 Main Estimates*, the DND is requesting a total voted appropriation of \$19,175,296,950, and it is forecasting statutory expenditures of \$1,202,283,005. Overall, DND's authorities are increasing by \$1.7 billion, or 9.2%. The increase in funding is primarily attributable to:

- an increase in capital funding related to Strong, Secured, Engaged for investments in major capital projects such as Fixed Wing Search and Rescue, Canadian Surface Combatant, and Light Armoured Vehicle Upgrade;
- an increase in operating funding related to the Strong, Secure, Engaged defence policy;
- an increase in funding related to military pay and recently signed collective agreements; and
- an increase in transfer payments related to the Strong, Secure, Engaged defence policy for innovation.

Budget 2018 also allocated an additional \$400,000 to the department, which would be provided through Treasury Board Secretariat Vote 40 – Budget Implementation.

15.2 Vessel Procurement Projects

In 2010, the government announced the National Shipbuilding Strategy, which aims to create a sustainable, long-term shipbuilding plan that benefits the Canadian marine industry and equips the Royal Canadian Navy and the Canadian Coast Guard with much-needed vessels.

When asked about the status of multiple vessel procurement projects that have been delayed, officials from DND acknowledged that the complexity of shipbuilding in Canada has led to some ineffective approaches and procedures with regard to procurement projects. Officials also admitted that they had been too optimistic in the cost estimates and schedules of these projects.

In developing the shipbuilding strategy, they have compared best practices with their international partners. Officials said they intend to avoid the boom and bust cycle in the shipbuilding industry by "load-levelling" the work at the shipyards on both coasts. So far, one DND vessel has been launched and is floating, with others to come in future years.

When asked about fixed-bid contracts and penalty clauses, officials explained they have tried fixed-price contracts in the past, although they are not commonly used by Canada's allies. For most of DND's contracts, clauses such as liquidated damages and the ability to terminate for cause or for convenience are included. However, these clauses must be used carefully, as costs increase as more penalty clauses are added to contracts. Officials assured the committee that they have complete access to all costs the shipyards bring forward in their proposals.

Regarding the support vessels included in the National Shipbuilding Strategy, namely Joint Supply Ships, officials from DND said that the contract to start construction is being negotiated. The first vessel is expected to be delivered to the Navy in 2022–2023, followed by another one a year later. While these vessels are being built, the Navy would be served by a container-ship converted into a supply ship, MV *Asterix*, and supply ships from Chilean and Spanish navies.

When questioned about the decision to not procure a second converted supply ship in the same fashion as MV *Asterix*, officials explained that while the interim supply ship has the ability to sustain and support force generation, it lacks critical deployability and certainty aspects that the Navy needs to deliver Government of Canada missions. Therefore, in the Navy's assessment, it was determined that only one interim supply ship was required.

15.3 Financial Transparency

In many of DND's documents, there is often only one total funding estimate over 20 years with little information about its scope and definition. Moreover, these documents often provide very few details on how the funds would be spent on different programs and purposes in each year.

Some members of the committee reminded officials from DND that their Department had not provided the Committee with a breakdown of the new defence policy-related spending by year and by operating or capital expenditure as requested by the Committee during a meeting in February 2018. Officials from DND were unsure about the status of this request for information.

Regarding the difference between the funding amounts requested in the main estimates and the amounts in the defence policy, officials explained that this is due to the way in which DND requests funding in the main estimates, with additional funding added in supplementary estimates. In order to minimize the lapse in their spending, they are only requesting a specific amount of funding when it is needed. Officials assured our committee that under the defence policy, they have a 20-year, \$108 billion (on an accrual basis) capital investment fund from which funds would be drawn if needed. Therefore, unused funds are ready for future projects. During the development of the new defence policy, they had identified 333 capital projects that would potentially draw money from the 20-year fund.

Despite the explanation provided by DND, some members felt that the way in which DND discloses its financial information to the public and to Parliament makes it unnecessarily difficult to properly review the Department's financial accountability information. Officials from DND agreed that they need to find ways of communicating with Canadians in a clearer and more transparent manner.

APPENDIX – WITNESSES WHO APPEARED BEFORE THE COMMITTEE

Brison, the Honourable Scott, P.C., M.P., President of the Treasury Board

(07-06-2018)

Canada Border Services Agency

Jacques Cloutier, Vice-President, Operations Branch

Jonathan Moor, Vice-President, Chief Financial Officer, Comptrollership Branch

(22-05-2018)

Canada Mortgage and Housing Corporation

David D'Amour, Director, Housing Finance

Kathleen Devenny, Vice-President, Financial Planning and Analysis

Debbie Stewart, Vice-President, Affordable Housing, Client Solutions Management

(22-05-2018)

Crown-Indigenous Relations and Northern Affairs Canada

Catherine Blanchard, Director General, Planning and Resource Management, Chief Finances, Results and Delivery Officer Sector

Paul Thoppil, Chief Financial Officer, Results and Delivery Officer

(22-05-2018)

Department of National Defence and the Canadian Armed Forces Canada

Patrick Finn, Assistant Deputy Minister, Materiel

Vice-Admiral Darren Hawco, Acting Vice Chief of the Defence Staff

Claude Rochette, Assistant Deputy Minister (Finance) and Chief Financial Officer

Elizabeth Van Allen, Assistant Deputy Minister (Infrastructure and Environment)

(30-05-2018)

Employment and Social Development Canada

Mark Perlman, Chief Financial Officer, Chief Financial Officer Branch

Jason Won, Deputy Chief Financial Officer, Chief Financial Officer Branch

(22-05-2018)

Environment and Climate Change Canada

Matt Jones, Assistant Deputy Minister, Pan-Canadian Framework Implementation Office

Judy Meltzer, Director General, Carbon Pricing Bureau

Carol Najm, Assistant Deputy Minister, Corporate Services and Finance Branch

(29-05-2018)

Immigration and Refugee Board of Canada

Shereen Benzvy Miller, Deputy Chairperson, Refugee Protection Division

Paula Thompson, Assistant Deputy Chairperson, Refugee Appeal Division

(22-05-2018)

Immigration, Refugees and Citizenship Canada

Louis Dumas, Director General, Domestic Network, Operations

Daniel Mills, Assistant Deputy Minister, Chief Financial Officer, Finance
(22-05-2018)

Indigenous Services Canada

Catherine Blanchard, Director General, Planning and Resource Management, Chief
Finances, Results and Delivery Officer Sector
Paul Thoppil, Chief Financial Officer, Results and Delivery Officer
(22-05-2018)

**Kovesi, Dr. Tom, Pediatric Respiriologist, Professor of Pediatrics, Children's Hospital of
Eastern Ontario and the University of Ottawa**
(29-05-2018)

Miller, J. David, Professor, Department of Chemistry, Carleton University
(29-05-2018)

Office of the Parliamentary Budget Officer

Mostafa Askari, Deputy Parliamentary Budget Officer
Jean-Denis Fréchette, Parliamentary Budget Officer
Jason Jacques, Senior Director, Costing and Budgetary Analysis
(06-06-2018)

Public Services and Procurement Canada

Marc Lemieux, Assistant Deputy Minister, Pay Administration
Marty Muldoon, Chief Financial Officer, Finance and Administration
Kevin Radford, Assistant Deputy Minister, Real Property
(22-05-2018)

Royal Canadian Mounted Police

Brenda Lucki, Commissioner
Denise Nesrallah, Acting Chief Financial and Administrative Officer
Stephen White, Assistant Commissioner and Acting Chief Human Resources Officer
(22-05-2018)

Schreiber, Dr. Yoko, Infectious Disease Specialist, Ottawa Hospital
(29-05-2018)

Shared Services Canada

Graham Barr, Acting Senior Assistant Deputy Minister, Strategy Branch
Samantha Hazen, Director General and Deputy Chief Financial Officer, Corporate Services
(22-05-2018)

Transport Canada

Karen Cahill, Director General, Financial Planning and Resource Management
Lori MacDonald, Assistant Deputy Minister Safety and Security
Pierre-Marc Mongeau, Assistant Deputy Minister, Programs
(29-05-2018)

Treasury Board Secretariat

Renée LaFontaine, Chief Financial Officer and Assistant Secretary, Corporate Services Sector

Marcia Santiago, Executive Director, Expenditure Management Sector
(07-06-2018)

Veterans Affairs Canada

Faith McIntyre, Director General, Policy and Research Division, Strategic Policy and Commemoration

Maureen Sinnott, Director General, Finance and Deputy Chief Financial Officer, Chief Financial Officer and Corporate Services

Sherry Spence, Director, Financial Operations, Chief Financial Officer and Corporate Services

(29-05-2018)