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## Latest Developments in the Canadian Economic Accounts

# The Fiscal Arrangements Process at Statistics Canada

by Ian Detta, Chayanika Abeysekera Lutes and  
Xingchun (Cathy) Cheng

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## Table of contents

Acknowledgement.....	4
Introduction .....	4
Section 1: Background and context .....	4
Section 2: Statistics Canada’s role and responsibilities .....	5
Section 3: Statistics Canada data.....	6
Section 4: Statistics Canada’s process .....	8
Section 5: Conclusion .....	9

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## Introduction

The Government of Canada provides significant financial support to provincial and territorial governments on an ongoing basis to assist them in the provision of programs and services. The transfers are under the responsibility of the Minister of Finance, who performs transfer calculations using data from multiple sources that include a large amount of Statistics Canada data. Statistics Canada's role is to provide data pertaining to the population, government revenues, the measurement of tax bases and the economy, for the federal government to calculate the transfers to the provinces and territories every year.

Under the *Federal-Provincial Fiscal Arrangements Act* (FPFAA) and its associated regulations, both the Chief Statistician of Canada and Statistics Canada have a legislative responsibility to provide the prescribed data used for calculating the transfer payments. This paper will provide an overview of Statistics Canada's processes to meet the requirements under the current fiscal arrangements framework, including the data, collaboration and vetting.

This paper will describe the four major federal transfers and Statistics Canada's role and responsibilities under the FPFAA and its associated regulations and explain the process for three types of certificates—population, revenue and base—and other key data used to calculate the transfer payments. This paper reflects the process and legislation as of fall 2024.

## Section 1: Background and context

There are four major annual federal transfer programs: the Canada Health Transfer (CHT), the Canada Social Transfer (CST), Equalization and Territorial Formula Financing (TFF). In 2024/2025, these four transfers total \$99.4 billion.

### 1.1 Canada Health Transfer

The CHT is the largest major federal transfer to the provinces and territories. It provides long-term predictable funding for health care and supports the principles of the *Canada Health Act*. CHT payments are made on an equal per capita basis to provide comparable treatment for all Canadians, regardless of where they live. Population and gross domestic product data provided by Statistics Canada are used to calculate the per capita amounts.

### 1.2 Canada Social Transfer

The CST is the third-largest federal transfer to the provinces and territories. It is intended to support three broad areas of social programs: postsecondary education, social assistance and social services, and early childhood development and early learning and child care. The CST is allocated on an equal per capita basis to provide comparable treatment for all Canadians, regardless of where they live. Population data provided by Statistics Canada are used to calculate the per capita amounts.

### 1.3 Equalization

Equalization is the Government of Canada's transfer program for addressing fiscal disparities among provinces. The purpose of the program was entrenched in the Canadian Constitution in 1982:

“Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation” (subsection 36(2) of the *Constitution Act*, 1982).

The allocation of Equalization payments is based on a measure of fiscal capacity, which represents the revenues a province could raise if it were to tax at the national average rate. The five revenue categories for which fiscal capacity is independently measured are personal income taxes, business taxes, consumption taxes, property taxes and natural resource revenues. Equalization supports provinces that have a lower-than-average fiscal capacity. Revenue, tax base and population data from Statistics Canada are used to calculate the fiscal capacity of each province, which is then used to calculate the equalization payment a province will receive.

### 1.4 Territorial Formula Financing

TFF is an annual unconditional transfer from the Government of Canada to the three territorial governments to enable them to provide their residents with a range of public services comparable to those offered by provincial governments, at comparable levels of taxation.

TFF helps territorial governments fund essential public services in the North, such as hospitals, schools, infrastructure and social services, and recognizes the high cost of providing public services in the North, as well as the challenges the territorial governments face in providing these services to a large number of small, isolated communities.

Similar to Equalization, eligible revenues are based on a measure of fiscal capacity, which represents the revenues a territory could raise if it were to tax at the national average rate. There are nine revenue categories for which fiscal capacity is independently measured: personal income taxes, business taxes, consumption taxes (excluding excise taxes), tobacco taxes, gasoline taxes, diesel fuel taxes, alcoholic beverage revenues, payroll taxes, and property taxes and miscellaneous revenues. Revenue, tax base and population data from Statistics Canada are used to calculate the fiscal capacity of each territory, which is then used to calculate the TFF payment a territory will receive.

## Section 2: Statistics Canada's role and responsibilities

The role of Statistics Canada and the Chief Statistician is to provide the necessary data for the calculation of the federal government's major transfer programs, as set out in the FPFAA and the associated regulations that provide specific interpretation of the FPFAA and outline data requirements and calculations. This includes data provided through certificates and data provided separately by Statistics Canada in accordance with the FPFAA and the associated regulations.

The FPFAA sets out the requirements for Statistics Canada and the Chief Statistician primarily through regulations in Part VIII, subsection 40(a.1), which states, “The Governor in Council may make regulations respecting the information that must be prepared and submitted by the Chief Statistician of Canada for the purposes of Parts I, I.1, II and V.1.”

The associated regulations that set out the requirements for Statistics Canada and the Chief Statistician in calculating the major transfers are

- the Canada Health Transfer, Canada Social Transfer and Wait Times Reduction Transfer Regulations SOR/2004-62
- the Federal-Provincial Fiscal Arrangements Regulations, 2007 SOR/2007-303.

For the purposes of the calculation of the CHT and the CST, the Chief Statistician is required through the *Canada Health Transfer, Canada Social Transfer and Wait Times Reduction Transfer Regulations* to set out the required population numbers in certificates to the Minister of Finance, the Population Certificates.

For the calculation of Equalization and TFF, the Federal-Provincial Fiscal Arrangements Regulations, 2007 detail the required data for both programs and the certificate requirements in section 12 for Equalization and in section 28 for TFF, the Revenue Certificates and Base Certificates. Also, Statistics Canada is required to provide additional data separately from the certificates submitted by the Chief Statistician of Canada. The exact requirements and details for each of the certificates and additional data are described in the next section.

## Section 3: Statistics Canada data

Statistics Canada meets the requirements through provision and publication of data needed for the preparation of the certificates and non-certificate data. The Chief Statistician of Canada fulfills the certificate requirements set out in law by providing, in both official languages, the Population Certificates, by the end of September, and the Revenue Certificates and Base Certificates by December 1. Meeting the requirements for the certificates is a complex undertaking for Statistics Canada, as over 144 data series are produced across Statistics Canada.

### 3.1 Population Certificate

The FPFAA and the *Canada Health Transfer, Canada Social Transfer and Wait Times Reduction Transfer Regulations* require that the Chief Statistician of Canada shall, in each fiscal year, submit certificates to the Minister of Finance that set out the population of each province and territory. The Population Certificates are used in September for the calculation of the CHT and CST and are later used for the Equalization program and TFF. The estimates are provided by Statistics Canada's demography program.

The certificates containing the official estimates of the population of the provinces and territories are a legal obligation of Statistics Canada and the Chief Statistician of Canada. They must be provided to the Minister of Finance no later than September 30 each year.

### 3.2 Revenue Certificates and Base Certificates

The second set of certificates is the Revenue Certificates and Base Certificates that contain data used in the calculation of the Equalization and TFF programs. The requirements for these certificates are set out in the FPFAA and the *Federal-Provincial Fiscal Arrangements Regulations, 2007*, specifically in section 12 for Equalization and in section 28 for TFF. The following are common to both programs:

- The certificates contain information that is available as of November 22 and must be provided to the Minister of Finance by the Chief Statistician of Canada by December 1.
- For each fiscal year, if the information required to be submitted on the certificates is on a fiscal year basis, then it is required for that fiscal year and the three prior fiscal years. If the information is required on a calendar year basis, then it is required for the calendar year that ends in the fiscal year in which the certificate is submitted and the three prior calendar years.
- The Revenue Certificates and Base Certificates submitted contain the provincial and territorial information meeting the requirements for both the Equalization and TFF programs.

#### 3.2.1 Revenue Certificates

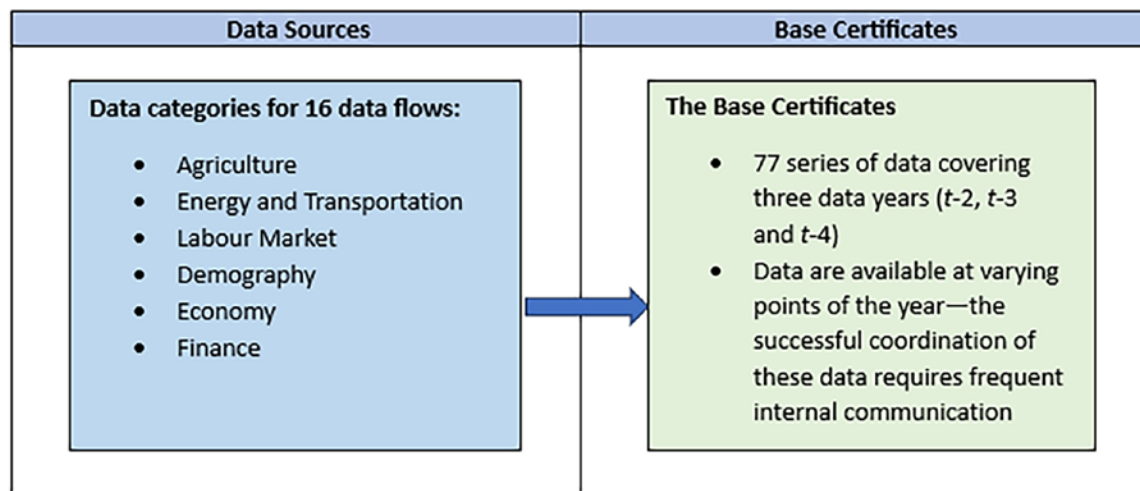
The Revenue Certificates show revenues by source (revenue category) for 47 series of provincial, territorial and local governments on a fiscal year basis. These revenues are used as the revenue input into the fiscal capacity calculation for Equalization and TFF. Statistics Canada produces three Revenue Certificates, one for each of the  $t-2$ ,  $t-3$  and  $t-4$  fiscal years, where  $t$  is the year for which Equalization and TFF entitlements are being determined, which is the fiscal year following submission of the certificates.

The administration of the Equalization and TFF programs requires comparable provincial, territorial and local government finance statistics that reflect actual taxation practices. For this reason, these certificates are populated from the Canadian Government Finance Statistics (CGFS) program,<sup>1</sup> which publishes comparable government finance statistics based on the internationally accepted framework published by the International Monetary Fund.<sup>2</sup> CGFS data is presented according to the definitions in the FPFAA and associated regulations for the Revenue Certificates.

### 3.2.2 Base Certificates

The Base Certificates contain data that are used as the revenue base measures in the fiscal capacity calculation for Equalization and TFF. As with the Revenue Certificates, Statistics Canada produces three Base Certificates, one for each of the  $t-2$ ,  $t-3$  and  $t-4$  years, where  $t$  is the year for which Equalization and TFF entitlements are being determined. These certificates involve efforts from across Statistics Canada, supplying 77 series of data on the certificates (see Figure 1 below).

**Figure 1**  
**Data for the Base Certificates**



Source: Authors' creation.

By December 1, the six certificates, which include three Revenue Certificates and three Base Certificates, are prepared by Statistics Canada for the Chief Statistician of Canada's approval and submission to the Minister of Finance. This represents the culmination of a year's work.

### 3.3 Statistics Canada non-certificate data

Statistics Canada, in addition to preparing the data needed for the Chief Statistician's certificates, provides additional data needed for the calculations as prescribed in enabling legislation and regulations. These include data on the assessed market value of residential property and commercial-industrial property that are produced as part of the residential and non-residential property assessment values at current prices program.

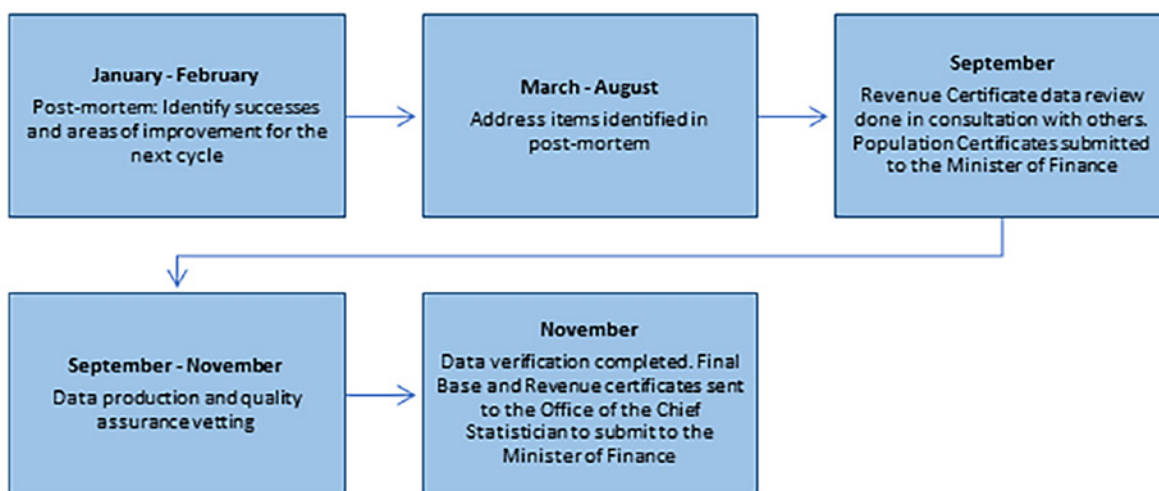
1. CGFS program, [Surveys and statistical programs—Canadian Government Finance Statistics](#).

2. International Monetary Fund, [Government Finance Statistics Manual 2014](#).

## Section 4: Statistics Canada's process

To prepare the certificates, Statistics Canada works with other government officials at the Department of Finance Canada and provincial and territorial governments during the year and culminating in the fall (see Figure 2 below). Quality assurance is extensive, employing multiple processes and levels of responsibility to ensure high-quality, accurate data for these important programs.

**Figure 2**  
**Annual Fiscal Arrangement Process at Statistics Canada**



Source: Authors' creation.

As described in Figure 2, early in the year, the process kicks off with a post-mortem meeting with Finance Canada and Statistics Canada to identify improvements for the upcoming year's process and identify work that needs to be carried out in preparation for the fall, when the certificates are produced.

Starting in March of every fiscal year, Statistics Canada carries out work in preparation for the upcoming fiscal year such as identifying changes to statistical programs that contribute data to the certificate preparation, their methodology, observed data or anything else that could affect the certificate data. Each statistics program has its own quality assurance processes to ensure the data produced conforms to the FPFSA and associated regulations.

In September, as data series are being produced, Statistics Canada uses a tool for managing data collection and producing the certificates known as the Statistical Data and Metadata eXchange (SDMX) and the International Submission Reporting Infrastructure (ISRI) system. These tools set standards, manage schedules, and reduce the risk of error by minimizing manual intervention when collecting and submitting large volumes of data from various providers. They also provide additional quality assurance by requiring three levels of signatures.

The first signature is from those who are responsible for preparing data and working on documents. Managers who usually verify data are the second level of approval. Finally, responsible directors sign to certify that the data provided are fit for use. The process is fully automated and, therefore, avoids data manipulation errors. The final report for Finance Canada is produced from the SDMX.

### Consultations with other government officials through the work in progress

In early September, Statistics Canada coordinates the sharing of CGFS-based revenue data with the provincial and territorial focal points for review before publication. Encrypted data are sent through the electronic file transfer system. All provincial and territorial representatives who access these pre-release data must first complete the Acknowledgement of Confidentiality form stating they cannot share the data with anyone else, including staff in



their organizations. Each province and territory receives data for its own jurisdiction, as well as for Canada. Any comments resulting in revisions to the preliminary data received from the provincial and territorial representatives are incorporated before the CGFS release date in November.

A similar process is in place to allow for representatives at Finance Canada to review and comment on preliminary estimates for the Revenue and Base Certificates. Encrypted data are sent through the electronic file transfer system to Finance Canada, and all representatives who access these pre-release data must first complete the same Acknowledgement of Confidentiality form. There will be multiple versions of the certificates sent between early September and the end of October as revisions are incorporated.

## Final validation

Certificate data are also validated by ensuring they are checked against published data and, where not published, are consistent with observed trends in similar and historical data. Any discrepancies or large deviations are investigated to ensure there is an explanation and the data are accurate. The certificates themselves are validated by ensuring that the English and French versions are equivalent in language and format and contain the same data, including totals. All certificate validation is performed by at least two different analysts. Finally, the certificates are approved by every level of senior management before being approved by the Chief Statistician and delivered to Finance Canada.

## Section 5: Conclusion

The agency is committed to continually improving the process to prepare the data and ensure accurate data are available to calculate the major federal transfers, which are important to all Canadians. For more information or questions about the work that Statistics Canada does for the fiscal arrangements, please call toll-free at 1-800-263-1136 or email [infostats@statcan.gc.ca](mailto:infostats@statcan.gc.ca).