



Department of Finance Canada



For the
period ending
March 31, 1997



Improved Reporting to Parliament —
Pilot Document

Canada

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Foreword

On April 24, 1997, the House of Commons passed a motion dividing what was known as the *Part III of the Estimates* document for each department or agency into two documents, a *Report on Plans and Priorities* and a *Departmental Performance Report*. It also required 78 departments and agencies to table these reports on a pilot basis.

This decision grew out of work by Treasury Board Secretariat and 16 pilot departments to fulfil the government's commitments to improve the expenditure management information provided to Parliament and to modernize the preparation of this information. These undertakings, aimed at sharpening the focus on results and increasing the transparency of information provided to Parliament, are part of a broader initiative known as "Getting Government Right".

This *Departmental Performance Report* responds to the government's commitments and reflects the goals set by Parliament to improve accountability for results. It covers the period ending March 31, 1997 and reports performance against the plans presented in the department's *Part III of the Main Estimates* for 1996-97.

Accounting and managing for results will involve sustained work across government. Fulfilling the various requirements of results-based management – specifying expected program outcomes, developing meaningful indicators to demonstrate performance, perfecting the capacity to generate information and report on achievements – is a building block process. Government programs operate in continually changing environments. With the increase in partnering, third party delivery of services and other alliances, challenges of attribution in reporting results will have to be addressed. The performance reports and their preparation must be monitored to make sure that they remain credible and useful.

This report represents one more step in this continuing process. The government intends to refine and develop both managing for results and the reporting of the results. The refinement will come from the experience acquired over the next few years and as users make their information needs more precisely known. For example, the capacity to report results against costs is limited at this time; but doing this remains a goal.

This report is accessible electronically from the Treasury Board Secretariat Internet site:
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Department of Finance Canada

Performance Report

**For the
period ending
March 31, 1997**

Minister of Finance

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Executive Summary

Since coming to office in 1993, the government's goal has been clear: to strengthen the Canadian economy so that it creates more jobs, and to strengthen Canadian society by preserving the programs that sustain the well-being of Canadians. In short, the goal has been to restore the confidence of Canadians in their future.

Restored fiscal health has been an essential component of the government's strategy to restore Canadians' confidence in their future. Lower deficits have helped to bring interest rates down and strengthen economic growth and job creation. Fiscal progress has enabled the government to invest in immediate jobs and growth — in infrastructure, trade, youth employment, payroll tax reduction, tourism and small business. It has permitted government action to strengthen long-term job creation and growth by investing in higher education, skills development and the knowledge infrastructure Canadians need for the 21st century. And it has made it possible to take action to build a stronger society by sustaining and strengthening the programs on which every Canadian depends — from health care to public pensions.

The Department of Finance Canada plays an important role in implementing the government's agenda. This report looks at the department's performance over the review period (1996-97). During this period, the department focused on four key areas. The following are highlights of initiatives taken in those areas.

Securing the financial future:

In October 1997, the department announced that the deficit for 1996-97 was \$8.9 billion or 1.1 per cent of GDP. This compares with a deficit of \$42 billion or six per cent of GDP just four years earlier. It represents the smallest federal government deficit since 1976-77, two decades ago. It is almost \$20 billion lower than the deficit for the previous year — the largest year-over-year improvement in Canadian history. Because of this significant progress, the government now expects to be able to balance the budget by no later than 1998-99.

Good debt management is important to fiscal consolidation, and the department has continued to review and make adjustments in this area. Greater cost stability has been pursued by increasing the share of the government's longer-term debt. It also introduced a new Retail Debt Program to stop the decline of the total Federal Debt held by individual Canadians. The department launched the Euro Medium-Term Note Program to further diversify the sources of cost-effective funding for Canada's foreign exchange reserves.

The department has taken steps over the past year to improve the efficiency of the tax system. In April 1997, the harmonized sales tax (HST) was implemented in New Brunswick, Nova Scotia and Newfoundland and Labrador. The introduction of the HST means a simpler sales tax system for both consumers and business, and eliminates overlap and duplication in the administration of sales taxes in the three harmonizing provinces.

Getting government right:

The department helps make government work better partly by identifying appropriate opportunities for privatization and commercialization of government operations. Two initiatives initiated in 1995-96 have now been completed: the privatization of Petro-Canada and Canadian National Railways. In October 1996, air navigation services were transferred to a private, not-for-profit corporation. Canada Investment and Savings – launched in the fall of 1995 to provide Canadians with greater opportunity to invest in Government of Canada securities – marked 1996-97 as its first full year of successful operation as a special operating agency. The department also helps the government identify new ways of delivering government services more efficiently – for example, through a single food inspection agency, a Parks Canada agency, and a national revenue collection agency in co-operation with the provinces.

Securing social programs:

The department and the government have acted to secure the future of Canada's valued programs through such initiatives as the introduction in 1996-97 of the Canada Health and Social Transfer (CHST). In 1996, the government legislated a guaranteed cash floor of \$11 billion for the CHST and in April 1997 announced an increase in the cash floor to \$12.5 billion. These actions underline the government's commitment to Canada's health, education and other valued programs.

Last February, federal-provincial agreement was reached to secure the future of the Canada Pension Plan. The agreement will restore the financial sustainability of the CPP by: moving to fuller funding; improving the rate of return on the CPP by adopting a new investment policy; and slowing the growth in costs. The department worked closely with other federal departments and the provinces during the review process that led to the agreement.

The department has worked closely with Human Resources Development Canada and the provinces to lay the basis for the National Child Benefit that was announced in the 1997 budget.

The 1997 budget included measures to strengthen Canada's health care system.

The department also played a role in aboriginal land claims negotiations, and helped make significant progress towards the Nisga'a Final Land Claim and Self-Government Agreement in British Columbia.

Investing in the future:

The 1997 budget announced the creation of the Canada Foundation for Innovation to help modernize research infrastructure in post-secondary institutes and research hospitals.

The department participated in various trade negotiations and proposed a new simplified *Customs Tariff*.

It is reviewing the framework for the payments system in Canada and foreign bank entry policy, as well as overseeing the Task Force on the Future of the Canadian Financial Services Sector, which is scheduled to report to the department in the fall of 1998.

The department's performance accomplishments are outlined in detail in this report.

Section I: Departmental Overview

Mandate, Roles and Responsibilities

The department's fundamental purpose is to assist the government in developing and implementing fiscal and economic policies and programs that foster growth and create jobs. The department serves as the government's primary source of analysis and advice on the broad economic and financial affairs of Canada. In addition to preparing the budget, the department provides analysis and advice on any changes in tax policy and prepares tax and trade legislation; manages federal borrowing on financial markets; manages transfers and fiscal relations with the provinces and territories; represents Canada within international financial institutions and international economic forums; and develops policies for, and advises on, the financial sector.

This requires monitoring and researching the performance of the Canadian economy in all important aspects — output and growth, employment and income, inflation and interest rates, and long-term structural changes. The department is also vitally concerned with financial market developments, trade, and other international economic matters that bear on Canada's domestic performance and competitiveness.

The department interacts with other government departments to encourage co-ordination and harmony among all federal initiatives with an impact on the economy. As well, the department constantly works toward improved co-operation — especially on fiscal and taxation issues — between the federal and provincial governments and internationally.

In its central agency role, the department advises on the economic, fiscal and tax implications of key priorities such as the government's microeconomic agenda and action plan, the jobs and growth agenda, environmental initiatives, agricultural programs, defence and international assistance expenditures, and efforts to renew Canada's social security system, in particular public pensions. Finance also operates two statutory spending programs: the Public Debt Program and the Federal-Provincial Transfer Payments Program. The department is responsible for the delivery of payments to major international financial institutions, such as the International Monetary Fund (IMF), the World Bank and the European Bank for Reconstruction and Development (EBRD), and for the Domestic Coinage program. While all domestic coinage payments are statutory in nature, international financial institution transactions include payments made under both statutory and voted authorities.

Objectives

The department's principal corporate objectives are as follows:

- assisting the government in deciding upon and implementing financial and other economic policies and programs (*Financial Administration Act*, financial institutions legislation, tax and tariff legislation);

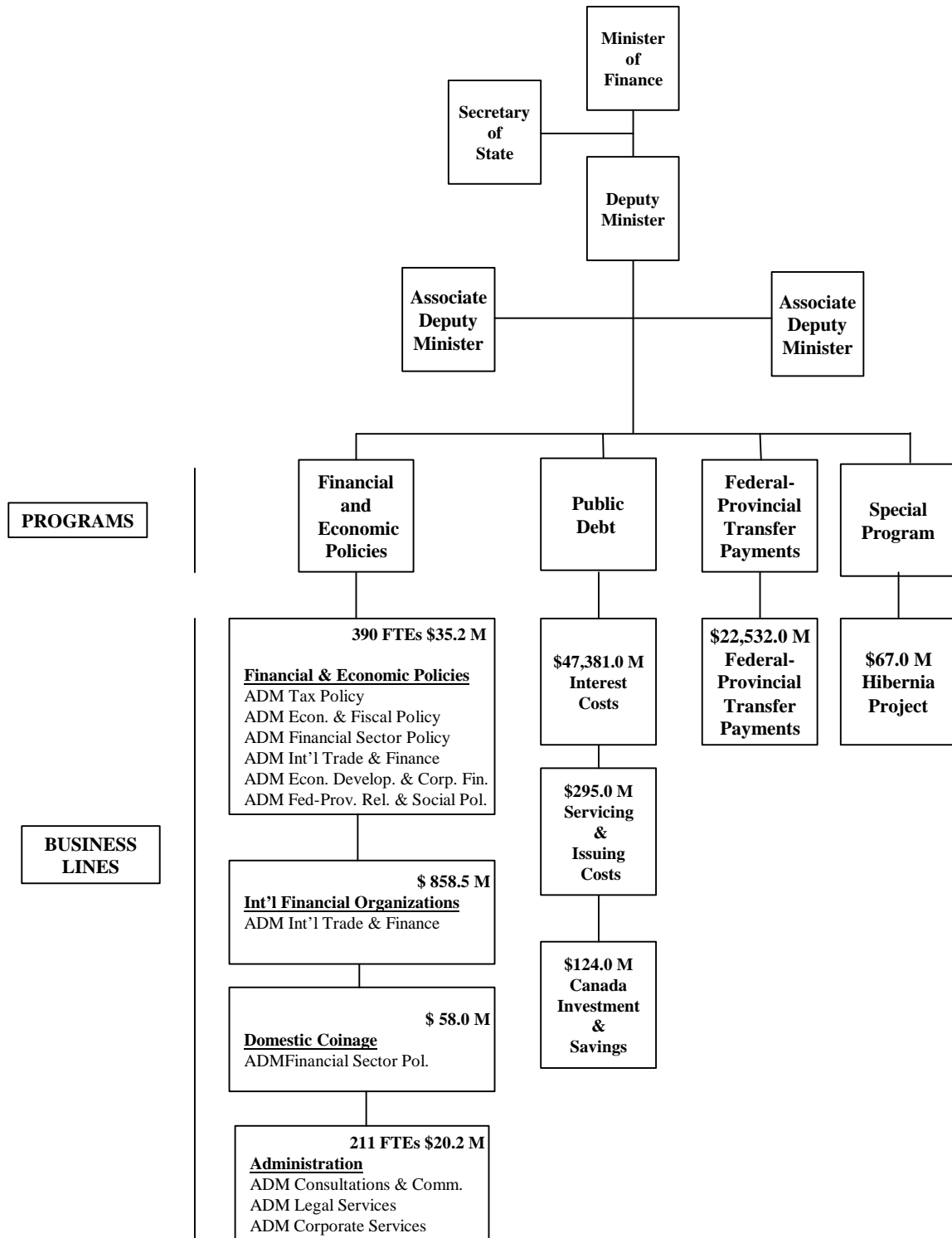
- subscribing and/or contributing to the International Monetary Fund and the World Bank Group institutions (*Bretton Woods and Related Agreements Act*) and to the European Bank for Reconstruction and Development (*European Bank for Reconstruction and Development Agreement Act*);
- managing domestic coinage activities (*Royal Canadian Mint Act*);
- managing the federal government's debt program (*Financial Administration Act*); and
- providing financial support to provincial and territorial governments to assist them in providing public services to their residents (*Constitution Acts, Federal-Provincial Fiscal Arrangements Act, Federal-Provincial Fiscal Revision Act*).

Strategic Priorities

The Department of Finance's fundamental purpose is to assist the government in developing and implementing fiscal and economic policies and programs that foster growth and create jobs. For the fiscal year ending March 31, 1997, the department concentrated its efforts on the following areas of priority:

- fiscal consolidation and sound economic management;
- tax policy;
- federal-provincial fiscal relations and social policy reform;
- the development and maintenance of a sound, competitive financial system;
- managing the public debt;
- tariff policy;
- international financial and economic relations, including support for the International Financial Institutions (IFI); and
- economic analysis of macroeconomic policies and of microeconomic policies affecting trade, investment, industrial innovation, technology diffusion, labour markets and regional development.

Business Line, Organization Composition and Resource Plans



Section II: Departmental Performance

A. Performance Expectations – Planned Versus Actual Spending Tables

Figure 1: Comparison of Total Planned Spending to Actual Expenditures, 1996-97 by Business Line (\$ millions)

Business Line	FTE	Operating ¹	Grants, Contributions & Other Transfer Payments	Statutory Payments	Loans, Investments and Advances	Total Gross Expendi- tures	Less: Revenue Credited to the Vote	Total Net Expendi- tures
Financial & Economic Policies	390	35.2				35.2	-	35.2
	375	33.6				33.6		33.6 ²
Int'l Financial Organizations			403.5	445.1	9.9	858.5		858.5
			333.6	377.8	225.9	937.3		937.3
Domestic Coinage				58.0		58.0		58.0
				69.8		69.8		69.8
Administration	211	23.9		-		23.9	(3.7)	20.2
	198	29.1		0.2		29.3	(5.1)	24.2 ²
Interest Costs				47,381.0		47,381.0		47,381.0
				44,792.0		44,792.0		44,792.0
Servicing & Issuing Costs				295.0		295.0		295.0
				365.0		365.0		365.0
Canada Investment & Savings				124.0		124.0		124.0
				26.8		26.8		26.8 ³
Federal-Provincial Transfer Payments (cash portion)			1,129.0	21,403.0		22,532.0		22,532.0
			1,171.6	21,237.2		22,408.8		22,408.8
Special Projects				-	67.0	67.0		67.0
				961.7	53.8	1,015.5		1,015.5
Totals	601	59.1	1,532.5	69,706.1	76.9	71,374.6	(3.7)	71,370.9
	573	62.7	1,505.2	67,830.5	279.7	69,678.1	(5.1)	69,673.0
Other Revenues and Expenditures								
Domestic coinage								(363.6)
								(445.0)
Other revenue credited to the Consolidated Revenue Fund								-
								(3,283.3) ⁴
Cost of services provided by other departments								9.3
								8.5
Net Cost of the Program								71,016.6
								65,953.2 ⁵

Note: Shaded numbers denote actual expenditures/revenues in 1996-97.

- Operating includes contributions to employee benefit plans and Minister's salary and car allowance.
- Restates incorrectly reported public accounts levels of \$32.2 million and \$25.6 million, respectively.
- Actuals do not include commissions and costs recovered by the Bank of Canada of approximately \$98 million.
- Revenues consist of Bank of Canada and Exchange Fund profits and other related revenue items.
- Actual expenditures were \$1.7 billion lower than planned, primarily as a result of lower than anticipated public debt interest costs of \$2.6 billion, partially offset by higher costs in Special Projects, which included payments of \$961 million for sales tax adjustment assistance.

Figure 2: Departmental Planned versus Actual Spending by Business Line

(\$ millions)

Business Lines	Actual 1993-94	Actual 1994-95	Actual 1995-96	Total Planned 1996-97	Actual 1996-97
Financial & Economic Policies	38.0 ¹	37.3	39.0	35.2	33.6 ²
International Financial Organizations	901.5	1,417.9	1,040.7	858.5	937.3
Domestic Coinage	36.2	48.2	49.9	58.0	69.8
Administration	29.8	25.9	24.5 ³	20.2	24.2 ²
Interest Costs	37,752.3	41,617.5	46,433.9	47,381.0	44,792.0
Servicing & Issuing Costs	256.9	471.0	442.6	295.0	365.0
Canada Investment & Savings	-	-	-	124.0	26.8 ⁴
Federal-Provincial Transfer Payments (cash portion)	7,947.7	8,821.1	8,815.8	22,532.0 ⁵	22,408.8
Special Projects	138.2	414.0	1,587.0	67.0	1,015.5
Total	47,100.6	52,852.9	58,433.4	71,370.9	69,673.0

- 1 Actual Financial & Economic Policies expenditures are reported in public accounts as \$22.8 million. This amount includes, in addition to the actual of \$38.0 million noted above for the appropriated portion of Financial & Economic Policies, a provision for a non-budgetary Crown guarantee to Air Canada.
- 2 Restates incorrectly reported public accounts levels of \$32.2 million and \$25.6 million, respectively.
- 3 Actual Administration expenditures are reported in public accounts as \$148.5 million. This amount includes, in addition to the Actual of \$24.5 million noted above for the appropriated portion of Administration, statutory expenditures totalling \$124.0 million primarily for the net loss of exchange.
- 4 Actuals do not include commissions and costs recovered by the Bank of Canada of approximately \$98 million.
- 5 Beginning in 1996-97, Federal-Provincial Transfer Payments reflect the addition of Canada Health and Social Transfer (CHST) and Territorial Formula Financing (TFF) payments.

Summary of Performance Expectations

The following table is an extract from the 1996 *Annual Report* to Parliament by the President of the Treasury Board. This table was not intended to be an exhaustive list but merely to highlight significant key results expected by the department for the fiscal year ended 1997. Performance Accomplishments reported in the next section are not limited to this Table and include other achievements realized during the period under review. Reference should be made to the 1996-97 *Estimates Part III – ‘Plans for 1996-97 and Recent Performance’* (pages 2-10).

Department of Finance Canada	
to provide Canadians with:	to be demonstrated by:
Securing the financial future	<ul style="list-style-type: none"> ➤ Preparation of the 1997 budget which continues the expenditure and deficit tracks including setting the deficit target for 1998-99 ➤ Implementation of sales tax reform announcements ➤ Harmonization of sales tax regimes with Newfoundland, New Brunswick and Nova Scotia ➤ Implementation of announced program spending reductions ➤ Minimization and stability of cost of public debt; risk management of public debt
Getting government right	<ul style="list-style-type: none"> ➤ Implementation of announced privatizations and commercializations (e.g., Air Navigation System and Canada Communications Group) ➤ Effective establishment/operation of Canada Investment and Savings ➤ Tabling of legislation to establish the Canada Border and Revenue Service ➤ Complete the implementation of the Electronic Data Interchange for payment transfers to provinces
Securing social programs	<ul style="list-style-type: none"> ➤ Implementation of secure, stable, more comparable and growing long-term funding of Canada Health and Social Transfer ➤ Reform of the Canada Pension Plan (CPP) to assure its long-term financial integrity ➤ Implementation of new Seniors Benefit (jointly with Human Resources Development Canada)
Investing in the future	<ul style="list-style-type: none"> ➤ Revised legislation for federal financial institutions ➤ Tabling of legislation implementing a new simplified <i>Customs Tariff</i>

B. Performance Accomplishments

Departmental Performance

The department committed to the following for the 1996-97 fiscal year:

- Securing the financial future
- Getting government right
- Securing social programs
- Investing in the future

FINANCIAL AND ECONOMIC POLICIES PROGRAM

Financial and Economic Policies

- Securing the financial future
- Fiscal consolidation continued to represent an area of very strong performance for the department and the government in 1996-97.
- Financial results for 1996-97 were released in the Annual Financial Report on October 15, 1997. The deficit outcome for 1996-97 was \$8.9 billion, marking the third consecutive year in which the deficit has come in under target. The Fall Economic and Fiscal Update, presented by the Minister of Finance, reconfirmed the Speech from the Throne commitment that the budget would be balanced no later than 1998-99.
- Following is a chronological list of events throughout the 1996-97 fiscal year.
 - The Minister of Finance presented a comprehensive Economic and Fiscal Update to the House of Commons Standing Committee on Finance on October 9, 1996, together with the tabling of the *Annual Financial Report*, which indicated a final deficit outcome for 1995-96 of \$28.6 billion — \$4.1 billion below target. The Update confirmed that the government was on track to meet the 1996-97 and 1997-98 deficit targets of three per cent and two per cent, respectively, of GDP.
 - The Minister also announced a further deficit target of about one per cent of GDP for 1998-99, which would result in a landmark achievement on the way to eliminating the public accounts deficit: a \$9-billion deficit would eliminate the need for the government to borrow on financial markets.
 - Determined implementation of Program Review and of the Expenditure Management System meant that the existing and new targets would be achieved,

- under prudent assumptions, on the basis of the measures already outlined in the 1994, 1995 and 1996 budgets.
 - The Minister of Finance tabled his 1997 budget Plan on February 18, 1997, outlining a comprehensive fiscal framework consistent with the government's commitment to implement two-year rolling targets on the way to a balanced budget.
 - The Minister confirmed that the 1996-97 deficit target of three per cent of GDP, or \$24.3 billion, would be bettered, demonstrating the soundness of the government's approach to fiscal planning based on prudent assumptions, a Contingency Reserve and two-year rolling targets. Moreover, the revised 1996-97 deficit target, estimated at no more than \$19 billion, would represent less than half of the peak reached only three years earlier.
 - The Minister also confirmed that the government was on track to reach the 1997-98 deficit target, thereby achieving the first significant decline in the debt-to-GDP ratio, the bottom-line measure of Canada's long-term fiscal health, in over two decades.
 - This fiscal progress was also documented for Parliament and the public on a timely basis via the department's monthly *Fiscal Monitor*, typically published within some 45 days after the close of each month.
- Economic Performance and Policy: Ensuring a prudent economic basis for the government's fiscal planning continued to be a key objective for the department's extensive efforts at monitoring and analyzing the economy's performance and prospects.
 - The 1996 fall Update and 1997 budget were based on economic planning assumptions that have since proven to be appropriately prudent. Economic outcomes in the final nine months of the 1996-97 fiscal year, which were not yet available at the time of the 1996 fall Update, have proven to be in line with, but slightly more favourable than, the planning assumptions published in the Update. This is precisely the outcome that the government intends to achieve in its planning — the heavy debt burden that the Canadian economy carries makes it imperative that the fiscal framework be based on prudent assumptions.
 - The department also pursued an extensive program of monitoring, economic research and analysis of possible policy alternatives. Although the nature of this work dictates that portions of it cannot be released publicly until the government is ready to engage in a public discussion of policy proposals, the department is committed to releasing background analytical information.

As an example, the department continued in 1996-97 to publish its quarterly *Economy in Brief*, a concise analysis of recent economic developments.

The department also continued to publish its working paper series, which documents major economic research projects of relevance to ongoing policy discussions. For example, in 1996-97 working papers were published related to business cycle analysis, including the factors determining the duration of those cycles, to the relationship between public debt and interest rates, and to the long-term economic impact of government spending and taxation.

- Debt Management: Efforts continued to provide stable, low-cost funding for the government through a balance of cost minimization and cost stability; the development of a well-functioning Canadian fixed-income market; and the introduction of new products to diversify the investor base.
 - Stable, Low-Cost Funding: Increasing the stability of debt charges has been a focus of debt strategy over recent years. Greater cost stability has been pursued by increasing the share of the government's total debt in fixed-rate form (i.e. debt maturing or repriced in longer than 12 months). Since 1989-90, the fixed-rate share of the government's debt has been increased from a low of around 50 per cent to 62 per cent as of March 31, 1997. Because of declining financial requirements, the 65 per cent fixed-rate target was achieved in the fall of 1997.

The sensitivity of debt charges to interest rate shocks has been reduced sharply as a result of moving to a higher fixed-rate structure — in 1995, a 100-basis-point increase in interest rates would have translated into a \$1.8-billion increase in debt costs in the first year. In contrast, with the current strategy, even with a larger debt stock, if interest rates are one percentage point, or 100 basis points, higher than forecast over the coming year, debt costs would increase much less — about \$1 billion in the first year.

- Market Development: The government's efforts to improve the market over the past years have helped make Canada's fixed-income market one of the most efficient in the world. An indicator of the efficiency of Canada's financial markets is the trading spread for instruments (i.e. the difference between the yields at which instruments are offered for sale and for purchase). Trading spreads for Government of Canada Treasury bills and benchmark bonds compare favourably to those of other major international capital markets.

Another indicator of market liquidity is total volume of transactions, and Canadian government security markets compare favourably to those of other countries with highly developed capital markets.

To aid in maintaining market liquidity, during 1996-97, the government began a process to reduce the potential for market manipulation (squeezes) developing out of auctions of Government of Canada securities as supply of debt declines. A discussion paper was published as a starting point for setting out detailed proposals for changes in auction rules to reduce the incidence of squeezes. Consultations with market participants were a major part of this process.

- Product Development: The government offers a range of products to finance its domestic operations: Treasury bills, conventional and inflation-indexed bonds, as well as retail-targeted instruments managed by Canada Investment and Savings. (see CI&S below). To finance the country's foreign exchange reserves, a wide array of foreign currency denominated instruments is used: bills, medium-term notes, bonds and cross-currency swaps.

To further diversify the range of products available for cost-effective Government of Canada financing, the government developed, through 1996-97, a Euro Medium-Term Note Program, which was launched in April 1997.

- Canada Investment and Savings (CI&S)

1996 Canada Savings Bond (CSB) campaign: Major product changes to 1996 CSBs were the introduction of a new 10-year guaranteed minimum interest structure, the increase of the maximum purchase limit from \$100,000 to \$200,000 and the minimum purchase of CSB RRSP raised to \$500.

1996 CSB sales totalled \$5.7 billion, an increase of 24 per cent over 1995 gross sales. After redemptions of past series, the amount of net new funds raised totalled \$4.7 billion, 38 per cent higher than 1995 net sales of \$3.4 billion. The 1996 CSB media plan realized substantial efficiencies as CI&S sought to deliver better value for its production and media expenditures. Also, with the 1996 CSB Campaign, CI&S began to build a consistent, integrated approach to marketing.

- Canada RRSP Bond: In February 1997, CI&S introduced the first Government of Canada new retail debt instrument in 50 years – the Canada RRSP Bond – aimed at the growing RRSP market. There were two issues of the Canada RRSP Bond, a March 1 and an April 1 issue, which offered the unique combination of guaranteed rates for up to 10 years and the flexibility to cash in or transfer out once a year.

Total RRSP Bond sales were \$91.6 million. In addition, \$12.3 million was transferred from CSBs to CSB RRSPs, resulting in the doubling of the non-marketable retail registered retirement savings plan (RRSP) portfolio.

- Canada Investment and Savings has also completed several new initiatives to rejuvenate the retail debt program:
 - 1) A new Payroll Savings Plan was piloted in 25 companies reaching 10,000 employees last fall as the first step in revamping the Payroll Savings Plan. The objective is to reduce the administrative burden for existing companies. The results of the pilot served as the basis for the Canada Payroll Savings rollout strategy to begin implementation in 1997.

- 2) In order to make it easier for consumers to purchase CSBs, sub-agents were reintroduced to our sales force in 1996 to sell CSBs and the new Canada RRSP Bond on behalf of Authorized Sales Agents.
 - 3) CSBs to Go: Application kits were distributed through select financial institutions and post offices, and sent to households across Canada. The learning CI&S obtained through this and other direct sales initiatives this year will be invaluable to CI&S as it develops future direct distribution channels.
 - 4) A CI&S Internet Website was developed and offered two very popular options: the 'bond value calculator' providing assistance with the calculation of interest, and the 'on-line express order form,' which provided the capability of downloading product application forms.
- Business Income Tax: The focus of business income tax has been on addressing deficiencies in the tax structure and ensuring that businesses bear their fair share of the tax burden. Initiatives have included:
 - elimination of opportunities to defer tax on unincorporated business income and income earned by private holding companies;
 - proposals to help ensure that the prices charged by multinationals for goods and services provided to the Canadian operation reflect the market value of those goods and services. Otherwise, transfers may be made at inflated prices so as to avoid paying Canadian tax on the amounts transferred;
 - reduction of the deduction in respect of business meals and entertainment expenses; and
 - increases in both the large corporation tax and the corporate surtax.

The Technical Committee on Business Taxation, established in the 1996 budget, continued its work throughout 1996-97. The Committee's mandate is to consider ways in which Canada's business taxation system could contribute more to the creation of jobs and economic growth, could be simplified to facilitate compliance and administration, and could be made fairer to ensure that all businesses share the costs of providing government services. The Committee's report is expected to be released early in 1998.

In addition to the above, the department and the government have conducted studies and implemented tax measures in relation to several key environmental issues.

- Sales and Commodity Taxes: A major focus of work in this area was the implementation of the harmonized sales tax (HST) in New Brunswick, Nova Scotia and Newfoundland and Labrador on April 1, 1997. Designing and implementing the HST was a major step towards a national integrated value-added tax system that is simpler and fairer to consumers and business. The new harmonized regime is functioning well.

The government also introduced over 100 measures to streamline and simplify Canada's sales tax. These can be categorized as follows:

- measures to simplify the operation of the tax for many businesses, charities and non-profit organizations;
- measures to improve the fairness of the federal sales tax for businesses and consumers; and
- clarifications and measures to ease compliance.

Simplifying the federal sales tax system remains one of the government's key priorities.

The government has initiated an *Excise Act* Review, which is a comprehensive review of the federal framework for the taxation of alcohol and tobacco products. A discussion paper on proposed changes to the structure of taxation of alcohol and tobacco products was released in February 1997. The discussion paper invited written submissions and officials undertook consultations with industry associations, businesses, provincial liquor boards, and other interested parties. The consultations are now largely complete and officials are in the process of reviewing the proposals in light of comments received from industry and provincial governments. Drafting of the revised excise legislation is under way.

- Intergovernmental Taxation
 - Tax Collection Agreements: The interaction between the two senior levels of government in the key, jointly shared tax fields of income and sales tax has led to a review of tax co-ordination issues between the federal and provincial governments. The review of these issues is ongoing and is being conducted under the auspices of the Federal-Provincial Taxation Committee, which is comprised of senior federal and provincial taxation officials and meets on a regular basis.
 - Indian Government Taxation: The Indian Government Taxation Review is the ongoing development and implementation of the federal government's policy on the tax powers available to First Nations and Inuit governments, and the tax treatment of their government institutions. In this context, the federal government has passed legislation on tax powers for two First Nations, and is now implementing agreements with those Bands. Similarly, negotiations on tax powers are proceeding with several other First Nations on tax powers.

• Getting government right

- Canada Investment and Savings established as a Special Operating Agency has completed its first year of successful operations.
- Two privatization initiatives initiated in 1995-96 were completed, through the collection of \$1,053 million representing the second and third instalment payments for

- Petro-Canada shares, and \$900 million representing the final instalment payment for Canadian National Railway Company shares.
- In October 1996, Transport Canada, with the assistance of the Department of Finance Canada, transferred the Air Navigation System to NAV CANADA, a not-for-profit, private-sector corporation created to purchase and operate the system, for \$1.5 billion in cash and the assumption of certain of the government's liabilities and obligations.
- Inroads continued to be made in improving two-way communications between the Department of Finance Canada and Canadians concerning the federal budget and key economic and fiscal issues. For example:
 - the organization and efficiency of ministerial correspondence activities were improved, particularly with respect to the timeliness of responses and the substantial reduction of backlogs;
 - use of the Internet was improved, not only to transmit information to Canadians, but also to receive messages and views from Canadians; and
 - support continued for important consultations on key economic and fiscal issues, including reform of the Canada Pension Plan (CPP), which necessitated joint federal-provincial, cross-country public consultations, and pre-budget consultations throughout Canada by the House of Commons Standing Committee on Finance.

<ul style="list-style-type: none"> • Securing social programs
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- Personal Income Tax: The Canadian personal income tax system is progressive and takes account of both income and individual circumstances to measure the ability to pay and also has a number of measures designed to achieve social and economic objectives. The 1997 budget proposed a number of changes to achieve the government's social and economic objectives in the areas of education, child benefits, assistance to the disabled, charities, and retirement income.
 - Education: With respect to higher education and skills enhancement, the budget:
 - proposed to enrich federal assistance by \$137 million in 1998-99, growing to \$202 million in 1999-2000 and, ultimately, to about \$275 million annually when the effect of the measures matures;
 - increased tax assistance to students by doubling the post-secondary education credit over two years;
 - expanded the tuition credit to cover not only tuition fees, but also additional mandatory fees imposed by post-secondary institutions for educational purposes;
 - allowed the carry-forward of unused portions of credits.

As a result of measures in the 1996 and 1997 budgets, the combined federal and provincial tax assistance for a typical student will rise from \$900 to over \$1,200 per year – an increase of one third.

To help parents save for the education of their children, the Registered Education Savings Plans (RESP) contribution limit was doubled to \$4,000. Parents will also be allowed to transfer unused RESP income into their registered retirement savings plan (RRSP) – provided they have room – if their children do not pursue higher education. The budget also proposed to extend eligibility for RESPs to allow full-time students taking distance education to receive educational assistance payments from an RESP if they are enrolled in a qualifying educational program at an eligible institution.

- **Child Benefits:** The government also proposed a National Child Benefit System under which the federal government would introduce an enriched Canada Child Tax Benefit while provinces and territories would redirect some of their spending into improved services and benefits for low-income working families. Consistent with this initiative, the 1997 budget proposed a two-step enrichment of the Child Tax Benefit to create a new \$6-billion Canada Child Tax Benefit by July 1998. This \$850-million annual increase includes \$600 million in new funds in addition to the \$250-million increase in the Working Income Supplement proposed in the 1996 budget.

As a first step, effective July 1997, the Working Income Supplement was enriched by \$195 million (\$70 million more than proposed last year). Benefits are provided for each child, instead of per family. The maximum Working Income Supplement is \$605 to one-child families and \$1,010 to two-child families, increasing by \$330 for each additional child.

The second step is to take effect in July 1998 when the Working Income Supplement will be combined with an enriched Child Tax Benefit to form the Canada Child Tax Benefit. The maximum benefit for low-income families will be \$1,625 to one-child families, \$3,050 to two-child families, increasing by \$1,425 for each additional child.

Overall, more than 1.4 million Canadian families with 2.5 million children will see an increase in federal child benefit payments by July 1998:

- families with income under \$25,921 will receive higher federal benefits, while those with income over this amount will continue receiving benefits at their current levels; and
- families with income under \$20,029 will receive maximum federal benefits.

The federal government is working with provinces and territories to design the complementary changes that will help to reduce child poverty and barriers to work.

- Assistance to those with Disabilities: As part of its ongoing efforts to help Canadians with disabilities to participate more fully in Canadian society, the 1997 budget proposed additional tax assistance in the form of:
 - broadening the list of expenses eligible for the medical expense tax credit;
 - doubling the limit on part-time attendant care to \$10,000;
 - eliminating the \$5,000 limit on the deduction for attendant care expenses; and
 - introducing a new refundable tax credit to cover high medical expenses for low-income working Canadians with disabilities.

In addition, the budget also announced the establishment of an Opportunities Fund, which will provide \$30 million a year over three years to help Canadians with disabilities integrate into the economic life of their communities and increase their independence.

- Charitable Giving: The budget proposed measures to increase support for charitable giving. These are:
 - increasing to 75 per cent the allowable amount of donations for which the charitable tax credit can be claimed; and,
 - reducing the income inclusion rate on capital gains arising from donations of publicly listed securities from 75 per cent to 37½ per cent. This will facilitate the transfer of capital to charities and put Canadian charities on an equal footing with those in the United States. After five years, this provision will be reviewed for its effectiveness in increasing charitable giving in Canada.
- Retirement Income: The government is taking measures to make the retirement income system secure for Canadians. This involves action on all three aspects of the retirement income system — the Canada and Quebec Pension Plans, Old Age Security and the Guaranteed Income Supplement, and private retirement savings (Registered Pension Plans and Registered Retirement Savings Plans).

As noted later in this document, the federal government and seven provinces have agreed to a strong and balanced package of reforms that will preserve the Canada Pension Plan by strengthening its financing, improving its investment practices and reducing costs.

In addition, as was announced in the 1996 budget, the new Seniors Benefit will consolidate Old Age Security and the Guaranteed Income Supplement into one benefit beginning in 2001.

The 1997 budget further strengthened private retirement saving by proposing a pension adjustment reversal. This will restore RRSP room for individuals who receive lower benefits from a pension plan because they have had several

employers over their careers or have had to leave the workforce temporarily – for example, to raise a family.

- Canada Health and Social Transfer (CHST): The CHST was implemented in 1996-97. Payments to provinces, previously made separately under Established Programs Financing for health and post-secondary education and under the Canada Assistance Plan for social assistance and services, were consolidated, thus streamlining and simplifying the fiscal transfer system.

The 1996 budget announced a five-year funding arrangement for CHST and an allocation formula that gave more comparable support to provinces and provided them with predictable funding. As well, a floor of \$11 billion was legislated to provide a guarantee that CHST cash would not fall below that minimum. In April 1997, the government announced it will raise the cash floor to \$12.5 billion.

- Renew Canada's Social Security System:
 - The department worked closely with Human Resources Development Canada to implement the new employment insurance system by July 1996. The new system will encourage greater work effort, and help Canadians find and keep jobs while protecting those most in need. The new system will be smaller and more sustainable.
 - Finance also co-operated with Human Resources Development Canada and Citizenship and Immigration Canada to implement measures related to the access of recent immigrants, from countries with whom Canada has international social security agreements, to the Old Age Security system. These changes will promote fairness and lessen the burden on Canadian taxpayers.
- The department participated in the Auditor General's value-for-money audit of the Equalization Program.
- The department launched consultations with provinces to prepare for the renewal of Equalization legislation in 1999. It also launched consultations for the establishment of financial arrangements with the creation of the new territory of Nunavut in 1999, as well as the renewal of financial arrangements with the other territories.
- The federal government also provided territorial governments with a floor for the Territorial Formula Financing grant that will provide protection against year-over-year declines in the grants.
- Canada Pension Plan: As joint custodians of the Canada Pension Plan, Finance, the provinces and other federal departments worked closely during most of the year to review the sustainability of the CPP. A federal-provincial agreement was reached and announced by the Minister of Finance and seven provinces on February 14, 1997. The agreement will restore the financial sustainability of the CPP by: moving to fuller

funding; improving the rate of return on the CPP by adopting a new investment policy; and slowing the growth in costs. Draft legislation was tabled in Parliament at the same time. Final legislation was introduced in September 1997.

- Health: The department worked closely with Health Canada on policy proposals to renew Canada's health system and improve the health of Canadians, including:
 - implementation of the Health Services Research Fund announced in the 1996 budget to support practical research on the delivery and the quality of health care;
 - participation in the development of a comprehensive strategic plan for renewing, restructuring and improving the governance of the blood system;
 - development of a population health strategy that responds to compelling evidence that human health is influenced by a variety of social, biological and economic factors outside the health system;
 - development of a comprehensive tobacco control strategy — tobacco legislation, tobacco tax measures, anti-smuggling initiatives, and enforcement and education — designed to protect Canadians, particularly young Canadians, from the tragic health consequences of tobacco addiction;
 - work leading to the announcement in the 1997 budget of the Health Transition Fund, which will assist provinces in experimenting with new ways of delivering health care services;
 - work leading to the announcement in the 1997 budget of the Canada Health Information System, designed to provide consumers and providers of health care with better access to information on the effectiveness of treatments; and
 - the expansion of the Community Action Program for Children (CAPC) and the Canada Prenatal Nutrition Program (CPNP), also announced in the 1997 budget, to support healthy child development.
- Aboriginal Self-Government: The department also worked closely with Indian and Northern Affairs Canada on specific self-government and land claims negotiations now under way, and helped make significant progress towards the Nisga'a Final Land Claim and Self-Government Agreement in British Columbia. Additionally, Finance contributed to overall policy development especially as it relates to financing self-government.
- Labour Market Programs:
 - The department developed and implemented the New Hires Program in consultation with Human Resources Development Canada. The New Hires

Program provides employment insurance premium relief to small firms that create jobs in 1997 and 1998.

- The department also worked closely with Human Resources Development Canada to develop a youth employment strategy, the Opportunities Fund for persons with disabilities, and provided advice in the negotiations of labour market development agreements with the provinces and territories.

<ul style="list-style-type: none">• Investing in the future

- The identification, in the 1997 budget Plan, of reallocation measures to buttress the fiscal framework in support of strategic investments in the key priority areas of jobs, growth and a stronger society.
- The establishment, in the context of the 1997 budget, of the Canada Foundation for Innovation which, through an up-front investment of \$800 million by the federal government, will be able to provide about \$180 million annually over five years for modernizing research infrastructure in post-secondary educational institutions and research hospitals. Through partnerships, the Foundation has the potential to trigger up to \$2 billion in investments in research infrastructure.
- Follow-up with Industry Canada in putting in place innovation-related budget 1996 initiatives relating to: the creation of the Technology Partnerships Canada program to lever investment in high technology products and processes and facilitate their commercialization; and the expansion of the Community Access component of the SchoolNet initiative aimed at linking Canada's 16,000 schools and 3,400 public libraries to the information highway.
- Follow-up with relevant departments and agencies on budget initiatives and proposals (1996 and 1997) to support small business, tourism and rural development through increased equity investment in the Business Development Bank of Canada and in the Farm Credit Corporation, increased funding for tourism promotion and an increase in the ceiling under the *Small Business Loans Act* from \$12 billion to \$14 billion.
- The department developed, in partnership with Canadian Heritage, the Canadian Television and Cable Production Fund that is designed to increase the quality and quantity of Canadian television programming.
- The department participated directly in the negotiations of the Canada-Chile and Canada-Israel Free Trade Agreements; it took the lead in the negotiations on market access and uniform rules of origin regulations; and also prepared certain key elements of the implementing legislation. In addition, the department took a direct part in the plurilateral Information Technology Agreement.
- Concluded the first round of accelerated tariff elimination under the North American Free Trade Agreement (NAFTA); continued efforts to improve the application of

trade remedy rules within NAFTA, including the implementation of the report of the Trilateral Trade Remedies Working Groups; and prepared Canadian input into the Asia-Pacific Economic Co-operation (APEC) Individual Action Plan outlining Canadian initiatives for unilateral market access liberalization for 1996.

- Followed-up on the implementation of the WTO Agreements through participation in the Anti-dumping and Subsidies Committees and the development, in conjunction with the Department of Foreign Affairs and International Trade and Industry Canada, of the Canadian strategy for possible trade safeguard provisions and for multilateral subsidy disciplines for international trade in services.
- Contributed to Free Trade Area of the Americas (FTAA) discussions by leading the working groups on trade remedies and subsidies, rules of origin and customs procedures, and by participating in various other working groups.
- Continued to examine requests, on competitive grounds, from Canadian industry for duty relief on manufacturing inputs and, where appropriate, prepared implementing legislation.
- Contributed to preparations for the G-7 Summit in Lyon and G-7 Employment Conference in Lille in 1996, as well as to preparations for the 1997 G-7 Summit in Denver, particularly with respect to the Africa Initiative.
- As follow-up to the Halifax Summit, worked with G-7 countries and IMF members to put in place mechanisms to improve the ability of the international community to foresee, prevent and respond to financial crises. As part of this process:
 - chaired a G-10 Working Group that helped develop the New Arrangements to Borrow to supplement the resources available to the IMF to deal with financial crises; and
 - helped launch and implement the initiative to assist heavily-indebted poor countries (HIPC) to enable them to reach sustainable debt levels and become more fully integrated into the global economy.
- Was a major contributor to the discussions at the Bretton Woods institutions that led to their increased focus on governance, and particularly, corruption issues to encourage more effective management of public expenditures.
- Was a key player in the successful conclusion of the negotiations on the 11th Replenishment of the International Development Association (IDA) that will help finance the World Bank's lending program to help improve living standards in the poorest countries.
- Played a leading role in securing an agreement to double the EBRD's authorized capital, significantly strengthening the EBRD's ability to continue to play a key role in

promoting economic transition in the countries of Eastern Europe and the former Soviet Union.

- Provided input to the Department of Foreign Affairs and International Trade for ongoing discussions at Council to reduce the OECD's costs and streamline the Organization, which resulted in a 3.7-per-cent cut in the OECD's budget for 1997.
- With respect to the Paris Club, maintained Canada's traditional role in the forefront of efforts by creditor countries to achieve substantial debt relief for poor countries with unsustainable debt burdens and a solid commitment to economic reforms (the Heavily Indebted Poorer Countries (HIPC) initiative). Canada also participated constructively in achieving accession by Russia to the Paris Club group of creditor nations.
- Succeeded in negotiating new export credit disciplines in the OECD Consensus with regard to premia and undertook preliminary negotiations on agricultural credit disciplines.
- Provided substantial assistance to the Commons subcommittee on international financial institutions for its interim report 'Improving World Bank Effectiveness'.
- Streamlined financial sector regulations and pursued discussions with provincial officials on trust and loan, and securities harmonization. These discussions are continuing.
- Advanced structural reform on a number of financial institution issues:
 - The department is currently engaged in a review of the framework for the payments system in Canada. The review, which began in the latter part of 1996, is assisted by an Advisory Committee, co-chaired by a senior official of the department and the Bank of Canada, and made up primarily of private-sector members. Analytical papers prepared for discussion by the Payments System Advisory Committee are available to the public. The Payments System Review is expected to be completed in the first half of 1998.
 - The department is also undertaking a review of its foreign bank entry policy, which will involve the development of a new framework for the entry of foreign banks into Canada. A discussion paper outlining the department's policy proposals was released in September 1997. The government has committed to making legislation public by the end of 1997.
 - The department has also established the Task Force on the Future of the Canadian Financial Services Sector. The Task Force, which is comprised of private sector members, is examining longer-term issues affecting the financial sector in Canada. The Task Force will provide the government with recommendations on what needs to be done to ensure that Canada's financial system remains strong and dynamic as

it heads into the twenty-first century. The Task Force is scheduled to submit its report to the department in the fall of 1998.

Planned Spending for the Financial and Economic Policies business line was \$35.2 million. Actual expenditures amounted to \$33.6 million. This variance resulted from lower-than-anticipated spending levels in the operating sectors of the department along with reduced payroll costs due to lower full-time equivalent (FTE) usage.

International Financial Organizations

Planned Spending for International Financial Organizations was \$858.5 million for 1996-97. Actual expenditures amounted to \$937.3 million. The variance was attributable to the issuance of demand notes in the amount of \$216 million to the International Development Association, partially offset by lower-than-forecast payments to various other international organizations.

Domestic Coinage

Planned Spending for Domestic Coinage was \$58 million for 1996-97. Actual expenditures amounted to \$69.8 million. The variance was due to higher demand, specifically for the \$2 coin, than was forecast at the time the 1996-97 Main Estimates were prepared.

Administration

Planned Spending for Administration was \$20.2 million for 1996-97. Actual expenditures amounted to \$24.2 million. The variance was attributable to Early Retirement Incentive/Early Departure Incentive (ERI/EDI) costs absorbed by the department. This variance was funded through lapsing funds in the Financial and Economic Policies business line.

PUBLIC DEBT PROGRAM

Planned Spending for the Public Debt Program was \$47.8 billion for 1996-97. Actual expenditures amounted to \$45.2 billion. The variance was due to lower than anticipated short-term interest rates and lower financial requirements than were forecast in the March 1996 federal budget, partially offset by higher than anticipated servicing and issuing costs.

FEDERAL-PROVINCIAL TRANSFER PAYMENTS PROGRAM

Planned Spending for the Federal-Provincial Transfer Payments Program was \$22.5 billion for 1996-97. Actual expenditures amounted to \$22.4 billion. The variance was mainly due to:

- lower payments under Fiscal Equalization and the Canada Health and Social Transfer;
- final adjustments that were made for 1993-94 under the *Public Utilities Income Tax Transfer Act* and Fiscal Stabilization; and
- a payment of \$50 million to the Government of Newfoundland and Labrador. That payment was made following an understanding between the Government of Canada and the Government of Newfoundland and Labrador that, in exchange for the province forgoing its annual statutory subsidy of \$8 million for a period of 20 years, the federal government would make a payment of \$50 million in 1996-97 and \$80 million over the two subsequent fiscal years.

In addition to these cash transfers, provinces also received some \$12 billion in tax transfers under the Canada Health and Social Transfer.

SPECIAL PROGRAM

Planned Spending for the Special Program amounted to \$67 million, representing provision for payments related to Canada's equity interest in the Hibernia Project. Actual expenditures totalled \$1 billion. This included statutory payments to provinces of \$961 million for sales tax adjustment assistance, which was funded through Supplementary Estimates.

C. Key Reviews

Key Reviews
Results of Program Evaluation Studies
Tax Expenditures: The annual evaluation to ensure that tax expenditures continue to be relevant, effective and efficient was completed and the <i>Tax Expenditure Report</i> was published.
<p>Debt Program Evaluation: Three debt program evaluation studies were completed during 1996-97:</p> <ul style="list-style-type: none"> • Evaluation of the Management of the Funding of the Exchange Fund Account; • Review of Management Guidelines for Dealing with Bond and Bill Auction Difficulties; and • Treasury Bill Markets – Evaluation of Recent Initiatives. <p>The work was done by external evaluators as part of a five-year evaluation framework, with the key findings reported to the Public Accounts Committee of Parliament and to the Auditor General. The findings of the evaluators were generally positive, and work to implement most of the recommendations has been started.</p>
Value-for-Money Audit of the Equalization Program: In 1996-97, the Auditor General conducted an audit of Equalization that concluded that the program was well-run.
Other Key Reviews
Review of the Canada Pension Plan: As required by the CPP Act, the government engaged with the provinces in a joint review of the financing of the CPP. After coming to a common understanding of the difficult challenges facing the CPP, and issuing a public information document on these challenges, joint country-wide consultations were held. Agreement was then reached with the provinces on the principles that should guide reform, policy options examined, and agreement secured in February 1997 on a set of far-reaching measures to make the CPP sustainable and affordable as Canada's population ages. Legislation to give effect to the ground-breaking agreement was submitted to Parliament in September 1997.
Energy Efficiency and Renewable Energy Consultations: As part of the 1996 budget, the government announced that the departments of Finance and of Natural Resources would consult on the treatment of energy efficiency investments and investments providing heating and cooling from renewable energy sources in order to identify any impediments. After consulting with stakeholders, the 1997 federal budget allocated \$20 million per year over three years, starting in 1998, to promote investments in renewable energy for heating and cooling and energy efficiency in commercial buildings.
Disability Review : The 1996 budget speech promised an examination of measures, including those in the tax system, that have an impact on people with disabilities. The ministers of Finance, Human Resources Development, and Revenue appointed a Task Force, chaired by then-MP Andy Scott (now Solicitor General) in June 1996. The Task Force released its report in October 1996.

A number of the recommendations of the Task Force were introduced in the 1997 federal budget. These include:

- Broadening the list of expenses eligible for the medical expense tax credit to include: 50 per cent of the cost of an air conditioner necessary to help an individual in coping with a severe chronic ailment, disease or disorder to a maximum of \$1,000; 20 per cent of the cost of a van that is adapted or will be adapted within six months for the transportation of an individual using a wheelchair to a maximum of \$5,000; expenses incurred for moving to accessible housing; sign language interpreter fees; reasonable expenses relating to alterations of the driveway of the principal place of residence of an individual with severe and prolonged mobility impairment, to facilitate the individual's access to a bus; and an increase in the limit on part-time attendant care expenses from \$5,000 to \$10,000.
- Eliminating the \$5,000 limit on the deduction for attendant care expenses that is currently available for disabled earners.
- Allowing audiologists to certify eligibility for the disability tax credit.
- Broadening the definition of a preferred beneficiary to include adults who are dependent on others by reason of mental or physical infirmity.
- Amending the *Customs Tariff* to provide duty-free entry for all goods designed for the use of persons with disabilities.
- Introducing a refundable credit for low-income working Canadians with high medical expenses to supplement assistance provided by the existing medical expense tax credit.

Review of Legislation Governing the Financial Sector: The government undertook a full examination of legislation governing financial institutions in order to update and modernize the rules and regulations pertaining to federal financial institutions. Four acts (brought into force in June 1992) governing banks, trust and loan companies, insurance companies, and co-operative credit unions were subject to a sunset provision that took effect on March 31, 1997. The department held extensive consultations with stakeholders prior to the release of the June 1996 White Paper entitled *1997 Review of Financial Sector Legislation: Proposals for Changes*. The 1997 review resulted in the introduction of *An Act amending certain laws relating to financial institutions* (Bill C-82), which received Royal Assent on April 25, 1997.

Review of the Regulatory and Supervisory System for Federal Financial Institutions: A review of the regulatory and supervisory system for federal financial institutions, which had been initiated in 1995, was concluded when *An Act to amend, enact and repeal certain laws relating to financial institutions* (Bill C-15) received Royal Assent in June 1996.

Federal Debt Management: During the year, the Auditor General of Canada completed a study on federal debt management, which was published in November 1996. The purpose of the study was to provide a basis for better understanding of the overall environment in which debt managers operate. The AG reported that the federal debt managers' activities and practices are consistent with those of other comparable sovereign borrowers. The study is intended as a base for conducting future audits of debt management.

Financial Risk Management Policies: Updated *Minister of Finance Financial Risk Management Guidelines* were sent to the financial Crown corporations. The principles outlined in the guidelines also apply to the government's own debt management operation.

Loan and Loan Guarantee Policies: Loan and loan guarantee policies have been reviewed and updated. Consultations with other departments are ongoing.

Investors and Intermediaries – Initiatives to Improve the Functioning of the Canadian Fixed-Income Market: The government undertook consultations with market participants regarding possible changes to Treasury bill issuance to maintain market efficiency and limit the risk of market manipulation as the stock of Treasury bills decreases. Changes were made to the issuance pattern of six-month Treasury bills. Consultations on further restructuring of the domestic debt programs to maintain market efficiency are ongoing.

There were a number of initiatives undertaken during the fiscal year to improve issuance levels and liquidity of Real Return Bonds (RRBs). The government introduced the use of auctions using single-price (Dutch) auction format as the initial step in the move to an all-auction distribution of RRBs. In addition, a new RRB maturity, five years longer than the original bond, was introduced. The initiatives were well received by market participants.

Simplified Customs Tariff: A three-year comprehensive review was completed, including extensive private sector consultations, of the Canadian tariff regime launched in the 1994 budget and draft legislation was being prepared to implement a simplified *Customs Tariff* on January 1, 1998.

Review of *Special Import Measures Act*: The department led an interdepartmental task force and provided necessary government support to the Standing Committees on Finance and on Foreign Affairs and International Trade in their joint review (at the request of the Minister of Finance) of the *Special Import Measures Act*. The department also followed-up on the committees' report, which was tabled in December 1996, by preparing the government's response to the committees' recommendations for improvements to the Act.

Section III: Supplementary Information

A. Listing of Statutory and Departmental Reports

Annual Financial Report

Debt Operations Report

Economic Reference Tables

Fiscal Reference Tables

Government of Canada Securities – Quarterly

The Economic and Fiscal Update

The Economy in Brief – Quarterly

The Fiscal Monitor – Monthly

B. Financial Summary Tables

**Figure 3: Summary of Voted Appropriations
Authorities for 1996-97 – Part II of the Estimates**

Financial Requirements by Authority

Vote	(millions of dollars)	1996-97 Main Estimates	1996-97 Actual
Financial and Economic Policies Program			
1	Program expenditures	50.2	52.2
5	Grants and contributions	403.5	333.6
(S)	Minister of Finance – Salary and car allowance ¹	0.0	0.0
(S)	Payments to International Development Association	201.9	199.0
(S)	Payments to International Monetary Fund's Enhanced Structural Adjustment Facility	35.9	33.1
(S)	Contributions to employee benefit plans	5.2	5.4
(S)	Purchase of Domestic Coinage	58.0	69.8
-	Payments to the Global Environment Facility of the International Bank for Reconstruction and Development	1.0	1.0
Total Budgetary		755.7	694.1
(S)	Payment of liabilities previously transferred to revenues	-	0.2
L10	Payments in accordance with the <i>Bretton Woods and Related Agreements Act</i> to the International Finance Corporation	9.9	9.5
L15	Issuance of demand notes to the International Development Association	-	216.4
(S)	Payments to the European Bank for Reconstruction and Development	11.0	-
(S)	Issuance of Loans to International Monetary Fund's Enhanced Structural Adjustment Facility	195.3	144.7
Total Non-budgetary		216.2	370.8
Total Program		971.9	1,064.9
Public Debt Program			
(S)	Interest and Other Costs	47,800.0	45,183.8
Total Program		47,800.0	45,183.8
Federal-Provincial Transfer Payments Program			
20	Transfer Payments to the Territorial Governments	1,129.0	1,121.6
21a	The grant listed in the Estimates	-	50.0
(S)	Statutory Subsidies	38.0	30.1
(S)	Fiscal Equalization	8,796.0	8,728.2
(S)	Canada Health and Social Transfer*	15,047.0	14,911.2
(S)	Youth Allowances Recovery	(447.0)	(444.5)
(S)	Alternative Payments for Standing Programs	(2,031.0)	(2,014.6)
(S)	Fiscal Stabilization	-	6.0
-	Public Utilities Income Tax Transfer	-	20.8
Total Program		22,532.0	22,408.8
Special Program			
(S)	Sales Tax Adjustment Assistance	-	961.0
(S)	Payments to depositors of Canadian Commercial Bank, CCB Mortgage Investment Corporation and Northland Bank pursuant to the <i>Financial Institutions Depositors Compensation Act</i>	-	0.7
L25	Payments in respect of Canada's equity interest in the Hibernia Project	67.0	53.8
Total Program		67.0	1,015.5
Total Department		71,370.9	69,673.0

¹ Main Estimates: \$49,000; actual amount: \$48,645.

* Amounts shown are the cash contributions authorized by Part V of the *Federal-Provincial Fiscal Arrangements Act*. The following table shows the total federal contribution in respect of the Canada Health and Social Transfer (CHST) including the tax portion of the transfer:

Cash transfer	\$14.9
Tax transfer	\$12.0
Total	\$26.9

Figure 4: Revenues to the Consolidated Revenue Fund (CRF) by Program (\$ millions)

Business Lines	Actual 1993-94	Actual 1994-95	Actual 1995-96	Actual 1996-97
Financial & Economic Policies Program	5,212.7	4,499.2	4,380.3	3,726.4
Public Debt Program	4.6	1.3	2.3	1.9
Total Revenues to the CRF	5,217.3	4,500.5	4,382.6	3,728.3

Figure 5: Revenues to the Vote by Business Line (\$ millions)

Business Lines	Actual 1993-94	Actual 1994-95	Actual 1995-96	Total Planned 1996-97	Actual 1996-97
Administration	5.1	6.2	5.3	3.7	5.1
Total Revenues to the Vote	5.1	6.2	5.3	3.7	5.1

Figure 6: Transfer Payments by Business Line (\$ millions)

Business Lines	Actual 1993-94	Actual 1994-95	Actual 1995-96	Total Planned 1996-97	Actual 1996-97
GRANTS					
International Financial Organizations	-	521.3	325.8	229.0	333.6
Federal-Provincial Transfer Payments (cash portion)	-	-	-	-	50.0
Total Grants	-	521.3	325.8	229.0	383.6
CONTRIBUTIONS					
International Financial Organizations	150.7	-	-	174.5	
Total Contributions	150.7	-	-	174.5	-
OTHER TRANSFER PAYMENTS					
International Financial Organizations	310.4	489.3	249.6	238.8	233.1
Federal-Provincial Transfer Payments (cash portion)	7,947.7	8,821.1	8,815.8	22,532.0 ¹	22,358.8
Special Projects		-	-	-	961.0
Total Other Transfer Payments	8,258.1	9,310.4	9,065.4	22,770.8	23,552.9
Total Transfer Payments	8,408.8	9,831.7	9,391.2	23,174.3²	23,936.5²

1 Beginning in 1996-97, Federal-Provincial Transfer Payments reflect the addition of Canada Health and Social Transfer (CHST) and Territorial Formula Financing (TFF) payments. Amounts shown are the cash contributions authorized by Part V of the *Federal-Provincial Fiscal Arrangements Act*. The following table shows the total federal contribution in respect of the Canada Health and Social Transfer (CHST) including the tax portion of the transfer:

Cash transfer	\$14.9
Tax transfer	<u>\$12.0</u>
Total	\$26.9

2 In figure 1, Transfer Payments are split between column 3 (Grants, Contributions & Other Transfer Payments) and column 4 (Statutory Payments).

Figure 7: Statutory Payments by Business Line/Activity (\$ millions)

Business Lines	Actual 1993-94	Actual 1994-95	Actual 1995-96	Estimates 1996-97	Actual 1996-97
BUDGETARY					
Financial & Economic Policies	3.6	3.6	3.5	3.5	3.7
International Financial Organizations	310.4	489.3	249.6	238.8	233.1
Domestic Coinage	36.2	48.2	49.9	58.0	69.8
Administration	2.1	2.4	1.7 ¹	1.7	2.0
Interest Costs	37,752.3	41,617.5	46,433.9	47,381.0	44,792.0
Servicing & Issuing Costs	256.9	471.0	442.6	255.0	365.0
Canada Investment & Savings	-	-	-	124.0	26.8 ²
Federal-Provincial Transfer Payments (cash portion)	7,947.7	8,821.1	8,815.8	21,403.0 ³	21,237.2
Special Projects	50.0	300.6	1,482.8	-	961.7
Total budgetary	46,359.2	51,753.7	57,479.8	69,465.0	67,691.3
NON-BUDGETARY					
International Financial Organizations	97.0	104.6	179.2	206.3	144.7
Total non-budgetary	97.0	104.6	179.2	206.3	144.7
Total Statutory Payments	46,456.2	51,858.3	57,659.0	69,671.3	67,836.0⁴

1 Actual Administration expenditures are reported in Public Accounts as \$125.7 million. This amount includes, in addition to the Actuals of \$1.7 million noted above, statutory expenditures totalling \$124.0 million primarily for the net loss on exchange.

2 Actuals do not include commissions and costs recovered by the Bank of Canada of approximately \$98 million.

3 Beginning in 1996-97, Federal-Provincial Transfer Payments reflect the addition of Canada Health and Social Transfer (CHST).

4 Includes employee benefit plans of \$5.5 million, which are reflected in Operating costs in figure 1.

Figure 8: Loans, Investments and Advances (\$ millions)

Business Lines	Actual 1993-94	Actual 1994-95	Actual 1995-96	Total Planned 1996-97	Actual 1996-97
Investments and Advances					
International Financial Organizations	326.6	302.8	286.1	9.9	225.9
Special Projects	88.2	113.4	104.2	67.0	53.8
Total Investments and Advances	414.8	416.2	390.3	76.9	279.7
Total	414.8	416.2	390.3	76.9	279.7

Figure 9: Contingent Liabilities (\$ millions)

List of Contingent Liabilities	Current Amount of Contingent Liability
Thomas C. Assaly and Northland Bank	20.0
Quebec Government	127.0
Ainsworth Lumber	45.0
Loan guarantee MICC and GEMICO	49.2
Loan guarantee International Organizations	7,437.4
TOTAL	7,678.6

Legislation Relevant to Program Expenditures of the Department of Finance Canada

<i>Bretton Woods and Related Agreements Act</i>	(R.S.C., 1985, c. B-7)
<i>Constitution Acts</i>	(<i>Constitution Act</i> , 1982)
<i>European Bank for Reconstruction and Development Act</i>	(1991, c.12, unofficial E-13.5)
<i>Federal-Provincial Fiscal Arrangements Act</i>	(R.S.C., 1985, c. F-8)
<i>Federal-Provincial Fiscal Revision Act</i>	(1964 – 1964-65, c. 26)
<i>Financial Administration Act</i>	(R.S.C., 1985, c. F-11)
<i>Hibernia Project Act</i>	(R.S.C., 1990, c. 41)
<i>Newfoundland Additional Financial Assistance Act</i>	(R.S.C., 1985, c. N-23)
<i>Public Utilities Income Tax Transfer Act</i>	(R.S.C., 1985, c. P-37)
<i>Royal Canadian Mint Act</i>	(R.S.C., 1985, c. R-9)