

## **APPROPRIATIONS AND THE BUSINESS OF SUPPLY**

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## APPROPRIATIONS AND THE BUSINESS OF SUPPLY

### INTRODUCTION

Under Westminster-style political systems, Parliament has supreme authority over taxation and government spending. This means that the executive (which includes the Prime Minister and the Cabinet) and the public service cannot raise taxes or spend monies without first obtaining Parliament's explicit approval or authority through a bill known as an appropriation act. This is the case with Canada, which follows the British parliamentary tradition as expressed in the Canadian Constitution and statute law.<sup>(1)</sup> The specific statute dealing with the granting of spending authority is in the *Financial Administration Act* (FAA), which states: "no payments shall be made out of the Consolidated Revenue Fund without the authority of Parliament."<sup>(2)</sup>

According to the Statutes of Canada, legislation dealing with the spending of public monies must originate in the House of Commons (not in the Senate) and must be initiated by a Minister of the Crown. The role of the House of Commons is to examine and authorize spending legislation – a process that is known as the business of supply. This practice of giving Parliament the power to examine and eventually confirm government requests for spending predates Confederation, but the process has been amended over the years as circumstances have changed. How the business of supply evolved into its present form is the focus of the following section.

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- (1) Brian O'Neal, "Supply/Estimates and the Budgetary Cycle," Topical Information for Parliamentarians TIPS-22E, Parliamentary Research Branch, Library of Parliament, Ottawa, 27 November 2000.
  - (2) The Consolidated Revenue Fund is a centralized government financial account and is the basis of the government's accountability to Parliament. It is defined in the *Financial Administration Act* as "the aggregate of all public moneys that are on deposit at the credit of the Receiver General." The funds are on deposit in chartered banks and with the Bank of Canada.

## **HISTORICAL OVERVIEW<sup>(3)</sup>**

The business of supply refers to the process by which the government submits its projected annual expenditures for parliamentary approval. It includes consideration of the Main and Supplementary Estimates, interim supply, motions to restore or reinstate items in the estimates, appropriation bills, and motions debated on allotted days.

The business of supply in the House of Commons was originally modelled on long-standing British parliamentary traditions, which were carried over from the pre-Confederation provinces of Canada to the Canadian Parliament at the time of Confederation.

### **A. 1867 to 1954**

The *Constitution Act* of 1867 provided for the creation of the Consolidated Revenue Fund (CRF) and stipulated that the House of Commons, and not the Senate, would play a pre-eminent role in financial matters. One of the first order of business for the House of Commons was the adoption of a standing order providing that tax measures and spending measures were to be dealt with first in committees of the whole House: the Committee of Supply and the Committee of Ways and Means.

The Committee of Supply was established at the start of a parliamentary session. The estimates were tabled by message from the Governor General, and the Minister of Finance would move that they be referred to the Committee of Supply. However, the long-established tradition that “redress of grievances” be considered before the granting of supply was used by opposition members as a means of raising issues, and thus putting pressure on the government by postponing the process of examining and approving the estimates. As a result, the government was often compelled to rush through the approval of the money bill near the end of the session.

Once the Committee of Supply began to consider the estimates, amendments to the money bill could be proposed and there were no time limits placed on debate. When all items in the estimates had been debated and approved, a motion was moved that the House resolve itself into the Committee of Ways and Means to consider formal resolutions for granting

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(3) This section is based largely on House of Commons, Standing Committee on Procedure and House Affairs, 51st Report, *The Business of Supply: Completing the Circle of Control* (Catterall-Williams Report), 2nd Session, 35th Parliament, December 1998, pp. 6-16.

certain sums out of the Consolidated Revenue Fund. The resolutions were then reported and agreed to by the House, after which an appropriation bill based on them was introduced and often passed within the same day.

Following the passage in the House, the appropriation bill was sent to the Senate for passage, after which it was returned to the House. When the Governor General had summoned the House of Commons to prorogue Parliament, the Speaker would take the bill to the Senate for Royal Assent.

The fundamental structure of the business of supply proceeded in more or less the same manner for over a century after Confederation. Throughout this time, there were frequent criticisms regarding the lack of proper parliamentary scrutiny and control over public expenditures. Although a number of significant amendments were made to the process, they did not effectively improve it.

#### **B. 1955 to 1967**

Parliament had long debated the necessity of establishing a special standing committee devoted to the examination of the estimates. In 1955, the House of Commons agreed to establish a Committee on Estimates. Initially, this was a smaller version of the Committee of Supply and lacked the authority to summon persons, papers and records. In 1958, amendments to the Standing Orders gave the Committee on Estimates the usual powers of a standing committee. However, starting in 1962, no further estimates were sent to the Committee; and following the reorganization of the committee system in 1965, the Committee on Estimates ceased to exist.

#### **C. The 1968 Amendments**

By the late 1960s, it had become widely recognized that the existing practices and procedures regarding the business of supply were inadequate to assist Parliament in fulfilling its responsibilities of scrutinizing and debating the government's financial plans. In 1968, the House passed a series of amendments in order to provide for more meaningful debate and better parliamentary oversight of the estimates and, at the same time, to allow for faster decisions on appropriation bills. The amendments were based on recommendations made by a Special

Procedure Committee, and they were based on the premise that the detailed scrutiny of estimates could be done more efficiently in the various standing committees of the House, which were to be reorganized and upgraded in importance, rather than referring the estimates to a single Committee of Supply.

Key changes to the rules and procedures of the House included the following:

- The new Standing Orders divided the parliamentary session into three periods ending on 10 December, 26 March and 30 June for purposes of Supply.
- All estimates were referred to standing committees on or before 1 March and reported back to the House by 31 May.
- Twenty-five days were designated as “allotted” days, apportioned over the three new supply periods, during each of which two of the motions could be votable motions of non-confidence in the government. These allotted days also became known as “opposition” or “supply” days.
- Any unused days from the Address in Reply and Budget Debates could be added to the number of allotted days.
- The business of supply was accorded precedence over all other government business if the sitting was to count as an allotted day.
- Time limits were set for speakers on allotted days.
- Supply resolutions and bills based thereon were to be disposed of by the House by the end of the specific supply period at the latest.

These changes, which established current business of supply practices, allowed for the introduction of a financial timetable in the parliamentary calendar, and also prevented the delaying of supply. The timetable also gave the opposition an opportunity to debate the Main Estimates before all the money had been spent. By transferring to standing committees the responsibility for examining the estimates, the House was able to devote more time to other business. However, concerns were raised that, because the government was assured of eventually receiving the funds it requested, it would become unresponsive to opposition requests.

#### **D. Post-1968**

Under current practices, estimates are automatically referred to the standing committees with the relevant departmental mandate. Although such a method appears sound in principle, the actual results remain disappointing. Parliamentarians, political scientists and other

academics have long commented on the lack of resources to effectively review the estimates, the difficulty in analyzing these complex documents, and parliamentarians' almost complete lack of means to influence or amend the estimates. Most standing committees would rather focus on other activities and issues that are, in their view, more pressing and important business than reviewing estimates. In recent years, most standing committees did not even subject the estimates to review or send a report back to the House of Commons.<sup>(4)</sup>

In the meantime, the federal government's internal financial management and budgetary systems have continued to evolve. In 1995, the government put in place the *expenditure management system*<sup>(5)</sup> (EMS); the system's principal innovations consisted of program review and the funding of new initiatives through reallocation of funds from existing programs. Under the current budgetary management regime, departments and agencies are required to operate on the basis of business plans that reflect targets established by the Budget and government priorities. Consequently, ministers and departments are continuously seeking new means to increase their resource allocation capacity within approved budgetary constraints. Efforts are also being made to improve the measurement and reporting of program results in order to provide better support to departmental and managerial decision-making and improve accountability to government, Parliament and the general public.

The means by which estimates are reported to Parliament have also changed. After 1997, Part III Estimates documents were split into two separate documents. Departments are now required to produce *reports on plans and priorities*<sup>(6)</sup> (RPPs), documents that establish their expenditure plans and priorities for the current year and following two years. These plans are provided to standing committees at the same time as they review the Main Estimates, thus enabling committees to analyze and potentially influence departmental expenditure plans in the

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(4) *Ibid.*, p. 18. One survey has found that, in 1989, 20 standing committees held a total of 128.1 meetings on the Estimates but produced only three reports. In 1990, the same number of committees held a total of 48.5 meetings on the Estimates but returned no reports. In 1991, 25 standing committees held 60 meetings to deal with the Estimates; only one report was produced. See the Report of the Liaison Committee on Committee Effectiveness, *Parliamentary Government*, No. 43, June 1993, p. 8.

(5) Treasury Board of Canada Secretariat (TBS), *Expenditure Management System of the Government of Canada*, Ottawa, August 1998; available on the TBS Web site: [http://www.tbs-sct.gc.ca/Pubs\\_pol/oepubs/TB\\_H/EXMA\\_e.asp](http://www.tbs-sct.gc.ca/Pubs_pol/oepubs/TB_H/EXMA_e.asp).

(6) Treasury Board of Canada Secretariat, *Improved Reporting to Parliament Project – Phase 1*, Ottawa, 1998; available on the TBS Web site: [http://www.tbs-sct.gc.ca/rma/eppi-ibdrp/irp-arp/phase1\\_e.asp](http://www.tbs-sct.gc.ca/rma/eppi-ibdrp/irp-arp/phase1_e.asp).



current and future fiscal years. The RPPs are tabled in the spring, soon after the tabling of the Main Estimates. The other set of documents, *departmental performance reports* (DPRs), tabled in the autumn, enable parliamentarians to compare departments' results with their respective expenditure plans, and thus to evaluate the government's ability to meet its own objectives and other priorities as set out in the Budget, the Speech from the Throne and other policy documents.

The main objective of these recent reforms to the government's financial and reporting system was to increase parliamentarians' participation in the government's financial management. Nonetheless, the business of supply remains a complex and daunting process for most parliamentarians.

### **E. Standing Committee on Government Operations and Estimates**

In theory, the business of supply represents the best opportunity for parliamentarians to review government requests for money and hold the government to account. Many concerned parliamentarians, academics, and other commentators suggested that one possible option for achieving that goal would be to establish a modern variant of the Committee of Supply – that is, a standing committee whose primary responsibility would be to receive, review, and report on the estimates of all departments and agencies.

In the later 1990s, Parliament undertook further reviews and studies on the estimates process with an emphasis on reforming it and proposing new mechanisms to allow Parliament to improve the way it examines and grants supply. In late 1998, the Standing Committee on Procedure and House Affairs tabled a report<sup>(7)</sup> that recommended several procedural changes to the business of supply and endorsed the idea of creating a single standing committee devoted to monitoring and reviewing the estimates and supply process. The establishment of an estimates committee was further endorsed in 2000 in a report examining improvements to government reporting.<sup>(8)</sup> By late 2002, the Standing Committee on

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(7) Standing Committee on Procedure and House Affairs (1998).

(8) House of Commons, Standing Committee on Procedure and House Affairs, *Improved Reporting to Parliament Project – Phase II: Moving Forward*, 37th Report, 2nd Session, 36th Parliament, June 2000; available on the parliamentary Web site:  
<http://www.parl.gc.ca/InfoComDoc/36/2/HAFF/Studies/Reports/haffrp037-e.html>.

Government Operations and Estimates was formed. The Standing Orders for the new Committee empower it to do the following:

- Review the process for consideration of the estimates and supply;
- Review the estimates for programs delivered by more than one department or agency;
- Review any estimates delivered to other standing committees, and amend the corresponding votes referred to these committees;
- Review specific operational and expenditure items across all government departments and agencies;
- Review statutory programs, tax expenditures, loan guarantees, contingency funds and private foundations deriving the majority of their funding from the Government of Canada.

Although it is too early to know the ultimate impact of this new standing committee on the business of reviewing and granting supply, it has already begun examining ways of improving the estimates process. In September 2003, the Committee tabled a report entitled *Meaningful Scrutiny: Practical Improvements to the Estimates Process*.<sup>(9)</sup> The report examined practical strategies for examining estimates, improving the information they contain, and strengthening incentives for better reporting and review. The report also contains a section on supplementary estimates.

## ELEMENTS OF THE BUSINESS OF SUPPLY

### A. Principles Guiding the Legislative Control Over Public Finances<sup>(10)</sup>

Five basic principles guide parliamentary control over the spending of public money:

- The Executive cannot levy taxes or borrow monies without parliamentary authority.

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(9) House of Commons, Standing Committee on Government Operations and Estimates, *Meaningful Scrutiny: Practical Improvements to the Estimates Process*, 6th Report, 2nd Session, 37th Parliament, 25 September 2003; available on the parliamentary Web site: <http://www.parl.gc.ca/InfocomDoc/Documents/37/2/parlbus/commbus/house/reports/oggorp06-e.htm>.

(10) C. Lloyd-Brown-John, André Leblond and D. Brian Marson, *Public Financial Management: A Canadian Text*, Nelson Canada, Scarborough, 1988, pp. 238-239.

- The Executive has spending authority only when it has received such authority from Parliament and in accordance with the limitations stipulated by Parliament.
- Each year Parliament grants, through appropriation acts, approval to the Executive to spend monies on those expenditure items for which approval has not already been given – normally all expenditures other than statutory items.
- The unused balance of an appropriation granted for a specified fiscal year lapses at the end of that fiscal year; statutory items, however, are not subject to “lapsing” (i.e., the authority to spend is ongoing).
- The Executive must submit an annual budget of expenditures (the estimates) to Parliament.

In addition to these basic principles, supplementary rules and regulations have been added and have evolved over the years to ensure the observance of the basic guiding principles:

- The Executive is responsible for the preparation of the estimates (departmental spending plans) and is accountable to Parliament for the spending of public funds made available to it.
- Parliament has the unrestricted right to debate and criticize the estimates fully, including past and current Executive activities as well as Executive proposals for future spending.
- The Executive is responsible for financial planning and for changes in the plans arising from parliamentary direction.
- The Executive is fully accountable to Parliament for its management of public funds, both as to receipts and disbursements.
- The Auditor General, an independent qualified auditor, is responsible only to Parliament; the Auditor General’s annual report on the Public Accounts of Canada must be presented to Parliament within nine months of the end of the fiscal year.
- Parliament has the right to direct the audit of the Public Accounts in almost any way it chooses for purposes of ensuring efficiency, economy, and effectiveness of government programs.

## **B. Basic Steps of the Business of Supply**

The above principles, rules and regulations set the framework for the management of public finances and how the government secures permission to spend tax dollars. Within that framework is the process by which the federal government actually obtains Parliament’s authorization to spend money – the business of supply.

The business of supply essentially follows five basic steps:

1. Tax revenues are collected and deposited into the Consolidated Revenue Fund (CRF);
2. The CRF is the aggregate of all public monies that are on deposit at the credit of the Receiver General for Canada (cash is held in chartered banks and the Bank of Canada);
3. Parliament appropriates (allocates) the funds held in the CRF to government through appropriation acts (statutes);
4. The government then spends these monies for the delivery of goods and services to the public through departments, agencies, Crown corporations, etc.
5. The public responds favourably or unfavourably to the spending initiatives.

### C. The Financial Cycle

The financial or budgetary cycle represents the practices and procedures employed by Parliament to plan, monitor, and control government spending over the fiscal year. It serves as a mechanism to ensure and enforce accountability and transparency of public financial management. The following presents a chronology of the principal events occurring during the cycle. (See Appendix 1 for a graphic representation.)

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|----------|--|
| February | The Minister of Finance tables the Budget plan. The Budget presents the federal government's overall fiscal plan, incorporating revenue projections and spending plans, which combine to determine the resulting budgetary balance. The Budget also introduces proposals for changes in taxation.  |
| 1 March  | <p>The Main Estimates are tabled by the President of the Treasury Board following the presentation of the Budget. The Main Estimates are the government's spending proposals for a given fiscal year and are prepared in support of the government's request to Parliament for the authority to spend public monies. The request is formalized through the tabling of appropriation acts in Parliament. The estimates documents consist of the following parts:</p> <ul style="list-style-type: none"><li>▪ <i>Part I – the Government Expenditure Plan</i> provides an overview of federal spending and summarizes how key elements of the Main Estimates relate to the expenditure plan set out in the Budget.</li><li>▪ <i>Part II – the Main Estimates</i> directly support the appropriation acts and present detailed expenditure plans by departments and agencies, including</li></ul> |

appropriation authority, departmental goals, a description of activities by business lines, and transfer payments. Parts I and II are combined to form a single document.

- *Part III – the Departmental Expenditure Plans*, since 1997, consists of two separate documents – Reports on Plans and Priorities, and Departmental Performance Reports. Tabled during the spring, the RPPs provide detailed information on departmental goals together with three-year spending projections. The DPRs, tabled each autumn, describe the results achieved with the money granted by Parliament. RPPs and DPRs are referred to their relevant standing committees following their tabling in the House.
- *Supplementary Estimates*: usually tabled in March and November, these appropriation acts seek to obtain Parliament’s approval for additional expenditures to address unexpected financial needs. In theory, there is no limit to the number of times the government can table Supplementary Estimates.

Late March Under the usual budgetary timetable, Parliament’s approval, or “concurrence,” of the Main and Supplementary Estimates can occur in either March or late June. March concurrence usually refers to the Supplementary Estimates of the current fiscal year, just as the Main Estimates for the following fiscal year are tabled. June concurrence relates to the Main Estimates and Supplementary Estimates for the following fiscal year.

To ensure the government has the resources to continue operating during the three-month interval between the tabling of the estimates in March and their approval, or “concurrence,” in Parliament in late June, the House will approve bridging funds through a procedure known as interim supply. The amounts in the motion for interim supply are expressed in twelfths (normally three-twelfths) of the amounts of the Main Estimates.

31 March This date marks the end of the current fiscal year.

1 April-  
31 May Beginning of the new fiscal year and start of the *interim supply* period.

Following the tabling of the Main Estimates in Parliament, they are immediately referred to their relevant standing committees. In reviewing the estimates, standing committees may only approve, reduce or reject them; they cannot increase the amounts they contain. Committees must report on their estimates to the House of Commons no later than 31 May, after which time the estimates are deemed to have been adopted.<sup>(11)</sup>

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(11) O’Neal (2000).

|                       |  |
|-----------------------|--|
| May-<br>30 June       | Release and review of Departmental Outlooks. These documents are prepared by the departments to assist standing committees in reviewing the estimates. With the participation of Cabinet committees, ministers and the Privy Council Office, Cabinet undertakes a review of priorities. The concurrence of the Main and Supplementary Estimates in late June marks the end of the interim supply period. |
| September-<br>October | Cabinet reviews Budget consultation strategies and releases the Budget consultation papers.  |
| October-<br>December  | Beginning of the Budget consultation process by the House Standing Committee on Finance and the Department of Finance.   |
| November-<br>December | The Public Accounts of Canada are tabled. This consolidated financial report of the federal government is prepared each year by the Receiver General and tabled in the House of Commons by the President of the Treasury Board. According to the <i>Financial Administration Act</i> , the Public Accounts must be tabled within the nine months following the beginning of the fiscal year.             |
| December-<br>January  | Concurrence of Supplementary Estimates. The Supplementary Estimates for an ongoing fiscal year can be submitted as late as early March; they will be accompanied by a final appropriation act, which must be voted before 31 March. The House Standing Committee on Finance tables the Budget consultation report. Cabinet reviews the Budget strategy.  |
| January-<br>February  | Final decisions on the Budget by the Prime Minister and the Minister of Finance.   |

## **D. Appropriation Acts**

### **1. Non-statutory Appropriations**

Spending legislation takes the form of appropriation acts, which enable the government and its agencies to spend money. More specifically, an appropriation act (or supply bill) is a bill to authorize government expenditures, introduced in the House of Commons following the concurrence of the Main or Supplementary Estimates or interim supply.

The spending authorization under an appropriation act usually lapses at the end of the fiscal year in which the act was approved.<sup>(12)</sup> This means that if the government decides to continue to spend funds for a specific purpose over more than a fiscal year, the government must

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(12) *Ibid.* The fiscal year for the Government of Canada starts on 1 April and ends on 31 March of the following calendar year.

renew its authorization to spend money by requesting Parliament to vote on an appropriation act. These appropriations are also known as *non-statutory appropriations*. In the 2002-2003 fiscal year, they amounted to over \$56 billion.

Traditionally, if a portion of the total amount of money authorized in an appropriation act is not spent within the fiscal year, the balance lapses and is not carried over to the next fiscal year. With the aim of improving the government's cash and expenditure management, administrative amendments were introduced in the 1993-1994 fiscal year that allowed a 2% maximum carry-over of the operating budget.<sup>(13)</sup> The following year, this limit was raised to a 5% maximum carry-over of operating costs. The practice of carrying over a portion of unspent appropriations was extended to capital funds in the 1997-1998 fiscal year: under certain conditions, up to 5% of any capital vote (to a maximum of \$75 million) can be carried over to the following fiscal year.

## 2. Statutory Appropriations

Parliament may also authorize continuing (*statutory*) appropriations. These authorize government to spend on a continuous basis, without the need to vote on an appropriation act every fiscal year; but they must be reported annually in the estimates. Statutory appropriations authorize payments through specific statutes of Parliament; they include fiscal equalization, the Canada Health Transfer and Social Transfer, Employment Insurance and Elderly Benefits. The requirements governing payments under statutory appropriations can be changed only by amending the enabling legislation.<sup>(14)</sup> In 2002-2003, statutory appropriations represented over \$114 billion in planned expenditures, almost 67% of the total Main Estimates.<sup>(15)</sup>

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(13) Treasury Board of Canada, *Managing Better: Review of Operating Budgets – Delegation Framework*, Minister of Public Works and Government Services Canada, Ottawa, 2002; available on the TBS Web site: [http://tbs-sct.gc.ca/pubs\\_pol/dcgpubs/manbetseries/Voll-1\\_e.html](http://tbs-sct.gc.ca/pubs_pol/dcgpubs/manbetseries/Voll-1_e.html). See also Treasury Board of Canada, *Carry-Forward of Capital Funds*, TB Circular 1987-53, Ottawa, November 1997; available on the TBS Web site: [http://tbs-sct.gc.ca/pubs\\_pol/dcgpubs/tb\\_72/8753\\_e.asp](http://tbs-sct.gc.ca/pubs_pol/dcgpubs/tb_72/8753_e.asp).

(14) Treasury Board of Canada, *Guide to the Estimates of the Government of Canada*, Minister of Supply and Services Canada, Ottawa, 1983, p. 5.

(15) Minister of Public Works and Government Services Canada, *2002-2003 Estimates* (Parts I and II), Ottawa, 2002, pp. 1-4.

### 3. Structure of Appropriation Acts, and Types of Votes

Each appropriation act consists of a number of votes. A vote is a short statute authorizing <sup>(16)</sup> a department or agency to spend money for a specific purpose. Instead of being voted on individually, the votes or short statutes are consolidated into an appropriation act (i.e., interim supply, Main and Supplementary Estimates).

In general, the program and vote structure correspond to one vote for each program. For administrative and accounting purposes, votes are divided into “allotments” and “sub-allotments.” Money can be moved within a vote (from one allotment to another), but it cannot be transferred from one vote to another. <sup>(17)</sup> The wording of the vote and the amount stipulated in the appropriation act provide the authority and the limit for payments to be charged; they do not create a commitment to spend the entire amount. There are certain exceptions to the normal vote structure, and these are discussed below.

As many as seven different types of votes appear in Estimates documents, and may be included in a single appropriation act. <sup>(18)</sup>

- *Program Expenditures Votes* are used when there is no requirement for either a separate “capital expenditures” vote or a “grants and contributions” vote because neither equals or exceeds \$5 million. In this case, all program expenditures are charged to the one vote.
- *Operating Expenditures Votes* are used when there is a requirement for either a capital expenditures vote or a “grants and contributions” vote or both; that is, when expenditures of either type equal or exceed \$5 million. Where they do not, the appropriate expenditures are included in the “program expenditures” vote.
- *Capital Expenditures Votes* are used when the capital expenditures in a program equal or exceed \$5 million. Expenditure items in a capital vote would include items expected to exceed \$10,000 for the acquisition of land, buildings, and works, as well as the acquisition of machinery and equipment, or for purposes of constructing or creating assets, where a department expects to draw upon its own labour and materials, or employs consultants or other services or goods.

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(16) Appendix 2 summarizes three broad categories of legislative authorizations.

(17) Lloyd-Brown-John, Leblond and Marson (1988), p. 251.

(18) Minister of Public Works and Government Services Canada, *2001-2002 Estimates: Parts I and II – The Government Expenditure Plan and The Main Estimates*, Ottawa, 2001.



- *Grants and Contributions Votes* are used when the grant or contribution expenditures in a program equal or exceed \$5 million. It should be noted that the inclusion of a grant, contribution or other transfer payment item in estimates imposes no requirement to make a payment, nor does it give a prospective recipient any right to the funds. It should also be noted that in the vote wording, “contributions” is considered to include “other transfer payments” because of the similar characteristics of each.
- *Non-Budgetary Votes* provide authority for spending in the form of loans or advances to, and investments in, Crown corporations; and loans or advances for specific purposes to other governments, international organizations, or persons or corporations in the private sector.
- *Special Votes – Crown Corporation Deficits and Separate Legal Entities*: the concept of one vote to one program does not apply where it is necessary to appropriate funds for a payment to a Crown corporation or for the expenditure of a legal entity where such expenditures are part of a larger program. Where this is the case, a separate vote structure is established for each. A legal entity for these purposes is defined as a unit of government operating under an act of Parliament and responsible directly to a minister.
- *Special Votes – Treasury Board Centrally Financed Votes*: in order to support the Treasury Board in performing its statutory responsibilities for managing the government’s financial, human and materiel resources, a number of special authorities are required. These are outlined below.
  - Government Contingencies Vote – supplements other appropriations to provide the government with the flexibility to meet unforeseen expenditures until parliamentary approval can be obtained, and to meet additional payroll costs such as severance pay and maternity benefits which are not provided for in departmental estimates.
  - Government-Wide Initiatives Vote – supplements other appropriations in support of the implementation of strategic management initiatives in the public service of Canada, including the Service Canada Initiative, Employment Equity programs, the Modern Comptrollership Initiative and the Government On-Line Initiative.
  - Public Service Insurance Vote – provides for the payment of the employer’s share of health, income maintenance and life insurance premiums; for payments to or in respect of provincial health insurance plans; provincial payroll taxes; pension, benefit and insurance plans for employees engaged locally outside Canada; and to return to certain employees their share of the unemployment insurance premium reduction.

## **THE ROLE OF STANDING COMMITTEES IN THE SUPPLY PROCESS<sup>(19)</sup>**

Once presented in the House of Commons, the Main Estimates are referred to various standing committees for review; they must be reported back to the House by 31 May. If

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(19) Standing Senate Committee on National Finance, *An Introduction to the Standing Senate Committee on National Finance*, 2nd Session, 37th Parliament, November 2002.

a committee has not reported back the Main Estimates referred to it by that deadline, the estimates are deemed adopted according to the Standing Orders of the House. The House of Commons must then concur in the Main Estimates before the government may introduce the supply bill that authorizes the necessary withdrawals from the Consolidated Revenue Fund. It should be noted that in the House, the supply bill is usually given three readings in a single day, as committees will already have reviewed and reported on the estimates, and the House has concurred in them prior to the presentation of the supply bill.

As indicated earlier in this paper, standing committees' examination of the Main Estimates and other estimates documents has in recent years become a rather cursory exercise that few parliamentarians are interested in pursuing. Although the federal government has undertaken many initiatives to improve its expenditure management processes and the reporting of financial information to Parliament (e.g., the Financial Information Strategy, the Modern Comptrollership Initiative, and the Expenditure Management System), problems with the estimates review process persist. The format and complex contents of estimates documents, the composition and turnover of the membership of standing committees, and parliamentarians' very limited ability to influence government spending decisions are all contributing factors.

Although all standing committees can and do participate in the business of supply to various degrees, there are some individual standing committees whose role in the process of supply deserves particular mention.

#### **A. House of Commons Standing Committee on Public Accounts**

Not only does Parliament control the spending of public monies by the process of scrutinizing and voting on appropriation acts and other statutes. It can also exercise an "after the fact" review of public expenditures through the House of Commons Standing Committee on Public Accounts, which studies the federal government's consolidated financial statements (the *Public Accounts of Canada*), the Report of the Auditor General of Canada, and any other matter that the House of Commons, from time to time, may refer to the Committee.

The role of the Auditor General is primarily to ensure government accountability to Parliament for the administration of public policy programs. Audits focus on the administrative aspect of government activity, rather than on policy-making or the political aspects of government programs. This form of examination is usually referred to as

comprehensive auditing. Its scope is broad enough to permit a review and report on the management of financial, human, and materiel resources and the adequacy of related systems and controls, with the aim of ensuring due regard to economy, efficiency and effectiveness of program spending.

The Auditor General of Canada tables an annual report in the House of Commons on or before 31 December. The report contains: the results of comprehensive audits of government departments and agencies; government-wide audits; other significant matters arising out of audit work carried out in departments and agencies not subjected to full-scope comprehensive audits; and issues raised by the audit of the financial statements of departments, agencies and Crown corporations. (Recent practice has been to split the report into three or four smaller reports and table them in a staggered fashion throughout the year.)

During the last few Parliaments, the Public Accounts Committee has devoted approximately 90% of its time to the Auditor General's reports, but has also examined the financial statements of the Government of Canada and Crown corporations, as well as some of the major program expenditures of departments or agencies.

### **B. House of Commons Standing Committee on Government Operations and Estimates**

This standing committee was created in 2002 in response to long-standing concerns about the declining interest of parliamentarians in reviewing and reporting on the estimates. The Standing Committee on Government Operations and Estimates was recently empowered to: examine the estimates and study the process of supply; review and consider the estimates for programs delivered by more than one department or agency; examine specific operational and expenditure items across all government departments and agencies; and review any statutory program, tax expenditures, loan guarantees, contingency funds and private foundations deriving the majority of their funding from the Government of Canada.

### **C. Standing Senate Committee on National Finance**

The Senate also plays an important role in the review of the estimates through its Standing Committee on National Finance. First created in May 1919 under the name of the Committee on Finance, in 1968 it became the Committee on National Finance. A large part of

the Committee's work is devoted to the review of the federal estimates and issues arising out of that review, including the national accounts and the report of the Auditor General, and government finance.

During its review of the estimates, the Committee usually invites officials from the Treasury Board Secretariat to appear and answer questions. In addition, the President of the Treasury Board usually appears before the Committee in late May or early June, before the full supply bill is introduced in Parliament. After considering the witnesses' testimony, the Committee presents a report to the Senate; the report is debated and adopted before the related supply bill is considered and adopted by the Senate. When considering the Main Estimates, the Committee usually presents a number of interim reports on specific aspects of the estimates, and then presents a final report at the end of the fiscal year to complete its mandate.

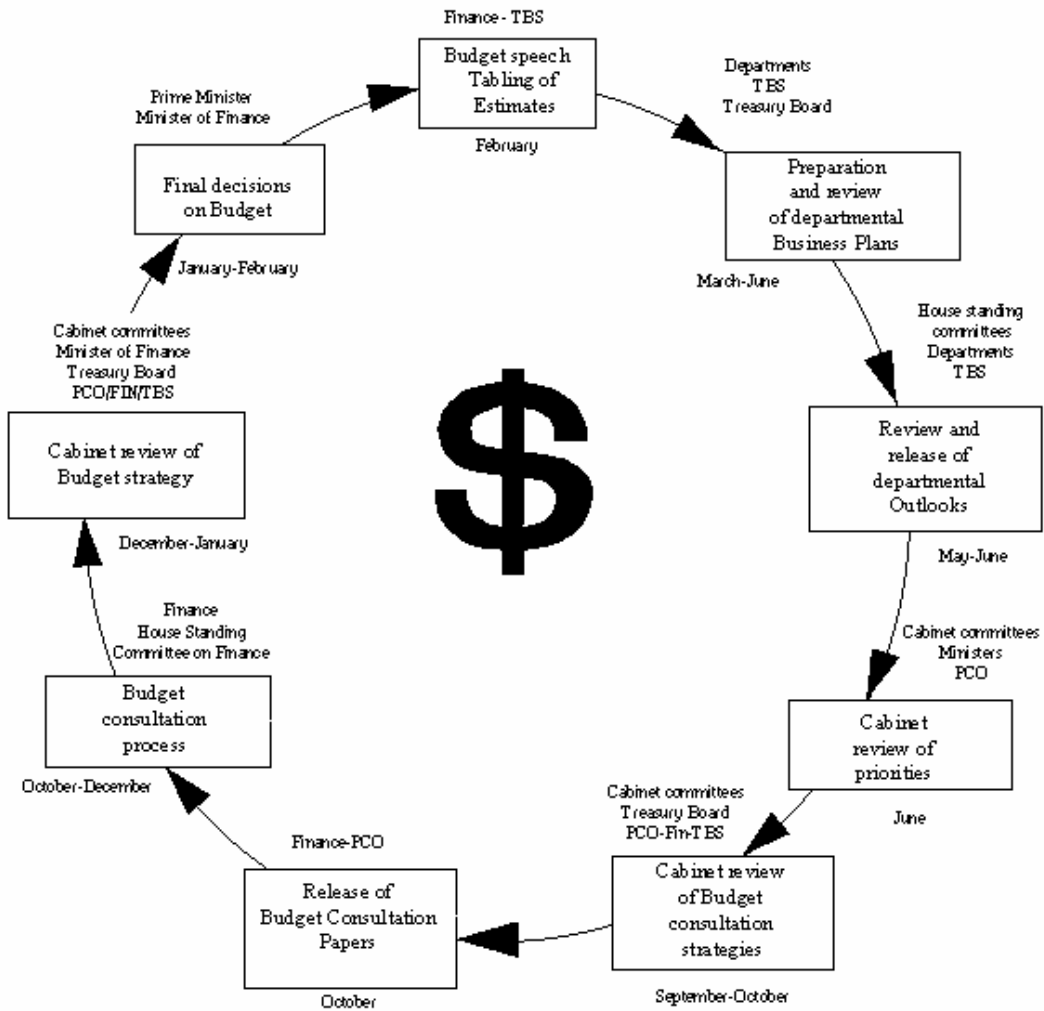
The National Finance Committee only reviews the estimates; it does not adopt them, nor does the Senate adopt them. However, supply bills, as is the case with other bills, must be passed by the Senate after having been passed in the House of Commons. Surplus bills are usually dealt with only in the whole Senate and not referred to the National Finance Committee or any other committee.

## **CONCLUSION**

While the fundamental elements of the business of supply have not changed much over the years, the process has nonetheless evolved in response to the changing relationship between the government and Parliament. Long-standing concerns about the way parliamentarians review and approve government expenditures have led to recent institutional changes, such as the re-establishment of a special standing committee that is devoted almost exclusively to the scrutiny and approval of the estimates. Time will tell whether these innovations will result in better and more effective oversight of government expenditures.

# APPENDIX 1

## THE EXPENDITURE MANAGEMENT SYSTEM



Source: Treasury Board of Canada Secretariat.

## APPENDIX 2

### NATURE OF LEGISLATIVE AUTHORIZATIONS<sup>(1)</sup>

The nature of the appropriation granted by the legislature depends on the budget system and on the nature of the expenditure. These legislative appropriations can be grouped into three broad categories: obligation-based, cash-based or accrual-based appropriations.

- Obligation-based appropriations: give rights to make financial commitments and to make cash payments according to these commitments, *without a predetermined time limit*. Such appropriations have their own life cycle and are not limited to one year. This system of appropriations is no longer in general use but may be used for special programs.
- Cash-based appropriations: give authority to make cash payments over a *limited period of time*, generally corresponding to the fiscal year. This system is the most widespread internationally. In principle, appropriations define cash limits that cannot be exceeded, but exceptions do exist. At least for goods and services, they correspond also to a limit of entering into contractual commitments. They cover payments due.
- Accrual-based appropriations: these authorizations cover the full costs, for the operations of a department and other increases in liabilities or decreases in assets (called expenses by accountants). The full costs are the goods and services consumed (as opposed to acquired) over a period. Therefore, depreciation for physical assets, variations in inventories and variations in liabilities are added to actual payments to calculate the full costs of a program.

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(1) Salvatore Schiavo-Campo and Daniel Tommasi, eds., *Managing Government Expenditures*, Asian Development Bank, Manila, April 1999.