

Department of Finance Canada

**1998-99
Estimates**

A Report on Plans and Priorities

Approved

Minister of Finance

Table of Contents

Section I: Messages

- A. Minister's Message* 1-1
- B. Management Representation Statement* 1-2

Section II: Departmental Overview

- A. Mandate, Roles and Responsibilities* 2-1
- B. Objectives* 2-3
- C. Financial Spending Plan* 2-4

Section III: Plans, Priorities and Strategies

- A. Summary of Key Plans, Priorities and Strategies* 3-1
- B. Details by Program and Business Line* 3-9
 - Economic, Social and Financial Policies Program 3-9
 - 1. Policies and Advice 3-9
 - 2. International Financial Organizations 3-17
 - 3. Domestic Coinage 3-18
 - 4. Special Projects – Hibernia 3-19
 - 5. Corporate Administration 3-20
 - Public Debt Program
 - 1. Interest and Other Costs 3-21
 - 2. Canada Investment and Savings 3-22
 - Federal-Provincial Transfers Program
 - 1. Transfer Payments 3-24

Section IV: Supplementary Information 4-1

Section I: Messages

A. Minister's Message

Every Canadian has an important stake in the work of the Department of Finance.

The government's fiscal and economic policies and programs underpin economic growth and job creation. The Department of Finance is the federal department primarily responsible for providing the government with analysis and advice on the broad economic and financial affairs of Canada. In addition, it interacts with other government departments to encourage co-ordination and harmony among all federal initiatives that have an impact on the economy, as well as being involved in efforts to renew Canada's social programs, including public pensions.

That is why my officials and I place a premium on service to and consultation with Canadians in preparation for the annual budget as well as throughout the year. In recent years, we have made great strides in involving Canadians in the policy-making process, in providing more timely and accurate information, and in establishing effective two-way communication between the department and taxpayers.

We realize, however, that providing quality service and information to Canadians requires an ongoing effort, and we are determined to continue to improve our performance in the years ahead.

B. Management Representation Statement

MANAGEMENT REPRESENTATION Report on Plans and Priorities 1998-99

I submit, for tabling in Parliament, the 1998-99 Report on Plans and Priorities (RPP) for the
Department of Finance Canada

To the best of my knowledge, the information:

- accurately portrays the department's mandate, plans, priorities, strategies and expected key results;
- is consistent with the disclosure principles contained in the *Guidelines for Preparing 1998-99 Estimates – A Report on Plans and Priorities*;
- is comprehensive and accurate; and
- is based on sound underlying departmental information and management systems.

I am satisfied as to the quality assurance processes and procedures used for the RPP's production.

The *Planning, Reporting and Accountability Structure* (PRAS), on which this document is based, has been approved by Treasury Board ministers and is the basis for accountability for the results achieved with the resources and authorities provided.

Name: _____

Date: _____

Section II: Departmental Overview

A. Mandate, Roles and Responsibilities

The department's fundamental purpose is to assist the government in developing and implementing economic, social and fiscal 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, social and financial affairs of Canada. In addition to preparing the budget, the department provides analysis, advice and recommendations on tax and trade policy and prepares tax and trade legislation; provides analysis, advice and recommendations relating to the management of federal financial assets and liabilities, including the management of federal borrowing on financial markets; manages transfers and fiscal relations with the provinces and territories; develops financing policy for the Canada Pension Plan in conjunction with the provinces; provides analysis, advice and recommendations on the annual Employment Insurance premium rate setting where approval of the Minister of Finance is required by law; represents Canada within international financial institutions and international economic and trade forums; develops policies for, and advises on, the financial sector and financial markets.

This requires monitoring and researching the performance of the Canadian economy in the all-important aspects of: 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.

In its central agency role, the department advises on the economic, fiscal, social and tax implications of key priorities. These include the government's microeconomic agenda and action plan; the jobs and growth agenda; science, technology and innovation policies; environment initiatives; privatization and commercialization initiatives; defence and international assistance expenditures; and efforts to renew Canada's social policies and programs, in particular, Old Age Security programs and the Canada Pension Plan (CPP). This includes the development of policy for investing the assets of the CPP.

Finance also operates two statutory spending programs – the Public Debt Program and the Federal-Provincial Transfers Program. The department is responsible for the delivery of payments to major international financial institutions, such as the International Monetary Fund, the World Bank and the European Bank for Reconstruction and Development, 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.

The department interacts with other government departments, agencies and Crown corporations, and private-sector stakeholders to encourage co-ordination and harmony among all federal initiatives affecting the economy and financial markets. As well, the department constantly works towards improved co-operation – especially on fiscal, trade and taxation issues between the federal and provincial governments and internationally.

The department provides services to the following client groups:

- **The government, Cabinet and the Treasury Board** – by providing analysis, advice and recommendations on the economic, social and financial affairs of Canada as well as tax matters. The department is also responsible for drafting legislation in these areas.
- **Parliament and the public** – by supporting an expanded program of public information and consultation with emphasis on the provision of basic facts to Canadians on key economic and fiscal issues to facilitate wide participation in a more open, broad-based consultation process. This supplements ongoing and wide ranging consultation with the public in such other key departmental responsibilities as the formation of tax policy and financial sector policy.
- **Departments and agencies** – by playing an active role in encouraging co-ordination and harmony among all federal initiatives with an impact on the economy, the financial sector and financial markets.
- **International economic community** – by being responsible for the development of Canada's policy with respect to the Bretton Woods Institutions and the European Bank for Reconstruction and Development, as well as negotiating double taxation treaties with our treaty partners and representing Canada in a broad range of official international forums including the financial elements of the G-7, G-10, International Monetary Fund (IMF), the Organization for Economic Co-operation and Development (OECD) and the Asia-Pacific Economic Co-operation (APEC), among others.
- **Provincial governments** – by constantly working towards improved co-operation on fiscal and taxation issues.
- **Parliamentary and Senate committees** – by being the primary source of bills on taxation and financial matters and steering them through the parliamentary process.
- **Canadian interest groups** – by consulting widely with representatives of business, labour, social, volunteer and other groups in the Canadian economy on potential budget measures and a wide range of other policies and initiatives.
- **Financial market participants** – by working with market participants to improve debt management practices and to promote the maintenance of a well-functioning market for Government of Canada securities, and by ensuring that investors in Canadian government debt are well informed of financial and economic developments.

B. Objectives

The following are the department's program objectives:

- **Economic, Social and Financial Policies Program** – appropriate policies and sound advice with respect to economic, social and financial conditions and to the government's agenda; responsible administration of international financial obligations and subscriptions; economical financing of domestic coinage costs; responsible financing of special projects; and effective and efficient corporate administration.
- **Public Debt Program** – the statutory funding of interest and service costs of the public debt and the issuing costs of new borrowings, if required.
- **Federal-Provincial Transfers Program** – transfer payments pursuant to statutes with respect to the Canada Health and Social Transfer, Equalization and other transfers, and pursuant to agreements with respect to Territorial Formula Financing.

These three programs are delivered by nine branches whose specific responsibilities are described below.

- **Economic and Fiscal Policy** – is responsible for developing appropriate policies and providing sound advice on the domestic and international economic and financial outlook, on the government's overall fiscal framework, expenditure plan and resource allocation, and on the government's overall economic policy framework.
- **International Trade and Finance** – is responsible for developing appropriate policies and international negotiating strategies and providing sound advice on international trade and finance with specific reference to import tariffs and trade remedies, foreign direct investment and economic co-operation, defence policies and expenditures, international development assistance and international financial relations.
- **Tax Policy** – is responsible for developing appropriate policies and providing sound advice on the Canadian tax system.
- **Financial Sector Policy** – is responsible for developing appropriate policies and providing sound advice on the management of the government's financial assets and liabilities including government debt management, on legislation governing federally regulated financial institutions and on financial and borrowing issues relating to Crown corporations.
- **Federal-Provincial Relations and Social Policy** – is responsible for developing appropriate policies and providing sound advice on federal-provincial fiscal and economic relations and on Canadian social policies and programs, including Old Age Security programs, Canada Pension Plan and Employment Insurance.
- **Economic Development and Corporate Finance** – is responsible for developing appropriate policies and providing sound advice on the economic, fiscal and financial implications of the government's micro-economic policies and programs, including

loans, investments and guarantees of the Crown; on proposals for assistance to major projects or corporate restructuring initiatives advanced by the private sector; and on the management and, as appropriate, the privatization of Crown corporations and other corporate holdings and the commercialization/privatization of government services.

- **Consultations and Communications** – is responsible for providing strategic communications advice and suitable public affairs support.
- **Law Branch** – is responsible for providing sound legal advice and for processing applications under the *Access to Information Act* and the *Privacy Act* in an accurate and timely manner.
- **Corporate Services** – is responsible for providing effective and efficient financial, human resources, information technology, security and administrative systems and expertise.

C. Financial Spending Plan

Figure 1: Financial Spending Plan

(\$ millions)	Forecast Spending 1997-98*	Planned Spending 1998-99	Planned Spending 1999-2000
Gross Program Spending			
Economic, Social and Financial Policies Program	610.1	721.6	749.3
Public Debt Program	41,500.0	43,500.0	45,000.0
Federal-Provincial Transfers Program**	19,880.7	19,451.0	19,474.0
	61,990.8	63,672.6	65,223.3
<i>Less:</i> Revenue Credited to the Vote	3.3	5.6	5.5
Net Program Spending	61,987.5	63,667.0	65,217.8
<i>Less:</i> Revenue Credited to the Consolidated Revenue Fund	75.0	99.0	145.0
<i>Plus:</i> Non-budgetary	249.5	140.0	75.3
<i>Plus:</i> Cost of services provided by other departments	8.3	9.0	9.0
Net Cost of the Department	62,170.3	63,717.0	65,157.1

* Reflects best forecast of total planned spending to the end of the fiscal year.

** Cash portion

Section III: Plans, Priorities and Strategies

A. Summary of Key Plans, Priorities and Strategies

The department is expected to play a lead role on a multitude of issues that directly affect the economic well-being of all Canadians. With the new mandate, the government engaged Canadians in an important debate about how to use the so-called fiscal dividend. This debate was initially cast by some observers in terms of three options – to spend the dividend, to use it to reduce taxes or to use it to reduce the debt. As the Minister of Finance stated in his presentation of the October 1997 Economic and Fiscal Update, rather than narrowly focusing on how to parcel out the dividend, the focus should be on how best to meet national priorities – how best to build a strong economy and a strong society, one that offers both opportunity and security.

With the government's agenda in mind, the following priorities have been established for the upcoming planning period.

KEY UNDERTAKING	WILL INVOLVE
<ul style="list-style-type: none"> • Sound economic and financial management 	<ul style="list-style-type: none"> ➤ sound fiscal framework for the budget and the Fall Update ➤ appropriate monetary policy
<ul style="list-style-type: none"> • Tax policy 	<ul style="list-style-type: none"> ➤ issues related to general tax relief and tax burden ➤ issues related to targeted tax relief ➤ improving tax fairness ➤ report from the Technical Committee on Business Taxation
<ul style="list-style-type: none"> • Pensions 	<ul style="list-style-type: none"> ➤ Canada Pension Plan ➤ Old Age Security/ Seniors Benefit
<ul style="list-style-type: none"> • Financial sector 	<ul style="list-style-type: none"> ➤ Task Force on Future of Financial Services Sector ➤ Foreign Banking Regime ➤ Demutualization Regime
<ul style="list-style-type: none"> • APEC Finance Ministerial and Commonwealth Finance Ministers' Meeting 	<ul style="list-style-type: none"> ➤ successfully hosting meetings (at the levels of ministers, deputies and Working Groups)
<ul style="list-style-type: none"> • Trade and investment policy 	<ul style="list-style-type: none"> ➤ the development, management and implementation of Canadian import policy in consultation with other departments (e.g. the Department of Foreign Affairs and International Trade, Industry Canada, and Revenue Canada as the administrator of import legislation)

KEY UNDERTAKING	WILL INVOLVE
	<ul style="list-style-type: none"> ➤ participation in the interdepartmental development, management and implementation of Canadian trade and investment policy and in international negotiations in these areas
<ul style="list-style-type: none"> • Managing expenditure pressures 	<ul style="list-style-type: none"> ➤ development of creative solutions, priorities and trade-offs on major spending proposals
<ul style="list-style-type: none"> • Advancement of privatization, commercialization agenda 	<ul style="list-style-type: none"> ➤ Petro-Canada ➤ Theratronics International Limited
<ul style="list-style-type: none"> • International financial organizations 	<ul style="list-style-type: none"> ➤ continuing work with other shareholder governments to promote a broad reform agenda in international financial institutions ➤ working closely with the Canadian International Development Agency (CIDA) to reduce the share of the aid program directed to international financial organizations
<ul style="list-style-type: none"> • Financial asset and liability management 	<ul style="list-style-type: none"> ➤ stable, low-cost financing for the government ➤ promoting the maintenance of a well-functioning market in Government of Canada securities as federal borrowing needs decline ➤ prudent financial risk management
<ul style="list-style-type: none"> • Canada Investment and Savings 	<ul style="list-style-type: none"> ➤ maintenance of a reasonable and sustainable retail share of the federal debt and portfolio diversification ➤ attractive retail debt product offerings in key market segments
<ul style="list-style-type: none"> • Renewal of Equalization 	<ul style="list-style-type: none"> ➤ consult provinces ➤ new legislation by April 1, 1999
<ul style="list-style-type: none"> • New financial arrangements for northern territorial governments 	<ul style="list-style-type: none"> ➤ consult governments and stakeholders ➤ new financing arrangements for three territories by April 1, 1999

Summary of Legislative and/or Regulatory Initiatives

LEGISLATION AND/OR REGULATIONS	EXPECTED RESULTS
<ul style="list-style-type: none"> • <i>Special Import Measures Act, Canadian International Trade Tribunal Act</i> and related rules and regulations 	<ul style="list-style-type: none"> ➤ will provide enhanced systemic efficiency/ transparency of the Canadian trade remedies systems while ensuring that it effectively balances the needs of Canadian industry in a manner consistent with Canada's international rights and obligations
<ul style="list-style-type: none"> • <i>Canada Pension Plan Investment Board Act Regulations</i> – Regulations respecting the investments and activities of the newly created Canada Pension Plan Investment Board 	<ul style="list-style-type: none"> ➤ will subject the newly created Canada Pension Plan Investment Board to broadly the same investment regulations as other public and private pension funds that are subject to the <i>Pension Benefits Standards Act</i> ➤ will specify additional information and policies that the Board must include in its annual report (i.e. beyond what is already required under the <i>Canada Pension Plan Investment Board Act</i>) ➤ will provide for limited provincial access to the Board's funds at market rates and ensure that the Board's domestic equity investments are selected passively, to mirror broad market indexes
<ul style="list-style-type: none"> • <i>Canada Pension Plan Regulations</i> – Regulations specifying how the Chief Actuary is to calculate CPP 'steady-state' rates in triennial actuarial reports 	<ul style="list-style-type: none"> ➤ will set out a method for the Chief Actuary to calculate 'steady-state' contribution rates – these rates will guide federal and provincial governments in setting CPP contribution rates and could take effect if governments cannot agree in future on what contribution rates should be
<ul style="list-style-type: none"> • <i>Federal-Provincial Fiscal Arrangements Act</i> and regulations pursuant to the Act 	<ul style="list-style-type: none"> ➤ will renew the Equalization program ➤ will improve measurement of fiscal disparities

LEGISLATION AND/OR REGULATIONS	EXPECTED RESULTS
<ul style="list-style-type: none"> • <i>Excise Tax Act – Financial Services (GST) Regulations</i> – In accordance with previously announced government policy, certain clearing and settlement services are to be excluded from the definition of exempt ‘financial services’ for the purposes of the Goods and Services Tax (GST) and Harmonized Sales Tax (HST). 	<ul style="list-style-type: none"> ➤ will provide equitable sales tax treatment of clearing and settlement services in respect of financial instruments relative to other administrative services that are taxable under the GST/HST ➤ will confirm current administrative practice and therefore provide greater certainty to suppliers and purchasers as to the status of their transactions
<ul style="list-style-type: none"> • <i>Excise Tax Act – Games of Chance (GST) Regulations</i> – Special rules for determining the net tax remittances under the GST/HST of provincial gaming authorities need to be codified. In addition, amendments to the rules are needed to reflect changes in the gaming industry and address specific industry and government concerns. 	<ul style="list-style-type: none"> ➤ changes, to be developed in consultation with the provinces and the industry, will result in a more robust framework for the taxation of gaming under the GST/HST that is much simpler for government to administer and industry to comply with
<ul style="list-style-type: none"> • <i>Excise Act</i> and related rules and regulations – New legislative framework for the federal taxation of alcohol and tobacco products 	<ul style="list-style-type: none"> ➤ will replace the current archaic legislation and complex administration with a modern and flexible tax structure that recognizes the needs of government and industry
<ul style="list-style-type: none"> • <i>Income Tax Regulations</i> – 1994 budget – Amendments to the Regulations relating to securities held by financial institutions and tax shelters are still required 	<ul style="list-style-type: none"> ➤ will make the necessary changes to the <i>Income Tax Regulations</i> to implement the proposed budget measures
<ul style="list-style-type: none"> • <i>Income Tax Regulations</i> – 1995 budget – Amendments relating to scientific research and experimental development, the fiscal periods of certain businesses, the Canadian film and video production tax credit, and source deductions 	<ul style="list-style-type: none"> ➤ will make the necessary changes to the <i>Income Tax Regulations</i> to implement the proposed budget measures

LEGISLATION AND/OR REGULATIONS	EXPECTED RESULTS
<ul style="list-style-type: none"> • <i>Income Tax Regulations</i> – Reporting Requirements – Mutual Fund Reorganizations – Subsection 230(3) of the <i>Income Tax Regulations</i> will be amended to add an exception where the redemption, acquisition or cancellation occurs in the course of a mutual fund reorganization under the new section 132.2 of the <i>Income Tax Act</i>. 	<ul style="list-style-type: none"> ➤ will reduce the administrative burden of a mutual fund reorganization
<ul style="list-style-type: none"> • <i>Income Tax Regulations</i> – Branch Tax Investment Allowance – Partnerships – Part XIV of the <i>Income Tax Act</i> imposes an additional tax on non-resident corporations that carry on business in Canada. In computing its Part XIV tax base, a corporation may deduct an amount (its ‘investment allowance’) in respect of its investments in Canada. The investment allowance, computed under Part VIII of the <i>Income Tax Regulations</i>, includes certain of the corporation’s liquid assets. Regulation 808(3) was amended in 1993 to clarify that only those liquid assets that are attributable to a corporation’s Canadian business profits, or that are used or held in the course of a Canadian business, are included. A parallel change to Regulation 808(6) is required for corporations that carry on business in Canada as members of partnerships. 	<ul style="list-style-type: none"> ➤ will make the calculation of the investment allowance for non-resident corporations that carry on business in Canada in partnership consistent with the calculation of that amount for non-resident corporations that carry on business directly and not in partnership
<ul style="list-style-type: none"> • <i>Income Tax Regulations</i> – Changes in Residence – Amendments to the <i>Income Tax Act</i> enacted in 1994 revised the tax rules that apply when taxpayers, including corporations, become or cease to be resident in Canada. Such taxpayers have certain elections available to them, the timing and manner of which Part XIII of the Regulations used to describe. Under the revised rules, the details of the elections are provided in the Act itself. Part XIII of the Regulations is, therefore, superfluous and can be repealed. 	<ul style="list-style-type: none"> ➤ will make consequential amendments to the <i>Income Tax Regulations</i> required as a result of amendments to the <i>Income Tax Act</i>

LEGISLATION AND/OR REGULATIONS	EXPECTED RESULTS
<ul style="list-style-type: none"> • <i>Income Tax Regulations</i> – Tax Shelter Identification Numbers – On April 26, 1995, draft amendments to the <i>Income Tax Act</i> were released amending section 237.1 and introducing section 143.2. Both changes deal with tax shelters. Consequential amendments to the <i>Income Tax Regulations</i> are required to define prescribed benefits for the purposes of the tax shelter identification rules in section 237.1 of the Act. 	<ul style="list-style-type: none"> ➤ will make consequential amendments to the <i>Income Tax Regulations</i> required as a result of amendments to the <i>Income Tax Act</i>
<ul style="list-style-type: none"> • <i>Income Tax Regulations</i> – Retirement Savings – Technical amendments are required to Parts LXXXIII and LXXXV relating to registered pension plans. In addition, amendments may be required to other regulations relating to retirement savings. 	<ul style="list-style-type: none"> ➤ will refine the operation of the rules relating to registered pension plans
<ul style="list-style-type: none"> • <i>Income Tax Regulations</i> – 1996 budget – Amendments relating to the resource allowance, labour-sponsored venture capital corporations, flow-through shares, energy conservation and deferred income plans are required. 	<ul style="list-style-type: none"> ➤ will make the necessary changes to the <i>Income Tax Regulations</i> to implement the income tax measures in the 1996 budget
<ul style="list-style-type: none"> • <i>Income Tax Regulations</i> – Insurance Reserves – Amendments are required to implement changes to the rules under which an insurer’s reserves are calculated pursuant to the October 7, 1996 announcement by the Minister of Finance. 	<ul style="list-style-type: none"> ➤ will provide a better measure of an insurance company’s income by replacing, for insurance policies issued after 1995, the current reserve rules with reserve rules similar to those adopted for regulatory and accounting purposes ➤ will reduce the current system’s reliance on capital taxes to raise revenue from insurers
<ul style="list-style-type: none"> • <i>Income Tax Act</i> – <i>Income Tax Regulations</i> – Segregated Fund Policies and the Foreign Property Limit – Amendments are required to implement changes announced by the Minister of Finance on December 19, 1996 regarding the tax treatment of segregated fund trusts (which are trusts deemed to exist in respect of segregated fund policies for tax purposes) that will make them subject to the 20 per cent foreign property limit in Part XI of the <i>Income Tax Act</i>. 	<ul style="list-style-type: none"> ➤ will make the tax treatment of segregated fund trusts more consistent with the tax treatment of mutual fund trusts

LEGISLATION AND/OR REGULATIONS	EXPECTED RESULTS
<ul style="list-style-type: none"> • <i>Income Tax Act – Income Tax Regulations – Escalating Interest Debt Obligations</i> – In 1993, Finance circulated to various financial institutions a proposal to change how the interest accrual rules apply to debt obligations with escalating interest rates – exempting debt obligations with mildly escalating interest rates from the usual yield-to-maturity accrual provisions. On October 25, 1996, Finance confirmed that it intends to go ahead with this proposal, which will require amendments to the Act and Part LXX of the Regulations. 	<ul style="list-style-type: none"> ➤ will eliminate the administrative and marketing difficulties issuers of such obligations have had as a result of being forced to report interest on a yield-to-maturity accrual basis
<ul style="list-style-type: none"> • <i>Income Tax Regulations – Prescribed Federal Crown Corporations – Section 7100 of the Regulations lists federal Crown corporations that are subject to tax under the <i>Income Tax Act</i>. That section will be updated to remove from the list any corporation that is no longer a Crown corporation, and to add any other Crown corporations that ought, because of their competition with taxable corporations, to be subject to tax.</i> 	<ul style="list-style-type: none"> ➤ will maintain the comparable treatment of Crown corporations and their taxable competitors
<ul style="list-style-type: none"> • <i>Income Tax Regulations – Multinational Insurance Companies</i> – In September of 1997, the Minister of Finance announced changes to the tax treatment of insurers that carry on business both inside and outside of Canada. The income of such an insurer is subject to Canadian tax only to the extent that it arises from the Canadian portion of an insurance business. The mechanism, known as the Canadian Investment Fund, or CIF, by which the Canadian portion of an insurer’s income from an insurance business is computed, requires amendment. 	<ul style="list-style-type: none"> ➤ will provide a better approximation of an insurer’s income from its Canadian insurance businesses ➤ will reduce the current system’s reliance on capital taxes to raise revenue from insurers

LEGISLATION AND/OR REGULATIONS	EXPECTED RESULTS
<ul style="list-style-type: none"> • <i>Income Tax Act – Income Tax Regulations</i> – Impaired Loans – Amendments are required to implement changes announced by the Minister of Finance on November 14, 1997 regarding the income tax treatment of impaired loans held by financial institutions and other taxpayers in the business of lending money. 	<ul style="list-style-type: none"> ➤ will harmonize the tax treatment of impaired loans with the accounting treatment ➤ will reduce the compliance burden in respect of impaired loans and lead to more equitable treatment of taxpayers under the <i>Income Tax Act</i>
<ul style="list-style-type: none"> • <i>Income Tax Act – Income Tax Regulations</i> – Bill C-28 – In December of 1997, the government tabled a bill containing amendments to the <i>Income Tax Act</i> that were either formerly contained in Bill C-69 or announced in the 1997 budget. These amendments will also require that a number of consequential amendments be made to the <i>Income Tax Regulations</i>. 	<ul style="list-style-type: none"> ➤ will make the necessary changes to the <i>Income Tax Act</i> and <i>Income Tax Regulations</i> to implement the amendments that were formerly contained in Bill C-69 ➤ will make the necessary changes to the <i>Income Tax Act</i> and <i>Income Tax Regulations</i> to implement the income tax measures in the 1997 budget
<ul style="list-style-type: none"> • <i>Income Tax Act – Income Tax Regulations</i> – 1998 budget – On February 24, 1998, the Minister of Finance presented the government’s budget for 1998. The budget contained a number of income tax measures that may require that amendments be made to either the <i>Income Tax Act</i> or the <i>Income Tax Regulations</i> or both. 	<ul style="list-style-type: none"> ➤ will make the necessary changes to the <i>Income Tax Act</i> and <i>Income Tax Regulations</i> to implement the income tax measures proposed in the 1998 budget, if any
<ul style="list-style-type: none"> • <i>Income Tax Act – Income Tax Regulations</i> – Other – Other amendments to the <i>Income Tax Act</i> and <i>Income Tax Regulations</i> will be required from time to time to resolve technical problems, to clarify uncertainties, to implement tax policy changes (including any changes announced by press release), to respond to court decisions, to reflect or respond to statutory changes (including those made as a result of statute revisions), to improve wording, to improve organization, to revise numbering and to implement adjustments that can occur annually, such as changes to the list of prescribed drought regions and changes to the prescribed limits for automobile expenses. 	

B. Details by Program and Business Line

Economic, Social and Financial Policies Program

Program Objective: appropriate policies and sound advice with respect to economic, social and financial conditions and to the government's agenda; responsible administration of international financial obligations and subscriptions; economical financing of domestic coinage costs; responsible financing of special projects; and, effective and efficient corporate administration.

1. Policies and Advice

Planned Spending (by Service Line)

(\$ millions)	Forecast Spending 1997-98	Planned Spending 1998-99	Planned Spending 1999-2000	Planned Spending 2000-01
Economic and Fiscal Policy	6.8	7.1	7.1	7.1
International Trade and Finance	7.7	8.5	7.6	7.5
Tax Policy	11.9	13.9	14.0	12.7
Financial Sector Policy	8.1	8.0	6.0	5.6
Federal-Provincial Relations and Social Policy	4.8	5.4	5.3	4.8
Economic Development and Corporate Finance	4.3	4.4	4.4	4.4
Total Net Expenditures	43.6	47.3	44.4	42.1

Objective

Appropriate policies and sound advice with respect to economic, social and financial conditions and to the government's agenda.

External Factors Influencing the Business Line

The government is faced with continuing financial and economic challenges within an environment of ongoing global economic restructuring, constant socio-technological changes, and challenging new public expectations for smaller, better-focused government.

In responding to government priorities, the Policies and Advice business line is concerned with economic, social, international and intergovernmental issues. Departmental priorities are shaped by the government's agenda and by the department's analysis of the strengths and weaknesses of the Canadian economy. As economic conditions change in Canada or abroad, program resources are shifted to enable the department to respond to the requirement for new or revised policies.

The department's involvement in such a broad range of functions related to economic policy formulation and implementation necessitates extensive consultation not only within the federal government, but also with provincial governments as well as the private sector. This consultation function provides the department not only with feedback on proposed federal initiatives, but also with a vehicle for reacting to specific proposals from outside of the federal government.

The government has an extremely heavy policy and legislative agenda for its new mandate in which the department will play a key role. Demands for economic, social and financial policies, analysis and advice are expected to increase significantly on all fronts – tax policy, financial sector policy, social policy, economic development and corporate finance, legal services, and communications.

The external factors with particular influence on Federal-Provincial Transfers Policy are:

- the creation of Nunavut
- the expiry of Equalization legislation
- Canada Health and Social Transfer cash floor of \$12.5 billion

For a complete discussion of these external factors, reference should be made to the Transfer Payments business line of the Federal-Provincial Transfers Program.

Key Plans and Strategies

- Sound Economic and Financial Management
 - timely assessment of near-term economic developments and future economic prospects
 - development of prudent planning assumptions
 - development of appropriate fiscal policy objectives
 - elaboration of short- and medium-term fiscal framework
 - advice on appropriate monetary policy objectives and implementation
- Tax Policy
 - examining issues related to general tax relief and tax burden
 - examining issues related to targeted tax relief
 - improving tax fairness
 - organizing public information and consultations
 - assessing the report from the Technical Committee on Business Taxation
 - drafting regulations and legislation
- Pensions
 - Canada Pension Plan
 - investment policy legislation
 - investment regulations
 - establish the CPP Investment Board

- assessment and development of options on Track II issues (i.e. issues not addressed in the last regular CPP review), namely, partial pensions, survivor benefits, credit splitting, CPP coverage, stacking of pensions and EI
 - the CPP regular review of contribution rates and benefits to begin in 1999
- Financial Sector
 - Task Force on the Future of the Financial Services Sector
 - carry out ongoing analysis in anticipation of the Task Force report expected in September 1998. Once the report is obtained, an extensive analysis of its recommendations will be carried out for the purposes of preparing proposals for the Minister on possible legislative and regulatory initiatives
 - Foreign Banking Regime
 - prepare legislation that will improve access to foreign banks wishing to operate in Canada, including through the establishment of direct branches
 - Demutualization Regime
 - develop regulations that will permit large mutual insurance companies to convert to stock companies
- Asia-Pacific Economic Co-operation (APEC) Finance Ministerial and Commonwealth Finance Ministers' Meeting
 - successfully host meetings (at the levels of ministers, deputies and Working Groups)
 - provide requisite support
- Trade and Investment Policy
 - provide advice on import, trade and investment policy matters
 - conduct research and analysis associated with the development of domestic policy and legislation and with the refinement of objectives for international discussions and negotiations on trade remedies, market access and investment policies
 - continue follow-up to the Uruguay Round World Trade Organization (WTO) multilateral trade agreements, in particular those on market access, subsidy disciplines, trade remedies, investment, competition and services, including implementation issues and 'built-in' work programs
 - continue follow-up to the North American Free Trade Agreement (NAFTA), including negotiation and implementation of tariff reduction acceleration and issues associated with rules of origin
 - participate in the pursuit of further trade liberalization opportunities in bilateral, plurilateral and multilateral forums by contributing to the formulation of objectives and positions (e.g. APEC, NAFTA accessions, Free Trade Agreement of the Americas (FTAA)) and participating in the negotiations
 - contribute to the formulation of objectives and positions for multilateral investment (e.g. Organization for Economic Co-operation and Development (OECD) negotiations for a Multilateral Agreement on Investment, WTO, FTAA) discussions and negotiations

- amend the *Special Import Measures Act* (SIMA) and related instruments in accordance with the government's response to the House of Commons *Report on the Special Import Measures Act*
 - review sectoral and product-based, tariff-related proposals from domestic industry and rules of origin issues with a view to the improvement of the competitiveness of Canadian industry
 - participate in the resolution of international trade disputes related to import and investment policy issues
 - maintain active contact with provincial governments and concerned private-sector groups
- Managing expenditure pressures
 - development of creative solutions, priorities and trade-offs on major spending proposals
- Advancement of the privatization commercialization agenda
 - provide analysis and advice on federal privatization initiatives including, where appropriate, assistance to line departments in reviewing privatization and commercialization initiatives and undertaking the privatization of federal Crown corporations and equity holdings
- International Financial Organizations
 - continuing work with other shareholder governments to promote a broad reform agenda in international financial institutions
 - working closely with CIDA to reduce the share of the aid program directed to international financial organizations

For a complete discussion of this key plan, reference should be made to the International Financial Organizations business line later in this document.
- Financial Asset and Liability Management
 - stable, low-cost funding for the government — progressive restructuring of domestic debt programs, in consultation with market participants as federal market debt declines, with the aim of promoting the maintenance of a well-functioning market for Government of Canada securities
 - prudent financial risk management policies for the government and financial Crown corporations, consistent with regulatory and international best practices

For a complete discussion of this key plan, reference should be made to the Interest and Other Costs business line of the Public Debt Program.
- Renewal of Equalization
 - conduct technical analysis, in particular of recommendations made by the Auditor General
 - consult provincial governments
 - update Equalization formula

For a complete discussion of this key plan, reference should be made to the Transfer Payments business line of the Federal-Provincial Transfers Program.

- New Financial Arrangements for Yukon, the Northwest Territories and Nunavut
 - technical analysis of all aspects of territorial financing
 - consultations with northern parties
 - update formula for territorial financing

For a complete discussion of this key plan, reference should be made to the Transfer Payments business line of the Federal-Provincial Transfers Program.

Expected Results

- Sound Economic and Financial Management
 - prudent planning assumptions that protect the fiscal framework from undue exposure to economic fluctuations
 - elaboration of fiscal framework and overall policy settings that deliver on the government's stated objectives of
 - balancing the budget no later than 1998-99
 - securing a permanent decline in the debt-to-GDP ratio, the measure of the burden imposed by the public debt
 - planning on the basis of a balanced budget in the future
 - applying the Contingency Reserve to pay down debt each year if economic performance turns out as assumed for budget planning purposes and, therefore, the Reserve is not applied to unexpected requirements

- Tax Policy
 - a tax system that raises the needed revenue in a fair and efficient fashion and effectively targets incentives to meet governmental objectives
 - a tax system that is consistent with other government policy objectives (e.g. economic, social and cultural)

The major forum for making required changes as it relates to tax policy is the annual federal budget.

- Pensions
 - Canada Pension Plan
 - adoption of investment regulations
 - Investment Board in operation and investing funds in markets
 - development of options for Track II issues in conjunction with provinces; ready for ministerial decision at next regular review in 1999
 - Old Age Security/Seniors Benefit
 - details of the proposal to replace Old Age Security by the Seniors Benefit to be reviewed

- Financial Sector
 - Task Force on the Future of the Financial Services Sector
 - conclusions of the Task Force will form the basis of work on new legislation to modernize the financial sector
 - extensive public consultations on the Task Force findings
 - legislation must be passed no later than June 2002
 - Foreign Banking Regime
 - legislation on foreign bank branching will lead to increased competition in the Canadian financial sector, and meet our international trade obligations
 - Demutualization Regime
 - new demutualization regulations will enhance access to capital for converted companies and provide them with a better system of governance and accountability
- APEC Finance Ministerial and Commonwealth Finance Ministers' Meeting
 - APEC Finance Ministerial
 - frank and meaningful discussion of Asian financial crisis
 - discussion of policy measures to reduce risk of financial instability and to deal with instability when it does arise
 - propose work on a program of technical assistance and co-operation in the development of healthy financial sectors in the APEC region
 - provide an enriching, but not ostentatious, cultural experience for Canada's guests
 - Commonwealth Finance Ministers' Meeting
 - promote exchange of views on variety of development issues, including the effect of the Asian crisis on the outlook for developing countries
 - further the development and implementation of good governance policies in the Commonwealth
 - provide an enriching, but not ostentatious, cultural experience for Canada's guests
- Trade and Investment Policy
 - *Special Import Measures Act (SIMA)*
 - complete the preparation of legislation to amend SIMA with a view to having the legislation tabled and passed in 1998
 - amend related SIMA and *Canadian International Trade Tribunal Act* rules and regulations as required
 - Trade Remedies
 - provide ongoing policy advice on trade remedies and SIMA
 - Customs Tariff
 - ensure smooth implementation of the new Customs Tariff
 - launch and complete WTO Article XXVIII renegotiations relating to the new Customs Tariff
 - provide ongoing policy advice on tariff related matters

- Canada Customs and Revenue Agency (CCRA) legislation
 - provide policy advice related to the establishment of the CCRA
 - participate in drafting the legislation for the establishment of the CCRA
- Sectoral policy reviews
 - participate in the Industry Canada-led automotive competitiveness review, particularly as this relates to trade policy aspects
 - participate in the Industry Canada-led competitiveness review of the textile and apparel industries
- Economic Summit
 - contribute to the development of the Canadian position on trade related aspects of the Summit
- APEC
 - participate in sectoral trade liberalization follow-up activities flowing from the APEC Vancouver Summit
- FTA/NAFTA
 - complete NAFTA tariff acceleration negotiations
- World Trade Organization (WTO)
 - co-ordinate departmental views on, and participate in, the development of the Canadian approach to the WTO Ministerial Meeting (May 18-20), and represent Finance in consequential follow-up work
 - manage the Canadian input to the WTO Subsidies and Anti-Dumping Committees
 - prepare for the 1998-99 review of key provisions of the Subsidies Agreement and the Dispute Settlement Agreement
 - participate in negotiations on the expansion of product coverage for the Information Technology Agreement (ITA) and the Pharmaceutical Understanding
 - participate in WTO negotiations and discussions on the harmonization of rules of origin
 - participate in the development of the Canadian position relating to disputes brought before the WTO
 - co-ordinate departmental views on, and participate in, the development of the government's response to the WTO magazine panel
 - co-ordinate departmental views on, and participate in, the WTO General Agreement on Trade in Services work program respecting possible disciplines on subsidies and trade safeguards
- Investment
 - co-ordinate departmental views on, and participate in, the expected final phase of the Organization for Economic Co-operation and Development's Multilateral Agreement on Investment negotiations (and participate with the Department of Foreign Affairs and International Trade (DFAIT) and Industry Canada in the management of consequential follow-up) and the WTO Working Group on Trade and Investment
 - continue to co-ordinate departmental views respecting the negotiation of bilateral Foreign Investment Protection Agreements

- Managing Expenditure Pressures
 - effective policies and programs consistent with established governmental priorities and fiscal parameters

- Advancement of privatization, commercialization agenda
 - subject to market conditions and government objectives, to sell all or part of the government's 18-per-cent shareholding in Petro-Canada in this or subsequent fiscal years
 - subject to the receipt of an acceptable purchase proposal, to assist the Canada Development Investment Corporation in completing the sale of its wholly owned subsidiary, Theratronics International Limited

- International Financial Organizations
 - policy changes currently under way will continue to strengthen the effectiveness of international financial organizations
 - the share of the aid program that is directed to international financial organizations will shortly be reduced to the 18-to-20 per cent range, as required under the Program Review exercise

For a complete discussion of this expected result, reference should be made to the International Financial Organizations business line later in this document.

- Financial Asset and Liability Management
 - debt charges not exceeding those projected in the budget, including the contingency reserve, in any given year

For a complete discussion of this expected result, reference should be made to the Interest and Other Costs business line of the Public Debt Program.

- Renewal of Equalization
 - the renewed Equalization program will be in place by April 1, 1999

For a complete discussion of this expected result, reference should be made to the Transfer Payments business line of the Federal-Provincial Transfers Program.

- New financial arrangements for Yukon, the Northwest Territories and Nunavut
 - new financial arrangements in place by April 1, 1999

For a complete discussion of this expected result, reference should be made to the Transfer Payments business line of the Federal-Provincial Transfers Program.

2. International Financial Organizations

*Planned Spending (by Service Line)**

(\$ millions)	Forecast Spending 1997-98	Planned Spending 1998-99	Planned Spending 1999-2000	Planned Spending 2000-01
Subscriptions and Payments				
– International Development Association	191.0	267.0	277.6	238.7
– International Monetary Fund's Enhanced Structural Adjustment Facility	217.8	169.2	112.6	88.8
– European Bank for Reconstruction and Development	5.5	9.0	11.1	13.2
Grants and Contributions				
– Multilateral Agreements	280.0	281.2	297.3	297.3
Total Net Expenditures	694.3	726.4	698.6	638.0

* Represents note issuances and encashments.

Objective

Responsible administration of international financial obligations and subscriptions.

External Factors Influencing the Business Line

The government has long subscribed to the benefits of multilateralism. In keeping with this strategy, Canada has a tradition of strong support for the operations of the international financial organizations.

Our financial contributions to these organizations are based on traditional burdensharing arrangements with other shareholder governments together with a judgement of the organizations' overall effectiveness. In recent years, our participation in such burdensharing arrangements has been constrained by our need to comply with budgetary affordability.

The current Asian crisis has raised the possibility of Canada's having to contribute to assistance packages in support of International Financial Institutions (IFI) programs. It will be necessary to ensure that the terms of Canada's participation pay due regard to considerations of equitable burdensharing as well as the security of the Canadian contribution.

Key Plans and Strategies

The government has continued to work with other shareholder governments to promote a broad reform agenda in International Financial Institutions. Such reforms are necessary to ensure that these organizations continue to be able to respond effectively and efficiently to the challenges of globalization.

In keeping with agreements reached as part of the Program Review exercise, the department has been working closely with CIDA to reduce the share of the aid program that is directed to international financial organizations.

The government will probably seek legislative authority to participate in international financial assistance efforts, when necessary, to supplement the resources of the international financial organizations.

Expected Results

The government expects that policy changes currently under way will continue to strengthen the effectiveness of the international financial organizations. It also anticipates that the share of the aid program directed to these organizations will shortly be reduced to 18-to-20 per cent of the International Assistance Envelope.

3. Domestic Coinage

Planned Spending

(\$ millions)	Forecast Spending 1997-98	Planned Spending 1998-99	Planned Spending 1999-2000	Planned Spending 2000-01
Domestic Coinage				
Net Expenditures	38.0	38.0	49.0	43.0

Objective

Economical financing of domestic coinage costs.

The Minister of Finance makes payments out of the Consolidated Revenue Fund to the Royal Canadian Mint for the production and distribution of domestic circulating coinage. The coins are sold to financial institutions at face value and the proceeds are deposited in the Consolidated Revenue Fund.

External Factors Influencing the Business Line

The demand for domestic circulating coinage is largely influenced by economic growth. In the longer term, the increased usage of electronic money is expected to reduce the demand for coinage.

Key Plans and Strategies

To further reduce domestic coinage costs, nickel plated steel will be used instead of nickel for the 5-, 10- and 25-cent pieces. The Mint is adding nickel-plating capacity to existing production facilities in Winnipeg. Nickel-plated coins are expected to be produced in 2000/2001.

The department will renegotiate the terms of the contract with the Mint for the production of domestic circulating coinage. The current contract expires in 2000.

Expected Results

Efficient supply of domestic circulating coinage to meet the demand of the Canadian economy.

4. Special Projects – Hibernia

Planned Spending

(\$ millions)	Forecast Spending 1997-98	Planned Spending 1998-99	Planned Spending 1999-2000	Planned Spending 2000-01
Hibernia Project				
Net Expenditures	58.0	12.0	–	–

Objective

Non-budgetary payments to fund Canada's equity interest in the Hibernia project.

External Factors Influencing the Business Line

In March 1993, the Government of Canada acquired an 8.5-per-cent interest in Hibernia, following Gulf Canada Resources' withdrawal from the project. Three private-sector companies acquired the remainder of Gulf's former 25-per-cent share. At the time of the acquisition, the Hibernia owners had spent about \$1 billion on the project, which had an estimated total cost of \$5.2 billion. Canada's 8.5-per-cent share was transferred to the Canada Hibernia Holding Corporation (CHHC), a wholly owned subsidiary of the Canada Development Investment Corporation. The equity interest is managed on a commercial basis pending a decision to sell the investment.

The Minister of Finance is authorized to make payments to CHHC to fund its obligation to contribute 8.5 per cent of the project's construction and start-up costs. The Minister of Natural Resources continues to participate in Hibernia by providing loans and by guaranteeing project borrowings.

The Hibernia production platform was successfully towed to the site in June 1997 and the first oil was produced in November 1997.

In 1998-99, CHHC will continue to incur ongoing obligations to fund development drilling that cannot be fully met out of the forecast cash flow from the sale of crude oil. Government payments to cover CHHC's funding requirements will end in 1998-99.

Key Plans and Strategies

To fund Canada's obligations for the construction and start-up costs to the extent that they cannot be funded out of CHHC's cash flow.

Expected Results

Beyond 1998-99, no further need for the government to provide funding for its 8.5-per-cent interest in the Hibernia project. CHHC will manage the investment on a commercial basis from cash flow, pending a decision to sell the investment.

5. Corporate Administration

Planned Spending (by Service Line)

(\$ millions)	Forecast Spending 1997-98	Planned Spending 1998-99	Planned Spending 1999-2000	Planned Spending 2000-01
Departmental Management	12.5	21.3	16.4	11.7
Corporate Services	9.9	11.0	10.7	10.7
Total Net Expenditures	22.4	32.3	27.1	22.4

Objective

Effective and efficient corporate administration.

External Factors Influencing the Business Line

- public opinion and public policy environment

Key Plans and Strategies

- Consultations and Communications
 - enhanced departmental capacity to deliver information to Canadians
 - improvements in the use of electronic communications such as the Internet
 - a more systematic organization of media relations, consultations and ministerial correspondence
- Corporate Services
 - Universal Classification System (UCS) Implementation
 - La Relève
 - Financial Information Strategy (FIS) Implementation
 - research and evaluation of new technologies to provide business solutions

Expected Results

- Consultations and Communications
 - more timely and relevant fiscal and economic information
 - greater facility for Canadians to communicate with the department
- Corporate Services
 - more efficient classification system
 - rejuvenated, skilled workforce
 - implementation of private sector model of accounting in the Government of Canada
 - meet business requirements of electronic environment

Public Debt Program

Program Objective: the statutory funding of interest and service costs of the public debt and the issuing costs of new borrowings, if required.

1. Interest and Other Costs

Planned Spending

(\$ millions)	Forecast Spending 1997-98	Planned Spending 1998-99	Planned Spending 1999-2000
Interest and Other Costs			
Net Expenditures	41,367.0	43,359.0	44,859.0

Objective

The funding of interest and service costs of the public debt and the issuing costs of non-retail debt, if required.

This is to be achieved within the fundamental debt management objective of stable, low-cost funding for the government, and focusing on the key strategic objective of maintaining a well-functioning market in Government of Canada securities.

The Department of Finance works closely with the Bank of Canada in all aspects of debt management. The Bank acts officially as fiscal agent for the federal government in the area of debt operations and provides advice related to overall debt strategy.

Canada Investment and Savings, a special operating agency reporting to the Deputy Minister of Finance, is responsible for domestic retail debt. Interest costs related to retail debt products are included in the expenditures above, while retail debt issuing costs are included in the Canada Investment and Savings (CI&S) business line, which is described below.

External Factors Influencing the Business Line

- market volatility and changes in level of interest rates
- financial sector consolidation, market globalization and technological changes — raising liquidity standards and facilitating international participation
- impact of declining borrowing needs on liquidity in Government of Canada securities markets

Key Plans and Strategies

- maintain a well-functioning market in Government of Canada securities (focus on liquidity and transparency) to achieve lower debt costs, with a particular emphasis on managing the market impact of the downsizing of market debt
- undertake market integrity initiatives — new auction rules and surveillance changes and development of a secondary market code of conduct in conjunction with the industry
- maintain a prudent structure for the debt stock to ensure cost stability under a range of potential interest rate environments
- maintain active relations with investors and credit rating agencies through the timely distribution of information on Canada's economic and fiscal outlook

Expected Results

- debt charges not exceeding those projected in the budget, including the contingency reserve, in any given year

2. Canada Investment and Savings (CI&S)

Planned Spending

(\$ millions)	Forecast Spending 1997-98	Planned Spending 1998-99	Planned Spending 1999-2000
Canada Investment & Savings Net Expenditures	133.0	141.0	141.0

Objective

The provision of funding for the government consistent with its fiscal plan and designed to balance cost, risk and market considerations; maintenance of a reasonable and sustainable retail share of the total federal debt therefore ensuring a broad investor base for government debt; and, the offer of a family of attractive products, including new ones in key market segments, thus benefitting all Canadians.

External Factors Influencing the Business Line

The main external factors affecting the financial retail sector are:

- low interest rate environment combined with a shift towards long-term financial investments (e.g. equity mutual funds)
- changing financial needs of an ageing Canadian population
- strong competition for investors' funds (e.g. variety of product offerings and distribution channels, such as electronic banking)

Furthermore, the overall retail share of Canada's total debt decreased steadily from 33 per cent in 1988 to 21 per cent in 1996. About 25 per cent of the total debt is held by foreigners compared to 16 per cent in 1988.

These factors require a robust long-term strategy to ensure that the retail debt program maintains a reasonable and sustainable share of the federal debt while balancing cost, risk and market considerations.

Key Plans and Strategies

- establishment of a three-year Product Development Plan outlining CI&S's product diversification strategy and management of the cost-effectiveness and risk elements of the retail debt portfolio
- development of a three-year Sales and Distribution Strategy, which includes
 - completion of the new Payroll Plan roll-out
 - re-engineering of the current sales force organization
 - building commitment of financial institution partners
- continued implementation of the Information Technology Plan, which includes
 - Retail Debt Management System
 - stabilizing the new Payroll System
 - development of an Electronic Commerce Strategy
 - ongoing cost-effective systems and operations support
- expansion of marketing and Public Relations (PR) program, including
 - Continuity Program
 - expansion of PR program

Expected Results

- the progressive launch of a family of new products and enhancements to existing products
- roll-out of the new payroll system to a larger segment of the remaining companies participating in the Payroll Program and the canvassing of new companies
- development of a Sales and Distribution Strategy and reorganization of CI&S's payroll program sales force
- business partnerships with financial institutions
- development of the Electronic Commerce Strategy and implementation of selected components in 1998-99

- finalization of an agreement with the Bank of Canada to provide ongoing operations and systems support to the Retail Debt Program under a cost-recovery approach
- building on the Continuity Advertising Program by extending promotional campaigns to support being in the market at least six months of the year (compared to three weeks in 1996) while remaining within approved budget
- expansion of the PR program by pursuing, for example, increased involvement of CEOs of participating payroll companies and the expansion of a focus on youth

Federal-Provincial Transfers Program

Program/Business Line Objective: transfer payments pursuant to statutes with respect to the Canada Health and Social Transfer, Equalization and other transfers, and pursuant to agreements with respect to Territorial Formula Financing.

1. Transfer Payments

Planned Spending (by Service Line)

(\$ millions)	Forecast Spending 1997-98	Planned Spending 1998-99	Planned Spending 1999-2000
Canada Health and Social Transfer (CHST)¹			
Total entitlements	25,315.6	25,974.0	26,627.0
Tax transfer	(12,815.6)	(13,474.0)	(14,127.0)
Cash entitlement	12,500.0	12,500.0	12,500.0
Fiscal Equalization²			
Entitlements	8,600.0	8,482.0	8,663.0
Adjustment (prior years)	175.6	–	–
Cash payment	8,775.6	8,482.0	8,663.0
Territorial Formula Financing²	1,132.1	1,134.0	1,134.0
Other Transfer Payments³	(2,527.0)	(2,665.0)	(2,823.0)
Total Net Expenditures	19,880.7	19,451.0	19,474.0

¹ Entitlements shown based on cash floor of \$12.5 billion.

² Program to be renewed in 1999.

³ Include Statutory Subsidies, Youth Allowances Recovery, and Alternative Payments for Standing Programs.

External Factors Influencing the Business Line

- ***Creation of Nunavut***

A key event is the upcoming establishment of a new territory, Nunavut, in April 1999. Existing formula financing agreements with Northwest Territories and Yukon expire at that time, and new arrangements must be established to finance the three northern governments that will be in place in 1999. The 1992 Nunavut Political Accord commits the federal government to establish financing arrangements for Nunavut and the western part of the current Northwest Territories that will enable territorial governments to continue to provide public services to their residents at levels comparable to those provided prior to division.

- ***Expiry of Equalization Legislation***

Equalization legislation expires March 31, 1999 and new legislation is needed to renew the program. Equalization is based on a formula set out in legislation and regulations that detail the way in which calculations of Equalization transfers are to be made. Prior to each renewal of the legislation, the Department of Finance engages in extensive consultations with provincial governments to review the program's features. One objective of the review is to ensure that changes in provincial taxation, such as the recent adoption by three Atlantic provinces of the Harmonized Sales Tax are reflected in the Equalization program. The Auditor General of Canada issued the results of a comprehensive audit of the Equalization program in October 1997, including suggestions for the program's renewal.

- ***Canada Health and Social Transfer Cash Floor of \$12.5 billion***

The Canada Health and Social Transfer (CHST) is a block fund transfer to provinces and territories. Financial support is provided through a combination of cash and tax transfers.

Under legislation currently in force, there is an \$11-billion floor for the cash portion of the transfer, and CHST transfers in 1998-99 are expected to total some \$ 25.1 billion, of which \$13.5 billion is in the form of tax points and \$11.6 billion in the form of cash. Bill C-28 was tabled in Parliament in December 1997 to raise the CHST cash floor from the current \$11 billion to \$12.5 billion beginning in 1997-98 and ending in 2002-03. Based on the CHST provisions of Bill C-28, the 1998-99 CHST transfer will increase by \$0.9 billion to \$26.0 billion.

- ***Results of 1996 Census of Population***

Transfer payments under Equalization, CHST and TFF are formula-based and their exact levels are determined by a broad range of statistical data. A key datum in all transfer formulas is population. In the fall of 1998, Statistics Canada will publish revised population figures following its analysis of the 1996 Census. These revised population data will affect transfer payments to provinces and territories under the three major transfer programs for prior fiscal years not yet finalized, and for 1998-99 and subsequent years. Transfer payments to provinces and territories will be adjusted to reflect the new population figures and the payment adjustments will begin in 1998-99.

Key Plans and Strategies

- Territorial Formula Financing (TFF)
 - in order to establish new financing arrangements, the department is involved in extensive analysis of all technical aspects of the TFF formula.
 - this technical work is undertaken in the context of intensive consultations on financing arrangements within a structure of federal-territorial officials committees. Given the special circumstances of the current renewal of TFF resulting from the creation of a new territory, a multipartite committee of federal and territorial officials and stakeholders has been set up to consult on specific financing issues arising from the division of the Northwest Territories.
 - the department, while fully responsible for financing arrangements with the territories, consults regularly with the Department of Indian Affairs and Northern Development, which has program responsibilities in the North.

- Equalization
 - the heart of the Equalization program is the measurement of provincial fiscal capacity, that is, the ability of each provincial government to raise revenues on its own. This must be measured accurately for the program to achieve its objectives. Equalization renewal discussions involve an in-depth review of a number of technical aspects of the formula, including for this renewal the treatment of provincial sales tax revenues, resource tax revenues and revenues from lotteries and other gaming activities. The department is also conducting analyses of other aspects of the program, some of which, such as the treatment of user fees and the design of the Equalization ceiling and floors, were the subjects of specific recommendations by the Auditor General in a recent comprehensive audit of the program.
 - ongoing consultations with provinces are an integral part of the management of the Equalization program. Permanent federal-provincial committees of officials meet regularly and intensify their efforts during the two-year period preceding each renewal of the legislation.
 - the department is working with Statistics Canada to improve data used in the Equalization formula and, in particular, to take full advantage of the Project to Improve Provincial Economic Statistics currently under way at Statistics Canada.

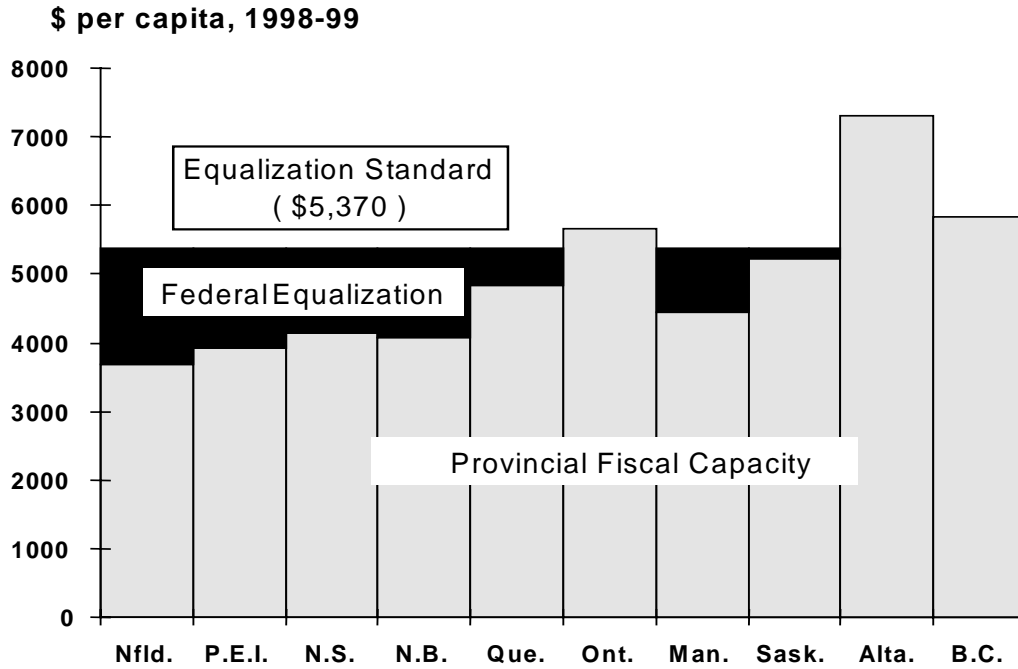
- CHST
 - increase federal support for health care, post-secondary education and social assistance and services by implementing a floor of \$12.5 billion for the cash portion of CHST. At the time this report was prepared, legislation to introduce the new floor was before Parliament.

Expected Results

- Territorial Formula Financing
 - under the current Territorial Formula Financing agreements, it is expected that, in 1998-99, the per capita federal grants to territorial governments will be about \$8,950 in Yukon and \$12,380 in the Northwest Territories.

- The department anticipates establishing new financing arrangements with Yukon, the Government of the Northwest Territories and with the Interim Commissioner for Nunavut in 1998-99. Funding for Nunavut and the Northwest Territories will include reasonable ongoing incremental costs due to the creation of the new territory.
- Equalization
 - As a direct result of Equalization transfers, in 1998-99, all provinces are expected to have access to at least \$5,370 per resident with which to fund public services to their residents. (See chart on following page.)
 - New Equalization legislation will be tabled in 1998-99 and regulations will be drafted to give effect to changes to the program. Improvements in the Equalization formula's measurement of provincial and municipal fiscal capacities are expected, in particular in the areas of sales tax, lottery revenues, property tax, and payroll taxes. The department expects to be able to address a number of issues raised by the Auditor General.
- CHST
 - As a result of the planned increase in the CHST cash floor, provinces will be getting higher federal support for the provision of health care, post-secondary education and social programs. Over the period from 1997-98 to 2002-03, the higher cash floor will increase CHST transfers to provinces by some \$7.0 billion. (See chart on following page.)

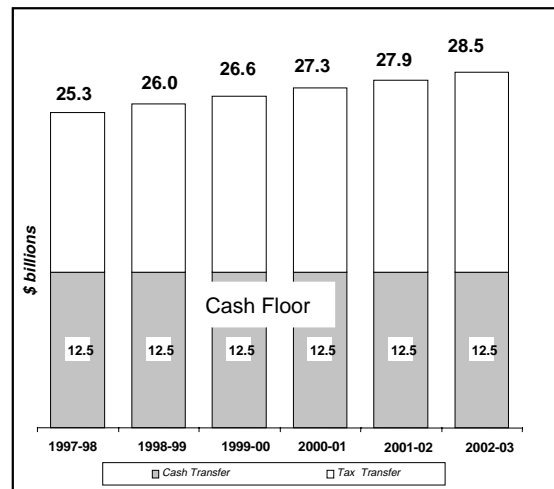
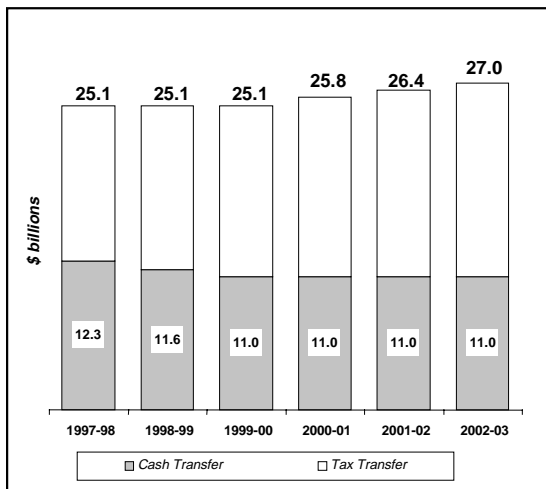
Equalization Results



Canada Health and Social Transfer (CHST)

CHST: Before \$12.5 B Cash Floor

CHST: After \$12.5 B Cash Floor



Section IV: Supplementary Information

Table 1: Spending Authorities (*Extract from the Ministry Summary table in Part II and Reconciliation to Program Expenditure Detail document.*)

Personnel Information

Table 2: Organizational Structure

Table 2.1: Display of Planned Spending by Program and Business Line

Table 2.2: Planned Full-time Equivalents (FTEs) by Program and Business Line

Table 2.3: Details of FTE Requirements

Additional Financial Information

Table 3: Departmental Summary of Standard Objects of Expenditure

Table 4: Program Resources by Program and Business Line for the Estimates Year

Table 5: Details of Transfer Payments by Program and Business Line

Table 6: Details of Revenue by Program

Table 7: Net Cost of Program

Table 8: Loans, Investments and Advances by Program and Business Line

Other Information

Table 9: Listing of Statutes and Regulations

Table 10: References

Table 1: Spending Authorities - Ministry Summary, Part II of the Estimates

Vote	(\$ thousands)	1998-99	1997-98
		Main Estimates	Main Estimates
Economic, Social and Financial Policies Program			
1	Program expenditures	70,818	49,004
5	Grants and contributions	281,200	280,000
(S)	Minister of Finance – Salary and motor car allowance	49	49
(S)	Payments to International Development Association	267,000	191,000
(S)	Payments to International Monetary Fund's Enhanced Structural Adjustment Facility	50,200	31,800
(S)	Contributions to employee benefit plans	8,709	5,721
(S)	Purchase of Domestic Coinage	38,000	38,000
	Total Budgetary	715,976	595,574
L10	Issuance of demand notes to the International Development Association	–	–
(S)	Payments to the European Bank for Reconstruction and Development	9,050	5,500
(S)	Issuance of Loans to International Monetary Fund's Enhanced Structural Adjustment Facility	119,000	186,000
L15	Payments in respect of Canada's equity interest in the Hibernia Project	12,000	58,000
	Total Non-budgetary	140,050	249,500
	Total Program	856,026	845,074
Public Debt Program			
(S)	Interest and Other Costs	43,500,000	46,000,000
	Total Program	43,500,000	46,000,000
<i>Federal-Provincial Transfers Program</i>			
20	Transfer Payments to the Territorial Governments	1,134,000	1,120,000
25	Grant to the Province of Newfoundland and Labrador	40,000	40,000
(S)	Statutory Subsidies (<i>Constitution Acts, 1867-1982, and Other Statutory Authorities</i>)	30,000	30,000
(S)	Fiscal Equalization (Part I- <i>Federal-Provincial Fiscal Arrangements Act</i>)	8,482,000	8,292,000
(S)	Canada Health and Social Transfer (Part V- <i>Federal-Provincial Fiscal Arrangements Act</i>) ¹	11,626,000	12,500,000
(S)	Youth Allowances Recovery (<i>Federal-Provincial Fiscal Revision Act, 1964</i>)	(494,000)	(469,000)
(S)	Alternative Payments for Standing Programs (Part VI- <i>Federal-Provincial Fiscal Arrangements Act</i>)	(2,241,000)	(2,131,000)
	Total Program	18,577,000	19,382,000
	Total Department	62,933,026	66,227,074

¹ 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:

	(\$ thousands)
Total Cash Transfer Payments – Main Estimates	\$11,626,000*
Plus Tax Transfers	\$13,474,000
Total	\$25,100,000

* Bill C-28, currently before Parliament, proposes to set the Total Cash Transfer Payments at a minimum of \$12,500,000,000.

Personnel Information

Table 2: Organizational Structure

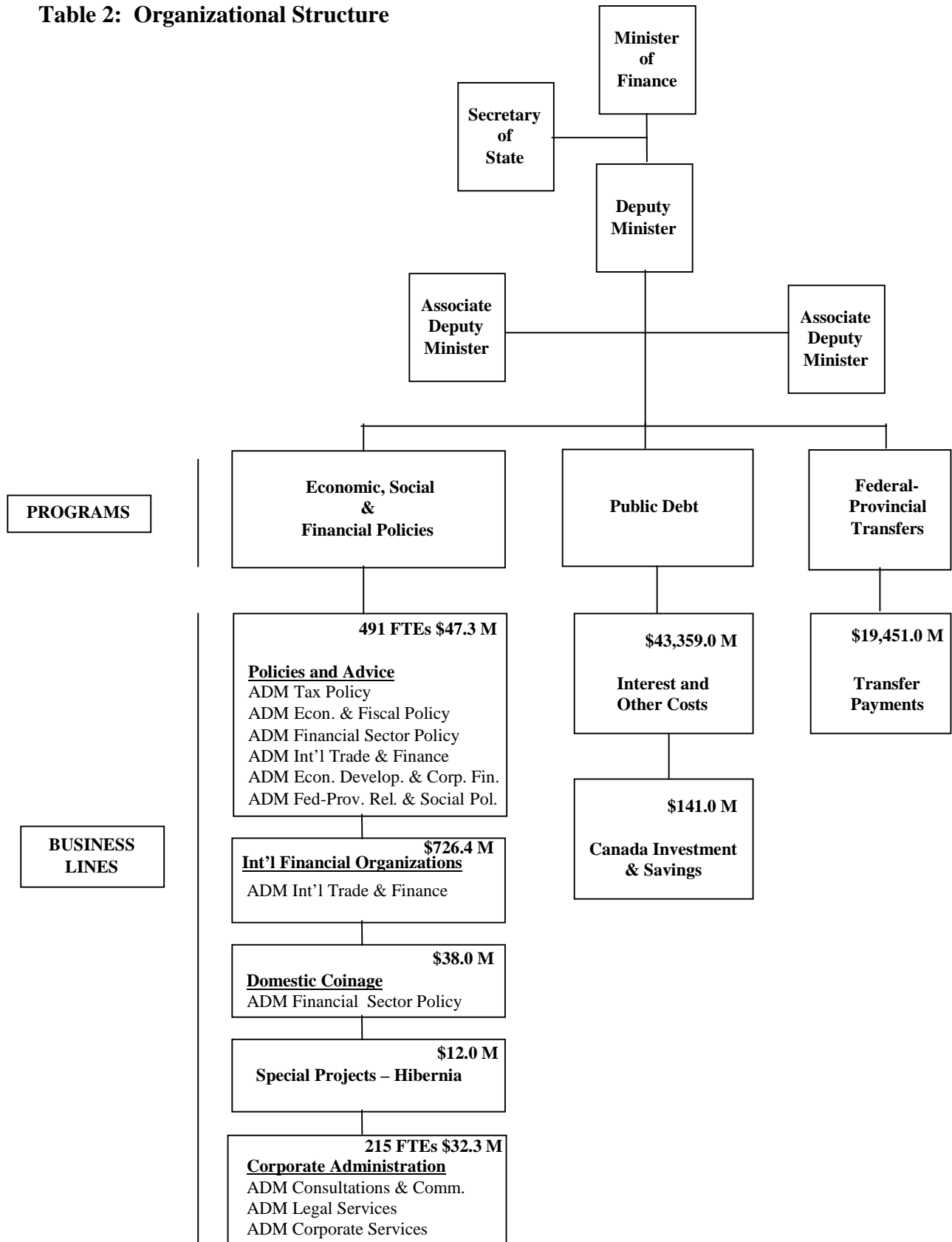


Table 2.1: Responsibility for Planned Spending by Program and Business Line for 1998-99

(\$ millions)	Accountability							*	CEO, CI&S	TOTAL
	ADM Economic & Fiscal Policy	ADM Int'l Trade & Finance	ADM Tax Policy	ADM Financial Sector Policy	ADM Fed-Prov. Relations & Social Policy	ADM Econ. Devel. & Corporate Finance				
<i>Program/ Business Line</i>										
<i>Economic, Social & Financial Policies</i>										
Policies and Advice	7.1	8.5	13.9	8.0	5.4	4.4				47.3
Int'l Financial Organizations		726.4								726.4
Domestic Coinage				38.0						38.0
Special Projects – Hibernia	12.0									12.0
Corporate Administration							32.3			32.3
<i>Public Debt</i>										
Interest and Other Costs				43,359.0						43,359.0
Canada Investment & Savings								141.0		141.0
<i>Federal-Provincial Transfers</i>										
Transfer Payments**					19,451.0					19,451.0
Total Planned Spending	19.1	734.9	13.9	43,405.0	19,456.4	4.4	32.3	141.0		63,807.0

* Accountability for this business line includes: the DM; Associate DMs; ADM Consultations & Communications; ADM Law Branch, and ADM Corporate Services.

** Cash portion

Table 2.2: Planned Full-time Equivalents (FTEs) by Program and Business Line

	Forecast 1997-98	Planned 1998-99	Planned 1999-2000	Planned 2000-01
Economic, Social and Financial Policies Program				
Policies and Advice	448	491	486	457
Corporate Administration	205	215	214	210
Departmental Total	653	706	700	667

Note: FTEs required for management of the Public Debt Program and the Federal-Provincial Transfers Program are accounted for in the Economic, Social and Financial Policies Program.

Table 2.3: Details of FTE Requirements

(\$ dollars)	Forecast 1997-98	Planned 1998-99	Planned 1999-2000	Planned 2000-01
Salary Ranges				
< 30,000	46	49	49	47
30,000 – 40,000	183	198	196	187
40,000 – 50,000	102	113	112	106
50,000 – 60,000	86	92	91	87
60,000 – 70,000	77	85	84	80
70,000 – 80,000	57	63	63	60
> 80,000	102	106	105	100
Total	653	706	700	667

Additional Financial Information

Table 3: Departmental Summary of Standard Objects of Expenditure

(\$ millions)	Forecast Spending 1997-98	Planned Spending 1998-99	Planned Spending 1999-2000
Personnel			
Salaries and Wages	37.6	41.5	41.3
Contributions to employee benefit plans	6.5	8.7	8.7
	44.1	50.2	50.0
Goods and Services			
Transportation and communications	5.2	5.6	4.4
Information	3.3	9.8	7.6
Professional and special services	11.5	14.0	10.7
Rentals	0.6	0.7	0.5
Purchased repair and maintenance	0.8	0.8	0.6
Domestic Coinage	38.0	38.0	49.0
Utilities, materials and supplies	2.3	2.3	1.8
Other subsidies and payments	-	-	-
Minor capital	1.5	1.8	1.4
	63.2	73.0	76.0
Total Operating	107.3	123.2	126.0
Transfer Payments			
Voted	1,452.1	1,455.2	1,431.3
Statutory	18,931.4	18,594.2	18,666.0
	20,383.5	20,049.4	20,097.3
Public Debt Charges	41,500.0	43,500.0	45,000.0
Gross Budgetary Expenditures	61,990.8	63,672.6	65,223.3
Less: Revenues Credited to the Vote	3.3	5.6	5.5
Net Budgetary Expenditures	61,987.5	63,667.0	65,217.8
Non-budgetary (Loans, Investments and Advances)	249.5	140.0	75.3
Total	62,237.0	63,807.0	65,293.1

Table 4: Program Resources by Program and Business Line for the Estimates Year

(\$ millions)	Budgetary				Non-Budgetary (Loans, Investments & Advances)	Gross Planned Spending	Less: Revenue Credited to the Vote	Net Planned Spending
	FTEs	Operating	Grants, Contributions & Other Transfer Payments	Statutory Items				
<i>Economic, Social & Financial Policies</i>								
Policies & Advice	491	48.0				48.0	(0.7)	47.3
Int'l Financial Organizations			281.2	317.2	128.0	726.4		726.4
Domestic Coinage				38.0		38.0		38.0
Special Projects					12.0	12.0		12.0
Corporate Administration	215	37.2				37.2	(4.9)	32.3
<i>Public Debt Program</i>								
Interest and Other Costs				43,359.0		43,359.0		43,359.0
Canada Investment & Savings				141.0		141.0		141.0
<i>Federal-Provincial Transfers Program</i>								
Transfer Payments*			1,174.0	18,277.0		19,451.0		19,451.0
Total	706	85.2	1,455.2	62,132.2	140.0	63,812.6	(5.6)	63,807.0

* Cash portion

Table 5: Details of Transfer Payments by Program and Business Line

(\$ millions)	Forecast Spending 1997-98	Planned Spending 1998-99	Planned Spending 1999-2000
Grants			
International Financial Organizations	108.0	110.2	127.3
Federal-Provincial Transfer Payments (cash portion)	40.0	40.0	-
Total Grants	148.0	150.2	127.3
Contributions			
International Financial Organizations	172.0	171.0	170.0
Total Contributions	172.0	171.0	170.0
Other Transfer Payments			
International Financial Organizations	222.8	317.2	326.0
Federal-Provincial Transfer Payments (cash portion) ¹	19,840.7	19,411.0	19,474.0
Total Other Transfer Payments	20,063.5	19,728.2	19,800.0
Total Transfer Payments	20,383.5	20,049.4	20,097.3

Table 6: Details of Revenue by Program

(\$ millions)	Forecast Revenue 1997-98	Planned Revenue 1998-99	Planned Revenue 1999-2000	Planned Revenue 2000-01
Revenue Credited to the Vote				
Economic, Social & Financial Policies Program	3.3	5.6	5.5	5.6
Total Credited to the Vote	3.3	5.6	5.5	5.6
Revenue Credited to the Consolidated Revenue Fund (CRF)				
Economic, Social & Financial Policies Program	75.0	99.0	145.0	145.0
Total Credited to the CRF	75.0	99.0	145.0	145.0
Total Revenue	78.3	104.6	150.5	150.6

Table 7: Net Cost of Programs for 1998-99

(\$ millions)	Economic, Social & Financial Policies Program	Public Debt Program	Federal- Provincial Transfers Program	Total
Gross Planned Spending	861.6	43,500.0	19,451.0	63,812.6
Plus:				
<i>Services Received without Charge</i>				
Accommodation provided by Public Works & Government Services Canada (PWGSC)	5.4			5.4
Contributions covering employees' share of insurance premiums and costs paid by TBS	2.7			2.7
Workman's compensation coverage provided by Human Resources Development Canada	–			–
Salary and associated costs of legal services provided by Justice Canada	0.9			0.9
Total Cost of Program(s)	870.6	43,500.0	19,451.0	63,821.6
Less:				
Revenue Credited to the Vote	5.6			5.6
Revenue Credited to the CRF	99.0			99.0
	104.6			104.6
Net Cost of Program(s)	766.0	43,500.0	19,451.0	63,717.0

Table 8: Loans, Investments and Advances by Program and Business Line

(\$ millions)	Forecast Spending 1997-98	Planned Spending 1998-99	Planned Spending 1999-2000	Planned Spending 2000-01
Economic, Social and Financial Policies Program				
International Financial Organizations	191.5	128.0	75.3	52.2
Special Projects – Hibernia	58.0	12.0	–	–
Total	249.5	140.0	75.3	52.2

OTHER INFORMATION

Table 9: Listing of Statutes and Regulations

<i>Bank Act</i>	(1991, c. 46, unofficial B-1.01)
<i>Bank of Canada Act</i>	(R.S.C. 1985, c. B 2)
<i>Bills of Exchange Act</i>	(R.S.C. 1985, c. B-4)
<i>Bretton Woods and Related Agreements Act</i>	(R.S.C. 1985, c. B-7)
<i>Canada Deposit Insurance Corporation Act</i>	(R.S.C. 1985, c. C-3)
<i>Canada Development Corporation Reorganization Act</i>	(1985, c. 49)
<i>Canada/Nova Scotia Offshore Petroleum Resources Accord Implementation Act</i>	(1988, c. 28)
<i>Canada Pension Plan Act</i>	(R.S.C. 1985, c. C-8)
<i>Canada Student Loans Act</i>	(R.S.C. 1985, c. S-23)
<i>Canadian International Trade Tribunal Act</i>	[R.S.C. 1985, c. 47 (4 th Supp., unofficial C-18.3)]
<i>Canadian Payments Association Act</i>	(R.S.C. 1985, c. C-21)
<i>Canadian Wheat Board Act</i>	(R.S.C. 1985, c. C-24)
<i>Cooperative Credit Association Act</i>	(R.S.C. 1991, c. 48, unofficial C-41.01)
<i>Currency Act</i>	(R.S.C. 1985, c. C-52)
<i>Customs and Excise Offshore Application Act</i>	(R.S.C. 1985, c. C-53)
<i>Customs Tariff</i>	(R.S.C. 1985, c. C-54)
<i>Debt Servicing and Reduction Account</i>	(1992, c. 18, unofficial D-0.5)
<i>Diplomatic Service (Special) Superannuation Act</i>	(R.S.C. 1985, c. D-2)
<i>European Bank for Reconstruction and Development Agreement Act</i>	(1991, c.12, unofficial E-13.5)
<i>Excise Act</i>	(R.S.C. 1985, c. E-14)
<i>Excise Tax Act</i>	(R.S.C. 1985, c. E-15)
<i>Farm Improvement and Marketing Cooperatives Loans Act</i>	[R.S.C. 1985, c.25 (3 rd Supp.), unofficial F-2.7]
<i>Farm Income Protection Act</i>	(1991, c. 22, unofficial F-3.3)
<i>Federal Business Development Bank Act</i>	(R.S.C. 1985, c. F-6)
<i>Federal-Provincial Fiscal Arrangements Act</i>	(R.S.C. 1985, c. F-8)
<i>Federal-Provincial Fiscal Revision Act, 1964</i>	(1964-65, c. 26)
<i>Financial Administration Act</i>	(R.S.C. 1985, c. F-11)
<i>Fisheries Improvement Loans Act</i>	(R.S.C. 1985, c. F-22)
<i>Garnishment, Attachment and Pension Diversion Act</i>	(R.S.C. 1985, c. G-2)
<i>Income Tax Act</i>	[R.S.C. 1985, c. 1 (5 th Supp.)]

<i>Income Tax Conventions Interpretation Act</i>	[(R.S.C. 1985, c. I-4)]
<i>Insurance Companies Act</i>	(1991, c. 47, unofficial I-11.8)
<i>Interest Act</i>	(R.S.C. 1985, c. I-15)
<i>International Development (Financial Institutions) Assistance Act</i>	(R.S.C. 1985, c. I-18)
<i>Maritime Provinces Additional Subsidies Act</i>	(1942-43, c. 14)
<i>Members of Parliament Retiring Allowance Act</i>	(R.S.C. 1985, c. M-5)
<i>Newfoundland Additional Financial Assistance Act</i>	(R.S.C. 1985, c. N-23)
<i>Office of the Superintendent of Financial Institutions Act</i>	[R.S.C. 1985, c. 18 (3 rd Supp.), Part I, unofficial F-11.3 (Part I)]
<i>Pension Benefits Standards Act</i>	(R.S.C. 1985, c. P-7)
<i>Provincial Subsidies Act</i>	(R.S.C. 1985, c. P-26)
<i>Public Service Superannuation Act</i>	(R.S.C. 1985, c. P-36)
<i>Public Utilities Income Tax Transfer Act</i>	(R.S.C. 1985, c. P-37)
<i>Residential Mortgage Financing Act</i>	(R.S.C. 1985, c. R-6)
<i>Special Import Measures Act</i>	(R.S.C. 1985, c. S-15)
<i>Spending Control Act</i>	(1992, c.19, unofficial S-15.4)
<i>St. Lawrence Seaway Authority Act</i>	(R.S.C. 1985, c. S-2)
<i>Small Business Loans Act</i>	(R.S.C. 1985, c. S-11)
<i>Supplementary Retirement Benefits Act</i>	(R.S.C. 1985, c. S-24)
<i>Trust and Loan Companies Act</i>	(1991, c.45, unofficial T-19.8)

Table 10: References

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