ESTIMATES

Department of Finance Canada

1999–2000 Estimates

Part III – Report on Plans and Priorities

Canada

The Estimates Documents

Each year, the government prepares Estimates in support of its request to Parliament for authority to spend public monies. This request is formalized through the tabling of appropriation bills in Parliament. The Estimates, which are tabled in the House of Commons by the President of the Treasury Board, consist of three parts:

Part I – The Government Expenditure Plan – provides an overview of federal spending and summarizes both the relationship of the Estimates to the Expenditure Plan (as set out in the Budget) and key elements of the Main Estimates;

Part II – The Main Estimates – directly supports the *Appropriation Act*. The Main Estimates identify the spending authorities (votes) and the amounts to be included in subsequent appropriation bills. Parliament will be asked to approve these votes to enable the government to proceed with its spending plans. Parts I and II of the Estimates are tabled concurrently on or before 1 March; and

Part III – Departmental Expenditure Plans – In April of 1997 the House of Commons approved a motion that split the Part III into two components:

(1) **Reports on Plans and Priorities (RPPs)** are individual expenditure plans for each department and agency (excluding Crown corporations). These reports provide increased levels of detail on a business line basis and contain information on objectives, initiatives and planned results, including links to related resource requirements over a three-year time horizon. The RPPs also provide details on human resource requirements, major capital projects, grants and contributions, and net program costs. They are tabled in Parliament by the President of the Treasury Board, on behalf of the ministers who preside over the departments and agencies identified in Schedules I, I.1 and II of the *Financial Administration Act*. These documents are to be tabled on or before 31 March, referred to committees and reported back to the House of Commons pursuant to Standing Order 81(4).

(2) **Departmental Performance Reports (DPRs)** are individual department and agency accounts of accomplishments achieved against planned performance expectations as set out in respective RPPs. These Performance Reports, which cover the most recently completed fiscal year, are tabled in Parliament in the fall by the President of the Treasury Board on behalf of the ministers who preside over the departments and agencies identified in Schedules I, I.1 and II of the *Financial Administration Act*.

These measures stem from the Improved Reporting to Parliament Project which was initiated as part of the revamped Expenditure Management System announced in January 1995. The central objective of this Project was to improve expenditure management information and accountability to Parliament. This was to be accomplished through a focus on results within a more strategic, multi-year perspective on program delivery.

Estimates, along with the Minister of Finance's Budget, reflect the government's annual budget planning and resource allocation priorities. In combination with the subsequent reporting of financial results in the Public Accounts and of accomplishments achieved in Departmental Performance Reports, this material helps Parliament hold the government to account for the allocation and management of public funds.

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Department of Finance Canada

A Report on Plans and Priorities

1999–2000
Estimates

Paul Martin
Minister of Finance

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Section I: Messages

A. Minister's Message

For Canadians and their governments at all levels, the fast expanding — and often volatile — global economy represents both real opportunity and constant challenge. The combination of more open markets and new technology is producing accelerating flows of goods and capital — in turn leading to greater international integration. Yet these same forces can also carry with them a painful potential for economic and social dislocation and hardship within a country.

It is this two-edged dynamic that makes the work of the Department of Finance Canada so important to each Canadian, of any age, in every region.

We are the federal department primarily responsible for providing analysis and advice on government finances and policies for economic development and growth. But we are also a department that recognizes that the only true measure of long-term success for these fiscal and economic policies is their ability to provide all Canadians with the jobs and secure social programs — such as health care — that sustain and enhance our individual and national quality of life. In other words, our real job goes beyond keeping books and balancing budgets, to helping people.

This is why we have pursued a balanced approach to our budgets: making the difficult decisions needed to eliminate the punitive deficits that for so long pushed up interest rates and hamstrung job creation; but also making the continuing investments to help this country protect individuals and families, and to help them meet the needs of the new global economy. And it is also why our policy-preparation approach — for example, as we move towards wide-ranging reforms to help Canada's financial sector best serve Canadians in the new millennium — has put a constant premium on openness and public consultation.

Canada has come a long way in recent years. We now have surpluses not deficits. Unemployment is the lowest in a decade. We are in a position to pursue increased investment in health care and to provide tax relief to all taxpayers, without jeopardizing our fiscal position, and despite a difficult economic environment. But much more remains to be done. This is why we will not allow our commitment to true public service and quality performance to waver or wane.

B. Management Representation Statement

MANAGEMENT REPRESENTATION

Report on Plans and Priorities 1999–2000

I submit, for tabling in Parliament, the 1999–2000 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 1999–2000 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* 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: MAR - 4 1999

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, create jobs and promote a secure society. The department serves as the government's primary source of analysis and advice on the broad economic and financial affairs of Canada. In addition to preparing the budget, the department provides analysis, 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 and investment 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 jobs and growth; productivity; education and training; science, technology and innovation policies; environment initiatives; privatization and commercialization initiatives; defence and international assistance expenditures; and efforts to advance Canada's social policies and programs, in particular health and federal-provincial transfer programs.

Finance 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, particularly those 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 on 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 formulation 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 effect on the economy, the financial sector and financial markets.

- **International economic and finance community –** by being responsible for the development of Canada's policy with respect to the Bretton Woods Institutions — the World Bank and the International Monetary Fund (IMF) — 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, the Organization for Economic Co-operation and Development (OECD) and the Asia-Pacific Economic Co-operation (APEC) forum, among others.

- **International trade community –** by being responsible for Canada's economic-import policy, including the *Customs Tariff* and trade remedy legislation, participating in international trade forums such as the World Trade Organization and the OECD, and related negotiations as they concern trade, import policy, services and investment issues.

- **Provincial governments –** by constantly working towards improved co-operation on fiscal and taxation issues, and by working with provinces as the joint stewards of the Canada Pension Plan (CPP) to ensure that it remains sustainable.

- **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.

Mission

The mission of the Department of Finance Canada is to support the Minister of Finance and the Secretary of State (International Financial Institutions) in carrying out their core functions and statutory responsibilities by:

- providing the best possible analysis and policy advice on economic, social and financial issues, options and their implications;
- implementing government decisions in a timely and efficient manner;
- communicating the economic, social and financial issues, as well as possible government options and decisions, in the clearest way possible within and outside government;
- acting as an effective conduit for the views of participants in the economy from all parts of Canada; and
- maintaining high quality support systems and development programs to carry out these functions.

B. Objectives

The Department of Finance Canada operates under sections 14-16 of the *Financial Administration Act*, which provides the Minister with broad responsibility for “the management of the Consolidated Revenue Fund and the supervision, control and direction of all matters relating to the financial affairs of Canada not by law assigned to the Treasury Board or to any other Minister”. 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 Territorial Formula Financing agreements.

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 polices and providing sound advice on federal-provincial fiscal arrangements 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 microeconomic 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

Financial Spending Plan

($ millions)	Forecast Spending 1998–99*	**Planned Spending 1999–2000**	Planned Spending 2000–01
Gross Program Spending			
Economic, Social and Financial Policies Program	781.5	**790.9**	807.4
Public Debt Program	41,400.0	**42,500.0**	43,300.0
Federal-Provincial Transfers Program**	25,445.0	**20,368.0**	21,722.0
	67,626.5	**63,658.9**	65,829.4
Less: Revenue Credited to the Vote	6.0	**6.4**	7.0
Net Program Spending	67,620.5	**63,652.5**	65,822.4
Less: Revenue Credited to the Consolidated Revenue Fund	99.0	**103.5**	110.3
Plus: Non-budgetary	766.0	**276.8**	14.0
Plus: Cost of services provided by other departments	9.0	**13.7**	13.7
Net Cost of the Department	68,296.5	**63,839.5**	65,739.8

* 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, Strategies and Expected Results

Chart of Key Results Commitments

The Department of Finance Canada is committed to providing Canadians with:	**To be demonstrated by:**
A Secure Financial Future	❑ budgets that implement the government's fiscal goals ❑ appropriate tax changes ❑ implementation of strategic investment to promote a strong economy and secure society ❑ a debt management strategy to provide stable, low debt-service costs and maintain a well-functioning market in Government of Canada securities ❑ effective management of Canada's official international reserves ❑ development and implementation of appropriate import policy measures ❑ effective management of international financial relations
A Competitive and Secure Financial Services Sector	❑ ensuring that Canadians are well-served by a safe, sound, efficient and competitive financial services sector
Contributions to 'Getting Government Right'	❑ advancement of announced shifts to agency status, privatizations and commercializations ❑ appropriate transfer arrangements with other jurisdictions
Secure Social Programs	❑ implementation of new programs ❑ improvements to existing social programs

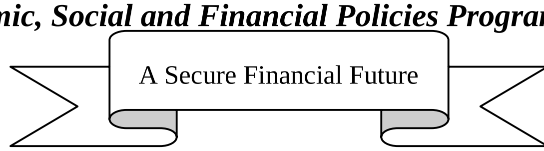
The Department of Finance Canada plays an important role in working with other federal departments and the provinces to ensure that government policies and programs are consistent with fiscal objectives, foster growth and create jobs, thus ensuring that the resulting decisions are appropriate and based on sound advice.

As the workload of Cabinet committees has increased, the department has been challenged to participate increasingly in the development of new policies and programs and provide the necessary advice and support on a wide range of issues within a changing policy environment.

As the fiscal situation has improved, with a fiscal dividend now available for allocation in the annual budget, the department has participated in articulating an appropriate framework for use of the fiscal dividend and will continue to do so.

Within this general context, there are also substantial demands that will determine the department's agenda for the upcoming planning period.

Key departmental priorities are presented below by program and business line. Each of these has been linked to one of the four key results commitments displayed in the chart on the previous page. For example, "Ageing Population Impact on Government Spending" (page 12) is a key departmental priority for the ***Policies and Advice Business Line*** of the ***Economic, Social and Financial Policies Program*** and is linked to the key result commitment



shown on page 9.

B. Details by Program and Business Line

1. 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.

1.1 Policies and Advice Business Line

Business Line Planned Spending (by Service Line)

($ millions)	Forecast Spending 1998–99	**Planned Spending 1999–2000**	Planned Spending 2000–01	Planned Spending 2001–02
Economic and Fiscal Policy	7.5	**7.3**	7.3	7.3
International Trade and Finance	10.9	**7.5**	7.3	7.3
Tax Policy	14.5	**14.9**	12.8	12.8
Financial Sector Policy	8.4	**6.1**	5.7	5.7
Federal-Provincial Relations and Social Policy	5.7	**5.4**	5.0	5.0
Economic Development and Corporate Finance	4.6	**4.5**	4.5	4.5
Total Net Expenditures	51.6	**45.7**	42.6	42.6

Business Line 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 the federal government.

The government has an extremely heavy policy and legislative agenda in which the department will play a key role. Demands for economic, social and financial policies, analysis and advice have been increasing significantly on all fronts, for example, with regard to tax policy, financial sector policy, social policy, trade policy, economic development and corporate finance, legal services, and communications.

Key Plans, Priorities and Strategies, and Expected Results of the Business Line

All priorities identified for the upcoming planning period have been linked to one of the four key results commitments displayed in the departmental Chart of Key Results Commitments on page 9. The key results commitment is identified in the banner then is immediately followed by the priorities linked to that key result, including a description of strategies to be employed and attendant risks.

A Secure Financial Future

Ageing Population Impact on Government Spending

Canada's demographics will undergo a significant change over the next decade as the population ages because of permanently low birth rates and as baby boomers hit retirement age. More people will be leaving the workforce through retirement than will be entering. This will have implications for the economy and for government spending.

Risk

Spending needs will rise in areas such as pensions and health costs, based on existing programs, which could strain the overall fiscal framework. Economic growth could also slow significantly.

Strategy

The government's fiscal strategy is based on achieving long-term goals by setting and meeting short-term targets. Financial management policy development takes into consideration the full implications of the ageing population. Reducing the current debt burden will ultimately provide the best flexibility to future generations.

Expected Results

- Achieving the 1999 budget's commitment to a balanced budget.
- Developing a prudent planning framework for the 2000 budget in order to fulfil the 1999 budget's commitment to a balanced budget in that year as well.
- Based on the Debt Repayment Plan set out in the 1998 budget, and barring unforeseen circumstances, fulfilling these two commitments would result in the $3-billion Contingency Reserve's being applied to paying down debt at the end of each fiscal year.

Income Tax Legislation

The *Income Tax Act* is one of the most voluminous, complicated and important of Canadian statutes. It is through amendments to this Act and Canada's tax treaties that virtually all personal and corporate income tax changes are implemented. These amendments are developed by the Tax Legislation Division of the Tax Policy Branch and include both changes to income tax policy that have been announced throughout the year, and those proposed in the Minister of Finance's annual budget, and the technical changes designed to ensure that the Act provides for consistent income tax policy.

Risk

Constant monitoring of the operation of the *Income Tax Act* is required to identify any unintended tax preferences that, if exploited, could put the tax base at risk, or areas where developments in the economy rendered existing legislation obsolete. This ongoing review also serves to highlight situations in which the tax rules may impose an unfair burden on taxpayers.

Strategy

It is imperative that amendments to income tax legislation be drafted and reviewed by a highly experienced interdepartmental team. The Tax Policy Branch will continue to work with Revenue Canada and taxpayers in monitoring the operation of the income tax system, and with the Department of Justice Canada in reviewing legislative changes to the *Income Tax Act*.

Expected Result

The production of income tax legislation that accurately reflects the government’s tax policy.

Personal Income Tax

The federal government’s key tax policy priority is to provide general relief in personal income taxation. The elimination of the budget deficit allowed the federal government to go beyond the targeted tax relief measures implemented in recent years and begin general tax relief for low- and middle-income Canadians in the 1998 budget. With continuing fiscal progress, the federal government can now build on those measures and further broaden tax relief to include all taxpayers.

Risk

The size of the fiscal dividend is both modest and uncertain. Recent global economic developments mean that Canada’s economic growth and the size of the fiscal dividend are expected to be considerably smaller than was forecast just a short time ago. General personal income tax relief is very expensive and the government must ensure that tax cuts are affordable and do not jeopardize the fiscal progress that has been achieved.

Strategy

The government will introduce broad-based tax relief at a rate that is affordable and sustainable and in a way that promotes fairness and economic growth.

Expected Results

Lower marginal tax rates will encourage savings, investment, work effort and entrepreneurship which, in turn, will boost economic growth thus increasing personal incomes and living standards. Other future tax reduction measures will further the government's longer-term goal of improving the structure of the personal income tax system by making it fairer and more efficient.

Business Income Tax

Adjustments to the business income tax system are often necessary to respond both to external factors in terms of developments in other countries as well as to internal factors where tax planning opportunities arise that may be inconsistent with the general objectives of business taxation. The system may also have to be adjusted to reflect issues raised during litigation.

Risk

Reductions in personal income taxes continue to be the first priority of the government on the tax side. Pressures on the business income tax side would be dealt with over time as fiscal resources permit. On the structural aspects of the business income tax, action is, and will continue to be, taken as circumstances permit.

Strategy

The business tax structure is continually monitored in terms of both these external and internal factors. One objective is to ensure that the effect of the various taxes imposed on Canadian business is broadly comparable to that in other jurisdictions. Another objective is to ensure that the trade-off between revenue generation and the negative economic and tax planning impact is appropriate. Finally, it is important that any deficiencies and tax planning opportunities in the Canadian income tax regime are addressed in an appropriate and timely fashion.

Both the federal and provincial governments need to continually examine their tax structures to achieve these objectives.

Expected Result

A business tax structure that is more efficient while generating the expected revenues.

Sales and Excise Taxes

The Sales Tax Division of the Tax Policy Branch is charged with developing policy recommendations and legislation relating to the federal Goods and Services Tax (GST) and the Harmonized Sales Tax (HST), as well as to specific excise taxes on products such as to alcohol, tobacco and motor fuels, all imposed under the *Excise Tax Act.* This involves analysing and developing new tax initiatives proposed by the government as well as continually monitoring the existing tax system to ensure that it is achieving its objectives.

Of these commodity taxes, the GST is the most significant as a source of revenue. The tax has been in place since January 1, 1991. The HST was introduced on April 1, 1997. The introduction of the HST in three Atlantic provinces represented an important step towards an integrated sales tax system in Canada. Over the coming period, the Sales Tax Division will continue to work with Revenue Canada, Canadian businesses and other levels of government to ensure that the GST/HST system continues to operate efficiently and that adjustments or refinements to the sales tax legislation are made as necessary to reflect the evolving Canadian business environment.

Risk

The principal challenge to the sales tax system is the changing business environment, particularly in the context of electronic commerce. This presents two areas of risk, as identified by the Report of the Minister of National Revenue’s Advisory Committee on Electronic Commerce. First, as more Canadian small- and medium-sized enterprises gain access to international markets, there will be increased pressure to ensure that the sales tax provisions that relieve tax on exports operate appropriately. Second, as business-to-consumer electronic commerce develops, there is the risk that certain sales by non-resident businesses to Canadian consumers may not be subject to tax, creating the potential for revenue loss and an uneven playing field for domestic suppliers.

With respect to excise taxes, one of the key challenges lies in the area of tobacco taxation. There is a delicate balance to be struck between pursuing the government’s policy objectives in taxing tobacco products and protecting against the risks associated with contraband activity in this area.

Strategy

The structure of the GST/HST system will continue to be reviewed in light of technological and commercial developments. In particular, the federal government will continue to work with the business community, other levels of government and the OECD to ensure an internationally coherent approach to the application of sales taxes to cross-border transactions.

With respect to the system of tobacco taxation, the government’s efforts to date to combat smuggling through its National Action Plan, which comprised increased enforcement, imposition of an export tax, and lower tobacco taxes, have been very effective in reducing the level of contraband activity and restoring the market to legitimate merchants. Over the coming period, the government will continue to work with the provinces and enforcement agencies to explore the feasibility of modest tobacco tax increases with a view to achieving the appropriate level of taxation while controlling the risk of a resurgence in contraband activity.

Expected Results

Changes to the Goods and Services Tax and Harmonized Sales Tax legislation will be aimed at improving the operation of the tax in specific sectors, including easing compliance and streamlining administration where appropriate, and ensuring that the government's objectives in this area continue to be met in the most efficient and fair manner possible.

The government's objective in the area of tobacco taxation is to pursue, in co-operation with the provinces, a process of gradual and sustainable restoration of tobacco taxes with a minimum risk of renewed contraband activity.

Excise Duties

The *Excise Act* imposes excise duties on spirits, beer and tobacco products and includes extensive control provisions relating to the production and distribution of these products. It is one of the oldest taxing statutes in Canada.

Risk

Despite the marked changes in the operating practices of the alcohol and tobacco industries that have occurred over the years, few changes have been made to the legislative structure of the *Excise Act* to respond to modern business practices. Furthermore, from an administrative perspective, the Act poses serious problems for administration and compliance.

Strategy

The departments of Finance and of Revenue initiated a comprehensive review of the *Excise Act* and, in February 1997, released a discussion paper. It outlined proposals for a revised excise framework designed to replace archaic legislation and complex administration with a modern framework for the taxation of alcohol and tobacco products.

Following the release of the discussion paper, extensive consultations were undertaken with affected industries and the provinces. Drafting of the revised excise legislation to implement the proposed new structure is now well under way.

Expected Result

The revised excise legislation will replace the current archaic and complex tax system with a modern and flexible tax structure that better recognizes the needs of government and industry.

Federal-Provincial Tax Co-ordination

Both federal and provincial governments have substantive tax powers. For an efficient functioning of the Canadian economic and social union, it is essential that the two tax systems work together. For example, the marginal effective tax rates that Canadians face are an outcome of the federal-provincial interaction of tax and social spending policies. As a further example, individuals and businesses may face a variety of different taxes, rather than one harmonized tax, if federal-provincial policies are not co-ordinated (e.g. GST and provincial sales taxes).

Risk

Federal/provincial governments have considerable autonomy to set their tax policies. The risk is that they will be unco-ordinated/non-harmonized.

Strategy

To reduce the risk and to encourage co-ordination between the two orders of government in major tax fields, a number of mechanisms are in place. These include: the tax collection agreements (TCAs), which have considerably harmonized federal and provincial income tax policies; federal collection of some provincial taxes by Revenue Canada (and the potential for further progress as a result of the creation of the Canada Customs and Revenue Agency, which reduces the cost of collecting taxes due to the economies of scale); and ongoing federal-provincial dialogue at all levels, including meetings of the assistant deputy ministers responsible for policy, deputy ministers, and ministers of finance.

Expected Result

Enhanced tax policy co-ordination between the federal and provincial governments.

First Nations Taxation

Through its response to the Report of the Royal Commission on Aboriginal Peoples, the government signalled its commitment to promoting First Nations self-government. Direct taxation powers for First Nations will be a key element in fulfilling that commitment. The government’s recent taxation arrangements with Kamloops, Cowichan, Westbank and the seven self-governing Yukon First Nations confirm this commitment.

Risk

At present, the Canadian tax system is highly decentralized and functions smoothly through a high degree of co-ordination between levels of government. In the context of promoting First Nations self-reliance through taxation, a key challenge will be to ensure that First Nations tax regimes are fully co-ordinated with the national tax system.

Strategy

Designing First Nations tax regimes, in collaboration with First Nations, will be done in a fashion that maintains the integrity and co-ordination of the national tax system.

Expected Results

Additional tax collection agreements with other First Nations that will enhance Aboriginal self-government while maintaining the integrity of the national tax system.

International Trade Negotiations

International trade in goods and services and foreign investment are key elements of Canadian economic policy. Canada's participation in international trade negotiations is designed to achieve trade liberalization for both goods and services and enhance the protection of Canadian investments abroad. Canada's participation in trade negotiations is lead by the Department of Foreign Affairs and International Trade. The Department of Finance Canada plays a key role, particularly in the areas of import policy, services (particularly financial services), and investment. The likelihood that a new round of multilateral trade negotiations will be launched by the end of this year under the World Trade Organization (WTO) signals the need for all government departments involved in trade policy to focus on the development of Canadian priorities and positions in these negotiations.

Risk

A successful trade negotiation will necessarily yield a win-win result for those involved. It is, therefore, important for the government to be aware of the different interests of all Canadian stakeholders, both domestically and abroad, to ensure that trade agreements yield net economic gains for Canada.

Strategy

The Department of Finance Canada continues to work with the Department of Foreign Affairs and International Trade as well as with other government departments, the provinces and interested groups in the development of Canada's trade negotiating agenda and priorities.

Expected Result

Continued support and implementation of benefits to Canada from liberalization in international trade negotiations.

Climate Change/Emissions Trading

In December 1997, Canada's First Ministers agreed to establish a process to examine the consequences of the Kyoto Protocol and provide for the full participation of the provincial and territorial governments with the federal government in any implementation and management of the Protocol.

The process of developing a national implementation strategy on climate change is currently under way and should be completed by December 1999. The Department of Finance Canada contributes to the work of several of the interdepartmental groups and of the Issue Tables examining particular aspects of climate change and potential responses to this issue.

Expected Results

The aim of the department's participation in the process of developing a national implementation strategy on climate change is to provide research, analysis and advice so as to ensure that the strategy will be consistent with Canada's economic and fiscal priorities.

Competitive and Secure Financial Services Sector for the 21st Century

Review of the Canadian Financial Services Sector

The financial services sector is evolving rapidly, driven by the forces of globalization and technological innovation. To advise the government on the appropriate framework that should be put in place to prepare for the 21st century, the federal government established a Task Force on the Future of the Financial Services Sector in December 1996.

The Task Force was given a broad mandate to provide recommendations to the federal government on any policy issues that affect the environment in which Canada's private-sector financial services providers operate. The Task Force was comprised of members from outside of government, and included individuals with a wide range of experience, skills and interests. In June 1997, the Task Force released a discussion paper that identified major financial sector policy issues and invited public input. During 1997 and the first half of 1998, the Task Force conducted research and held informal meetings with interested groups and individuals, thereby obtaining important input into critical issues of public policy.

On September 15, 1998, the Task Force released its final report entitled *Change, Challenge, Opportunity*. The report contained 124 recommendations that were divided into four broad themes:

- enhancing competition and competitiveness;
- empowering consumers;
- Canadians' expectations and corporate conduct; and
- improving the regulatory framework.

The government referred the Task Force Report to the House of Commons Standing Committee on Finance for public consultation. The Standing Senate Committee on Banking, Trade and Commerce also undertook a study of the report's recommendations. The government has now received the report of the Senate Committee and the preliminary report of the House Committee, and it will take all of these views into consideration in formulating its final response. It is the government's intention to move as quickly as possible to implement a new policy framework for the financial services sector for the 21st century.

Risk

Legislation to introduce a new framework will be long and complex. However, given its importance, it is expected that new legislation will be tabled in a timely manner.

Strategy

The government has committed to moving as quickly as possible to put in place a new policy framework for the sector. More specifically, it will respond to the recommendations set forth by the Task Force and the two parliamentary committees.

Expected Results

The government will develop a new policy framework that:

- fosters jobs and economic growth;
- responds to the needs of consumers and small business;
- ensures that the sector continues to be financially sound and secure;
- promotes competition by allowing for the entry of new players from both Canada and abroad;
- enables the sector to be at the leading edge of technological innovation; and
- allows for strong Canadian institutions with a solid international presence.

The framework will include a new review process to assess major merger proposals.

Foreign Bank Branching

Currently, foreign banks wishing to establish banking operations in Canada must incorporate as foreign bank subsidiaries. In February 1997, Canada announced its intention to allow foreign banks to branch directly into Canada. Subsequently Canada made a commitment, as part of the WTO Agreement on Financial Services concluded in December 1997, to implement a foreign bank branching regime by June 30, 1999.

Strategy

In the spring of 1998, the government decided that legislation should not be brought forward until after the release of the report of the Task Force on the Future of the Canadian Financial Services Sector in case any new technical, prudential or policy issues were raised. The Task Force Report, released in September 1998, endorsed foreign bank branching and encouraged the government to move quickly to allow foreign banks to operate in Canada through branches as well as through subsidiaries. On December 14, 1998, the Minister of Finance announced that the government would introduce foreign bank branching legislation shortly.

Expected Results

The legislation will remove unnecessary regulatory barriers to foreign entry and provide foreign banks with more flexibility in structuring their operations in Canada. This will help maintain a viable foreign bank presence in Canada and a broad range of financing options for Canadians, including small- and medium-sized enterprises.

Demutualization

In 1992, the *Insurance Companies Act* was amended to allow mutual life insurance companies to convert to stock companies, with the terms and conditions to be set out in regulations. However, regulations passed in 1993 applied only to small mutual life companies with assets in Canada under $7.5 billion. In the June 1996 consultation paper, released in advance of the 1997 Review of Financial Sector Legislation, the government announced its intention to extend the demutualization regime to large companies. Since then, all four large Canadian mutual life insurance companies have announced their intentions to develop demutualization plans.

Strategy

Following extensive consultations, the government introduced legislation on November 30, 1998, to implement a demutualization framework for all mutual life companies. The bill received Royal Assent on March 11, 1999 and came into force on March 12, 1999.

Expected Results

This legislation, with the related regulations, will provide a framework under which all federally regulated mutual life insurance companies may convert to stock insurance companies. Demutualization will provide converted companies with access to more sources of capital.

Contributions to 'Getting Government Right'

Privatization Agenda

Since 1985, 30 federal privatization initiatives have netted proceeds in excess of $10 billion. The government has two remaining major assets on its privatization agenda: 49 million shares of Petro-Canada and an 8.5-per-cent interest in the Hibernia oil project. The Hibernia interest is held by the Canada Hibernia Holding Corporation (CHHC), a wholly owned subsidiary of the Canada Development Investment Corporation (CDIC). Authority to dispose of CHHC was obtained through the *Budget Implementation Act, 1998*.

Risk

Both assets are in the oil and gas sector so their value is subject to commodity price risks, such as the current depressed levels of international oil prices.

Petro-Canada shares trade on the domestic and U.S. stock markets, and so are also subject to cyclical equity market risks. There are also company-specific risks to these shares, for example, Petro-Canada's withdrawal from a joint venture with Ultramar Diamond Shamrock following a review by the Competition Bureau.

In addition to commodity price risks, Hibernia has certain project risks. These include the ultimate size of the oil reservoir, the rate of oil production and the physical security of the project infrastructure (for example, from iceberg or fire damage).

Strategy

In both cases, the department is involved in monitoring information and obtaining advice concerning the various risks involved, in order to identify the best time and method for disposing of the asset in order to maximize value to the government.

In the case of Hibernia, an advisory group has been formed involving representatives of the Department of Finance Canada, CDIC, CHHC, and Natural Resources Canada.

With regard to the Petro-Canada shares, the department keeps in close touch with representatives of the major Canadian and international investment banking firms. These firms provide their outlook on commodity, market and company-specific outlooks and risks.

Expected Result

The sale of these two assets will generate significant net proceeds for the government. The timing of the sales will depend upon market and industry conditions.

Secure Social Programs

Employment Insurance (EI)

The Minister of Finance is jointly responsible with the Minister of Human Resources Development for recommending the annual EI premium rate to the Governor-in-Council and for fixing the annual Employment Benefits budget under Part II. Current premium rates have resulted in significant surpluses.

The EI premium rate for 1999 was set at $2.55 for each $100 of insurable earnings, a reduction of 15 cents relative to the 1998 rate of $2.70.

Strategy

In determining the appropriate policy with respect to the level of premium rates, the government needs to weigh carefully the needs and desires of Canadians and to establish priorities among the competing potential uses of the fiscal dividend.

Specifically on the EI program, the Department of Finance Canada will work with Human Resources Development Canada to ensure that the program continues to play a strong insurance role for the unemployed, facilitates re-integration into the labour market, promotes sustainable economic growth, and safeguards the interests of stakeholders.

Expected Result

The Department of Finance Canada will work to support Human Resources Development Canada and the EI Commission as they continue to manage the EI program in a financially prudent manner and provide EI benefits to eligible Canadians.

Health Care

Responsibility for the provision of funding to the provinces for health, post-secondary education and social services, through the Canada Health and Social Transfer, rests with the Department of Finance Canada.

Canada's health care system has undergone significant structural change over the past few years, helping to ensure that it will remain sustainable. After several years of reductions, federal cash transfers to provinces for health care under the Canada Health and Social Transfer were stabilized at $12.5 billion effective 1997–98.

Strategy

It is important to maintain public confidence in the health care system as it continues to undergo needed structural changes. The government has identified health as a national priority area and has committed to continuing to work with the provinces and other interested parties.

The recent new five-year funding arrangement for the Canada Health and Social Transfer provides all provinces and territories with the certainty they need for long-term planning in the area of health care and other social services.

Expected Results

The department's objectives are to:

- stable and predictable funding arrangements;
- growing federal support; and
- a fair allocation of transfers.

Canada Pension Plan (CPP)

The 1997 federal-provincial agreement to secure the CPP was implemented when Parliament passed legislation in December 1997 and the provinces passed supporting orders in council. The Minister of Finance is responsible (with the provinces) for setting contribution rates and for investment policy. The Minister is also responsible for leading the triennial federal-provincial reviews of the plan.

The department is currently implementing those parts of the agreement for which it is directly responsible:

- setting up the CPP Investment Board, including the preparation of regulations;
- preparing a new annual report with Human Resources Development Canada; and
- follow-up regulations on financing, which have been completed.

The federal government is continuing to work closely with the provinces to assess a number of other important issues that were identified in the federal-provincial agreement as requiring further examination. The federal government is also developing a work plan with the provinces to deal with other issues identified by federal and provincial finance ministers.

The federal government will, at the same time, launch later this year the first triennial review of the plan required by new legislation.

Expected Results

- The department will monitor the operation of the CPP Investment Board, which has already been established, and will finalize regulations on the Investment Board.

- The joint Human Resources Development Canada/Finance annual report on the operation of the CPP will be finalized in the first few months of 1999.

- Following the release of the CPP 17th actuarial report in December 1998, the triennial review of the CPP by federal and provincial ministers of finance will begin and should be completed by the end of 1999.

- Assessment of issues that were identified in the federal-provincial agreement as requiring further examination will continue and will be presented to federal and provincial ministers as they are completed. Progress reports will also be prepared.

Canada Child Tax Benefit

As part of the federal-provincial-territorial initiative to develop a National Child Benefit System, the federal government has created an enriched Canada Child Tax Benefit (CCTB). The 1998 budget allocated funds to further enrich the CCTB — $425 million in July 1999 and an additional $425 million in July 2000.

Risk

By providing greater support to families on welfare than to low-income working families, provincial/territorial programs that assist families with children have helped to create a ‘welfare wall’ that encourages welfare dependence rather than labour force participation. Further progress in developing the National Child Benefit System, through CCTB enrichments and the re-investment of resulting social assistance savings in programs to assist low-income working families, is needed to address this problem.

Strategy

The federal/provincial/territorial governments are moving to better integrate assistance to families with children. Child allowances under social assistance are being progressively replaced by credits, under the CCTB and provincial supplements, that go to welfare and low-income working families alike. Assistance to low-income families, especially working families, is being enriched and the financial disincentives to labour force entry reduced. The CCTB enrichments announced in the 1998 budget, and complementary provincial measures, will be designed to further this strategy.

Expected Result

A better co-ordinated system of federal/provincial/territorial assistance to families with children.

1.2 International Financial Organizations Business Line

Planned Spending (by Service Line)*

($ millions)	Forecast Payments 1998–99	**Planned Payments 1999–2000**	Planned Payments 2000–01	Planned Payments 2001–02
Payments				
Budgetary				
International Development Association[1]	267.0	**361.3**	333.0	259.1
International Monetary Fund's Enhanced Structural Adjustment Facility	103.4	**–**	54.8	47.1
Grants and Contributions Multilateral Agreements	281.2	**297.3**	297.3	297.3
Total Budgetary Spending	651.6	**658.6**	685.1	603.5
Non-Budgetary				
International Monetary Fund's Enhanced Structural Adjustment Facility	119.0	**161.0**	–	–
European Bank for Reconstruction and Development	9.1	**11.8**	14.0	16.2
Loan to the Bank of Thailand	625.9	**104.0**	–	–
Total Non-Budgetary	754.0	**276.8**	14.0	16.2
Total	1,405.6	**935.4**	699.1	619.7

* Represents note issuances and encashments.

1 Canada will also issue notes worth $202.334 million in each of fiscal years 1999–2000, 2000–01 and 2001–02.

Business Line 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 burden-sharing arrangements with other shareholder governments together with a judgment of the organizations' overall effectiveness. In recent years, our participation in such burden-sharing arrangements has been constrained by our need to comply with budgetary affordability.

The emerging market financial crisis, that began in Asia but has spread to Russia and Latin America, has meant that Canada has been, and may again be, asked 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 burden sharing, as well as to the security of the Canadian contribution.

Key Plans, Priorities and Strategies, and Expected Results of the Business Line

A Secure Financial Future

International Banking – The Emerging Market Financial Crisis

Canada remains committed to assisting in the international efforts to strengthen financial sector reform. Weaknesses in financial sector regulation and supervision were major factors behind the recent crises in emerging market economies. The crisis, which began in Asia over a year ago and has since spread to Russia and Latin America, has clouded the outlook for the global economy.

Risk

Although the likelihood of a global recession has been reduced — in part because of policy actions taken by Canada and its G-7 partners, notably monetary easing in most major developed countries — global economic growth will remain relatively slow this year. The reduced growth prospects for the emerging market economies affected by the crisis have reduced the export markets for the industrialized economies. Moreover, Canada and other commodity-exporting countries have been negatively affected by weak commodity prices that have constrained domestic income growth. The Canadian outlook takes into account the modest outlook for global growth, and the downside risks posed by continued problems in key emerging market economies.

Strategy

Canada has been working with other industrial countries and key emerging markets to improve the ability of the international financial system to prevent future crises and manage them when they do occur. Efforts are under way to *improve the transparency* of economies, through better accounting and data standards for both the public and private sectors, and to *strengthen countries' financial sectors*, through better banking supervision among other measures. These steps will help countries prepare for integration into the global economy and benefit from free global capital flows.

Imprudent lending by private-sector investors clearly plays a role in the severity of the emerging market financial crisis. Canada is working with other countries to *establish mechanisms to ensure that the private sector bears the appropriate responsibility for its lending decisions*. Canada has also strongly supported measures that further enhance the role of international financial institutions and that improve co-operation among them and with international regulatory bodies.

In particular, the Government of Canada and the World Bank jointly established the Toronto International Leadership Centre for Financial Sector Supervision late in 1997. The Centre provides experience-based training for senior financial supervisors and regulators in emerging markets.

Canada has been directly involved in the international financial assistance packages that have been put together to help some emerging market economies that have been caught up in the crisis. Canada was part of the group of countries that pledged financial support for Korea as part of a second line of defence. Canada's share was US$1 billion. However, none of this money has been, or is likely to be, drawn.

Canada also pledged a $280-million assistance package to Indonesia to address the hardships its people have suffered as a result of the economic crisis affecting the country. This assistance is in the form of $250 million in agricultural export credit guarantees, $20 million in export credits for essential imports, and the remainder in food aid and humanitarian assistance.

Canada committed US$500 million to the Thailand support package to replace some of the initially pledged money that was withdrawn. Most of this money has now been drawn.

More recently, Canada pledged US$500 million to an IMF-led financial assistance package for Brazil. Some of this has now been drawn.

Expected Results

The government expects that policy changes currently under way will continue to improve the functioning of the international financial system, and strengthen the effectiveness of the international financial organizations.

1.3 Domestic Coinage Business Line

Planned Spending

($ millions)	Forecast Spending 1998–99	**Planned Spending 1999–2000**	Planned Spending 2000–01	Planned Spending 2001–02
Domestic Coinage	38.0	**49.0**	44.0	40.0
Total Net Expenditures	38.0	**49.0**	44.0	40.0

Business Line 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 1999 and 2000, the Mint will issue commemorative 25-cent and $2 coins to celebrate the millennium. In the longer term, the increased use of electronic money is expected to reduce the demand for coinage.

Key Plans, Priorities and Strategies, and Expected Results of the Business Line

A Secure Financial Future

The Mint is adding nickel-plating capacity to existing production facilities in Winnipeg. Nickel-plated coins are expected to be produced in 2000–01. Nickel-plated steel will be used instead of nickel for the 5, 10- and 25-cent pieces, reducing domestic coinage costs.

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 Result

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

1.4 Special Projects – Hibernia – Business Line

Planned Spending

($ millions)	Forecast Spending 1998–99	**Planned Spending 1999–2000**	Planned Spending 2000–01	Planned Spending 2001–02
Hibernia Project	12.0	**–**	–	–
Total	12.0	**–**	–	–

Business Line 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.

Key Plans, Priorities and Strategies, and Expected Results of the Business Line

A Secure Financial Future

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, there will be 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.

1.5 Corporate Administration Business Line

Planned Spending (by Service Line)

($ millions)	Forecast Spending 1998–99	**Planned Spending 1999–2000**	Planned Spending 2000–01	Planned Spending 2001–02
Departmental Management	22.2	**19.8**	16.6	11.5
Corporate Services	12.1	**11.4**	12.1	12.1
Total Net Expenditures	34.3	**31.2**	28.7	23.6

Business Line Objective

- Effective and efficient corporate administration.

External Factors Influencing the Business Line

- Public opinion and public policy environment

Business Line Key Plans, Priorities, Strategies and Expected Results

- 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
    - Year 2000
    - Universal Classification Standard (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 a private-sector model of accounting in the Government of Canada

- Meet the business requirements of an electronic environment

2. 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.

2.1 Interest and Other Costs Business Line

Planned Spending (by Service Line)

($ millions)	Forecast Spending 1998–99	**Planned Spending 1999–2000**	Planned Spending 2000–01
Interest and Other Costs	41,248.0	**42,335.5**	43,132.4
Total Net Expenditures	41,248.0	**42,335.5**	43,132.4

Business Line 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 by focusing on the key strategic objective of maintaining a well-functioning market in Government of Canada securities.

The Department of Finance Canada works closely with the Bank of Canada on 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 (CI&S), 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 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 required to attract a wide range of investors.

- The effect of declining borrowing needs on liquidity in Government of Canada securities markets.

Key Plans, Priorities and Strategies, and Expected Results of the Business Line

A Secure Financial Future

Risk

Although market debt is on the decline, it is still significant (some $467 billion at March 31, 1998). Further, interest payments are still a large government expenditure. In recognition of these facts, a prudent debt structure has been put in place to protect the government from unexpected market disruptions.

Strategy

The government will:

- continue to maintain a prudent structure for the debt stock to ensure cost stability under a range of potential interest rate environments;
- continue to maintain active relations with investors and credit rating agencies through the timely distribution of information on Canada's economic and fiscal outlook; and
- focus on maintaining a well-functioning market in Government of Canada securities (liquidity and transparency) to achieve lower debt costs, with a particular emphasis on managing the market impact of the downsizing of market debt.

This priority will be pursued through gradual adjustments to the government's debt programs, in consultation with market participants, and through initiatives to enhance market integrity. For 1999–2000, changes to the Treasury Bill program will be the primary debt program adjustment initiative.

Further, in 1999–2000, the government will extend the pilot bond buy-back program, which was started last year. The pilot bond buy-back program involves buying back less liquid outstanding bonds, and is designed to support the maintenance of a liquid new-issue market.

Expected Result

Debt charges not exceeding those projected in the budget, including the contingency reserve, in any given year.

2.2 Canada Investment and Savings (CI&S) Business Line

Planned Spending (by Service Line)

($ millions)	Forecast Spending 1998–99	**Planned Spending 1999–2000**	Planned Spending 2000–01
Canada Investment and Savings	152.0*	**164.5***	167.6*
Total Net Expenditures	152.0*	**164.5***	167.6*

* The increase compared to the planning estimates included in the 1998–99 Report on Plans and Priorities is due to increased Bank of Canada costs related to the retail debt program recovered from CI&S to cover additional systems and operational charges as well as indirect and overhead costs allocated to this program.

Business Line 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 thereby 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 benefiting all Canadians.

External Factors Influencing the Business Line

- Ageing Canadian population aiming at financial security for their retirement.
- Continued low interest rates with consequent declining demand for fixed-income instruments (including savings and Guaranteed Investment Certificates (GICs).
- Strong competition for investors’ funds through innovative product offerings.
- Growing awareness of Canadians to the risk-return trade-off and a willingness to invest in riskier financial instruments that offer some form of capital protection, such as index-linked GICs or segregated funds.
- Rapid development of new distribution channels, including electronic commerce (telephone banking and the Internet).
- Greater reliance on investment advisers for making investment decisions.

Key Plans, Priorities and Strategies, and Expected Results of the Business Line

A Secure Financial Future

Risk

Although the downward trend of the retail debt share stabilized at about 22 per cent in 1998, compared to 21 per cent in 1996, it remains well below the 33 per cent reached in 1988. Another challenge that will impede further progress on the retail debt strategy in 1999–2000 is the systems changes required to handle the Year 2000 for both the retail debt systems housed by the Bank of Canada and CI&S external partners (e.g. financial institutions and payroll companies).

Strategy

In 1999–2000, CI&S will stay the course with its three-tiered strategy defined in its last two business plans, as well as its five-year Information Technology Strategy, which was completed in 1997–98 and has a greater focus on operational efficiency. It will:

- deliver new product offers;
- increase access to products; and
- deliver operational efficiency.

Furthermore, retention and diversification of the retail debt portfolio remains the key strategic objective for CI&S in 1999–2000.

Expected Results

- A pilot direct retail distribution (‘Bills-Bonds Direct’) of Treasury Bills and Marketable Bonds.
- Continued conversion of existing payroll companies to the new Canada Payroll Savings program and development of a contingency plan for non-converting companies.
- Continuation of the six-month sales pilot, pending an assessment of the 1998–99 pilot, with emphasis on the new Canada Premium Bond in the cash market.
- Development of a cost-effective marketing plan to support the Millennium Bond Program.
- Expansion of new advertising, creative marketing and promotion of payroll savings; introduction of a youth component to the current CI&S Web site.

- In collaboration with the Bank of Canada, complete a study of the Call Centre and begin implementation of recommendations to meet increasing volumes and deliver cost efficiencies.

- Enhance business partnerships with current sales agents and research possible arrangements with new ones (e.g. insurance companies), and continue the restructuring of the payroll sales force.

3. 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.

3.1 Transfer Payments Business Line

Planned Spending (by Service Line)

($ millions)	Forecast Spending 1998–99	**Planned Spending 1999–2000**	Planned Spending 2000–01
Canada Health and Social Transfer (CHST)			
Total entitlements	26,021.0	**26,391.0**	27,879.0
Tax transfer	(13,521.0)	**(13,891.0)**	(14,379.0)
Cash entitlement	12,500.0	**12,500.0**	13,500.0
CHST/Health Trust Fund	3,500.0	**–**	–
Fiscal Equalization[1]			
Entitlements	9,579.0	**9,288.0**	9,696.0
Adjustment (prior years)	1,080.0	**–**	–
Cash payment	10,659.0	**9,288.0**	9,696.0
Territorial Formula Financing			
Entitlements	1,184.0	**1,299.0**	1,324.0
Adjustment (prior years)	155.0	**–**	–
Cash payment	1,339.0	**1,299.0**	1,324.0
Other Transfer Payments[2]	(2,553.0)	**(2,719.0)**	(2,798.0)
Total Net Expenditures	25,445.0	**20,368.0**	21,722.0

1 Program to be renewed in 1999.
2 Includes Statutory Subsidies, Youth Allowances Recovery, and Alternative Payments for Standing Programs.

External Factors Influencing the Business Line

The main external factors affecting the Federal-Provincial Transfers Program are:

- changing provincial economic, fiscal and taxation environments;
- changing health care policies; and
- Social Union discussions.

Key Plans, Priorities and Strategies, and Expected Results of the Business Line

Secure Social Programs

Equalization Renewal

The Equalization program reduces disparities in provincial fiscal capacities by providing federal cash transfers to provinces with below-standard fiscal capacities. Thus, 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.

As stated in section 36.2 of the *Constitution Act*, "Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation." Equalization is an unconditional transfer. Payments are made in accordance with the formula set out in the *Fiscal Arrangements Act*. Provinces may spend Equalization payments according to their own priorities.

Strategy

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. Existing legislation covering Equalization expires on March 31, 1999.

Consultations with provinces to renew the program began in November 1996. These discussions involved 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 also conducted analyses of other aspects of the program, such as the treatment of user fees and the design of the Equalization 'ceiling' and 'floor,' which were the subjects of specific recommendations by the Auditor General in a recent comprehensive audit of the program.

Through these discussions, key areas were identified where the existing Equalization program should be updated to reflect current tax practices and economic developments. Legislation dealing with changes to Equalization will be introduced in time for the beginning of the 1999–2000 fiscal year.

The department is also 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.

Expected Results

Legislation dealing with changes to Equalization will be introduced in time for the beginning of the 1999–2000 fiscal year. Improvements in the Equalization formula's measurement of provincial and municipal fiscal capacities will take into account recent changes in economic and tax developments, new data sources and changes in provincial tax systems. The department also expects to be able to address a number of issues raised by the Auditor General.

As a direct result of the 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. (See chart on page 39.)

Canada Health and Social Transfer (CHST)

The CHST provides support to provinces for health care, post-secondary education, social assistance, and social services programs. The CHST is a block fund designed to give provinces enhanced flexibility while maintaining the criteria and conditions in the *Canada Health Act* and the condition that there be no requirement for a period of minimum residency with respect to social assistance.

Strategy

The department has discussed CHST issues with the provinces and with health and social groups on various occasions, including during pre-budget consultations and at federal-provincial meetings. These consultations will continue to be an integral part of formulating policy with respect to the CHST.

Expected Result

As a result of the legislated increases in the CHST entitlements, provinces will get higher federal support for the provision of health care, post-secondary education and social programs.

Territorial Formula Financing (TFF)

TFF is an unconditional transfer from the federal government to territorial governments. The TFF transfer is designed to give territorial governments the flexibility and resources necessary to provide services to their citizens while leaving them accountable for spending priorities and revenue-raising choices. TFF is governed by agreements between federal and territorial finance ministers.

In order to establish 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.

The department, although fully responsible for financing arrangements with the territories, consults regularly with Indian and Northern Affairs Canada, which has program responsibilities in the North.

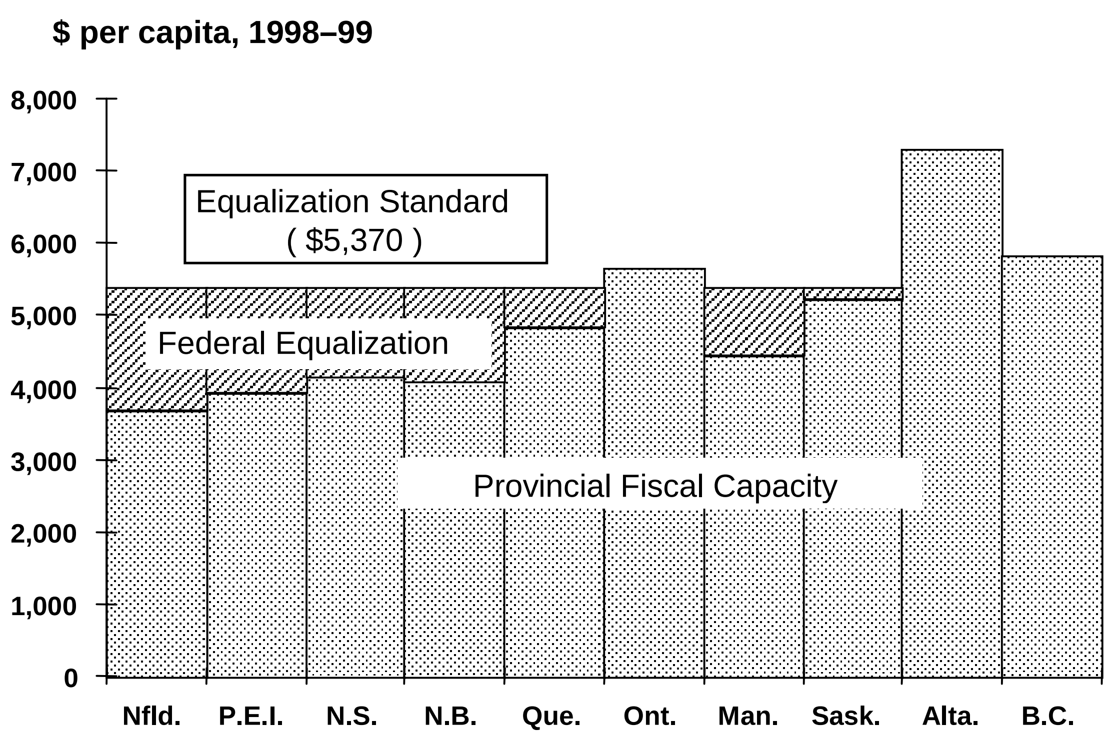
Strategy

New funding arrangements have been finalized for the new territory of Nunavut and for the Northwest Territories and will take effect April 1, 1999. The arrangements were agreed to after extensive consultations with the governments and people of the North, and will ensure that these governments have the financial resources and stability they need for financial planning. A similar funding arrangement for Yukon is expected to be in place shortly.

Expected Result

Under the new Territorial Formula Financing agreements, it is expected that, in 1999–2000, the federal government will transfer close to $1.3 billion to the three territorial governments.

Equalization Results



C. Consolidated Reporting

Chart on Legislative and Regulatory Initiatives

Legislation and/or Regulations	**Expected Results**
Special Import Measures Act, Canadian International Trade Tribunal Act and related rules and regulations – Bill C-35, currently before Parliament, revises Canadian anti-dumping and countervailing duty legislation following a parliamentary review.	• Will provide enhanced systemic efficiency/ transparency of the Canadian trade remedies system while ensuring that it effectively balances the needs of Canadian industry in a manner consistent with Canada's international rights and obligations.
Customs Tariff – The *Customs Tariff* contains a number of provisions that allow the government to respond, on an ongoing basis, to the competitive needs of Canadian industry and to implement Canada's rights and obligations in accordance with international agreements and arrangements to which Canada is a party.	• Will, as required, through the use of orders and other regulations, respond to the competitive needs of Canadian industry and implement Canada's rights and obligations under international agreements and arrangements.
Canada Pension Plan Investment Board Act Regulations – Regulations respecting the investments and activities of the newly created Canada Pension Plan Investment Board.	• 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 *Pension Benefits Standards Act.* • Will specify additional information and policies that the Board must include in its annual report (i.e. beyond what is already required under the *Canada Pension Plan Investment Board Act).* • 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.
Federal-Provincial Fiscal Arrangements Act and regulations pursuant to the Act.	• Will renew the Equalization program — improving the measurement of fiscal disparities.
Income Tax Regulations – 1994 budget – Amendments to the Regulations relating to securities held by financial institutions are required.	• Will provide a better measure of a financial institution's income for the year from its securities.

Legislation and/or Regulations	**Expected Results**
Income Tax Regulations – 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.	• Will make the necessary changes to the *Income Tax Regulations* with respect to the amendments that were implemented in Bill C-36. • Changes are being processed by the Department of Justice Canada.
Income Tax Regulations – Branch Tax Investment Allowance – Partnerships – Part XIV of the *Income Tax Act* 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 *Income Tax Regulations*, 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.	• 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.
Income Tax Regulations – Reporting Requirements – Mutual Fund Reorganizations – subsection 230(3) of the *Income Tax Regulations* 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 *Income Tax Act*.	• Will reduce the administrative burden of a mutual fund reorganization.
Income Tax Regulations – Changes in Residence – Amendments to the *Income Tax Act* 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.	• Will make consequential amendments to the *Income Tax Regulations* required as a result of amendments to the *Income Tax Act.*

Legislation and/or Regulations	Expected Results
Income Tax Regulations – 1996 budget – Amendments relating to the resource allowance, flow-through shares, and energy are required.	• Will make the necessary changes to the *Income Tax Regulations* to implement the income tax measures in the 1996 budget.
Income Tax Regulations – 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.	• 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.
Income Tax Act – Income Tax Regulations – 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 *Income Tax Act.* These proposals were detailed in a press release dated October 23, 1997, and announced as delayed for two years in a press release of October 27, 1998.	• Will make the tax treatment of segregated fund trusts more consistent with the tax treatment of mutual fund trusts.
Income Tax Act – Income Tax Regulations – Escalating Interest Debt Obligations – In 1993, the Department of Finance Canada 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, the department confirmed that it intends to go ahead with this proposal, which will require amendments to the Act and Part LXX of the Regulations.	• 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.

Legislation and/or Regulations	**Expected Results**
Income Tax Regulations – Prescribed Federal Crown Corporations – Section 7100 of the Regulations lists federal Crown corporations that are subject to tax under the *Income Tax Act*. That section is updated continuously to remove from the list corporations that are no longer Crown corporations, and to add Crown corporations that ought, because of their competition with taxable corporations, to be subject to tax.	• Will maintain the comparable treatment of Crown corporations and their taxable competitors.
Income Tax Regulations – Multinational Insurance Companies – In September 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.	• 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.
Income Tax Regulations – Impaired Loans – Bill C-28 received Royal Assent on June 18, 1998. That bill contained amendments regarding the income tax treatment of impaired loans held by financial institutions and other taxpayers in the business of lending money.	• 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 for income tax purposes.
Income Tax Regulations – Bill C-28 – In June 1998, Bill C-28, containing amendments to the *Income Tax Act*, received Royal Assent. Those amendments require that a number of consequential amendments be made to the *Income Tax Regulations*.	• Will make the necessary changes to the *Income Tax Regulations* to implement the amendments that were contained in Bill C-28.
Income Tax Act – *Income Tax Regulations* – 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 require that amendments be made to both the *Income Tax Act* and the *Income Tax Regulations.*	• The relevant changes to the *Income Tax Act* were tabled as a detailed Notice of Ways and Means Motion on December 10, 1998. After those changes are enacted, consequential changes will be made to the *Income Tax Regulations*.

Legislation and/or Regulations	**Expected Results**
Income Tax Act – Income Tax Regulations – Other – Other amendments to the *Income Tax Act* and *Income Tax Regulations* 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, to improve wording to and 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).	
Income Tax Regulations – Year 2000 Expenditures – Amendments are required to implement temporary changes to the rules under which capital cost allowance is calculated in respect of computer hardware and software purchased to replace similar property that is not Year 2000 compliant, pursuant to the October 7, 1996 announcement by the Minister of Finance.	• Will make the necessary changes to the *Income Tax Regulations* to implement the amendments that were contained in Bill C-28. • Will provide a government incentive to encourage Canadian businesses to ensure that their computing systems are Year 2000 compliant.
Income Tax Act – Income Tax Regulations – Demutualization – On December 15, 1998, the Secretary of State released draft legislation on the tax consequences of the demutualization of insurance corporations.	• Will clarify the timing of the recognition of demutualization benefits and the character of those benefits for income tax purposes.
Excise Tax Act and regulations under Part IX of the Act (GST/HST) – Amendments are required to implement a number of technical GST/HST changes proposed in the Notices of Ways and Means Motions to amend the *Excise Tax Act* of March 21, 1997, November 26, 1997, August 7, 1998, October 8, 1998, and December 10, 1998. These measures are principally aimed at improving the operation of the tax in a variety of sectors, including the real property, financial services and energy sectors, in response to industry submissions. The amendments would also ensure that the sales tax legislation produces results consistent with the underlying policy. Certain amendments are consequential to the introduction of the HST on April 1, 1997. Some of the measures also require changes to the related GST/HST regulations made under Part IX of the *Excise Tax Act*.	• Will improve the operation of the tax in affected areas, will address industry concerns and provide greater certainty to suppliers and purchasers as to the status of their transactions, will remove certain anomalies in the existing tax structure and will secure revenues and ensure that the legislation achieves the intended policy.

Legislation and/or Regulations	**Expected Results**
As well, amendments are required to implement measures proposed by the Minister of Finance on April 3, 1998 (to provide a rebate in respect of vehicles for use by persons with disabilities), and on July 29, 1998 (relating to the GST/HST treatment of investment plans).	
Excise Tax Act – Administrative/Enforcement Measures – Amendments are required to update and, in some cases, harmonize with parallel income tax provisions, certain administrative and enforcement provisions relating to the GST/HST.	• Will ensure the efficiency and effectiveness of the administrative and enforcement mechanisms under the Act and ensure consistency with similar income tax provisions where appropriate.
Excise Tax Act – 1998 budget – Amendments are required to implement GST/HST measures announced by the Minister of Finance in the February 24, 1998 budget. These measures related to: the treatment of direct sellers; charities operating bottle return depots; respite care services; certain services supplied by charities employing or assisting in the employment of persons with disabilities; and tourist rebates.	• Will make the necessary changes to the *Excise Tax Act* to implement the sales tax measures proposed in the 1998 budget.
Excise Tax Act and Regulations under the Act – Other amendments to the *Excise Tax Act* and regulations made under the Act may be required from time to time to resolve technical problems, to clarify ambiguous provisions, to implement policy changes (including any changes announced by press release), to respond to court decisions, to reflect or respond to statutory changes and to improve the organization of the legislation.	
Excise Act and related rules and regulations – New legislative framework for the federal taxation of alcohol and tobacco products.	• Will replace the current archaic legislation and complex administration with a modern and flexible tax structure that better recognizes the needs of government and industry.
Insurance Companies Act – Bill C-59 – *Mutual Company (Life Insurance) Conversion Regulations* and *Converted Company Ownership Regulations* – These legislative amendments and regulations are required to implement a new demutualization regime to enable all federally regulated mutual life insurance companies to convert to stock insurance companies.	• Will give all federally regulated mutual life insurance companies the flexibility to pursue a stock company structure and thereby gain access to more sources of capital.

Legislation and/or Regulations	Expected Results
Bank Act – Amendments are required to enable foreign banks to conduct activities in Canada directly through a full-service or lending branch operation.	• Will allow foreign banks to branch directly into Canada, in addition to subsidiaries. • Will help maintain a healthy foreign bank presence in Canada by making their operations more cost effective. • Will reduce the regulatory burden for foreign banks that do not wish to take deposits in Canada.
Proceeds of Crime (Money Laundering) Act – Amendments to regulations are being considered that would encompass money transmitters, vendors of money orders and cheque cashers and that would improve client identification requirements in relation to beneficial ownership of accounts and financial assets.	• Will facilitate deterrence and detection of money laundering in Canada. • Will fulfil Canada's international commitments in this area.

Chart on Sustainable Development Strategies

The department tabled its first Sustainable Development Strategy in Parliament in December 1997. The three-year strategy was built around the following four key themes: (i) integrating the economy and the environment (in tax, spending and related policies); (ii) building the future (promoting fiscal health and strengthening the economy and society); (iii) participating in the global economy (addressing the tension that exists between environmental concerns and international competitiveness); and (iv) greening the department's own internal operations.

This Report on Plans and Priorities presents an opportunity to focus on specific action that will ensure consistency and continuity in the implementation of the strategy for the coming year. The plan below describes the actions to be taken over the course of the coming fiscal year to achieve the commitments made by the department in its 1997 Sustainable Development Strategy.

In addition to these actions, efforts will be made to further integrate sustainable development concepts into policy analysis and development. The department will examine such measures as the Strategic Environmental Assessment over the course of the year to assist it in these efforts. Co-operation with other departments and with other organizations with challenges similar to those of the Department of Finance Canada will enhance the department-wide understanding of what sustainable development is, and assist the department in implementing its strategy. In summary, the department is committed to taking steps to be well informed regarding how it can further achieve a sustainable balance between economic prosperity and environmental and health protection.

Planning Sustainable Development Actions

Department of Finance Canada

Strategic Goals	**Objectives**	**Targets set for 1999–2000** (unless otherwise indicated)
Key Issue: Integrating the Economy and the Environment		
Making the tax system more responsive to environmental considerations	Continue to assess effectiveness of tax measures with a view to encouraging greater energy efficiency and the use of renewable energy.	Proposals to change the income and sales tax systems to promote environmentally beneficial activities were received in advance of the 1999 federal budget. These proposals were assessed to determine their potential cost (and, where possible, their potential environmental benefits) and were compared to alternative policy options including other economic instruments. The department expects to receive further tax-related proposals from several of the 'Tables' established as part of the national consultation on climate change options. These proposals will be analysed later in 1999 for possible action either before or in the 2000 budget. The department participated in a study undertaken by the Canadian Energy Research Institute on capital cost allowance rates for electrical generation equipment. The study is due to be published in early 1999. This study considered the effect of present tax depreciation policies on the electricity generation industry and also considered whether further effort was necessary to stimulate investment in alternative technologies.
	Develop a catalogue of information on energy taxes and transportation taxes in Canada.	Preparation of the catalogue of existing taxes on energy consumption and the transportation sector is under way. This catalogue will include descriptions of applicable income tax provisions, including income tax rates and tax depreciation provisions, payroll levies and capital taxes. In addition, it will describe federal excise and sales taxes as well as provincial sales and consumption taxes applicable to energy and fuel consumption. A draft copy of the catalogue will be circulated to provinces for their comments on the description of provincial tax structures and rates by the end of 1999.
Reducing or eliminating subsidies	Work with other government departments (OGDs) to identify any further scope for reducing or eliminating subsidies that distort the economy.	Continue to participate in a wide range of forums to examine further scope for reducing or eliminating subsidies.

Strategic Goals	**Objectives**	**Targets set for 1999–2000** (unless otherwise indicated)
Developing practical uses of economic instruments	Examine use of economic instruments in OECD countries.	The department will continue to examine the use of economic instruments by OECD countries on a regular basis, both in order to remain current with international developments and as a key part of domestic work in the area of economic policy analysis and development. In addition, the department will contribute to the international work under way in 1999 through its membership in the OECD Working Party on Economic and Environmental Policy Integration and the sub-group on Taxation and the Environment. These working groups are scheduled to meet regularly (twice annually) over the 1999–2000 period.
	Consider options for domestic and international tradeable permit schemes, credits and related approaches for reducing greenhouse gas emissions.	The department is chairing the multi-stakeholder Tradeable Permits Working Group (TPWG). The TPWG will release an options paper in May 1999 to the Climate Change Secretariat. The department will continue to participate with OGDs in the further refinement of the Kyoto flexibility mechanisms.
	Encourage sustainability of private woodlots, brownfield redevelopment and habitat protection for endangered species.	Monitor the forest industry's response to Revenue Canada's upcoming revised interpretation bulletin on woodlots. It is expected that the interpretation bulletin will clarify many of the issues previously raised by the industry. Conclude ongoing discussions with the National Round Table on the Environment and the Economy (NRTEE) on the redevelopment of brownfields and determine whether departmental action is required. Work with Environment Canada to seek a balance between regulation, enforcement and compensation to protect species at risk. Provide advice on which instruments could be used as a compensation mechanism.
Reforming legislative and regulatory frameworks	Continue to provide a policy framework conducive to environmental protection and a positive investment climate through regulatory reform and harmonization.	Continue to participate in the interdepartmental consultation process on the review of the *Canadian Environmental Protection Act* so that any amendment to the Act can enhance the protection of the environment without compromising the competitiveness of the Canadian economy.

Strategic Goals	Objectives	**Targets set for 1999–2000** (unless otherwise indicated)
Key Issue: Building the Future		
Prospering in a knowledge-based economy	With OGDs, examine the role of environmental industries in a knowledge-based economy.	The department will complete an analysis of environmental industries and assistance provided by government. This will be used as a basis for our continued participation in interdepartmental forums on climate change. The Canadian Millennium Scholarship Foundation is responsible for implementing the awards program. It is targeting the first awards for 2000. Most other measures are working well. Human Resources Development Canada will implement and assess the effectiveness of its own targets.
	With provinces, increase the child tax benefit by a further $850 million.	Discussions with provinces on the design of the second federal contribution to the National Child Benefit initiative have taken place over the fall. The final design will be announced in the 1999 budget.
Building a strong society	Ensure predictable and growing federal funding for health and social programs.	Establish long-term funding arrangements for all major federal/provincial/territorial transfer programs — Canada Health and Social Transfer, Equalization and Territorial Formula Financing.
	Restore confidence in the retirement income system.	With the introduction of federal legislation on the Canada Pension Plan (CPP) in 1998, the government ensured a balanced approach to the long-term sustainability of the CPP. These measures, along with the decision to maintain the Old Age Security and the Guaranteed Income Supplement programs through continued sound fiscal management, are a key part of the government's overall long-term strategy for sustaining the retirement income system. The first year of the 1998 to 2000 triennial review of the CPP was completed with the preparation of the 17^{th} actuarial report by the Chief Actuary. The report confirms a 9.9-per-cent contribution rate as sufficient to sustain the CPP over future decades. The contribution rate (half paid each by employees and employers) will rise in steps until it reaches its steady-state level of 9.9 per cent in 2003 and subsequent years.

Strategic Goals	Objectives	Targets set for 1999–2000 (unless otherwise indicated)
		In 1999, federal and provincial ministers of finance will review the financial state of the CPP in the light of the new actuarial report. Federal-provincial work continues on the review of other important issues to keep CPP in step with changing times. The Old Age Security/Guaranteed Income Supplement will continue to be monitored to ensure that it is financially sustainable.
Ensuring that the tax system contributes to a strong economy and society	Examine the report of the Technical Committee on Business Taxation including any proposals relating to the environment.	The recommendations of the report, including those relating to the environment, will be examined in conjunction with the department's ongoing analysis of possible options for improving the efficiency of the Canadian tax system. This work will continue throughout the 1999-2000 period, in parallel with the work currently under way to develop a National Implementation Strategy for addressing Canada's Kyoto target.
	Ongoing monitoring of current developments in the taxation of businesses in Canada and in other relevant foreign jurisdictions. Assess proposals to use the income tax system to achieve social and economic objectives.	Review recommendations from industry associations, OGDs, corporate taxpayers and provincial governments for changes to the income tax system. Participate in international forums as necessary to ensure that the Canadian tax system remains competitive and up-to-date.
Key Issue: Participating in the Global Economy		
Negotiating international environmental agreements	Analyse approaches for domestic action on climate change.	Work with OGDs to review the output of the issues tables for consideration in the National Implementation Strategy to address climate change.
Negotiating international trade and investment agreements	Work with the Department of Foreign Affairs and International Trade (DFAIT) on the relationship between trade and environment in the context of the OECD and the WTO.	Participate in the development of a Canadian position on the environment for forthcoming international trade negotiations.

Strategic Goals	Objectives	Targets set for 1999–2000 (unless otherwise indicated)
	Review requests to remove tariffs that may be a disincentive to the acquisition of environmental technology products.	Continue to undertake reviews of such requests as they are received.
Developing an environmental assessment framework for export credit agencies	With DFAIT, the Export Development Corporation (EDC) and through the OECD's Export Credit Group, actively promote the establishment of a multilateral framework for the environmental assessment of projects financed with official export credits.	Participation in the meeting of the OECD's Export Credit Group with DFAIT and the Export Development Corporation to encourage the acceptance of a multilateral approach to environmental assessments of export credit agencies' financed projects.
Involving international financial institutions	Press issue of sustainable development in the institutions for which Minister of Finance has primary responsibility.	To achieve sustainable development, progress needs to be made in poverty reduction, environmental protection, improved governance, reduction of unsustainable debt burdens and partnerships with civil society.
		The international financial institutions (IFIs) will need to ensure that policies to mitigate the social repercussions of the emerging market financial crisis are an upfront consideration in crisis management.
		The IMF will continue to adapt its programs to countries most affected by the emerging market financial crisis to alleviate the social costs of adjustment, including by strengthening the social safety net and encouraging a social dialogue among employers, employees and government.
		World Bank lending on the social sector was 30 per cent of total lending in 1998, of which lending to education and health, nutrition and population was 18 per cent of the total. We will be looking for a commitment from the Bank to further increase these numbers in 1999.
		The IFIs will need to increase their efforts to incorporate environmental concerns into policy dialogue with member countries.

Strategic Goals	**Objectives**	**Targets set for 1999–2000** (unless otherwise indicated)
		In cases where environmental issues have a significant bearing on domestic or external stability, IMF-supported programs may include a reform of the implementation of environmental policies necessary for the conservation and protection of the country's resources. The World Bank will continue to develop tools and methodologies to help integrate environmental principles into development planning. The European Bank for Reconstruction and Development (EBRD) is a project finance bank with the mandate to undertake activities that promote transition to a market economy and entrepreneurial initiative. While staying within this mandate, we will encourage the EBRD to pay greater attention to the social aspects of transition in project selection and to co-ordinate with the World Bank, as necessary, to mitigate these costs. We support increasing EBRD involvement in small- and medium-sized enterprises and micro finance, which have positive employment and development effects (employment of women) and bypass some of the systemic corruption problems in countries of operation. We will continue to ensure that EBRD project selection meets the highest standards of environmental due diligence and that staff at domestic financial institutions that lend EBRD funds are adequately trained to assess the environmental consequences of projects.
Key Issue: Greening Operations		
Adopting sustainable procurement practices	Reduce waste by 50 per cent by 2000 by diverting material away from the waste stream through the 3R principles (reduce, reuse, recycle). Review facilities engineering studies on energy efficiency.	Maintain existing measures to reach this objective. Reduce electricity consumption by 10 per cent.

Strategic Goals	**Objectives**	**Targets set for 1999–2000** (unless otherwise indicated)
Using effective communica-tions to underpin the department's greening initiatives	Increase employee awareness of sustainable development and identify ways employees and external parties can contribute to greener operations through: • developing a communications plan; • maintaining and enhancing awareness and enthusiasm through periodic reports of progress and success building primarily on the environmental information site on the intranet; and • exploring opportunities to co-ordinate communications with OGDs.	Where appropriate, the department's external communications complement its commitment to sustainable development. For example, efforts have been undertaken to highlight the department's important contributions to the economic, social and environmental aspects of sustainable development. The Consultations and Communications Branch will continue to play a key role in promoting ongoing policy initiatives such as environmental trusts, conservation of ecologically sensitive land, renewable and non-renewable resources, energy efficiency, and climate change.

Year 2000 Initiatives

The process of ensuring a smooth transition to the Year 2000 is well in hand for the department. Not much work remains to be done other than to continue to be vigilant, have all required contingency plans developed and in place, and to upgrade any non-compliant software. Our major milestone is to have all Year 2000 repair work completed and tested by June 30, 1999.

Section IV: Supplementary Information

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

Vote	(thousands of dollars)	**1999–2000 Main Estimates**	1998–99 Main Estimates
	Economic, Social and Financial Policies Program		
1	Program expenditures	**68,307**	70,818
5	Grants and contributions	**297,300**	281,200
(S)	Minister of Finance – Salary and motor car allowance	**49**	49
(S)	Payments to International Development Association	**361,300**	267,000
(S)	Contributions to employee benefit plans	**8,548**	8,709
(S)	Purchase of Domestic Coinage	**49,000**	38,000
	Item not required		
-	Payments to International Monetary Fund's Enhanced Structural Adjustment Facility	**–**	50,200
	Total Budgetary	**784,504**	715,976
L10	Issuance of demand notes to the International Development Association	**–**	–
L15	Payments to the European Bank for Reconstruction and Development	**7,460**	9,050
(S)	Issuance of loans to International Monetary Fund's Enhanced Structural Adjustment Facility	**161,000**	119,000
(S)	Loan to the Bank of Thailand	**104,039**	–
	Appropriation not required		
-	Payments in respect of Canada's equity interest in the Hibernia Project	**–**	12,000
	Total Non-budgetary	**272,499**	140,050
	Total Program	***1,057,003***	*856,026*
	Public Debt Program		
(S)	Interest and Other Costs	**42,500,000**	43,500,000
	Total Program	***42,500,000***	*43,500,000*
	Federal-Provincial Transfers Program		
20	Transfer Payments to the Territorial Governments	**1,299,000**	1,134,000
(S)	Statutory Subsidies (*Constitution Acts, 1867–1982,* and Other Statutory Authorities)	**30,000**	30,000
(S)	Fiscal Equalization (Part 1 - *Federal-Provincial Fiscal Arrangements Act*)	**9,288,000**	8,482,000
(S)	Canada Health and Social Transfer (Part V – *Federal-Provincial Fiscal Arrangements Act*)[1]	**12,500,000**	11,626,000
(S)	Youth Allowances Recovery (*Federal-Provincial Fiscal Revision Act, 1964*)	**(498,000)**	(494,000)
(S)	Alternative Payments for Standing Programs (Part VI – *Federal-Provincial Fiscal Arrangements Act*)	**(2,251,000)**	(2,241,000)
	Item not required		
-	Grant to the Province of Newfoundland and Labrador	**–**	40,000
	Total Program	***20,368,000***	*18,577,000*
	Total Department	**63,925,003**	62,933,026

[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 including the tax portion of the transfer:

	($ thousands)
Total Cash Transfer Payments – Main Estimates	$12,500,000
Plus Tax Transfers	$13,891,000
Total	$26,391,000

Personnel Information

Table 2.1: Organizational Structure

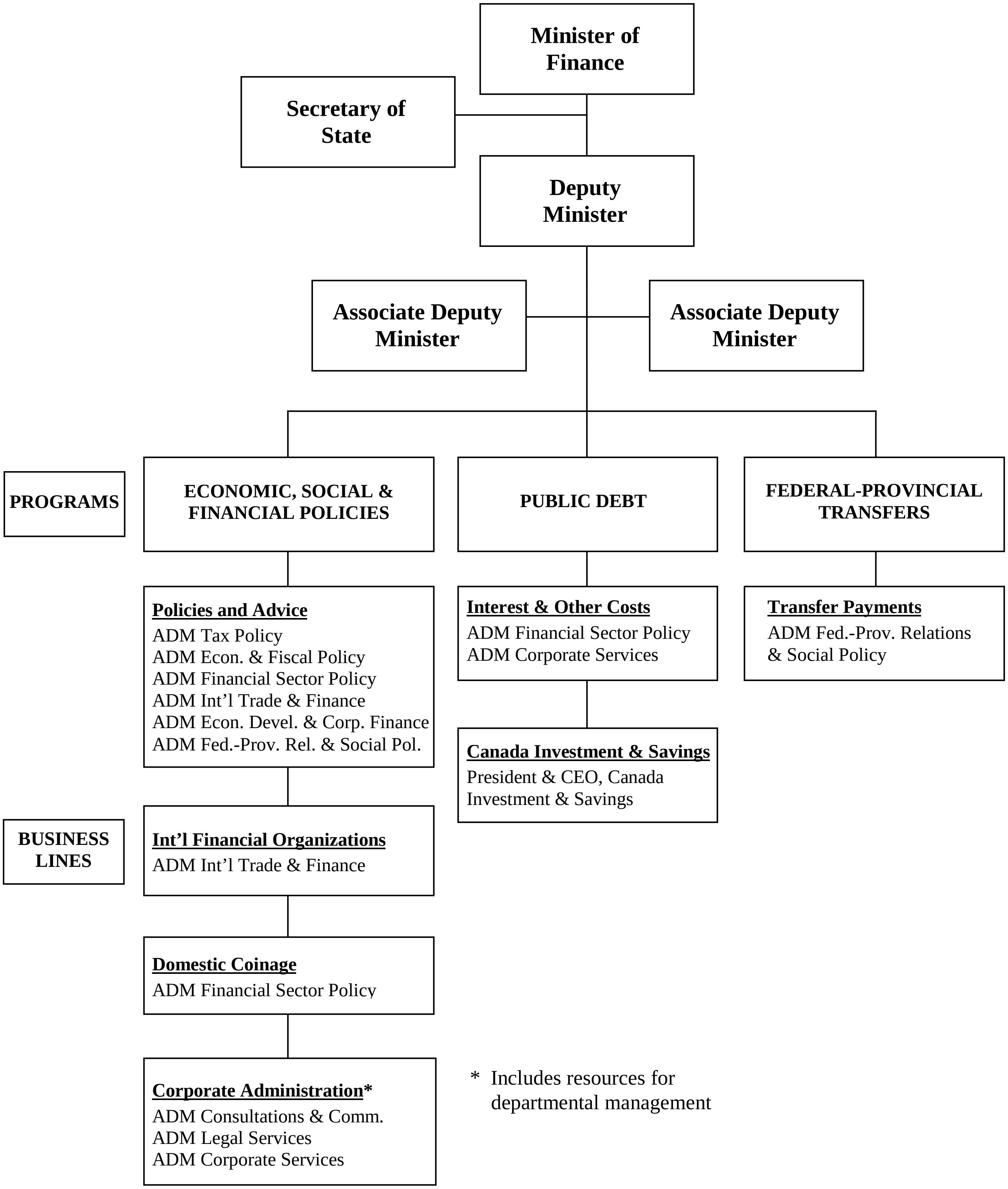


Table 2.2: Planned Full-time Equivalents (FTEs) by Program and Business Line

	Forecast 1998–99	**Planned 1999–2000**	Planned 2000–01	Planned 2001–02
Economic, Social and Financial Policies Program				
Policies and Advice	491	**477**	452	452
Corporate Administration	215	**220**	214	214
Total Department	706	**697**	666	666

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.

Additional Financial Information

Table 3: Departmental Summary of Standard Objects of Expenditure

($ millions)	Forecast Spending 1998–98	**Planned Spending 1999–2000**	Planned Spending 2000–01
Personnel			
Salaries and Wages	43.2	**42.7**	40.9
Contributions to employee benefit plans	8.7	**8.5**	8.2
Sub-total	51.9	**51.2**	49.1
Goods and Services			
Transportation and communications	6.3	**5.6**	5.1
Information	9.9	**5.8**	5.2
Professional and special services	17.7	**12.6**	11.5
Rentals	1.1	**0.6**	0.5
Purchased repair and maintenance	0.8	**2.1**	1.9
Domestic Coinage	38.0	**49.0**	44.0
Utilities, materials and supplies	2.4	**2.9**	2.7
Minor capital	1.8	**2.5**	2.3
Sub-total	78.0	**81.1**	73.2
Total Operating	129.9	**132.3**	122.3
Transfer Payments			
Voted	1,660.2	**1,596.3**	1,621.3
Statutory	24,436.4	**19,430.3**	20,785.8
Total Transfer Payments	26,096.6	**21,026.6**	22,407.1
Public Debt Charges	41,400.0	**42,500.0**	43,300.0
Gross Budgetary Expenditures	67,626.5	**63,658.9**	65,829.4
Less: Revenue Credited to the Vote	6.0	**6.4**	7.0
Net Budgetary Expenditures	67,620.5	**63,652.5**	65,822.4
Non-budgetary (Loans, Investments and Advances)	766.0	**276.8**	14.0
Total	68,386.5	**63,929.3**	65,836.4

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

		Budgetary			Non-Budgetary			
($ millions)	FTEs	Operating	Grants, Contributions & Other Transfer Payments	Statutory Items	(Loans, Investments & Advances)	Gross Planned Spending	Less: Revenue Credited to the Vote	Net Planned Spending
Economic, Social & Financial Policies								
Policies & Advice	477	46.3				46.3	(0.6)	**45.7**
Int'l Financial Organizations			297.3	361.3	276.8	935.4		**935.4**
Domestic Coinage		49.0				49.0		**49.0**
Corporate Administration	220	37.0				37.0	(5.8)	**31.2**
Total Program	**697**	**132.3**	**297.3**	**361.3**	**276.8**	**1,067.7**	**(6.4)**	**1,061.3**
Public Debt Program								
Interest and Other Costs		42,335.5				42,335.5		**42,335.5**
Canada Investment & Savings		164.5				164.5		**164.5**
Total Program		**42,500.0**				**42,500.0**		**42,500.0**
Federal-Provincial Transfers Program								
Transfer Payments*			1,299.0	19,069.0		20,368.0		**20,368.0**
Total Program			**1,299.0**	**19,069.0**		**20,368.0**		**20,368.0**
Total Department	**697**	**42,632.3**	**1,596.3**	**19,430.3**	**276.8**	**63,935.7**	**(6.4)**	**63,929.3**

* Cash portion

Table 5: Transfer Payments by Program and Business Line

($ millions)	Forecast Spending 1998–99	**Planned Spending 1999–2000**	Planned Spending 2000–01
Grants			
International Financial Organizations	110.2	**127.3**	127.3
Federal-Provincial Transfer Payments (cash portion)	40.0	**–**	–
Total Grants	150.2	**127.3**	127.3
Contributions			
International Financial Organizations	171.0	**170.0**	170.0
Total Contributions	171.0	**170.0**	170.0
Other Transfer Payments			
International Financial Organizations	370.4	**361.3**	387.8
Federal-Provincial Transfer Payments (cash portion)	25,405.0	**20,368.0**	21,722.0
Total Other Transfer Payments	25,775.4	**20,729.3**	22,109.8
Total Transfer Payments	26,096.6	**21,026.6**	22,407.1

Table 6: Revenue by Program

($ millions)	Forecast Revenue 1998–99	**Planned Revenue 1999–2000**	Planned Revenue 2000–01	Planned Revenue 2001–02
Revenue Credited to the Vote				
Economic, Social and Financial Policies Program	6.0	**6.4**	7.0	6.1
Total Credited to the Vote	6.0	**6.4**	7.0	6.1
Revenue Credited to the Consolidated Revenue Fund (CRF)				
Economic, Social and Financial Policies Program	99.0	**103.5**	110.3	108.5
Total Credited to the CRF	99.0	**103.5**	110.3	108.5
Total Revenue	105.0	**109.9**	117.3	114.6

Table 7: Net Cost of Programs for Estimates Year

($ millions)	**Economic, Social & Financial Policies Program**	**Public Debt Program**	**Federal-Provincial Transfers Program**	**Total**
Gross Planned Spending	**1,067.7**	**42,500.0**	**20,368.0**	**63,935.7**
Plus:				
Services Received without Charge				
Accommodation provided by Public Works and Government Services Canada (PWGSC)	5.5			**5.5**
Contributions covering employees' share of insurance premiums and costs paid by TBS	2.3			**2.3**
Workman's compensation coverage provided by Human Resources Development Canada	4.7			**4.7**
Salary and associated costs of legal services provided by the Department of Justice Canada	1.2			**1.2**
Total Cost of Programs	**1,081.4**	**42,500.0**	**20,368.0**	**63,949.4**
Less:				
Revenue Credited to the Vote	6.4			**6.4**
Revenue Credited to the CRF	103.5			**103.5**
Total Revenue	**109.9**			**109.9**
1999–2000 Estimated Net Program Cost	**971.5**	**42,500.0**	**20,368.0**	**63,839.5**

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

($ millions)	Forecast Spending 1998–99	**Planned Spending 1999–2000**	Planned Spending 2000–01	Planned Spending 2001–02
Economic, Social and Financial Policies Program				
International Financial Organizations	754.0	**276.8**	14.0	16.2
Special Projects – Hibernia	12.0	**–**	–	–
Total	766.0	**276.8**	14.0	16.2

OTHER INFORMATION

Table 9: Listing of Statutes

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

Financial Administration Act	(R.S.C. 1985, c. F-11)
Fisheries Improvement Loans Act	(R.S.C. 1985, c. F-22)
Garnishment, Attachment and Pension Diversion Act	(R.S.C. 1985, c. G-2)
Income Tax Act	[R.S.C. 1985, c. 1 (5th Supp.]
Income Tax Conventions Interpretation Act	[(R.S.C. 1985, c. I-4)]
Insurance Companies Act	(1991, c. 47, unofficial I-11.8)
Interest Act	(R.S.C. 1985, c. I-15)
International Development (Financial Institutions) Assistance Act	(R.S.C. 1985, c. I-18)
Maritime Provinces Additional Subsidies Act	(1942-43, c. 14)
Members of Parliament Retiring Allowance Act	(R.S.C. 1985, c. M-5)
Newfoundland Additional Financial Assistance Act	(R.S.C. 1985, c. N-23)
Office of the Superintendent of Financial Institutions Act	[R.S.C. 1985, c. 18 (3rd Supp.), Part I, unofficial F-11.3 (Part I)]
Pension Benefits Standards Act	(R.S.C. 1985, c. P-7)
Provincial Subsidies Act	(R.S.C. 1985, c. P-26)
Public Service Superannuation Act	(R.S.C. 1985, c. P-36)
Public Utilities Income Tax Transfer Act	(R.S.C. 1985, c. P-37)
Residential Mortgage Financing Act	(R.S.C. 1985, c. R-6)
Special Import Measures Act	(R.S.C. 1985, c. S-15)
Spending Control Act	(1992, c.19, unofficial S-15.4)
St. Lawrence Seaway Authority Act	(R.S.C. 1985, c. S-2)
Small Business Loans Act	(R.S.C. 1985, c. S-11)
Supplementary Retirement Benefits Act	(R.S.C. 1985, c. S-24)
Trust and Loan Companies Act	(1991, c. 45, unofficial T-19.8)

Table 10: References

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