

Budget 2003

Improving Expenditure Management and Accountability



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Building the Canada We Want

Thanks to the efforts and sacrifices of Canadians everywhere, Canada is enjoying the benefits of a thriving economy. Our nation led the G7 in growth last year and is expected to do the same in 2003.

Budget 2003 recognizes the critical link between social and economic policy and continues the Government's balanced approach to managing the nation's finances. This approach plays a critical role in building the Canada that all Canadians want for the future. It does so in three ways:

- **building the society Canadians value** through investments in individual Canadians, their families and communities;
- **building the economy Canadians need** by promoting productivity and innovation while staying fiscally prudent; and
- **building the accountability Canadians deserve** by making government spending more transparent and accountable.

Highlights

- **Reallocation:** The Government is implementing its commitment in the October 2002 *Economic and Fiscal Update* to reallocate funding from lower to higher priorities.
 - The Government will launch an ongoing examination of all non-statutory programs on a five-year cycle under the leadership of the Treasury Board, drawing on the experience of the 1994 Program Review. The goals will be to ensure that government programs continue to be relevant, effective and affordable.
 - The Government will reallocate \$1 billion per year from existing spending programs, beginning in 2003–04. This will fund close to 15 per cent of the costs of the new initiatives announced in this budget over the next two years.
- **Accrual Accounting:** Beginning with this budget, the Government will implement its commitment to present its financial statements on a full accrual accounting basis.
 - Under full accrual accounting, the Government will provide a more comprehensive accounting of its assets and liabilities, presenting a more transparent picture of the Government's financial position and enhancing accountability, the management of liabilities and the stewardship of assets.
 - Implementing full accrual accounting responds to a long-standing recommendation of the Auditors General of Canada.
- **Accountability of Foundations:** The Government will make a number of changes to improve the accountability and governance arrangements of arm's-length foundations. This, in combination with clarifying the policy principles underlying the use of foundations, will ensure their continued effective use.
- **Accountability to Parliament:** To reinforce accountability and transparency in public reporting, the Government will continue to improve the relevance, timeliness and clarity of the information it provides to Parliament.

- **Canada Health Transfer:** As part of the 2003 First Ministers' Accord on Health Care Renewal, the Government will implement a new Canada Health Transfer and a new Canada Social Transfer effective April 1, 2004, to improve the transparency and accountability of monies transferred for health care.
- **Employment Insurance (EI) Contribution Rate Setting:** With this budget:
 - The Government will reduce the EI employee contribution rate for 2004 to \$1.98 per \$100 of insurable earnings. This is the 10th reduction in the rate since 1994.
 - As well, the Government will consult on a new EI rate-setting regime for 2005 and beyond, based on the principles of transparency and of balancing premium revenues with expected program costs.
- **Strengthening Investor Confidence:** This budget advances the Speech from the Throne commitment to improve regulations and to help foster a healthy marketplace and inspire confidence among investors by strengthening enforcement against securities and corporate fraud offences.
- **Air Travellers Security Charge:** This budget follows up on the Government's commitment to review the Air Travellers Security Charge to ensure that revenue from the charge remains in line with planned expenditures for the enhanced air travel security system through 2006–07.
 - As a result of that review, and reflecting the impact of the move to full accrual accounting in this budget, the Government will reduce the charge on flights within Canada by over 40 per cent, from \$12 to \$7 for one-way travel and from \$24 to \$14 for round-trip travel.
- **Debt Servicing and Reduction Account:** Legislation to terminate the Debt Servicing and Reduction Account, as recommended by the Auditor General, will be introduced.
- **User Charging and Cost Recovery:** The President of the Treasury Board will set out the principles for improved management practices relating to user charging and cost recovery. The new policy will include annual reporting of revenues and performance information to stakeholders and Parliament.

Introduction

The Government has been successful in keeping the country on a sound financial footing by maintaining balanced budgets for six consecutive years since 1997–98. It has achieved this through a balanced approach to spending growth and debt and tax reduction. However, as the Minister of Finance said in the October 2002 *Economic and Fiscal Update*, “...sound fiscal management means more than simply avoiding deficits and reducing debt. It also means managing tax dollars well and responsibly, and delivering cost-effective and efficient government services.”

Sound fiscal management requires continually reassessing the value of existing programs so that the Government can reallocate resources from low priorities to high priorities. It also requires continually looking for new, more cost-effective ways to deliver government programs. And it means being transparent about how Canadians’ tax dollars are being spent so that the Government can be fully accountable to Canadians.

Controlling total expenditure growth contributed significantly to bringing the budget into balance in 1997–98 after almost three decades of uninterrupted deficits, and has helped to keep it in balance since then. This has allowed the Government to reduce debt and invest in key social and economic priorities, while at the same time implementing the largest tax cuts in Canadian history. The Program Review process, during which the Government reassessed its programs to identify those that no longer served a national purpose or could be delivered more efficiently through other means, was an important contributor to controlling expenditure growth.

With this budget, the Government is undertaking new measures to better manage taxpayers’ dollars, building on the experience of Program Review. These initiatives include launching an ongoing review of the relevance and efficiency of government programs, and reallocating resources from across government to highest priority areas.

Greater accountability will further support the Government’s effort to improve the management of taxpayers’ dollars. It will support better decision making and greater efficiency. This booklet describes the Government’s plans to enhance accountability to Canadians. These include: more comprehensive and up-to-date financial reporting; clearer transparency and accountability for transfer payments to the provinces and territories in support of health care; enhanced accountability for non-governmental foundations; clear rate-setting processes for non-tax revenues including employment insurance (EI) contributions, the Air Travellers Security Charge and user charges; and measures to improve investor confidence by strengthening enforcement against securities and corporate fraud offences.

Commitment to Expenditure Reallocation and Sound Program Management

Sound fiscal management means more than simply avoiding deficits and reducing debt. It also means managing tax dollars well and responsibly, and delivering cost-effective and efficient government services. With this budget, the Government is increasing its efforts to reassess government programs on an ongoing basis, reallocate its spending and deliver cost-effective and efficient government services.

Reallocation and Efficiency Improvement: Experience to Date

In the 1994 budget the Government announced the Program Review initiative. The purpose of that review was to identify those programs that no longer served a national purpose or could be delivered more efficiently through other means. The initial results of the review were detailed in the 1995 budget. Program Review was recognized not only as a tool to achieve short-term spending reductions, but also as an opportunity to “get government right.” The Government now wants to build on the principles that underpinned Program Review and incorporate them into an ongoing review process.

Since balancing the budget the Government has introduced new program spending in a number of key priority areas. Incremental operating and capital funding has also been provided to departments and agencies in a limited number of areas that were regarded as essential to the health and safety of Canadians or critical to the sustainability of high quality public services. For the most part, however, departments and agencies have been required to absorb workload and price increases from within their existing budgets and have had to review their existing spending and to reallocate and prioritize on a continual basis.

The capacity of the Government to deliver high quality services for the 21st century depends on a public service that is innovative, dynamic and reflective of the country’s diversity—one that is able to attract and develop the talent required. For this reason, the President of the Treasury Board recently tabled legislation to modernize the Public Service of Canada, for what resources have been provided.

Reallocations and Efficiency Improvements: Renewing Government Efforts

The 2002 Speech from the Throne announced that the Government would renew its efforts to “... reallocate resources to the highest priorities and transform old spending to new purposes.” This budget follows through on that commitment.

The Government will make reallocation from lower to higher priorities an integral part of the way it manages. To that end, the Treasury Board will lead a systematic and ongoing examination of all non-statutory government programs, drawing on the experience of the 1994 Program Review exercise. The goals will be to ensure that government programs continue to be relevant, effective and affordable. Over a five-year cycle the Treasury Board will challenge all departments and agencies about their programs using the following tests:

- Does the program area or activity continue to produce results that reflect government priorities and the current needs of Canadians—is it still relevant?
- Value for money: Are the resources that have been allocated being used in the most efficient and effective way to deliver appropriate results?
- Is it necessary for the federal government to operate this program or activity—could it be transferred in whole or in part to other levels of government or to the private or voluntary sector?
- What are the interrelationships with other organizations and what is the scope for considering more effective program structures and service delivery arrangements—within the federal government, with other levels of government, as well as with the private and voluntary sectors?
- Are department and agency management practices appropriate and of sufficient quality?

In addition to these departmentally focused reviews, the Treasury Board will also identify a number of “horizontal” reviews, where the issues to be addressed cut across a number of departments. The Treasury Board will ensure that departmental Reports on Plans and Priorities or Performance Reports adequately inform Parliament of the outcomes of these expenditure reviews.

Ongoing reviews of expenditures will give the Government the capacity to reallocate resources from lower to higher priority areas reflecting the changing needs of Canadians, and will ensure that departments continually look for ways to deliver their programs in the most cost-effective manner.

To demonstrate its commitment to reallocating spending and improving efficiency, the Government will reallocate \$1 billion from existing spending beginning in 2003–04 to fund higher government priorities. This reallocation will be permanent and represent about 15 per cent of the cost of the new initiatives announced in this budget over the next two years.

The Treasury Board will work with departments and agencies to identify lower priority programs that can be eliminated or reduced. Details of the reallocation will be announced by the President of the Treasury Board in early May. In the event that these measures do not generate the amount of savings needed, the Treasury Board will require departments and agencies to contribute from their operating and transfer budgets to make up for the shortfall.

Significant new resources are being allocated in this budget to address the priority needs of Canadians. The Treasury Board will have the authority to reduce the funding released to departments and agencies for these measures if it determines that the actual program financing needed to meet the program's objectives as set out in the budget turns out to be less than currently estimated.

As part of its ongoing review of programs, the Treasury Board will continue to examine the scope for reallocating from lower to higher priorities and may adjust departmental and agency budgets accordingly.

Implementing Full Accrual Accounting

As recommended by the Auditor General, and beginning with this budget, the Government will adopt full accrual accounting as its accounting standard, replacing the modified accrual standard it had been using since the mid-1980s. Under full accrual accounting, the Government's financial statements will provide a more comprehensive and up-to-date picture of the Government's financial situation.

The auditing standards body and the Auditor General strongly support the implementation of full accrual accounting by the Government of Canada.

- The Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, which recommends accounting standards for senior levels of government, urges all governments in Canada to adopt full accrual accounting.
- The Auditor General has strongly recommended full accrual accounting as "...superior to the Government's current accounting policies."

The Government announced its commitment to full accrual accounting in the 1995 budget. The Auditor General encouraged the Government to resolve any issues impeding the introduction of full accrual accounting, and to implement it for the 2002–03 financial statements. After extensive consultations with the Office of the Auditor General, the Government is confident that it has sufficient assurance as to the reliability of the accrual accounting amounts that it can now proceed in this budget.

Implementing full accrual accounting will improve transparency and accountability because:

- The Government's balance sheet will provide a more comprehensive picture of the Government's assets and liabilities. For example, the value of the buildings that the Government owns will appear on its balance sheet for the first time, as will its liabilities for cleaning up contamination on its properties.
- The annual budgetary balance will better reflect the impact of economic events and government decisions during the fiscal year. For example, year-to-year changes in recorded tax revenues will more accurately reflect the year-to-year changes in the tax base and tax rates, as these changes will be much less affected by collection and remittance lags.
- The annual budgetary balance will better reflect the impact of government decisions during the fiscal year. In particular, government decisions that cause an increase (or decrease) in the Government's liabilities for environmental clean-ups in areas of federal jurisdiction, potential liabilities related to Aboriginal claims, and post-employment and retirement benefits for federal employees will be recorded as expenditures in the year in which the decision was made. Under modified accrual accounting, the full costs of some of these decisions would not be shown in the Government's financial statements until the resulting cash payments were made many years later.

Implementing full accrual accounting will provide new information that can be used to improve government decision making in the following ways:

- As full accrual accounting recognizes the value of the Government's physical assets in its financial statements, it will encourage the development of better policies for maintaining those assets and better decisions about whether to buy, lease or sell buildings and equipment.
- Full accrual accounting will show more accurately the cost of owning and operating capital equipment, providing a better picture of the cost of providing some programs and services.
- More complete recording of the Government's liabilities will encourage departments to develop better plans for managing those liabilities.

The shift to full accrual accounting affects tax revenues and the valuation of liabilities and non-financial assets, thereby leading to some changes in the budgetary balance in all years.

- For example, under full accrual accounting, tax revenues are accounted for in the period to which they relate, not when they are received, as was the case under modified accrual. Largely due to the accrual of tax revenues, the budgetary surplus for 2001–02 has been reduced by \$0.7 billion to \$8.2 billion.
- Full accrual accounting changes the figure for debt because additional liabilities are fully recognized, and non-financial assets, such as government buildings, are now included.

A complete description of the impact of the change to full accrual on the budgetary balance and the federal debt is presented in Annex 6 of *The Budget Plan*. This annex presents financial data for the period 1993–94 to 2001–02 on the new basis and includes a comparison to the previous financial data, which were prepared on a modified accrual basis.

The Accountability of Foundations

In 1997 the Government introduced a new approach to meeting the needs of Canadians—foundations. Foundations use up-front endowment funding and independent arm’s-length boards of directors made up of experienced and knowledgeable individuals. Their arm’s-length nature, financial stability and focused expertise allow them to address specific challenges in a highly effective, non-partisan manner. As a result, foundations have become important tools for implementing policy, in particular in areas such as research and development and education, where expert knowledge, third-party partnerships and stable long-term funding are especially important.

To clarify the circumstances under which foundations are used by the Government, this budget sets out principles which the Government would consider in using a foundation to deliver public policy:

- Foundations should focus on a specific area of opportunity, in which policy direction is provided generally through legislation and/or a funding agreement.
- Foundations should harness the insight and decision-making ability of independent boards of directors with direct experience in and knowledge about the issues at stake.
- Decisions by foundations should be made using expert peer review.

- Foundations should be provided with guaranteed funding that goes beyond the annual parliamentary appropriations to give the foundations the financial stability needed for the comprehensive medium- and long-term planning that is essential in their specific area of opportunity.
- Foundations should have the opportunity and hence the ability to lever additional funds from other levels of government and the private sector.

These policy principles are consistent with the Treasury Board's new Policy on Alternative Service Delivery, which came into effect on April 1, 2002.

A key ingredient of the success of foundations is their independence. However, this has led to some concern as to their transparency and accountability. Current funding agreements with foundations specify their mandates and the conditions under which they operate. Further, directors are fully responsible for the actions of foundations, and all foundations are subject to annual independent audits of their financial statements.

As part of its ongoing effort to improve transparency and accountability, the Government will make a number of changes to improve the accountability of foundations to Canadians and parliamentarians.

Parliamentary Approval: The Government is taking steps to ensure that the establishment and funding of foundations is adequately reviewed by Parliament.

- The Government is committed to parliamentary approval of purpose and funding through direct legislation for those foundations that are significant either from a policy or financial perspective. In all cases Parliament will need to approve funding for foundations. As noted above, the Government's use of foundations will respect the requirements of the Treasury Board's Policy on Alternative Service Delivery.

Public Reporting: To improve the transparency and therefore the accountability of foundations to the public, the Government will take the following steps:

- Foundations will be required to provide corporate plans annually to the Minister responsible for administering the funding agreement over the duration of the agreement. Such corporate plans will include planned expenditures, objectives and performance expectations relating to the federal funding. Summaries of these plans will be made public by the responsible Minister and provided to Parliament.
- In addition, the departmental Reports on Plans and Priorities, which are tabled in Parliament, will incorporate the significant expected results to be achieved by the relevant foundations and situate these within the

Department's overall plans and priorities. As well, the Department responsible for administering the funding agreement will report on the significant results achieved by the foundation(s) in its Departmental Performance Report for the duration of the funding agreement and situate these within the Department's overall results achieved.

- The Annual Report for each foundation, including relevant performance reporting, audited financial statements and evaluation results, will be presented to the Minister responsible for the funding agreement and made public. The Annual Reports of foundations created explicitly through legislation will be tabled in Parliament by the responsible Minister.
- All foundations' Annual Reports will contain performance information as well as audited financial statements prepared in accordance with Generally Accepted Accounting Principles. As foundations are independent, not-for-profit organizations that have their own governance structures and members, it is the members, as "shareholders" of the foundation, who appoint their external auditor and to whom the external auditor reports.

Compliance With Funding Agreements: The accountability of foundations will be further enhanced through the following measures:

- Foundations will be required to conduct independent evaluations, present these to the Minister responsible and make them public. Departments will incorporate any significant findings in their annual Departmental Performance Reports, which are tabled annually in Parliament.
- Funding agreements reached with foundations arising from the 2001 budget contain provisions for independent audits of compliance with funding agreements and for program evaluations. There will also be provisions for intervention in the event the responsible Minister feels there have been significant deviations from the terms of the funding agreement. The provisions will provide for dispute resolution mechanisms.
- Further, in all new funding agreements provisions will be put in place so that the responsible Minister may, at his/her discretion, recover unspent funds in the event of winding up.

The above is on a going-forward basis. The Government will also consult with existing foundations to explore making changes to their agreements with the Government to incorporate these new requirements.

The adoption of these requirements addresses many of the issues about accountability of foundations that were raised in the April 2002 *Report of the Auditor General of Canada*. For further information, see Annex 8 of *The Budget Plan*.

Improving Reporting and Accountability to Parliament

Canadians have a right to know what is achieved through the use of their tax dollars. To reinforce accountability and transparency in public reporting, the Government will continue to improve the relevance, timeliness and clarity of the information it provides to Parliament. More specifically, the Treasury Board will:

- Make greater use of electronic reporting on expenditures and the results achieved by government programs and activities.
- Ensure that departmental Reports on Plans and Priorities or Performance Reports adequately inform Parliament of the outcomes of the expenditure reviews that the Treasury Board is launching.
- Review the use of the Treasury Board Contingency Vote (Vote 5) and how it is reported in Parliament.

In addition, in consultation with parliamentarians, parliamentary committees and the Auditor General, the Government will identify opportunities to improve parliamentary reporting in order to better meet the needs of parliamentarians and the public. These actions will ensure high standards in the management and delivery of public programs and services.

The Accountability of Health Transfers

The 2003 First Ministers' Accord on Health Care Renewal set out an action plan to ensure that all Canadians have timely access to quality health care on the basis of need and not ability to pay. The Accord established a new accountability framework, manifested through the creation of a Health Council to report regularly to Canadians on the quality of their health care system.

Enhanced accountability and improved performance reporting are essential to reassuring Canadians that reforms are occurring and that the quality health care system Canadians demand is being provided in a cost-effective, affordable and sustainable manner. First ministers agreed to report to their residents on health programs and services, health system performance, health outcomes and health status, as well as their use of all health care dollars.

The new Health Council will publicly report through federal, provincial and territorial health ministers, providing comprehensive information on the access, quality, efficiency and effectiveness of the reform priorities and objectives of the 2003 Accord.

To improve the transparency and accountability of federal support to provinces and territories, first ministers have agreed that the Canada Health and Social Transfer will be restructured, while maintaining the important commitments to the five principles of medicare, the prohibition against minimum periods of residency requirements, and the flexibility provided to provinces and territories for program design and delivery (see Chapter 3 of *The Budget Plan* for details).

Effective April 1, 2004, the federal government will create two new transfers: the Canada Health Transfer (CHT) in support of Canada's health care system, and a Canada Social Transfer in support of post-secondary education, social assistance and social services, including early childhood development.

The CHT will make transparent the federal government's long-term contribution to health care, consistent with the Auditor General's recommendation that the federal government "provide sufficient information to Parliament to allow for informed debate on future health care funding."

Employment Insurance Premium Rates

During pre-budget consultations a number of stakeholders asked the Government to develop a more transparent and sustainable process for setting EI contribution rates. In response, the Government will consult on a new permanent rate-setting regime for 2005 and beyond.

The following rate-setting principles, which are largely based on the pre-budget recommendations of the 1999 report of the Standing Committee on Finance, will form the basis for the consultations:

- premium rates should be set transparently;
- premium rates should be set on the basis of independent expert advice;
- expected premium revenues should correspond to expected program costs;
- premium rate setting should mitigate the impact on the business cycle; and
- premium rates should be relatively stable over time.

Interested parties can provide submissions to the Government of Canada until June 30, 2003. Legislation to implement the results of the consultations will be introduced in time to have the new rate-setting regime in place for 2005.

To provide employers and employees with certainty about contribution rates until that time, the Government proposes to set the employee premium rate for 2004 at \$1.98 by legislation. Based on the private sector economic forecasts used in the budget, it is estimated that this rate would generate premium revenues equal to projected program costs for 2004. This takes into account the proposed compassionate family care leave benefit described in Chapter 3 of *The Budget Plan*.

The EI premium rate has declined each year from \$3.07 in 1994 to \$2.10 in 2003. The proposed rate of \$1.98 for 2004 would be the 10th consecutive reduction in EI premiums since 1994 (see Table 1). Thus, over the 10-year period from 1994 to 2004, the EI premium rate will have been reduced by over a third. These reductions in the EI premium rate will result in ongoing annual savings to employers and employees of \$9.7 billion in 2004, compared to the 1994 rate.

Table 1

Evolution of Employment Insurance Premiums Since 1994

Year	Premium rate per \$100 of insurable earnings	
	Employee	Employer
1994	3.07	4.30
1995	3.00	4.20
1996	2.95	4.13
1997	2.90	4.06
1998	2.70	3.78
1999	2.55	3.57
2000	2.40	3.36
2001	2.25	3.15
2002	2.20	3.08
2003	2.10	2.94
2004	1.98	2.77

Regulation and Investor Confidence

A well-functioning economy and society require regulatory policies that both safeguard the public interest and provide an environment within which individual and corporate entrepreneurship can flourish. Accountability demands that governments update regulatory frameworks to ensure that these objectives are continually met in a world of increased globalization and competition and changing investor expectations.

Investor Confidence

Investor confidence in the integrity of capital markets is critical to a well-functioning economy. The Government has been working closely with provincial governments, regulators and the private sector to bolster investor confidence and improve the efficiency and integrity of Canadian capital markets.

A number of actions have been taken, including the establishment of the Canadian Public Accountability Board, to provide greater oversight of public company auditors. A comprehensive record of actions taken to date in Canada is available on the Department of Finance Web site at http://www.fin.gc.ca/activty/pubs/fcccm_e.html.

Strengthening Corporate Governance

One of the key elements of instilling investor confidence is good corporate governance within Canadian public companies. Canada must aim for the highest standards. We must ensure that our stock exchange guidelines and requirements, our securities laws and our corporate laws provide a sound framework. Our companies and executives must strive to implement best practices.

This means, for example, that a board of directors must be sufficiently independent from management to fulfill its oversight function, that the audit committee of the board must be independent to ensure a proper audit and disclosure of the company's financial position, and that management must be held accountable for its actions.

The federal government has a direct role in this area. In the coming months it will propose actions to strengthen the corporate governance standards in the Canada Business Corporations Act and financial institutions statutes. These proposals will take into account what is being done elsewhere, particularly by the provincial governments, securities commissions and stock exchanges, as well as the ongoing work of the Senate Committee on Banking, Trade and Commerce.

Strengthening Enforcement

Investor confidence also depends on strong enforcement. Effective laws, and effective enforcement of the laws governing capital markets and the behaviour of players in those markets, are essential to providing a deterrent to actions that undermine investor trust. In Canada enforcement of laws governing corporate and securities activities is a shared responsibility, involving the federal government, provincial governments and securities regulators.

This budget announces a coordinated national enforcement approach to strengthen the investigation and prosecution of the most serious corporate frauds and market illegalities. These kinds of offences are often interprovincial and international in nature, thus requiring specialized resources in order to investigate and prosecute them effectively. This budget provides up to \$30 million a year for this new national enforcement effort.

To strengthen investigations, integrated teams of investigators, forensic accountants and lawyers will be established in the key financial centres across Canada. These teams will focus on the most serious cases of corporate fraud and market illegality, and will work closely with securities regulators and provincial and local police. The teams will be jointly managed by the Royal Canadian Mounted Police and partner agencies.

To enhance the ability of governments in prosecutions, the Government plans to introduce new legislation to modernize offences, permit targeted evidence-gathering, and signal the seriousness of corporate fraud offences through tailored sentencing structures. The legislation could, after further consultations have been conducted with the provinces and other key stakeholders, provide the federal government with concurrent jurisdiction with the provinces to prosecute serious criminal securities and corporate fraud offences. Resources are provided in this budget to support related prosecutions.

Securities Regulation

As announced in the Speech from the Throne, the Government is committed to working with provincial governments and market participants to ensure that Canada has the modern and efficient securities regulatory system needed to remain competitive in today's global marketplace. In October 2002 the Minister of Finance appointed Harold MacKay as his Special Representative on Canadian securities regulation, and asked him to recommend a process for improving the current system of securities regulation.

In his report Mr. MacKay noted there was consensus among stakeholders for significant and immediate improvements, and recommended that the federal government and interested provinces establish a Wise Persons' Committee. The Committee would undertake a review of securities regulation in Canada and recommend a regulatory model that best meets Canada's needs. The Government is committed to establishing such a Wise Persons' Committee shortly to provide such expert advice to federal and provincial governments.

Smart Regulation Strategy for Government

In the 2002 Speech from the Throne, the Government announced a smart regulation strategy that would promote health and sustainability, contribute to innovation and economic growth and reduce the administrative burden on business. This budget provides \$4 million over two years to create an External Advisory Committee to recommend areas where the Government needs to redesign its regulatory approach to create and maintain a Canadian advantage.

Streamlining for a Potential Natural Gas Pipeline

The Government is committed to removing unnecessary barriers that limit sustainable and efficient long-term development of northern natural resources. It will provide \$32 million this year and over the next two years to increase federal capacity for the conduct of environmental and regulatory assessment processes prior to the construction of a potential natural gas pipeline from the Arctic region to southern markets, and to further streamline the regulatory and environmental assessment processes upon receipt of an application to construct such a northern natural gas pipeline.

Air Travellers Security Charge

This budget follows up on the Government's commitment to conduct a review of the Air Travellers Security Charge to ensure that revenues are in line with the costs of the enhanced air security system through 2006–07, as set out in the 2001 budget. The review encompassed an assessment of revenue and expenditures, including actual amounts to date and projections for future years. The review also considered technical issues pertaining to the application of the charge, including its structure, provided that revenue would continue to cover costs and that no one would pay more than under the current structure. Toward this end, the Government invited industry stakeholders and interested parties to submit written representations, and it engaged independent consultants to undertake specialized studies to assist in considering the structure and assessing the application of the charge. The review process is summarized in Annex 3 of *The Budget Plan*.

As a result of this review, and consistent with cost recovery for its enhanced air security system and the move to full accrual accounting in this budget, the Government is reducing the amount of the charge for domestic air travel from \$12 to \$7 for one-way travel and from \$24 to \$14 for round-trip travel—a reduction of more than 40 per cent that will benefit all travellers within Canada. The adoption of full accrual accounting, which provides a more accurate measure of the cost over time of owning and operating the equipment used to screen passengers and their baggage, was a key factor in reducing the charge.

Debt Servicing and Reduction Account

The Debt Servicing and Reduction Account (DSRA) was established by statute in June 1992. Under that legislation, all goods and services tax revenues, net of applicable input tax credits, rebates and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown explicitly identified for debt reduction, must be deposited into this account. The funds in this account are earmarked to pay interest on the public debt and, ultimately, to reduce the debt.

All revenues received by the Government must be deposited in the Consolidated Revenue Fund (CRF) and any disbursements from it must be authorized by Parliament. Therefore, the specific revenues of the DSRA must be deposited in the CRF and the public debt expenditures chargeable to the account must be appropriated from it by Parliament.

Auditors General have repeatedly questioned the need for this account. They noted that “given the fundamental concept of the CRF underlying the Government’s accounting system, the Account is an internal mechanism that may not be necessary.” The House of Commons Standing Committee on Finance recommendations for the 2000 budget included elimination of the DSRA. All of the information relating to the DSRA is already reported in other parts of the Government’s financial statements.

The Government has reviewed these recommendations and agrees that there is limited usefulness in having a separate financial statement for the information contained in the DSRA. Therefore, it will introduce legislation to terminate the DSRA. The Government will ensure that all of the information contained in the DSRA continues to be reported in other parts of the Government’s financial statements.

User Charging and Cost Recovery

The Standing Committee on Finance, as well as many business sector stakeholders, have called for a more open, transparent and accountable approach to user charging and cost recovery. The President of the Treasury Board will be issuing a revised policy on external charging that sets out the principles for improved management practices relating to user charging and cost recovery.

This new Treasury Board policy will highlight the importance of consultation, service delivery and results in all user charging activities ranging from optional to regulated services. Enhanced implementation requirements, including the annual reporting of revenue and performance information directly to stakeholders and Parliament, underscore the significance of parliamentary oversight and ministerial accountability. Departments will be required to assess the performance and related cost implications associated with the revised policy and to engage their stakeholders on how best to achieve its objectives.