



OFFICE OF THE
PARLIAMENTARY BUDGET OFFICER



BUREAU DU
DIRECTEUR PARLEMENTAIRE DU BUDGET

Main and Supplementary Estimates (A) 2011-12

June 13, 2011

Key Points of this Note:

- This note highlights items in the 2011-12 Main and Supplementary Estimates that may warrant more detailed scrutiny by parliamentarians, owing to their fiscal materiality or risk.
- The Parliamentary Budget Officer (PBO) compares the **total** spending authorities provided in previous fiscal years to the spending plan contained in the current Estimates to identify:
 - Areas of greatest spending increase/decrease (\$); and,
 - Areas of greatest spending growth/shrinkage (%).
- The Budget 2010 freeze on operational expenditures aimed to generate fiscal savings of approximately \$1.8 billion per year, ongoing.
- Notwithstanding the freeze, the government is seeking additional authorities, for such expenditures as personnel and internal services. Given the apparent difference in direction between the freeze targets established in Budget 2010 and the authorities being sought in the Estimates, parliamentarians may wish to seek additional information from the government on the strategy and plans to achieve the operational savings along with implications by department.
 - According to the 2011-12 Reports on Plans & Priorities (RPP) over the next three years, departments and agencies are collectively expected to decrease staffing by approximately 6,000 to 365,000 by 2013-14.
 - A 6,000 FTE reduction would generate roughly one-third of the \$1.8 billion target of the operating budget freeze target.
- To assist parliamentarians in tracking the results of planned austerity initiatives, the note also identifies trends in internal service and personnel expenditures.
- Consistent with the PBO's mandate to analyze the Government's Estimates, the Integrated Monitoring Database will be updated with 2011-12 Estimates data the week of June 20, 2011 and made available electronically via the Web site (www.pbo-dpb.gc.ca) to all parliamentarians and Canadians for the first time.

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1. Context

The PBO's legislative mandate includes research and analysis regarding the Government of Canada's (Government) Estimates.¹ An approach adopted by the PBO to implement this aspect of the mandate is to review the entire Estimates and highlight the small number of proposed financial adjustments that warrant detailed parliamentary scrutiny, including:

- Proposed changes to votes that are fiscally material to the federal deficit/surplus; and,
- Proposed increases to votes that represent significant growth compared to the status quo.

As part of ongoing efforts to analyze the impact of restraint measures announced by the Government in Budget 2010, the PBO has also summarized data regarding Government administrative functions and overhead costs.

The PBO will update this analysis to reflect additional authorities that may be requested through the 2011-12 Supplementary Estimates.

2. Key Trends

(i) Largest Changes by Value

Table 1 (Annex A) highlights the 10 votes with the largest change in proposed spending, compared to the total authorities provided in 2010-11.²

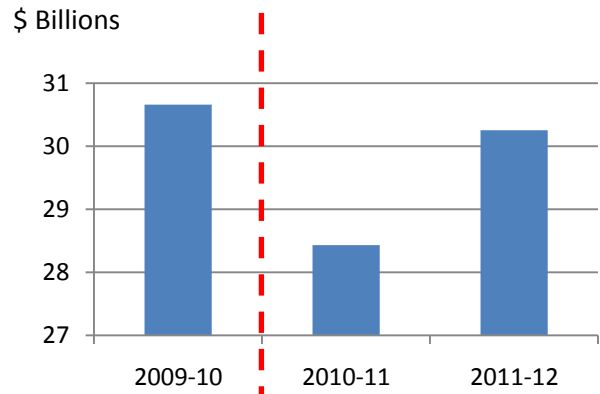
Debt servicing costs are the single largest increase, rising \$1.8 billion compared to the authorities requested in the previous fiscal year (Figure 2-1).

In 2010, the Government changed the accounting basis for calculating the debt servicing charges

presented in the Estimates documents. Historical data were not restated, hence data prior to 2010-11 are not comparable.³

Figure 2-1

Federal Authorities for Debt Servicing Expenses



Source: Main and Supplementary Estimates: 2009-10 to 2011-12.

Consistent with the planned wind-down of the Economic Action Plan, the largest decrease in planned spending is Infrastructure Canada's contributions budget (\$2.6 billion).

(ii) Largest Changes by Percent

Table 2 (Annex B) lists the 10 largest changes to votes, as measured by percent, compared to the total authorities provided in 2010-11.⁴

The largest percentage increase in authorities relates to the Treasury Board Secretariat's reserve for employee benefits, which is 217% higher than the previous fiscal year (Figure 2-2) due to expected disbursements of accumulated severance pay benefits.

¹ http://laws.justice.gc.ca/eng/P-1/20090818/page-3.html#codese:79_1. Accessed June 2011.

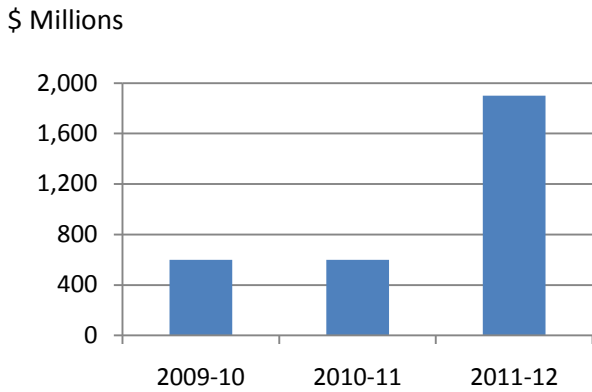
² The change in value is calculated as the proposed level of annual spending in the 2011-12 Main and Supplementary Estimates less total spending authorities granted in the previous fiscal year (2010-11; Main and Supplementary Estimates).

³ <http://www.tbs-sct.gc.ca/est-pre/20102011/sups/B/docs/index-eng.pdf>. (Page 11). Accessed June 2011.

⁴ The growth rate is calculated as the proposed level of annual spending in the 2011-12 Main and Supplementary Estimates divided by total spending authorities granted in the previous fiscal year.

The largest percentage decrease in authorities is payments to Atomic Energy of Canada Limited for operating and capital expenditures (85%).

Figure 2-2
Treasury Board Secretariat's Paylist Requirements



Source: Main and Supplementary Estimates: 2009-10 to 2011-12.

(iii) Internal Service Costs

The Government committed to undertake a comprehensive review of its administrative service costs in Budget 2010 and Budget 2011.⁵

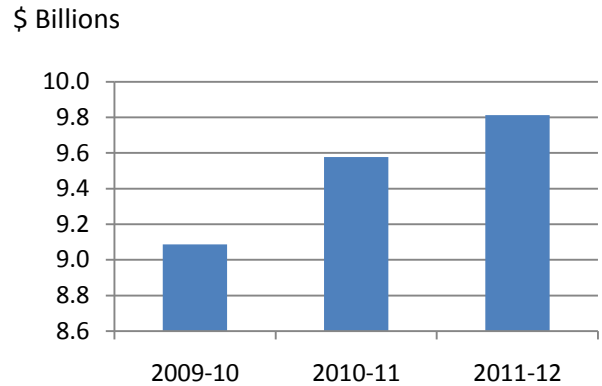
The Estimates present detailed data regarding Internal Service expenditures, which support the needs of programs and other corporate obligations of an organization, including: Communications; Human Resources; Information Technology and Financial Management.⁶

As presented in Figure 2-3, overhead expenses are expected to increase \$235 million from 2010-11 to over \$9.8 billion in 2011-12 (2 per cent).

⁵ <http://www.budget.gc.ca/2010/pdf/budget-planbudgetaire-eng.pdf>. Accessed June 2011.

⁶ <http://www.tbs-sct.gc.ca/est-pre/20112012/me-bpd/docs/me-bpd-eng.pdf>. Accessed June 2011.

Figure 2-3
Internal Services Budget



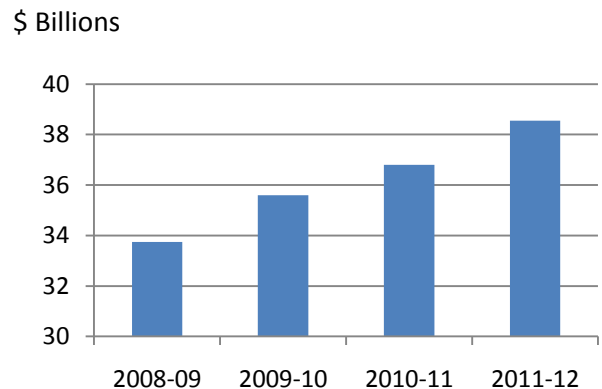
Source: Main Estimates: 2009-10 to 2011-12.

(iv) Personnel and Capital Spending

Table 3 (Annex C) presents planned spending by Standard Object presented in the 2011-12 Main and Supplementary Estimates, compared to the total authorities provided in 2010-11.

Personnel spending is expected to increase \$1.7 billion from 2010-11 levels to over \$38 billion (Figure 2-4).

Figure 2-4
Personnel Expenditures



Source: Main and Supplementary Estimates: 2008-09 to 2011-12.

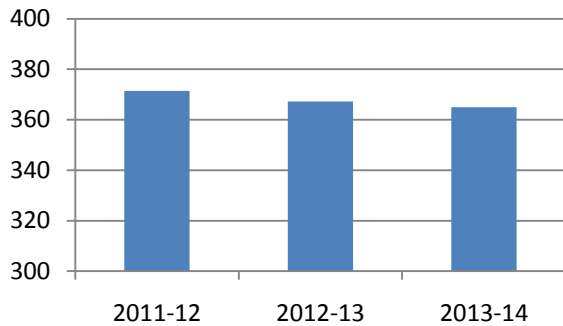
According to information contained in the Government’s Reports on Plans and Priorities, over the next three years, departments and agencies collectively expect to decrease staffing by 6,000 positions to 365,000 by 2013-14 (Figure 2-5).

A 6,000 FTE reduction would generate roughly one-third of the \$1.8 billion target of the operating budget freeze target.

Figure 2-5

Employment Forecast

Thousands of Full-Time Equivalents



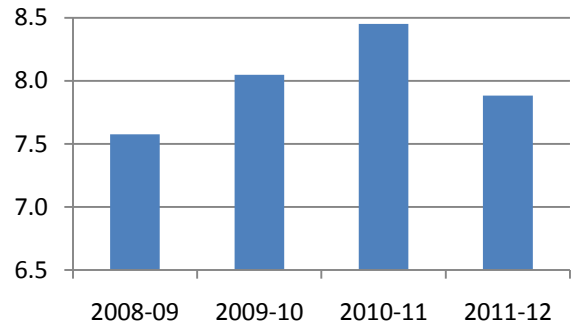
Source: Reports on Plans and Priorities 2011-12.

In contrast, capital expenditures are expected to decrease approximately \$560 million in 2011-12 (7 per cent), which is greater than the average decrease across all categories of expenditure (Figure 2-6).

Figure 2-6

Capital Expenditures

\$ Billions



Source: Main and Supplementary Estimates: 2008-09 to 2011-12.

Note: Capital expenditures are calculated as the sum of two standard objects: acquisition of land, buildings and works, and acquisitions of machinery and equipment. Figures for 2011-12 contain the new capital budget carry-forward vote.

3. Conclusion

Parliamentarians may wish to seek further details of the assumptions and reasonableness of the items in the Government’s expenditure plan that exhibit the greatest changes in value or percent.

Further, greater scrutiny may be warranted regarding the forecast growth in internal service costs (*i.e.* overhead), personnel expenses and staff numbers. All will need to be carefully managed to

achieve the Government's operating expenditure savings targets.

Given the apparent difference in direction between the freeze targets established in Budget 2010 and the authorities being sought in the 2011-12 Estimates, parliamentarians may wish to seek additional information from the government on

the strategy and plans to achieve the operational savings along with implications by department.

Finally, members may wish seek confirmation that the planned decreases in capital spending are sustainable and will not contribute to the deterioration of federal assets (*i.e.* capital rust-out).

ANNEX A

Table 1. Largest \$ Changes in Votes: Total Authorities in 2010-11 versus 2011-12¹

Organization	Vote	\$ (000s)	
		Δ	<u>2011-12</u>
Office of Infrastructure of Canada	55 Contributions	-2,586,730	4,693,333
Finance	S HST Transition Transfer	-1,889,000	1,880,000
Finance	S² Public Debt Interest	1,819,000	30,251,000
Finance	S Canada Health Transfer	1,509,865	26,951,863
Treasury Board	30 Paylist Requirements	1,300,000	1,900,000
Human Resources and Skills Development	S Old Age Security payments	1,114,215	29,162,215
Canada Mortgage and Housing Corporation	15 National Housing / CMHC Acts	-831,918	2,161,923
Industry	10 Grants and contributions	-803,616	616,187
National Defence	1 Operating expenditures	-691,749	14,964,971
National Defence	5 Capital expenditures	-647,612	4,663,663

1. All Votes listed in the 2011-12 Main Estimates with total authorities above \$100 million in 2010-11 or 2011-12; excluding non-budgetary items.

2. S = Statutory vote, for which pre-existing expenditure authority is provided by Parliament under separate statute.

ANNEX B

Table 2. Largest % Changes in Votes: Total Authorities in 2010-11 versus 2011-12¹				
Organization	Vote	Δ %	2011-12 (\$000s)	
Treasury Board	30 Paylist Requirements	217%	1,900,000	
Atomic Energy of Canada Ltd.	15 Payments to AECL	-85%	102,143	
Office of Infrastructure of Canada	S² Provincial-Territorial Base Funding Program	-80%	62,652	
Western Economic Diversification	5 Grants and contributions	-65%	140,862	
Federal Economic Development Agency for Southern Ontario	55 Grants and contributions	-62%	191,671	
Office of Infrastructure of Canada	5 Green Infrastructure Fund	-59%	70,118	
Transport	5 Capital expenditures	-58%	95,157	
Industry	10 Grants and contributions	-57%	616,187	
National Research Council of Canada	70 Grants and contributions	-53%	139,650	
Finance	5 Harmonized Sales Tax Transition Payments	-50%	1,880,000	

1. All Votes listed in the 2011-12 Main Estimates with total authorities above \$100 million in 2010-11 or 2011-12; excluding non-budgetary items.

2. S = Statutory vote, for which pre-existing expenditure authority is provided by Parliament under separate statute.

ANNEX C

**Table 3. Comparison of Standard Objects:
Total Authorities (\$000s) (2009-10 to 2011-12)**

Standard Object	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
Personnel	35,589,778	36,801,189	38,542,931
Transportation & Communications	3,584,874	3,514,314	3,348,646
Information	475,166	415,537	328,000
Professional & Special Services	9,721,237	10,406,553	10,110,669
Rentals	2,769,230	2,730,785	2,613,098
Purchased Repair & Maintenance	3,918,384	4,038,740	3,691,448
Utilities, Materials and Supplies	4,045,190	3,902,555	3,222,593
Acquisition of Land, Buildings and Works	1,607,560	2,149,811	1,336,162
Acquisition of Machinery and Equipment	6,439,950	6,302,066	5,946,873
Transfer Payments	128,509,946	142,487,111	132,437,834
Public Debt Charges	30,659,000	28,432,000	30,622,783
Other Subsidies and Payments	13,923,069	14,933,715	10,095,991
TOTAL	241,243,384	256,114,376	242,297,028