

March 10, 2021



THE GOVERNMENT'S EXPENDITURE PLAN AND MAIN ESTIMATES FOR 2021-22



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

The Parliamentary Budget Officer (PBO) supports Parliament by providing economic and financial analysis for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

This report examines the federal government's Expenditure Plan and Main Estimates for 2021-22, which supports the first two appropriation bills that seek Parliament's approval of \$141.9 billion in budgetary authorities.

Lead Analysts:

Jill Giswold, Analyst

Jason Stanton, Senior Analyst

This report was prepared under the direction of:

Jason Jacques, Director General

Nancy Beauchamp, Carol Faucher, Jocelyne Scrim and Rémy Vanherweghem assisted with the preparation of the report for publication.

For further information, please contact pbo-dpb@parl.gc.ca

Yves Giroux

Parliamentary Budget Officer

RP-2021-044-S_e

Table of Contents

Executive Summary	1
1. Introduction	2
1.1. Expenditure Plan and Main Estimates – Overview	2
2. COVID-19 Authorities	3
2.1. Labour Market Supports	4
3. Major Expenditures	5
3.1. Federal Spending on Elderly Benefits	5
3.2. Federal Spending on Health	6
3.3. Public Debt Charges	8
Notes	9

Executive Summary

The Government's Main Estimates for 2021-22, tabled February 25, 2021 in the House of Commons, outline \$342.2 billion in budgetary spending authorities. Voted authorities, which require approval by Parliament, total \$141.9 billion. Statutory authorities, for which the Government already has Parliament's permission to spend, total \$200.3 billion.

As we transition away from the early days of the global pandemic, planned expenditures for the Government's response to COVID-19 are beginning to decline. In the 2021-22 Main Estimates, \$22.7 billion of spending authorities relate to COVID-19. This compares to \$159.5 billion of the 2020-21 Estimates to date.¹

Consistent with previous Estimates, money transferred to other levels of government, individuals and other organizations account for most of the planned spending in these Main Estimates (\$219.0 billion, 64.0 per cent).

Notable areas of spending include:

- Elderly benefits (\$62.4 billion). Roughly one in every five dollars of federal spending is earmarked to provide a monthly payment to Canadian seniors. These benefits are fully indexed to inflation.
- The Canada Health Transfer (\$43.1 billion). The second largest component of federal spending is funding provided to the provinces and territories to help pay for health care. Overall growth in this transfer is indexed to GDP growth.

As Budget 2021 has yet to be tabled, the 2021-22 Main Estimates do not reflect the new budget measures. As such, the 2021-22 budgetary authorities will rise with these anticipated funding requests in the Supplementary Estimates.

PBO is available to offer briefings or answer questions on any items included in these Main Estimates.

1. Introduction

The Government cannot spend public money without Parliament's permission.

Parliament can provide its permission through approval of appropriation bills, which generally provide permission to spend certain amounts of money within a given year. Alternatively, Parliament can also provide ongoing permission to spend through continuing legislation (such as Old Age Security benefits paid under the authority of the *Old Age Security Act*).²

The 2021-22 Main Estimates support Parliament's consideration of the interim supply bill, which generally authorizes funding for the first three months of the fiscal year, and the full supply bill, which is the amount laid out in the Main Estimates, less interim supply. These first two appropriation bills seek authority for most of the total spending in the given year.

1.1. Expenditure Plan and Main Estimates – Overview

The Government's Expenditure Plan and Main Estimates for 2021-22 outline \$342.2 billion in budgetary spending authorities, as well as an overall increase of \$4.5 billion in the value of non-budgetary loans, investments and advances (Table 1-1). Of the budgetary total, \$141.9 billion relates to authorities to be voted on by Parliament.

Table 1-1 The Government's expenditure plan

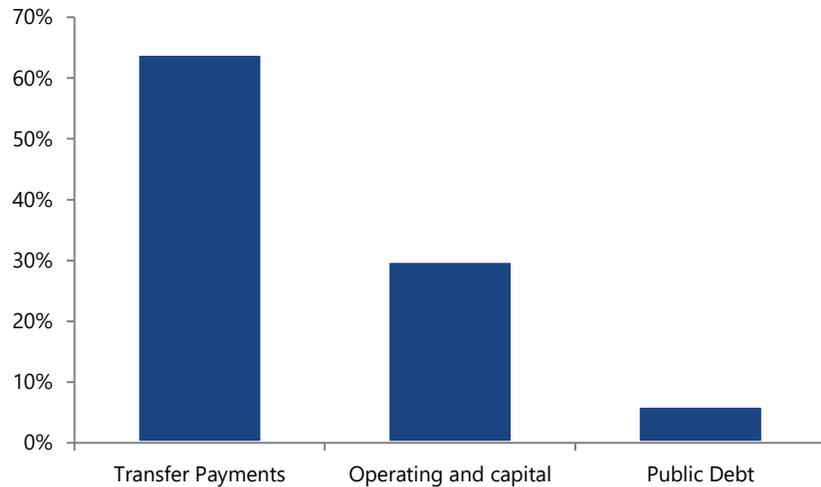
(\$ billions)	Budgetary	Non-Budgetary	Total
Voted	141.9	0.2	142.0
Statutory	200.3	4.3	204.6
Total	342.2	4.5	346.6

Source: Treasury Board of Canada Secretariat, *2021-22 Main Estimates*.

Note: Numbers might not add due to rounding.

These Main Estimates do not reflect the new spending items to be announced in Budget 2021. As such, the 2021-22 budgetary authorities will rise with these anticipated funding requests in the Supplementary Estimates.

As shown in Figure 1-1, transfer payments account for the largest portion of budgetary authorities in the 2021-22 Main Estimates, at 64.0 per cent (\$219.0 billion). These include payments made to other levels of government, individuals, and other organizations.³ Budgetary authorities for operating and capital expenditures represent 29.9 per cent (\$102.4 billion), while public debt charges amount to 6.1 per cent (\$20.9 billion).

Figure 1-1 Composition of budgetary authorities*% of total budgetary authorities*Source: Treasury Board of Canada Secretariat, *2021-22 Main Estimates*.

In comparison to the 2020-21 Estimates to date, total budgetary authorities have decreased by \$136.5 billion in the 2021-22 Main Estimates. This reduction is directly related to the decrease in planned spending on COVID-19 measures, but is likely to be attenuated by Supplementary Estimates to be tabled later in the fiscal year.

2. COVID-19 Authorities

As we transition away from the early days of the global pandemic, planned expenditures for the Government's response to COVID-19 are beginning to decline. In the 2021-22 Main Estimates, \$22.7 billion of spending authorities relate to COVID-19. This compares to \$159.5 billion of the 2020-21 Estimates to date.⁴

As a result of the decline in COVID-19 spending, several organizations have significant decreases in their budgetary authorities in these Main Estimates. Notable organizations include:

- \$103.8 billion for the Department of Finance, compared to \$119.5 billion in 2020-21 Estimates to date;
- \$82.4 billion for the Department of Employment and Social Development, compared to \$169.7 billion in 2020-21 Estimates to

date, due in large part to the expiration of the Canada Emergency Response Benefit (CERB); and

- \$8.8 billion for the Public Health Agency of Canada, compared to \$21.0 billion in 2020-21 Estimates to date.

2.1. Labour Market Supports

Over the course of the COVID-19 pandemic, the Government has introduced several labour market supports in the form of direct transfers to households.

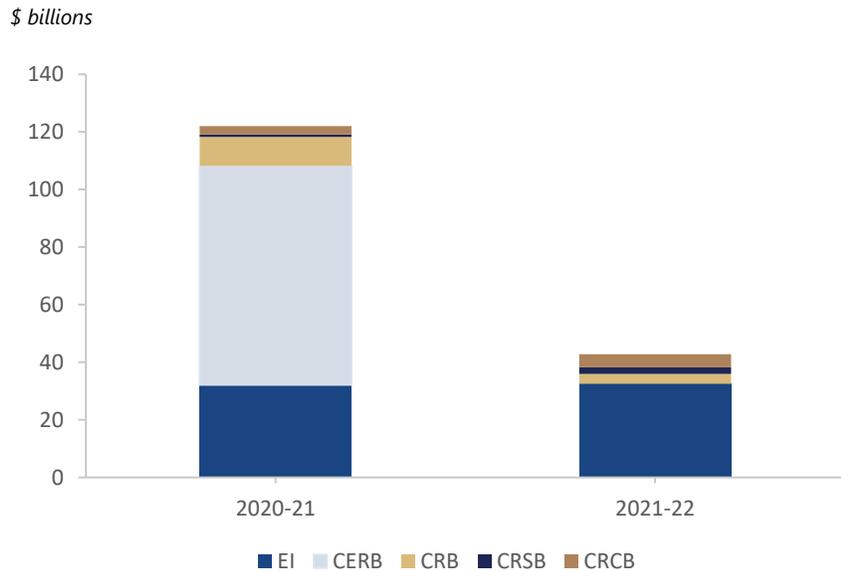
The Canada Emergency Response Benefit (CERB), launched on April 6, 2020, provided financial support to workers who lost their income due to reasons related to COVID-19. The CERB expired on September 26, 2020.

To support those who remain unable to work, the Government introduced new recovery benefits, effective September 27, 2020. These benefits, which will be in place for one year, include the Canada Recovery Benefit (CRB), the Canada Recovery Sickness Benefit (CRSB), and the Canada Recovery Caregiving Benefit (CRCB).

The Government has also provided direct labour market support through the Employment Insurance (EI) program, including several program modifications since the onset of the pandemic.

In 2020-21, total labour market supports for individuals amount to an estimated \$122.0 billion (Figure 2-1). The comparable figure for 2021-22 is roughly \$42.8 billion, a drop of over \$79 billion.⁵ These declines primarily reflect the gradual phase-out of supports and an improvement in the labour market.

Figure 2-1 Labour Market Support Programs



Sources: Treasury Board of Canada Secretariat, *Supplementary Estimates (C) 2020-21* and *2021-22 Main Estimates*.

Notes: Employment Insurance (EI) is not included in the Estimates but is included in this figure for completeness. EI figures are projected expenses.

Figures for 2020-21 are total authorities. Figures for 2021-22 are authorities included in the *2021-22 Main Estimates*.

PBO has published cost estimates on these labour market supports as part of its [COVID-19 analysis](#). The PBO is currently refining its estimates based on the Government's recent announcements.

3. Major Expenditures

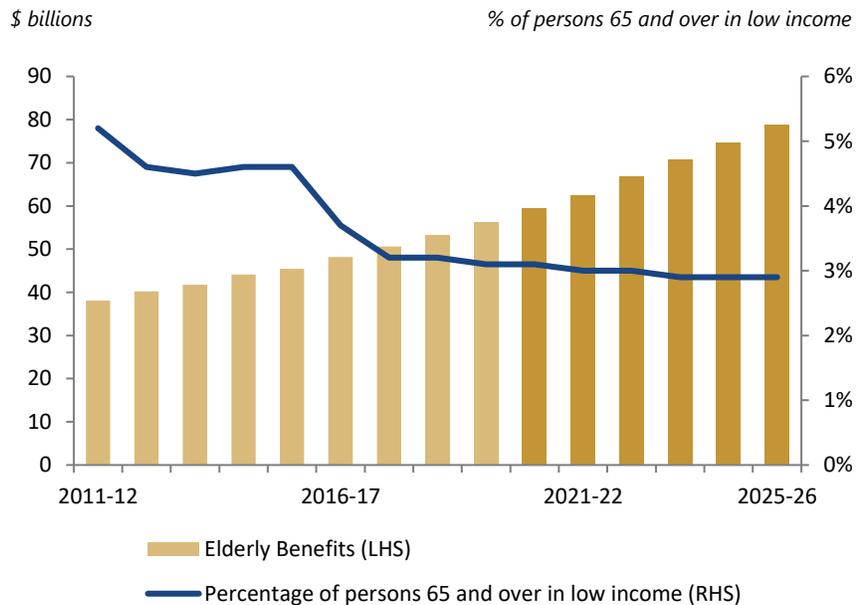
3.1. Federal Spending on Elderly Benefits

As the Canadian population ages, there will be a commensurate increase in the eligibility for elderly benefits. Old Age Security (OAS), which is currently the largest federal program, provides a monthly payment to seniors who are over 65 and meet the eligibility requirements.⁶ The OAS program also provides supplementary benefits for low-income seniors, such as the Guaranteed Income Supplement and Allowance Payments.

Federal spending on elderly benefits are set to increase by \$2.9 billion (4.9 per cent) to a total of \$62.4 billion in 2021-22, which is the result of an

increase in the number of beneficiaries and average monthly payment, which is indexed to inflation. This is consistent with historical trends, as shown in Figure 3-1. Over the same time period, the percentage of persons 65 and older in low income has been steadily decreasing and is projected to slowly decline over the medium term.

Figure 3-1 Elderly benefits



Sources: Receiver General of Canada, Public Accounts of Canada; Treasury Board of Canada Secretariat, *2021-22 Main Estimates*; Parliamentary Budget Officer, *Economic and Fiscal Outlook – September 2020*; Statistics Canada’s Social Policy Simulation Database and Model (SPSD/M), version 28.⁷

Notes: Figures prior to 2020-21 are actuals. Figures for 2020-21 and 2021-22 are estimates. Figures for 2022-23 and later are PBO projections. PBO used SPSP/M to estimate the percentage of persons 65 and over in low income. It is a market-based measure (2008 base).⁸ It should also be noted that it is a pre-COVID-19 forecast, reducing the reliability of the projection. The percentage of persons 65 and over in low income is on a calendar year basis. For example, the 2011 calendar year is represented in the 2011-12 fiscal year.

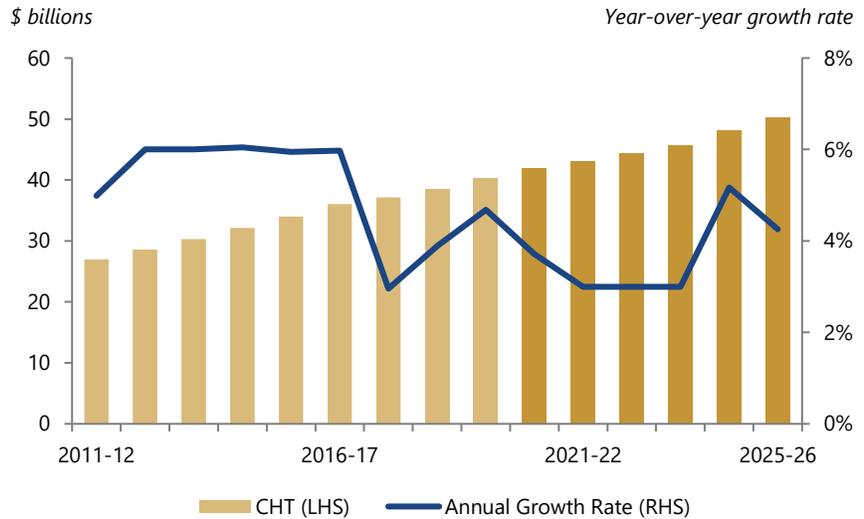
3.2. Federal Spending on Health

The Canada Health Transfer (CHT) is the largest federal transfer to provinces and territories (\$43.1 billion) and it is set to increase by \$1.3 billion (3.0 per cent) from the 2020-21 Estimates to date (Figure 3-2). The CHT provides financial assistance to provinces and territories to help pay for health care.

The CHT is calculated to automatically grow in line with the three-year moving average of nominal GDP growth, with a minimum annual growth rate

set at 3 per cent. The CHT is also allocated to all provinces and territories on an equal per capita basis.⁹

Figure 3-2 Canada Health Transfer



Sources: Receiver General of Canada, Public Accounts of Canada; Treasury Board of Canada Secretariat, *2021-22 Main Estimates*; Parliamentary Budget Officer, *Economic and Fiscal Outlook – September 2020*.

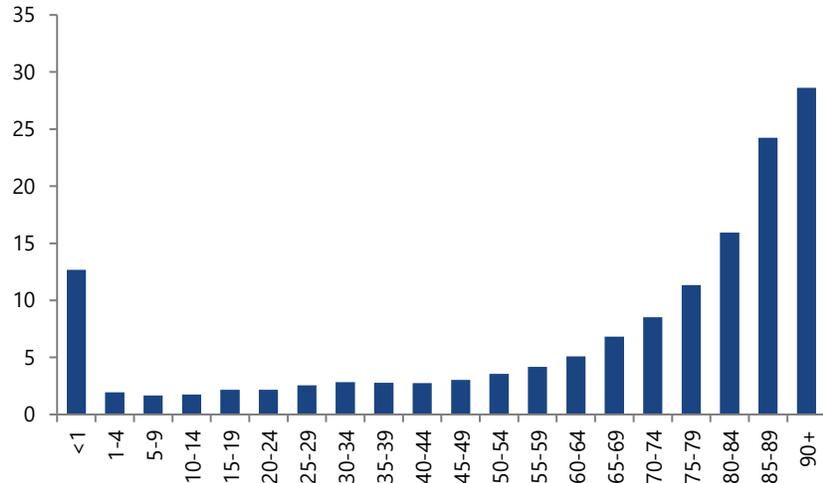
Note: Figures prior to 2020-21 are actuals. Figures for 2020-21 and 2021-22 are estimates. Figures for 2022-23 and later are PBO projections.

As noted in PBO's Fiscal Sustainability Report 2020: Update, all provinces and territories will continue to face rising health care costs.¹⁰ A significant cost driver is the ageing of the population, as the baby boom generation enters the high-cost years in terms of per capita government health expenditures (Figure 3-3).

The legislated 3 per cent annual growth floor for the CHT will likely result in the federal share of total health spending increasing over the short-term. However, it is expected that the CHT will decrease as a share of total health spending over the long term, as growth in healthcare expenses outpace nominal GDP growth.¹¹

Figure 3-3 Per capita health care expenditures by age group in Canada, 2018

\$ thousands



Source: National Health Expenditure Database, 2020, Canadian Institute for Health Information.

Note: This represents the total for all health care spending by provincial and territorial governments.

3.3. Public Debt Charges

The 2021-22 Main Estimates include \$20.9 billion in public debt charges, which represents an increase of \$0.5 billion from the 2020-21 Estimates to date. Of the \$20.9 billion in public debt charges, interest on unmatured debt accounts for \$15.8 billion (75.8 per cent), with the remaining authorities (\$5.0 billion, 24.2 per cent) being other interest costs.¹²

PBO projects that public debt charges will amount to \$21.0 billion in 2021-22, or \$2.8 billion lower than pre-pandemic borrowing costs in 2019-20 (\$23.8 billion).¹³ Despite the record increase in federal debt in 2020-21, PBO expects the federal debt servicing burden to continue to decline due to low interest rates throughout the medium term.

PBO projects that the Government's debt service ratio (that is, public debt charges relative to tax revenues) will reach 7.0 per cent in 2023-24, its lowest recorded level.¹⁴

Notes

1. Not all planned spending on COVID-19 measures is included in the Estimates, and therefore excluded from these figures. Additional details can be found on TBS' website. <https://www.canada.ca/en/treasury-board-secretariat/services/planned-government-spending/government-expenditure-plan-main-estimates/2021-22-estimates/covid-19-planned-expenditures.html>
<https://www.canada.ca/en/treasury-board-secretariat/services/planned-government-spending/supplementary-estimates/supplementary-estimates-c-2020-21/covid-19-planned-expenditures.html>
2. *Old Age Security Act*. <http://laws-lois.justice.gc.ca/eng/acts/O-9/>.
3. *2021-22 Main Estimates, Summary of Estimates*. Treasury Board Secretariat. <https://www.canada.ca/en/treasury-board-secretariat/services/planned-government-spending/government-expenditure-plan-main-estimates/2021-22-estimates.html#id2>
4. Ibid, Note 1.
5. This figure does not include the proposed changes that the Government announced on February 19, 2021. <https://www.canada.ca/en/employment-social-development/news/2021/02/crb-extension.html>
6. *Old Age Security – Overview*. <https://www.canada.ca/en/services/benefits/publicpensions/cpp/old-age-security.html>
7. This analysis is based on Statistics Canada's Social Policy Simulation Database and Model (SPSD/M). The assumptions and calculations underlying the simulation results were prepared by PBO; the responsibility for the use and interpretation of these data is entirely that of the author.
8. Poverty rates are higher when using the 2018 base compared to the 2008 base. However, due to data availability within SPSPD/M, PBO used the 2008 base.
9. <https://www.canada.ca/en/department-finance/programs/federal-transfers/canada-health-transfer.html>
10. *Fiscal Sustainability Report 2020: Update*. <https://www.pbo-dpb.gc.ca/en/blog/news/RP-2021-033-S--fiscal-sustainability-report-2020-update--rapport-viabilite-financiere-2020-mise-jour>
11. *Fiscal Sustainability Report 2020*. <https://www.pbo-dpb.gc.ca/en/blog/news/RP-2021-033-S--fiscal-sustainability-report-2020-update--rapport-viabilite-financiere-2020-mise-jour>
12. Other interest costs include "interest on liabilities for federal public service pension plans, deposit and trust accounts and other specified purpose accounts." <https://www.canada.ca/en/treasury-board-secretariat/services/planned-government-spending/government-expenditure-plan-main-estimates/2018-19-estimates/introduction.html#idchapter143850064>

13. *Economic and Fiscal Outlook – September 2020*. Based on fiscal policies up to September 1, 2020. <https://www.pbo-dpb.gc.ca/en/blog/news/RP-2021-027-S--economic-fiscal-outlook-september-2020--perspectives-economiques-financieres-septembre-2020>
14. *Analysis of Federal Debt: 2020-21*. <https://www.pbo-dpb.gc.ca/en/blog/news/BLOG-2021-009--analysis-federal-debt-2020-21--analyse-dette-federale-2020-2021>