



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

## Expenditure Monitor 2016-2017 Q2

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The mandate of the Parliamentary Budget Officer (PBO) is to provide independent analysis to Parliament on the state of the nation's finances, the Government's estimates and trends in the Canadian economy; and, upon request from a committee or parliamentarian, to estimate the financial cost of any proposal for matters over which Parliament has jurisdiction.

This note analyses the implementation of the Government's spending plan presented in Budget 2016 for the first half of the fiscal year, assessing whether spending is "on track", or not.

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# Table of Contents

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<b>Executive Summary</b>	<b>1</b>
<b>1. Context</b>	<b>2</b>
<b>2. Highlights</b>	<b>3</b>
2.1. Operating	6
2.2. Capital	7
2.3. Grants and Contributions	7
<b>3. Spending by Policy Areas</b>	<b>11</b>
3.1. Economic Affairs	12
3.2. Social Affairs	13
3.3. International Affairs	14
3.4. Government Affairs	14
<b>Notes</b>	<b>16</b>

# Executive Summary

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Government expenditures for the first half of 2016-2017 were \$136.5 billion, an increase of 3.7% over the same period last year. This growth lags the overall increase in budgeted spending (5.6%), owing to delays in implementing the Government's economic priorities, in particular new infrastructure investments.

Government's planned investments in infrastructure spending have not materialised in the first half of the year. Infrastructure transfers administered by Transport and Infrastructure Canada fell in comparison to the previous year (-\$0.1 billion).

PBO notes that provincial capital budgets for 2016-17 have not grown commensurate with planned increases for federal infrastructure transfers. As such, there is a growing risk that money the Government originally expected to be spent in 2016-17 will be deferred to subsequent years.

These delays would be consistent with historical evidence regarding persistent lapses of planned infrastructure spending, which have been highlighted in previous PBO reports.

# 1. Context

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Each year, Parliament endorses the Government's fiscal and economic strategy outlined in the Budget. This strategy is then implemented through appropriation bills and other enabling legislation, such as *Budget Implementation Acts*.

Since 2010, the Parliamentary Budget Officer (PBO) has monitored the implementation of the Budget and spending among the Government's roughly 400 programs to analyze whether it is on track to implement its overall spending commitments for the current fiscal year.

This analysis of the Government's Expenditure Plan (also known as the Estimates) supports informed parliamentary scrutiny of spending. Each month, federal departments and agencies update the Government's Central Financial Management and Reporting System with actual spending data. This data is then shared by the Receiver General of Canada with the PBO. The PBO uses this data set to prepare its quarterly Expenditure Monitor and Estimates reports.

## 2. Highlights

After six months, federal government expenditures in 2016-17 totalled \$136.5 billion, 3.7 % higher than the same period in 2015-16 (Figure 2-1).

**Figure 2-1** Total expenditures after six months<sup>1,2</sup>



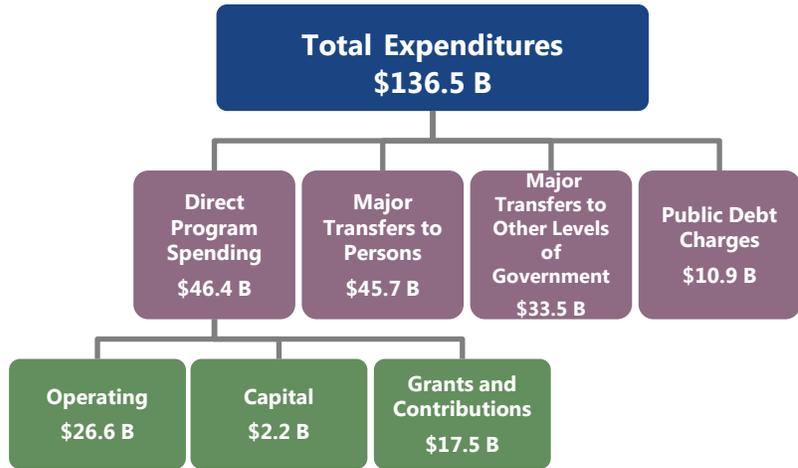
Sources: Receiver General and Parliamentary Budget Officer calculations.

Contained within these total expenditures are four main categories of spending:

- Direct program spending (DPS);
- Major transfers to persons (MTP);
- Major transfers to other levels of government (OLG); and,
- Public debt charges (PD).

Of these four categories, DPS constitutes the largest spending category, followed closely by major transfers, MTP and OLG (Figure 2-2).

**Figure 2-2 Components of spending**

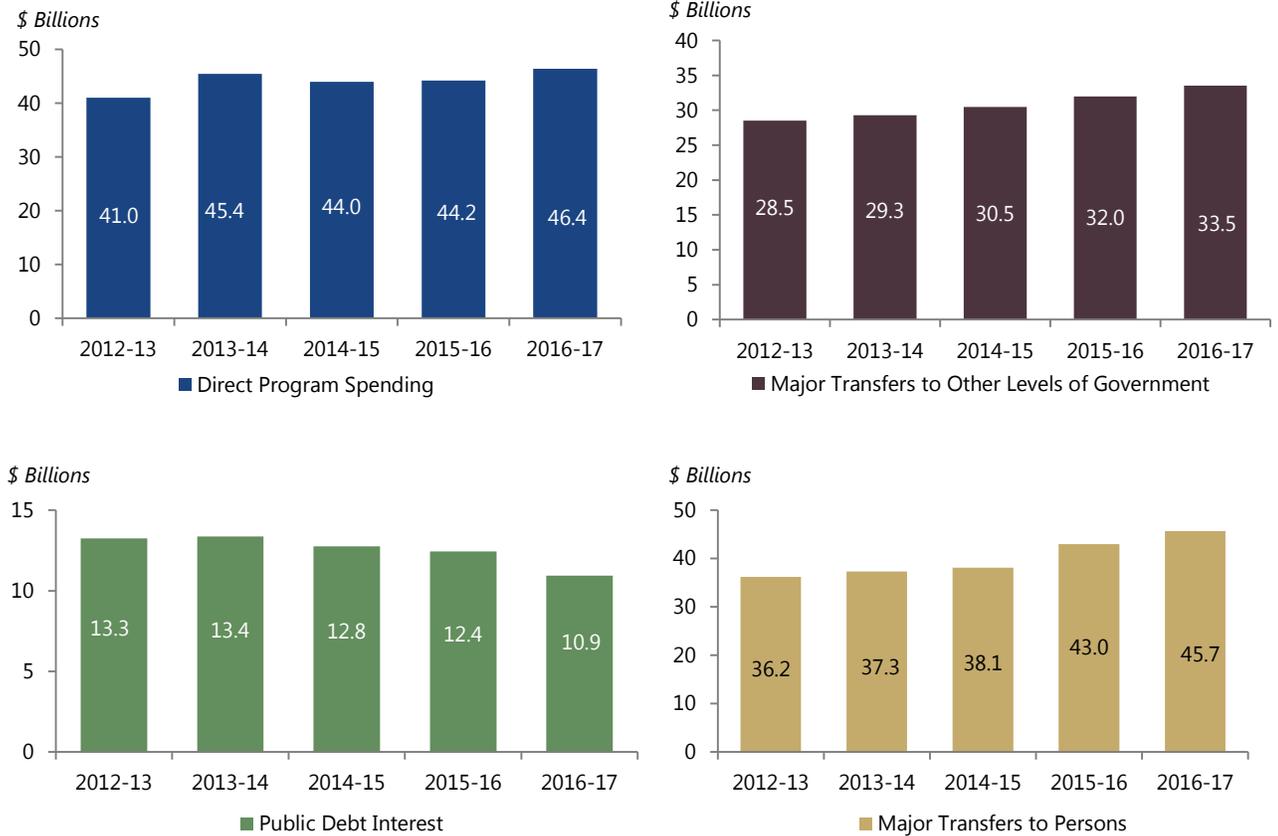


Sources: Receiver General and Parliamentary Budget Officer calculations.

Most categories of government spending follow predictable trends. For instance, a multi-year trend of falling interest rates has driven Public Debt Charges lower (notwithstanding the increasing stock of debt), while major transfers to other levels of Government (such as the Canada Health Transfer and the Canada Social Transfer) are generally dictated by pre-determined escalators (Figure 2-3).

Direct Program Spending is more variable, in response to changes in the Government’s fiscal posture (whether expansionary or contractionary). The largest areas of growth in *Budget 2016* related to DPS, in particular new spending on infrastructure. Overall spending on DPS is up \$2.2 billion (+5%) in the first half of the year compared with the same period last year.<sup>3</sup>

**Figure 2-3 Falling Public Debt Interest Costs More than Offset by Other Spending Growth**



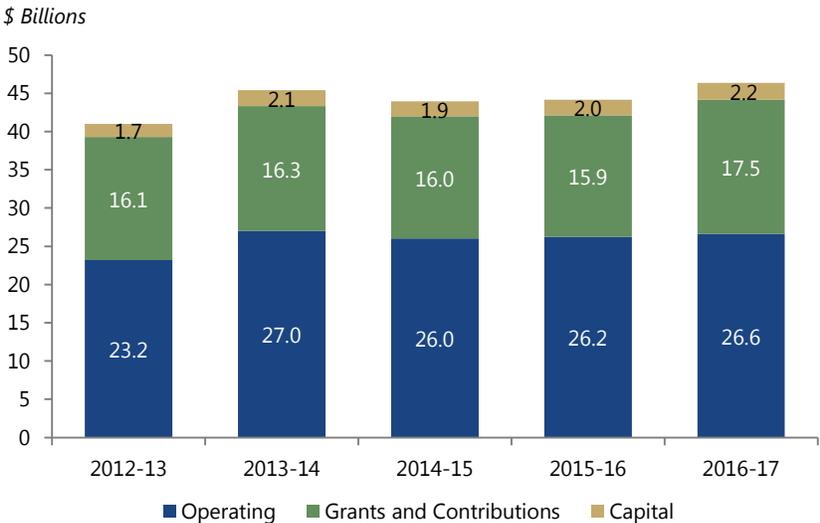
Sources: Receiver General and Parliamentary Budget Officer.

The three sub-categories of DPS are:

- Operating costs (mostly salaries for the public service);
- Capital spending on federal assets, and
- Grants and Contributions to external organizations, including other levels of government.

After six months, Operating spending has increased \$0.4 billion (+1%), Grants and Contributions have increased \$1.7 billion (+10%), while Capital spending has increased \$0.2 billion (+9%) compared to the first half of last year (Figure 2-4).

Figure 2-4 DPS share of spending after 6 months



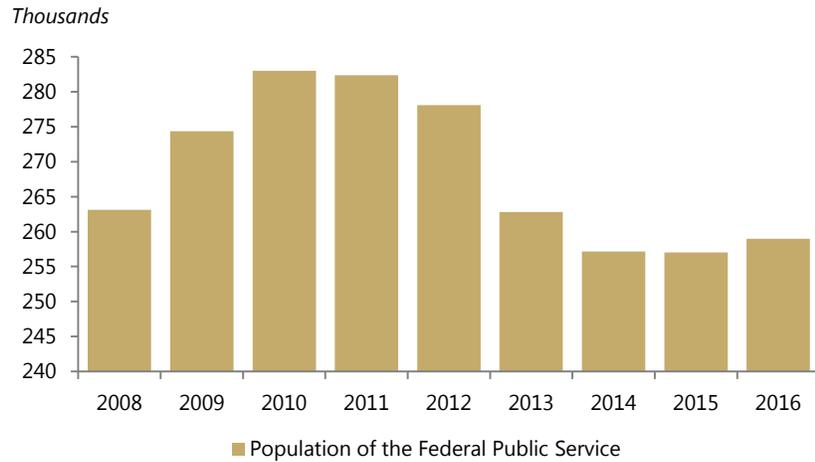
Sources: Receiver General and Parliamentary Budget Officer.

## 2.1. Operating

Operating consists mostly of compensation for employees (roughly two-thirds of total operating) with the remainder including such items as transportation costs, maintenance, and professional services contracts. Compared to the previous year, spending on compensation rose marginally (+0.1%, \$23 million) to \$18 billion.

The growth in personnel spending snapped a three-year downward trend and is primarily attributable to the first increase in the overall size of the public service since 2010 (Figure 2-5). The growth rate of personnel spending is expected to further rise once new collective agreements are concluded with public sector unions.

**Figure 2-5** First increase in the overall size of the Public Service since 2010



Source: Treasury Board of Canada Secretariat.

## 2.2. Capital

Compared to the same period last year, capital spending has increased \$181 million (+9%), from \$2.0 billion to \$2.2 billion.

*Budget 2016* pledged \$412 million of additional money to spend on federal infrastructure assets in the current fiscal year. Based on spending to date and PBO's review of departments' and agencies' Quarterly Financial Reports, the Government appears to be on track to implement this Budget commitment as planned.

## 2.3. Grants and Contributions

The majority of the growth in DPS results from higher grants and contributions in the first half of the year (+10%, or \$1.6 billion). Most of this increase is explained by growth in several programs managed by two departments: Employment and Social Development Canada and Public Safety and Emergency Preparedness Canada. Further details are provided in Section 3.

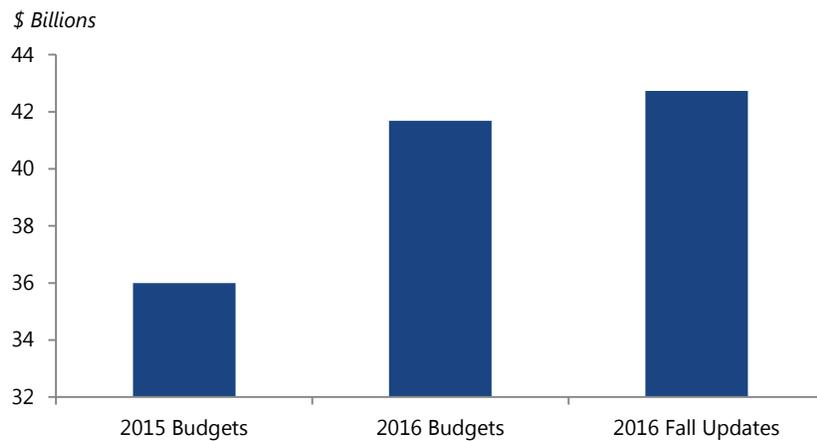
Notably, the Government's planned transfers to third parties (mostly provincial governments) for infrastructure spending have not materialised in the first half of the year. Budget 2016 and the Fall Economic Statement outlined \$3.5 billion in additional transfers to other levels of government for infrastructure investments in 2016-17.

In the first three months of the fiscal year, data indicated that these transfers grew on a year-over-year basis, albeit from relatively low levels. At that time, it led the PBO to conclude that planned implementation was generally on track. However, the subsequent three months of spending data suggest actual spending of infrastructure money might be slower than assumed by the Government. Tellingly, infrastructure transfers administered by Transport and Infrastructure Canada fell in comparison to the previous year (-\$0.1 billion).

Infrastructure Canada’s most recent Quarterly Financial Report identified several operating risks that could lead to “the possibility that the pattern of funding approved may not reflect the actual pattern of work”.<sup>4</sup> These include limited capacity among staff to manage an increasing workload, as well as the reliance on other orders of government to actually execute planned infrastructure projects.

While federal departments and agencies maintain that planned infrastructure investments are broadly on track with the Budget 2016 plan, PBO notes that provincial capital budgets for 2016-17 have not grown commensurate with the announced federal increases. The 2015 budgets of the four largest provinces originally planned for roughly \$36 billion in infrastructure spending in 2016-17. This figure was revised upward by \$5.7 billion in the same four provincial 2016 budgets, of which three were tabled in the winter, prior to the release of the Government of Canada’s Budget 2016 at the end of March (Figure 2-6).<sup>5</sup> Subsequent to this, these four provincial governments revised their planned infrastructure spending upward by a collective \$1 billion in the economic and fiscal updates presented in October and November. This is far less than the total increase announced in the federal budget.<sup>6</sup>

**Figure 2-6 Evolution of Budgeted Provincial Capital Spending in 2016-17, Alberta – British Columbia – Ontario - Quebec**

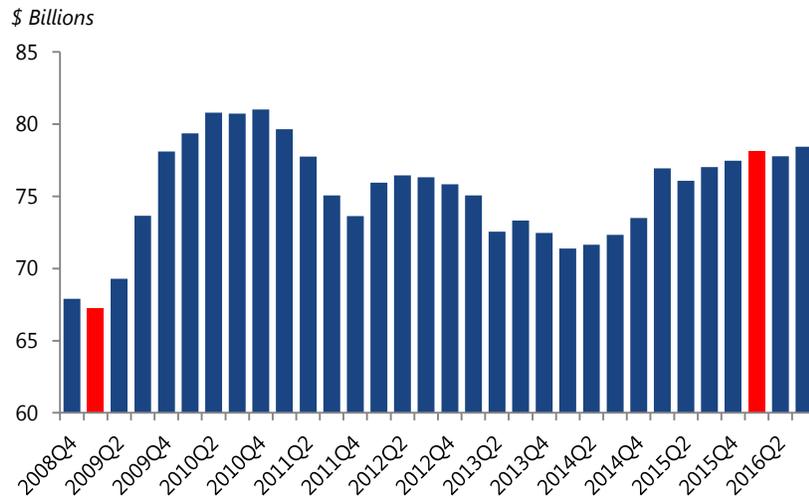


Sources: Budgets and Fall Economic Updates of Alberta, British Columbia, Ontario and Quebec.

There are three possible explanations for the lack of growth in budgeted spending. First, provincial governments may have anticipated the new federal infrastructure transfers before they were officially announced. This would imply that infrastructure spending may be on track, but disassociated with agreements related to Budget 2016. Alternatively, new federal spending could be simply backfilling existing provincial investment plans, resulting in a smaller than initially anticipated surge in infrastructure spending. Finally, there could be administrative delays arising from internal federal processes, such as negotiating agreements between federal and provincial governments, as well as contracting by provincial governments to actually spend the new money. If this third theory were true, the total amount spent on infrastructure would be unchanged from Budget 2016 plans, but with a delay.

Based on PBO’s analysis of the 2009 Federal Infrastructure Stimulus package and historical spending lapses, the third option appears most likely.<sup>7,8</sup> Budget 2009 was tabled in late January; roughly two quarters passed until a material increase in public sector fixed capital investment could be observed (Figure 2-8). Two quarters following Budget 2016 (tabled in March), there is no similar growth. As such, there is a growing risk that money the Government originally expected to be spent in 2016-17 will actually generate economic activity in subsequent years.

**Figure 2-7 Public Sector Fixed Capital Investment**

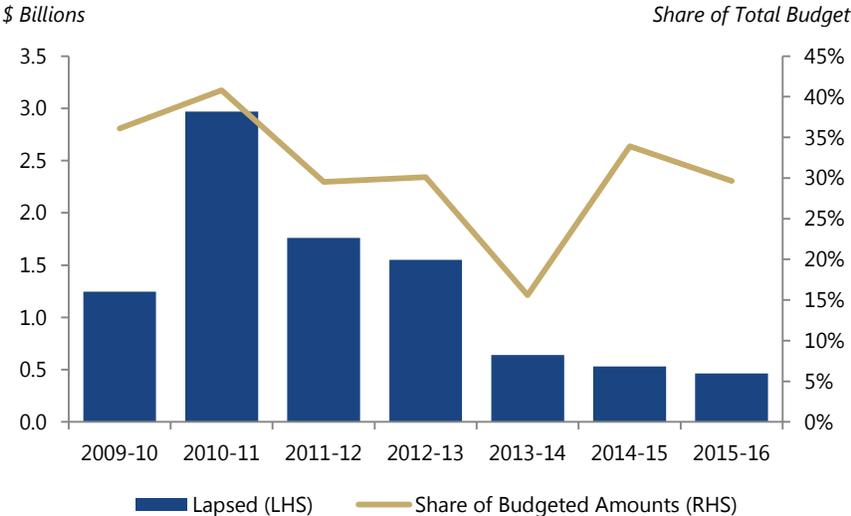


Sources: Statistics Canada Matrix 380-0080. Parliamentary Budget Officer

Note: Red bars indicate quarter in which Budget 2009 and Budget 2016 were tabled, respectively.

Administratively, Infrastructure Canada has also been continually challenged to dispense all the infrastructure funding that Parliament gives it each year (Figure 2-8). It has lapsed no less than \$400 million per year since 2009-10, including close to \$3 billion in 2010-11 (as part of the previous infrastructure stimulus program). This means that between 15% and 40% of the money annually budgeted for infrastructure was not spent (with higher lapse rates coinciding with large increases in budgeted amounts).

**Figure 2-8** Historical Lapses in Federal Infrastructure Transfers



Sources: Public Accounts of Canada. Parliamentary Budget Officer

### 3. Spending by Policy Areas

The PBO also uses the Treasury Board Secretariat's "Whole of Government" policy framework to categorise all of the Government's roughly 400 programs. This provides parliamentarians with insight regarding which policy themes are the recipients of more (or less) funding from the Budget, and whether the policy commitments are generally being implemented as originally planned.

Planned spending in the first half of the fiscal year is generally consistent with the policy shifts identified in Budget 2016. However, the spending increase in the first six months does lag the overall budgeted increase, suggesting some risk that programs will not be implemented as originally scheduled. As noted in previous PBO reports, significant increases in spending, particularly DPS, are generally correlated with commensurate growth in lapsed funding.<sup>9</sup>

**Table 3-1 Whole of Government expenditures<sup>10</sup>**

Thematic Spending Area	Spending after six months \$ millions	Spending after six months YoY Change (%)	Change in Authorities YoY Change (%)
<b>Economic Affairs</b>	<b>102,278 \$</b>	<b>5.6%</b>	<b>10.6%</b>
Strong Economic Growth	49,942 \$	-0.7%	5.4%
Income security and employment for Canadians	36,452 \$	14.9%	16.3%
An Innovative and Knowledge-based Economy	14,914 \$	8.2%	32.6%
A Clean and Healthy Environment	767 \$	-7.4%	-11.7%
A Fair and Secure Marketplace	203 \$	-14.9%	-0.9%
<b>Social Affairs</b>	<b>21,767 \$</b>	<b>-5.0%</b>	<b>-8.5%</b>
A diverse society that promotes linguistic duality and social inclusion	5,772 \$	-25.0%	-33.7%
A Safe and Secure Canada	11,679 \$	5.3%	-0.2%
Healthy Canadians	3,250 \$	5.0%	8.8%
A Vibrant Canadian Culture and Heritage	1,066 \$	4.7%	21.4%
<b>International Affairs</b>	<b>2,651 \$</b>	<b>2.5%</b>	<b>-1.8%</b>
Global Poverty Reduction Through International Sustainable Development	1,167 \$	2.7%	-1.3%
A Safe and Secure World Through International Engagement	1,372 \$	1.4%	-3.0%
A Prosperous Canada Through Global Commerce	110 \$	17.0%	8.1%
A strong and mutually beneficial North American partnership	2 \$	-4.1%	4.2%
<b>Government Affairs</b>	<b>9,664 \$</b>	<b>7.2%</b>	<b>-0.9%</b>
Well-managed and efficient government operations	8,529 \$	7.1%	-1.1%
A Transparent, Accountable and Responsive Federal Government	774 \$	7.3%	-2.1%
Strong and Independent Democratic Institutions	361 \$	9.4%	9.4%
Pay Adjustment (Note 1)	0 \$		
Suspense (Note 2)	92 \$		
<b>Government of Canada</b>	<b>136,451 \$</b>	<b>3.7%</b>	<b>5.6%</b>

## 3.1. Economic Affairs

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The \$5.4 billion increase in spending in Economic Affairs is mainly due to increases in spending under *Income Security and Employment for Canadians* and *Innovative and Knowledge-based Economy*.

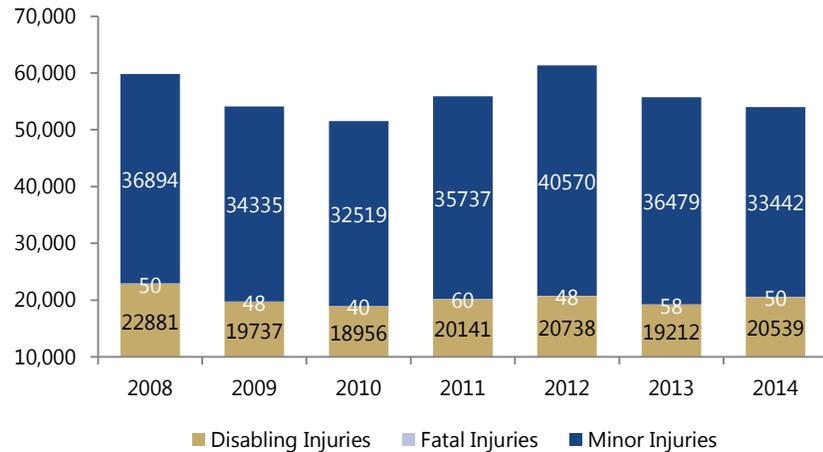
Within *Income Security and Employment for Canadians* policy theme, the increase of \$7.7 billion is primarily due to the consolidation of existing federal spending on children. Previously, spending was divided between Economic and Social affairs. All spending for the new Canada Child Benefit is designated under this policy theme. Hence, while planned and actual spending for 2016-17 is higher, this is mostly due to a technical reclassification.

Nevertheless, there remains a substantial real increase in this policy theme of arising from a \$2.2 billion increase in Employment and Social Development Canada's (ESDC) Old Age Security, as well as an additional \$199 million of money for the Guaranteed Income Supplement (GIS). These increases are a result of changes in average benefit payments and in the number of beneficiaries.<sup>11</sup>

The largest percentage change in spending is the 15% decline (\$36 million) in *A Fair and Secure Marketplace*. This is principally due to a decrease of \$20 million in the spending on the Labour Program provided by ESDC, of which \$18 million relates to a net decrease in spending on compensation payments respecting government employees. This program is administered by ESDC on behalf of federal departments, which represent roughly one-quarter of total employees under the jurisdiction of federal labour laws and regulations. Cost recoveries from federal clients have been faster in 2016-17 compared to the previous year, hence net costs are lower. The department anticipates that net costs for this program in 2016-17 to be generally unchanged from the previous fiscal year.

More broadly, the total number of occupational injuries in sectors under federal jurisdiction has fallen by over 7,000 (-12%) between 2012 and 2014 (Figure 3-2).

**Figure 3-2 Occupational Injuries under Federal Jurisdiction**



Source: Employment and Social Development Canada

## 3.2. Social Affairs

The decrease of \$1.1 billion (-5%) under *Social Affairs* is completely driven by a \$1.9 billion decline in the *A diverse society that promotes linguistic duality and social inclusion* policy theme. As mentioned earlier, this is attributable to the recategorization of children's benefits under a single policy theme in Economic Affairs.<sup>12</sup>

A *Safe and Secure Canada* policy theme had the largest absolute spending increase (+5%, \$587 million), which is due to an increase in Public Safety and Emergency Preparedness Canada's Emergency Management program. Over half of this (\$307 million) is attributable to an advance payment made to the province of Alberta in June 2016 under the Disaster Financial Assistance Agreements (DFAA) contribution program for the Fort McMurray wildfires.

The DFAA is a cost sharing tool where the federal government can contribute to provincial and territorial costs due to natural disasters that place an undue burden on the provincial and territorial economies.

In addition, the Prime Minister committed to matching every dollar donated to the Canadian Red Cross for the month of May (2016) in support of the Fort McMurray relief effort. This commitment increased spending by \$105 million, which was transferred to the Canadian Red Cross in July 2016.<sup>13</sup>

### 3.3. International Affairs

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Overall spending for the first half of the year on International Affairs rose \$66 million (+3%) to \$2.7 billion.

The largest percentage increase in spending is under *A Prosperous Canada Through Global Commerce*. The increase is due to the expansion of the Trade Commissioner Service and the CanExport program spending. The Trade Commissioner Service is part of Global Affairs and supports not only Canadian companies looking to expand to foreign markets, but also foreign companies looking to invest in Canada. It is a network of more than 1,000 trade professionals working in Canadian Embassies, high commissions and consulates located in 161 cities worldwide.<sup>14</sup>

The CanExport program provides financial support to small and medium-sized enterprises (SMEs) in Canada that are looking for new export opportunities. The program began in January of 2016 and will provide up to \$50 million over the next five years to help Canadian companies stand out on the international market. This program is delivered by the Trade Commissioner Service of Global Affairs and National Research Council Industrial Research Assistance Program.<sup>15</sup>

### 3.4. Government Affairs

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The expenditures under Government Affairs increased by \$650 million (+7.2 %) to \$9.7 billion first half of 2016-17, compared to the same period last year. Most of the increase is attributable to Public Services and Procurement Canada's (PSPC) programs for *Accommodation and Real Property Assets Management* (+54%, \$550 million) and *Specialized Programs and Services* (+119%, \$16 million).<sup>16</sup>

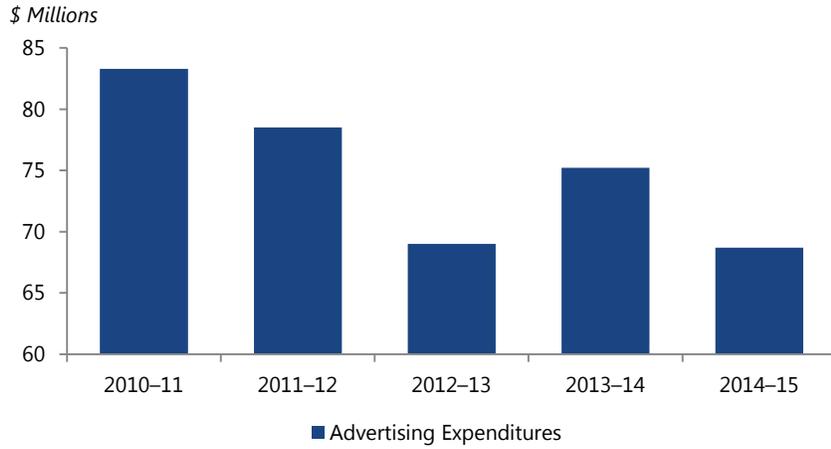
The Accommodation and Real Property Assets Management program provides federal departments with accommodations, and also holds responsibility over various public buildings, bridges and dams, heritage assets across Canada. Hence, it is one of the programs principally benefitting from new funding announced in Budget 2016 for capital investments in federal infrastructure.

The contributing factors to this increase include the repair and maintenance of federal assets (\$97 million), timing differences in the reporting of transfer payments (\$81 million), and delays in booking revenues in comparison to last year (\$58 million).

*Specialized Programs and Services* is a program that provides federal organizations with "high quality, timely and accessible specialized services and programs."<sup>17</sup> The largest subcomponent of this program is Government

Information Services, which provides Canadians with information on government programs and publications through advertising. Across the federal government spending on advertising has declined from over \$80 million in 2010-11 to roughly \$70 million in 2014-15, the last year for which data are available (Figure 3-3).

**Figure 3-3 Federal Advertising Expenditures Declining**



Sources: Public Services and Procurement Canada

# Notes

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1. The totals for 2014-15 onward exclude the one-time charge associated with moving to a "pay-in-arrears" salary administration system.
2. PBO has revised its presentation of government spending to reflect certain tax expenditures that are tracked in the Government's Central Financial Management and Reporting System. Specifically, the new Canada Child Benefit (and its predecessor, the Canada Child Tax Benefit), as well as certain tax expenditures administered by the Canada Revenue Agency for firms and individuals. Compared to previous years, these adjustments increase the overall level of reported spending, but leaves the growth rate (and broad trends), largely unchanged.
3. See Budget 2016 Table A1.4 – Outlook for Program Expenses. Available at: [http://www.budget.gc.ca/2016/docs/plan/anx1-en.html#\\_Toc446106876](http://www.budget.gc.ca/2016/docs/plan/anx1-en.html#_Toc446106876)
4. Infrastructure Canada (2016). Quarterly Financial Report ended September 30, 2016. Available at: <http://www.infrastructure.gc.ca/pub/qfr-rft/qfr-rft-2016-11-29-eng.html>
5. Provincial budgets for Ontario, Quebec and British Columbia were tabled prior to the 2016 Federal Budget, while the Alberta's Budget was tabled after.
6. Based on a review of the mid-year Economic and Fiscal Updates published by Ontario, Quebec, Alberta and British Columbia. Data include direct spending by provincial governments, as well as planned provincial capital transfers to other orders of government. Baseline figures for planned capital spending are drawn from provincial budget documents.
7. Parliamentary Budget Officer (2010). Infrastructure Stimulus Fund – Update. Available at: [http://www.pbo-dpb.gc.ca/web/default/files/files/files/Publications/ISF\\_Performance\\_Update.pdf](http://www.pbo-dpb.gc.ca/web/default/files/files/files/Publications/ISF_Performance_Update.pdf).
8. Parliamentary Budget Officer (2015). Why Does the Government Lapse Spending and Why Does it Matter? Available at: <http://www.pbo-dpb.gc.ca/en/blog/news/Lapse%20Analysis>
9. Ibid.
10. The presentation of data in the Expenditure Monitor allows parliamentarians to reconcile the figures directly back to the Estimates documents prepared by the Government of Canada. As such, all financial figures are presented on a "near-cash" accounting basis and also include offsetting revenues (that is, revenues linked to specific votes and programs are netted against reported spending).

11. Employment and Social Development Canada. (2016). Quarterly Financial Report ended September 30, 2016. Available at: <https://www.canada.ca/en/employment-social-development/corporate/reports/quarterly-fiancial/2016-quarter-2.html>
12. Ibid.
13. Public Safety Canada Quarterly Financial Report for the quarter ended September 30, 2016. Available at: <https://www.publicsafety.gc.ca/cnt/rsrscs/pblctns/qtrtl-fnncl-rprt-20160930/index-en.aspx>
14. The Canadian Trade Commissioner Service. (2016). Available at: <http://tradecommissioner.gc.ca/how-tcs-can-help-comment-sdc-peut-aider.aspx?lang=eng>
15. Global Affairs Canada. (2016). CanExport. Available at: <http://international.gc.ca/canexport/index.aspx?lang=eng>
16. In 2016-17, Public Services and Procurement Canada's Program Alignment Architecture was amended to shift some sub-programs to the Specialized Programs and Services program. Year-over-year growth amounts and rates have been adjusted to reflect this change.
17. Public Services and Procurement Canada. (2016). 2016-17 Report on Plans and Priorities. Available at: <http://www.tpsgc-pwgsc.gc.ca/rapports-reports/rpp/2016-2017/rpp-02-eng.html>