



**REPORT ON THE
*SUPPLEMENTARY ESTIMATES (A), 2013–2014***

**Standing Senate Committee on
National Finance**

TWENTY-FIRST REPORT

Chair

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REPORT ON THE *SUPPLEMENTARY ESTIMATES (A), 2013–2014*

Introduction

The *Supplementary Estimates (A), 2013–2014* were tabled in Parliament on 10 May 2013. The *Supplementary Estimates (A), 2013–2014* are the first supplementary estimates for the fiscal year ending on 31 March 2014. They identify the spending authorities and the amounts to be included in subsequent appropriations.

The Committee met with officials from four government departments and one agency to review these Supplementary Estimates.

On 4 June 2013, the Committee heard from the Treasury Board Secretariat, represented by Bill Matthews, Assistant Secretary, Expenditure Management Sector; Sally Thornton, Executive Director, Expenditure Management Sector; and Marcia Santiago, Senior Director, Expenditure Management Sector. During the same meeting, Public Safety Canada was represented by Gary Robertson, Chief Financial Officer and Assistant Deputy Minister, Corporate Management Branch; and Dave Neville, Senior Director, Financial Assistance Programs. Atomic Energy of Canada Limited was represented by Steve Halpenny, Vice President, Finance and Chief Financial Officer; and Jonathan Lundy, Vice President, Chief Legal Officer.

On 5 June 2013, the Committee heard from Aboriginal Affairs and Northern Development Canada, represented by Susan MacGowan, Chief Financial Officer; and Pamela D'Eon, Director General, Planning and Resource Management. During the same meeting, Industry Canada also appeared, represented by Susan Bincoletto, Chief Financial Officer; Iain Stewart, Assistant Deputy Minister, Strategic Policy Sector; and Johanne Bernard, Director General, Resource Planning and Investments Branch.

Overview of the *Supplementary Estimates (A), 2013–2014*

In budget documents, planned expenditures are allocated between budgetary and non-budgetary spending and are divided into two categories: voted appropriations¹ and statutory expenditures.² As shown in Table 1, in the *Supplementary Estimates (A), 2013–2014*, Parliament will be requested, through an appropriation bill, to approve \$1.1 billion in voted appropriations; as well, information is provided on an increase of \$8.2 million in budgetary statutory spending.

Table 1 – *Supplementary Estimates (A), 2013–2014* (\$)

	Budgetary	Non-Budgetary	Total
Voted appropriations	1,103,446,635	–	1,103,446,635
Statutory expenditures	8,153,662	–	8,153,662
Total	1,111,600,297	–	1,111,600,297

Source: Treasury Board Secretariat, *Supplementary Estimates (A), 2013–2014*, p. 1-3.

Examination of the *Supplementary Estimates (A), 2013–2014*

During the Committee's examination of the *Supplementary Estimates (A), 2013–2014*, senators explored the federal government's rationale and reasons for voted appropriation authorization requests and changes to statutory appropriation levels for federal departments and agencies.

¹ Voted appropriations are sometimes called votes.

² **Budgetary expenditures** include the cost of servicing the public debt; operating and capital expenditures; transfer payments to other levels of government, organizations or individuals; and payments to Crown corporations. **Non-budgetary** expenditures (loans, investments and advances) are outlays that represent changes in the composition of the financial assets of the Government of Canada. **Voted** appropriations are those for which parliamentary authority is sought through an appropriation bill, and **statutory** expenditures are those authorized by Parliament through enabling legislation and for which forecasts are provided for information purposes only.

1. Treasury Board Secretariat

Treasury Board Secretariat (TBS) officials drew the Committee's attention to the following changes that have been introduced to the presentation of the Supplementary Estimates:

- the documents are available online;
- departments and agencies are listed alphabetically by legal name; presentation by portfolio or department was kept for the proposed schedules to the appropriation bill;
- the tables are available online and present information by strategic outcome and program based on the departmental or agency program alignment architecture;
- statutory authorities expenditures are presented in a condensed format; detailed information on forecasts for statutory items appears in a table available on the TBS website; and
- amounts under "Explanation of Requirements" are now rounded to the nearest whole number; this section also contains information on items for which \$1 was included in the appropriation bill seeking expenditure authority.

The TBS officials explained that the *Supplementary Estimates (A), 2013–2014* include \$1.1 billion in voted budgetary expenditures and presents the requirements of 16 departments and agencies. The major voted items include:

- Atomic Energy of Canada Limited : funding to meet operational requirements at Chalk River Laboratories (\$260.3 million);
- Public Safety Canada: increased funding for the Disaster Financial Assistance Arrangements contribution program (\$230.0 million);
- Agriculture and Agri-Food Canada: funding for Cost-Shared Strategic Initiatives programming under "Growing Forward 2" (\$207.0 million);

- Aboriginal Affairs and Northern Development: funding for specific claims settlements (\$167.0 million);
- VIA Rail Canada Inc. (VIA Rail): funding for incremental pension requirements (\$99 million); and
- Agriculture and Agri-Food Canada: funding in support of Business Risk Management programming under “Growing Forward 2” (\$46.8 million).

The *Supplementary Estimates (A), 2013–2014* also includes the following two horizontal items:³

- funding related to government advertising programs (\$20.0 million for four departments); and
- funding to support Centres of Excellence for Commercialization and Research (\$19.1 million for three agencies).

The TBS officials said that an expenditure database⁴ was now available on the TBS website. This database presents historical financial information for all departments and agencies that received voted appropriations during the 2009–2010 to 2011–2012 period.

The officials then added that the next version of the expenditure database would provide information on expenditures for the current year and planned spending for future years.

Some senators asked questions about a request for \$11.1 million for the Canadian Institutes of Health Research under the Centres of Excellence for Commercialization and Research Program. The TBS officials answered that the funding requested would be allocated to the four successful applicants of the most recent competitive process:

³ A horizontal item is an item in which partners from two or more organizations have established a formal funding agreement (e.g. Memorandum to Cabinet, Treasury Board submission, federal-provincial agreement) to work toward the achievement of shared outcomes.

⁴ Treasury Board Secretariat, *Expenditure Database*, <http://www.tbs-sct.gc.ca/ems-sgd/edb-bdd/edb-bdd-eng.asp>.

- The Prostate Centre, Vancouver, BC;
- MaRS Innovation, Toronto, Ontario;
- The Centre for Probe Development and Commercialization, Hamilton, Ontario; and
- The Centre for Drug Research and Development, Vancouver, BC.

In response to senators' questions about a request for \$5.0 million from Health Canada for government advertising programs, the TBS officials said that this government advertising would inform Canadians about specific health issues and the availability of tools and programs on the Health Canada website.

The officials also said that the best source of information on government advertising programs was the annual report on these programs prepared by Public Works and Government Services Canada (PWGSC). According to the 2011–2012 report, federal advertising expenditures totalled \$78.5 million in 2011–2012, compared with \$83.3 million in 2010–2011 and \$136.3 million in 2009–2010.⁵

Senators questioned the TBS officials about AECL expenditures. The officials answered that AECL had frequently relied on the supplementary estimates to address operational funding challenges. They then added that AECL does not have sufficient core funding to carry out its mandate.

In answer to a series of questions from senators about VIA Rail's request for \$99.0 million for incremental pension requirements, the TBS officials explained that two factors were behind the problems with the VIA Rail employees' pension fund: first, low interest rates have meant a low return on the fund's investments; and second, VIA Rail's aging workforce is rapidly increasing demand on the pension fund.

Senators questioned the TBS officials about a request for \$46.8 million from Agriculture and Agri-Food Canada in support of Business Risk Management programming under "Growing Forward 2." The officials replied that "Growing Forward 2"

⁵ Public Works and Government Services Canada, *Annual Report on Government of Canada Advertising Activities 2011–2012*, <http://www.tpsgc-pwgsc.gc.ca/pub-adv/rapports-reports/documents/rapport-report-2011-2012-fra.pdf>, p. 3.

had two components. The first is funded jointly by the federal government, the provinces and the territories. The federal government will cover 60% of the costs, with the provinces and territories covering the remaining 40%. The second, Business Risk Management programming, funded entirely by the federal government, will provide financial support to farmers against market volatility and agricultural disasters.

2. Public Safety Canada

In the *Supplementary Estimates (A), 2013–2014*, Public Safety Canada (PS) requested a \$230 million increase to its grants and contributions vote. This will allow PS to fulfill the Government of Canada's prior commitments to provinces and territories under the Disaster Financial Assistance Arrangements (DFAA).

The TBS officials told the Committee that the number of natural disasters deemed eligible for DFAA assistance has grown significantly in recent years. These incidents, as well as other major events, have increased the federal government's DFAA obligations to \$1.1 billion. The officials said that the \$100 million allocation that PS receives annually for the DFAA is insufficient to cover these obligations.

The officials then added that PS would be requesting an additional \$470.0 million in the various supplementary estimates during the 2014–2015 and 2016–2017 period to support these obligations.

The PS officials also told the Committee that PS was currently in discussions with the provinces and territories on developing a National Disaster Mitigation Program and making improvements to ensure DFAA sustainability.

In answer to a series of questions about a request for \$230.0 million to increase funding for the DFAA contribution program, the PS officials said that one such disaster, Hurricane Juan in Nova Scotia, occurred in 2003. In 2008, PS changed its DFAA guidelines to limit the period during which provinces could apply for disaster financial assistance to five years.

Senators questioned the PS officials about the formula used for determining the federal amount of disaster financial assistance. The officials answered that the first dollar per resident is paid by the provinces and that the amount of disaster financial assistance is based on a sliding scale that can reach as high as 90% of the cost of a natural disaster. For example, PEI, with a population of 145,000, is responsible for the first \$145,000 of the cost of a natural disaster.

3. Atomic Energy of Canada Limited

Officials from Atomic Energy of Canada Limited (AECL) gave the Committee an overview of the context in which AECL is working and the changes the organization is anticipating with respect to its management model.

Atomic Energy of Canada Limited's roles include conducting nuclear R&D, producing medical isotopes and managing legacy and historic nuclear waste. AECL has eight locations in four provinces: Ontario, Manitoba, Quebec and New Brunswick.

With respect to the ongoing Atomic Energy of Canada Limited restructuring, AECL officials told the Committee that the federal government had already completed phase 1, which entailed the sale of the CANDU Reactor division. Last February, the Minister of Natural Resources announced phase 2 of the restructuring, which will focus on nuclear laboratories. In the future, these nuclear labs will be managed by the private sector through a government-owned, contractor-operated management model (GOCO), which has already been successfully implemented in the United States and Britain.

Procurement of the AECL GOCO contract will be a competitive process overseen by Public Works and Government Services Canada. Full implementation of the management model is expected to occur in 2016. The initial GOCO contract will likely have a term of about 10 years.

With regard to the request for \$260.3 million, officials explained to the Committee that this funding will allow AECL to continue medical isotope production; complete infrastructure and operational upgrades related to health, safety, security and environmental priorities; and meet regulatory requirements.

Several senators asked whether litigation involving the government of New Brunswick and AECL had been settled. AECL officials responded that there were no outstanding court cases.

4. Department of Aboriginal Affairs and Northern Development Canada

In the *Supplementary Estimates (A), 2013–2014*, Aboriginal Affairs and Northern Development Canada (AANDC) requested \$165.8 million. According to officials, this funding will provide the financial resources to take action on a number of key initiatives under the government's comprehensive strategy to address the needs of First Nations, Inuit, Metis and non-status Indians.

In response to questions from senators, AANDC officials explained that the majority of these supplementary estimates, \$167 million, offset by a transfer of \$1.2 million to the Registry of the Specific Claims Tribunal (RSCT), will go to fund the settlement of specific claims. These are claims made by First Nations against the federal government with regard to Canada's obligations under historic treaties or the administration of land or other First Nation assets. These negotiated settlements discharge outstanding legal obligations of the Government of Canada.

Departmental officials also mentioned that the supplementary estimates include \$1.2 million to be temporarily provided to the RSCT as bridge financing for their operational requirements. According to the officials, this funding is necessary to continue RSCT operations and will be repaid through the *Supplementary Estimates (B), 2013–2014*.

The last item in the *Supplementary Estimates (A)* is a request for a \$2-million grant related to the *Manitoba Northern Flood Agreement Claim 138 Settlement Agreement*.⁶ These funds will enable the five First Nation signatories⁷ to the Claim 138 Settlement

⁶ This 1977 agreement addressed the adverse effects experienced by First Nation signatories in connection with Manitoba Hydro's operation of the Lake Winnipeg Regulation and Churchill River Diversion project. One of the features of the agreement was compensation for the flooding of reserve land. Additional information is available at <http://www.aadnc-aandc.gc.ca/aiarch/mr/nr/m-a2007/2-2927-eng.asp>.

⁷ Cross Lake First Nation, Nisichawayasihk Cree Nation, Tataskweyak Cree Nation, York Factory First Nation and Norway House Cree Nation.

Agreement to acquire sewer and water infrastructure management skills. The officials told the Committee that no new funds would be needed as this amount would be internally transferred under vote 10a grants.

In response to a series of questions from senators regarding the settlement of specific claims, AANDC officials responded that the Department currently has 332 claims in progress under the Specific Claims program. Of this number, 101 claims are under assessment, that is, they are being evaluated by the Department to determine their validity. Over the years, the government has settled 1,131 claims under the Specific Claims program. The officials told the Committee that a number of claims are currently before the courts.

When asked about the possibility of the government receiving more claims in the future and the potential costs associated with these claims, AANDC officials said that, on average, the government has received 30 to 40 claims a year since 2007, and that these claims are generally related to historic treaties that date back at least 15 years. The focus is on trying to settle the inventory of claims that are currently being assessed by the Department.

With respect to estimated budgets for future specific claims, AANDC officials explained that, in 2007, when the Specific Claims Action Plan was announced by Justice Canada, \$2.5 billion was set aside, that is, \$250 million a year for 10 years. Since it is difficult to identify exactly when a negotiation will come to a successful conclusion, a mechanism was established by AANDC in consultation with the Department of Finance to allow AANDC to better manage its cash flow while staying within the \$2.5-billion budget.

If the *Supplementary Estimates (A), 2013–2014* are approved, AANDC will have \$417 million for the settlement of specific First Nation claims, that is, \$250 million from the *2013-2014 Main Estimates*⁸ and a \$167-million grant requested in the *Supplementary Estimates (A), 2013-2014*.

⁸ Main Estimates 2013–2014, page II-181: <http://www.tbs-sct.gc.ca/est-pre/20132014/me-bpd/me-bpd-eng.pdf>

5. Industry Canada

In the *Supplementary Estimates (A), 2013–2014*, Industry Canada estimates gross budget expenditures of \$29.1 million, including the following expenditures:

- \$18.6 million for the Strategic Aerospace and Defence Initiative (SADI), which provides repayable contributions to companies in the aerospace, defence, space and security industries for research and development projects;
- \$3.5 million for disbursements under the Technology Partnerships Canada (TPC) program portfolio; and
- \$7 million in contributions to Mitacs Inc. to support the delivery of industrial research and development internships to graduate students and post-doctoral fellows. The funding is part of a Budget 2012 commitment of \$35 million over five years.

Officials also mentioned that Industry Canada wanted to use *Supplementary Estimates (A)* to transfer resources between votes in order to undertake capital investments to make leasehold improvements and optimize certain offices. Of these, the largest—totalling \$3.1 million—is the National Accommodations Strategy (NAS), a seven-year project whose primary objective is to reduce the office space occupied by Industry Canada, in order to comply with Public Works and Government Services Canada's space reduction and space recapture initiatives.

In response to senators' questions about the NAS, officials explained that, owing to the government's human resources adjustment, Industry Canada will be investing approximately \$16 million over the next six years to address workplace modernization requirements, in compliance with Public Works and Government Services Canada's National Accommodation Strategy. Industry Canada officials told the Committee that these investments will result in annual savings of about \$10 million a year at the end of the adjustment period, that is, at the end of six years.

The senators also questioned the officials about the \$3.5 million Industry Canada was requesting for the Technological Partnerships Canada (TPC) program. The officials explained to the Committee that, although no new agreements have been signed since 2006, there are payments to be made until 2035 to honour past agreements, some of which span 30 years.

As a result of senators' questions regarding Mitacs Inc., the Committee learned that 960 graduate students and postdoctoral fellows would be able to take part in the program, based on the funds requested by the Department in the supplementary estimates. The officials explained that Mitacs is a not-for-profit organization that provides internships to young graduate students and postdoctoral fellows in various academic disciplines.

They added that Mitacs is a centre of excellence that also supports interdisciplinary teams conducting long-term scientific research on social and economic issues.

The goal of the program is to connect graduate students and postdoctoral fellows with private companies in order to support their research and development needs and eventually find employment. In response to the senators' questions, Industry Canada officials said that Mitacs receives funding not only from the federal government, but also from the provinces and private sector.

The senators asked for details on the number of students applying to the Mitacs program, the number of participating universities, and the provincial breakdown of funds allocated under the program. Industry Canada officials promised to come back to the Committee with this information as soon as possible.

Some senators asked questions about a request for \$18.6 million for the Strategic Aerospace and Defence Initiative (SADI). SADI has been supporting the defence and aerospace sectors since its creation in 2007. CAE and Pratt & Whitney are two of the private companies that have received SADI contributions to conduct research and enhance their competitiveness in the global market.

Industry Canada officials explained that the contributions awarded by the government through SADI are repayable. The repayment terms and conditions are negotiated with the companies on a case-by-case basis. Under this program, when an innovation developed with government funding becomes commercially viable, a certain amount is paid back into the federal government coffers. If the innovation is unprofitable, the government is not usually reimbursed. Because these government contributions are conditionally repayable, the expenditure is a budgetary expenditure for the government; a conventional loan (no conditions) would appear as a non-budgetary expenditure in the government's budget documents.

Some senators asked Industry Canada officials about the financial return on SADI investments. The officials began by stating that the SADI agreements concluded between the government and private companies are typically long-term. They added that, generally speaking, the government invests in a company for an initial period of five years to give the company time to conduct the necessary research. During the next five years, the company will be able to market its product. Often, the government begins to see repayment of its contributions 10 years after signing an agreement with a company.

Continuing their testimony, officials said it was too early to assess SADI's performance, given that the program has existed only since 2007. However, under the Technology Partnerships Canada program, SADI's predecessor, \$3 billion was invested from its inception in 1996 and \$876 million has been repaid to the government, with payments expected to continue until 2035.