



**SECOND INTERIM REPORT ON
*2014–15 MAIN ESTIMATES***

Standing Senate Committee on National Finance

NINTH REPORT

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INTRODUCTION

The Standing Senate Committee on National Finance (the Committee) held three meetings in April 2014 for its study of the *2014–15 Main Estimates*. The Committee heard testimony from twenty-two witnesses from eight federal departments and from three non-governmental organizations. This is the Committee's second report on these estimates.

On 9 April 2014, the Committee welcomed officials from Foreign Affairs, Trade and Development Canada, National Defence and Transport Canada:

Foreign Affairs, Trade and Development Canada

- Nadir Patel, Assistant Deputy Minister and Chief Financial Officer, Corporate Planning, Finance and Information Technology; and
- Arun Thangaraj, Director General, Financial Resource Planning and Management Bureau.

National Defence

- Rear-Admiral Patrick Finn, Chief of Staff, Materiel Group;
- Kevin Lindsay, Chief Financial Officer; and
- Major-General Ian C. Poulter, Chief of Program.

Transport Canada

- André Lapointe, Assistant Deputy Minister, Corporate Services, and Chief Financial Officer.

On 29 April 2014, the Committee heard from three more departments: Citizenship and Immigration Canada, Canadian Heritage and Health Canada. The following officials represented these departments:

Citizenship and Immigration Canada

- Paul Armstrong, Director General, Centralized Processing Region;
- Tony Matson, Assistant Deputy Minister/Chief Financial Officer; and
- Catrina Tapley, Associate Assistant Deputy Minister, Strategic and Program Policy.

Canadian Heritage

- Robert Hertzog, Chief Financial Officer and Director General, Financial Management Branch; and
- Colleen Swords, Deputy Minister, Financial Management Branch.

Health Canada

- Sony Perron, Acting Senior Assistant Deputy Minister, First Nations and Inuit Health Branch; and
- Jamie Tibbetts, Assistant Deputy Minister and Chief Financial Officer, Chief Financial Officer Branch.

On 30 April 2014, the Committee heard testimony from representatives of organizations regulated by the Office of the Superintendent of Financial Institutions in order to learn more about the Office's role. The organizations appearing were the TD Bank Group, the Canadian Bankers Association and Manulife Bank and Trust. Officials from Industry Canada and Public Works and Government Services Canada appeared before the Committee at the same meeting. The representatives of these organizations and departments were as follows:

TD Bank Group

- Kent Andrews, Senior Vice President, Regulatory Risk and Risk Capital Assessment.

Canadian Bankers Association

- Debbie Crossman, Director, Financial Affairs; and
- Darren Hannah, Acting Vice President, Policy and Operations.

Manulife Bank and Trust

- Christopher Elgar, Chief Risk Officer.

Industry Canada

- Robert Dunlop, Assistant Deputy Minister, Science and Innovation Sector;
- David Enns, Chief Financial Officer, Corporate Management Sector; and
- Iain Stewart, Assistant Deputy Minister, Strategic Policy Sector.

Public Works and Government Services Canada

- Alex Lakroni, Chief Financial Officer, Finance and Administration Branch; and
- Pierre-Marc Mongeau, Assistant Deputy Minister, Real Property Branch.

In addition, the Committee received responses from some departments to questions raised during its preliminary study of the *2014–15 Main Estimates* in March 2014. A summary of these responses is provided in the last section of this report.

1. Foreign Affairs, Trade and Development Canada

1.1 Amalgamation of the Canadian International Development Agency and Foreign Affairs and International Trade Canada

The officials from Foreign Affairs, Trade and Development Canada discussed how the new department was created by the amalgamation of the Canadian International Development Agency and Foreign Affairs and International Trade Canada, as provided by Bill C-60.¹ The Committee learned that much

¹ Bill C-60, An Act to implement certain provisions of the budget tabled in Parliament on March 21, 2013 and other measures, was introduced in Parliament on 21 March 2013 and received Royal Assent on 26 June 2013.

work has been done to harmonize the financial management processes, structures, systems and resources of the two organizations since the amalgamation.

In response to a question from the Committee, the officials explained that, from their perspective, the amalgamation in late June 2013 went smoothly and the new department has been working very well so far. The amalgamation resulted in synergies between the two organizations, but little overlap or duplication.

The officials continued their testimony by discussing the current projects arising from the amalgamation. Fully integrating all of the two organizations' systems is, as expected, taking some time. Given the department's 130 different initiatives and corporate functions, some of the transformations stemming from the amalgamation have already been completed, while others have not.

The Committee was also told that, for policy implementation purposes, the new department has developed a new organizational structure under which employees from the department's various business lines are working together.

As for human resources, the department's senior management is aware that employees may have concerns and experience anxiety during such an amalgamation. To address the situation, the department is working diligently to communicate effectively with its employees. The amalgamation has also opened up new training and career development opportunities.

The officials also highlighted the opportunity provided by the amalgamation to incorporate the two organizations' best practices into the new department. For example, the new department will adopt the fiduciary risk assessment for every dollar spent that the Canadian International Development Agency used before the amalgamation.

Finally, the officials told the Committee that it is too early to tell how much money the amalgamation has cost or saved. However, they specified that one-time costs were necessary to implement systems changes.

1.2 Departmental Role

According to the officials, the role of Foreign Affairs, Trade and Development Canada is to manage diplomatic and consular relations with foreign governments and international organizations. Through 172 missions in 105 countries, the department:

- engages in dialogue and cooperation with international players to advance Canada's political and economic interests;
- improves and maintains market access for Canadian businesses;
- delivers consular services and travel information to Canadians;
- supports global peace and stability;
- leads coordinated Canadian responses to crises and natural disasters abroad;
- alleviates global poverty; and
- enhances prosperity and stability in the developing world.

1.3 Departmental Estimate

According to the *2014–15 Main Estimates*, the new department's total budget in 2014–2015 will be \$5.3 billion, a net increase of \$3.0 billion over the 2013–2014 budget of the former department, Foreign Affairs and International Trade Canada. The main reason for this increase is the transfer of appropriations from the Canadian International Development Agency following the amalgamation.

The other major changes to the new department's estimates include the following increases:

- \$120.0 million for the crisis pool quick release mechanism to facilitate Canada's response to international crises and disasters requiring multilateral action; and
- \$19.3 million for assessed contributions to international organizations in foreign currencies, mainly owing to currency fluctuations.

These increases are partly offset by the following decreases:

- \$70.4 million resulting from the transfer of the Passport Program to Citizenship and Immigration Canada; and
- \$52.3 million from savings identified by the spending review launched in the 2012 federal budget.

1.3.1 Quick Release Mechanism

The Committee took an interest in the total budget for the quick release mechanism. The officials explained that this budget, which totals \$120 million, is a portion of the \$400-million crisis pool established following the 2004 tsunami that affected a number of countries, including Indonesia, Sri Lanka, India, the Maldives, Thailand and Somalia. Before their amalgamation, Foreign Affairs and International Trade Canada and the Canadian International Development Agency had respective budgets of \$20 million and \$100 million for this initiative, which provides for large-scale multilateral responses to major international crises.

1.3.2 Savings Identified in the Spending Review Launched in the 2012 Federal Budget

The officials discussed the savings identified by the spending review launched in the 2012 federal budget, which were achieved over three years. Fiscal year 2014–2015 is the third and final year of the reductions and the year in which the last portion of savings, totalling \$52.3 million, will be achieved. Over these three fiscal years, the former Foreign Affairs and International Trade Canada will have realized \$197.1 million in savings through various measures, including the consolidation of administrative functions, the closure of trade offices and consulates that focused on trade with the United States, and changes to its real property portfolio. Meanwhile, the former Canadian International Development Agency also achieved program savings. For example, some countries will no longer benefit from certain programs in the years ahead. The officials committed to providing a list of the savings achieved through the spending review launched in the 2012 federal budget. At the time of writing, the Committee had not yet received the requested information.

1.3.3 Real Property Management

The Committee inquired about the department's sale of real property and the way the revenue generated by these sales was used. The officials explained that the department can use the revenue

from such sales to acquire new real property without Parliament's approval. The officials agreed to provide a list of the real property bought and sold by the department in recent years. At the time of writing, the Committee had not yet received the requested information.

1.4 Changes to Voted and Statutory Items

The main changes to voted and statutory items in the department's main estimates are as follows:

- an increase of \$2.7 billion under Vote 10 – grants and contributions;
- an increase of \$147.0 million under Vote 1 – operating expenditures;
- an increase of \$189.5 million in statutory items to cover contributions to employee benefit plans and payments to international financial institutions and other expenditures;
- a decrease of \$20.2 million under Vote 5 – capital expenditures; and
- a decrease of \$14.6 million under Vote 15 – payments, in respect of pension, insurance and social security programs or other arrangements for employees locally engaged outside of Canada, or in respect of the administration of such programs or arrangements.

1.5 Employees in Canada and Abroad

Following a question from the Committee, the officials stated that, as of 1 April 2014, the department had a total of 9,858 employees, comprising of 6,187 in Canada and 3,671 abroad. The latter category includes foreign residents hired to support the department in its missions but not Canadians posted abroad.

2. National Defence Canada

2.1 Departmental Estimates

According to the *2014–15 Main Estimates*, National Defence is requesting a budget of \$18.7 billion. This is a net increase of about \$676 million, or 4%, over the *2013–14 Main Estimates*. The increase is primarily due to a \$1.1-billion rise in forecast capital costs. This is partially offset by expected reductions in operating costs (\$325.2 million), statutory payments (\$98.7 million) and grants, contributions and other transfer payments (\$6.5 million).

In response to questions from the Committee, the National Defence officials explained that the increase in funding for the capital expenditures vote is mainly attributable to a \$1.2-billion increase in planned spending for major capital projects such as the family of land combat vehicles, the Arctic/offshore patrol ships and the marine helicopter project.

The officials went on to detail the principal spending reductions in National Defence's operating budget:

- a \$19.5-million decrease owing to the end of the training mission in Afghanistan;
- a \$128.8-million decrease related to the implementation of measures announced in Budget 2014 to reduce travel expenditures and the transfer of liability for future severance payments to the Treasury Board of Canada Secretariat.

2.2 New Program Alignment Architecture

The Committee inquired about a significant change in the way National Defence's financial information is presented in the *2014–15 Main Estimates*. Starting in 2014–2015, National Defence is adopting a new Program Alignment Architecture composed of five programs plus Internal Services. In their testimony, the officials first noted that every federal department has a Program Alignment Architecture. Departments use this structure to establish their budgets and present their financial results. The officials added that the restructuring, approved by the Treasury Board of Canada Secretariat, was intended to make the information in the estimates easier to understand and better aligned with National Defence activities, which remain unchanged.

The officials also explained that, given the new presentation of financial information, the amounts in the department's 2014–2015 budget cannot be compared with those of the previous year. Even the amount requested for Internal Services is not comparable since, under the new architecture, the \$478 million difference is mainly due to a reallocation of the costs of internal services to the appropriate programs.

The Committee wished to learn more about the programs that make up National Defence's new Program Alignment Architecture. The officials provided the following information in response to the Committee's questions.

2.3 Five New Programs Introduced in the 2014–15 Main Estimates

2.3.1 Defence Combat and Support Operations (Amount sought: \$1.36 billion)

This program consists of the following three subprograms:

- Domestic and Continental Defence Operations, which includes North American Aerospace Defense Command (NORAD) and Arctic response operations;
- International Combat Operations, which includes ongoing National Defence operations through standing North Atlantic Treaty Organization (NATO) commitments and any international crisis and surge response operations; and
- Ongoing Centralized Operations and Operational Enablement, which includes diplomatic support and intelligence, surveillance and reconnaissance.

2.3.2 Defence Services and Contributions to Government (Amount sought: \$408 million)

This program is comprised of the following three subprograms:

- Disaster Relief and Humanitarian Operations, which encompasses all interventions in the event of earthquakes, floods and hurricanes, as well as humanitarian assistance and evacuation responses, both domestically and internationally;
- Defence Services for Canadian Safety and Security, which relates to threats to the safety and security of Canadians and includes support for major events like the Olympic Games, support for other departments and agencies, counter-terrorism and terrorism event responses, and search and rescue operations within Canada; and
- Military Heritage and Outreach, which involves sharing military history and traditions, showcasing Canadian military expertise and values, and developing leadership and good citizenship among Canada's youth. This subprogram also includes the teaching of military history, participation in

ceremonial events such as Remembrance Day, and the Cadet and Junior Canadian Rangers programs.

2.3.3 Defence Ready Force Element Production (Amount sought: \$3.04 billion)

This program has the following four subprograms:

- Force Elements Readiness Sustainment, which supports activities for units that are ready to deploy, such as ready-duty high-readiness ships;
- Force Elements Integration Training, which pertains to the training of the major expeditionary task forces;
- Force Elements Production, which exclusively concerns the normal ready force, such as frigates, infantry units and strategic airlift units; and
- Operational Readiness Production, Coordination and Command and Control, which essentially relates to the command and control activities that ensure the readiness and balance of maritime, land and special forces.

2.3.4 Defence Capability Element Production (Amount sought: \$13.1 billion)

This program also has the following four subprograms:

- Military Personnel and Organization Lifecycle, which includes military recruitment, basic military officer and occupational training, and military health services;
- Materiel Lifecycle, which involves ensuring that defence materiel elements are available in the correct quantity, mix and condition. It includes materiel acquisition and ongoing maintenance of equipment;
- Real Property Lifecycle, which encompasses acquiring real property, maintaining the capacity to decontaminate it in the case of environmental problems and disposing of it; and
- Information Systems Lifecycle, which concerns acquiring and managing information systems and providing user support services. Shared Services Canada does not provide all of National Defence's information technology services; National Defence provides those related to military command and control.

2.3.5 Defence Capability Development and Research (Amount sought: \$326.3 million)

This program has the following two subprograms:

- Capability Design, Development and Integration, which involves examining threats through the security environment analysis carried out by force developers, military modeling and simulation, and defence technology development and demonstration; and
- Strategic Direction and Planning Support, which concerns the future security environment and all threat assessments, military scenario development for National Defence's various missions and tasks, and ways of transforming capabilities to meet future threats.

2.4 Arctic/Offshore Patrol Ships

The Committee questioned the National Defence officials about the Arctic/offshore patrol ships and learned that the project is well underway, with construction to begin in 2015.

The officials further explained that Irving Shipbuilding will build the Arctic/offshore patrol ships and the surface combatants. They also mentioned plans for naval construction on the West Coast, for which detailed discussions are being held with Seaspan, a company with several shipyards in Victoria and Vancouver. Seaspan is currently modernizing five frigates at its shipyards in Victoria and is responsible for all heavy maintenance of National Defence submarines over several decades. Seaspan is giving priority to the Canadian Coast Guard ships, but will also be building National Defence's joint support ships.

In conclusion, the National Defence representatives stated that the expenditures in the *2014–15 Main Estimates* are necessary to provide the Canadian Armed Forces with the resources they need to carry out their duties on behalf of all Canadians.

3. Transport Canada

3.1 Departmental Estimates

In the *2014–15 Main Estimates*, Transport Canada is forecasting budgetary expenditures of \$1.7 billion in 2014–2015, an increase of \$143.7 million over the *2013–14 Main Estimates*. Of this amount, \$1.4 billion requires parliamentary approval. The remaining \$238 million consists of statutory items that do not require further approval and are provided for information purposes.

3.2 Investments in the Transportation System and in Safety and Oversight

In response to the Committee's questions, the Transport Canada officials said that \$357 million will be allocated to the safety and security of travellers in 2014–2015 pursuant to the recommendations in the Office of the Auditor General's 2013 report on rail safety oversight. This funding will include support for accelerated regulatory development and enhancements to the federal systems-based approach to rail safety oversight. The officials also noted that the department will boost the inspection resources and capabilities of the Transportation of Dangerous Goods program. The officials further stated that \$151 million will be provided to Internal Services to ensure that the department's programs and other corporate obligations are appropriately funded.

The Transport Canada officials emphasized that his department was also requesting \$1.1 billion in 2014–2015 to improve the efficiency of the transportation system, including efforts to make progress on the Detroit River International Crossing project. These funds will also continue to support all orders of government and the private sector in delivering vital transportation infrastructure projects, and help maintain and operate the department's remaining airports and ports.

In addition, the Committee learned that \$86 million will be devoted to supporting a clean transportation system in 2014–2015. This funding will also go toward advancing world-class tanker safety system initiatives; developing regulations for the air, marine and rail modes of transportation through clean transportation initiatives; cleaning up the department's contaminated sites; and creating programs to limit air pollutants and greenhouse gas emissions from the various transportation modes.

In response to a question from the Committee on the strengthening of Transport Canada's safety and security oversight capabilities, the officials said that, following the tragic events in Lac-Mégantic last summer, the department took a step back to see if certain regulations needed to be amended immediately. One part of strengthening its capabilities is making the regulatory changes identified in that

review. Within the department, inspectors will receive training so that they fully understand the changes and are ready to apply them.

Regarding the Detroit River International Crossing, the Committee heard that Transport Canada is currently looking to buy property on the Canadian side of the border and will soon do the same on the American side. The officials also noted that several steps still need to be taken before a firm date for the opening of the crossing can be set.

4. Citizenship and Immigration Canada

4.1 Departmental Estimates

According to the *2014–15 Main Estimates*, the total budget for Citizenship and Immigration Canada in 2014–2015 is \$1.39 billion, a net decrease of \$270 million over the main estimates of the previous year. The main decreases are as follows:

- \$254.2 million due to statutory adjustments related to the Passport Canada revolving fund;
- \$48.3 million in statutory funding to return fees to certain Federal Skilled Worker applicants who applied before 27 February 2008;
- \$29.7 million in funding to implement biometrics in the temporary visa program;
- \$13.9 million in savings resulting from the spending review launched in the 2012 federal budget; and
- \$6.5 million in funding to modernize the immigration system and manage the backlog.

These decreases are partly offset by the following increases:

- \$45.5 million to enable the department to keep up with increased volume demands in the Citizenship and Temporary Resident programs;
- \$35.5 million for the Grant for the Canada-Quebec Accord;
- \$13.1 million to develop and implement the Electronic Travel Authorization program commitment under the Canada-United States Perimeter Security and Economic Competitiveness Action Plan; and
- \$4.2 million for language training under the Roadmap for Canada's Official Languages.

4.2 Passport Program

In July 2013, responsibility for the Passport Program was transferred from Foreign Affairs, Trade and Development Canada to Citizenship and Immigration Canada. However, the delivery of passports remained the responsibility of Service Canada.

The officials stated that the decrease in the estimates for the Passport Canada revolving fund represents an accounting adjustment owing to a surplus in the fund.

The Committee learned that, in the case of a revolving fund, the department delivers services for which it charges fees. Over time, the fees must cover the expenses so that the net fiscal impact is zero. The forecast surplus in the fund for 2014–2015 reflects the department's expectation that revenues (\$673 million) will exceed expenses (\$379 million). This increase in revenues is primarily due to the

higher fee for five-year passports, which rose from \$80 to \$120, and the introduction of the 10-year passport, the fee for which is \$160. The 10-year passports have been very popular with Canadians. However, the department expects a decrease in passport applications in about five years and estimates that revenues will equal expenses in 2024–2025.

The Committee inquired about the ways the department can use the surplus from the fund. The officials explained that the surplus cannot be used to meet needs in other programs. However, if there were a backlog in processing passport applications, the department could use the surplus to address it.

4.3 Temporary Foreign Worker Program

The Temporary Foreign Worker Program is a joint responsibility of Citizenship and Immigration Canada and Employment and Social Development Canada. The officials noted that both 2013 and 2014 federal budgets introduced user fees for employers that obtain labour market opinions from the department.

The Temporary Foreign Worker Program also generates revenue from fees, and this revenue is used to manage the program. The officials stated that the fees collected are approximately equal to the costs of the program. The Committee learned that the decrease relating to the reimbursement of fees paid by some Federal Skilled Worker applicants for cancelled applications is due to a change in the refund schedule.

4.4 Biometrics

The officials reported that the decrease in funding for the implementation of biometrics reflects the successful implementation of biometric screening during 2013–2014, as planned. The biometrics used include digital fingerprints and facial recognition. This screening is now fully integrated into the department's regular operations, and ongoing funding is included in its operating budget.

4.5 Savings Resulting from the Spending Review Launched in the 2012 Federal Budget

The Committee asked the officials to provide a detailed list of the programs, services and positions affected by the savings achieved through the spending review launched in the 2012 federal budget. This information had not yet been provided to the Committee at the time of writing.

4.6 Citizenship and Immigration Applications

The officials explained to the Committee that the requested increase in funding to handle the growing number of citizenship and immigration applications will enable the department to process more applications awaiting a decision, reduce processing times and improve service. For several years now, the number of citizenship applications has exceeded the department's capacity to process them, and a temporary increase in immigration applications is expected from some markets, such as China, India and Brazil. The additional funding will speed up service for those markets. The officials expect that processing times will decrease to one year or less by 2015–2016.

In response to a question from the Committee, the officials said that electronic application processing is more efficient than in-person interviews and that is why the department wants to process more applications electronically. The Committee was told that the Canadian system, unlike the American one,

does not require a face-to-face interview with each applicant and that the attention paid to each application is based on a risk analysis.

4.7 Canada-Quebec Accord

Under the Canada-Quebec Accord, the Government of Quebec is solely responsible for delivering immigrant reception and integration services. In return, it receives financial compensation from the federal government. The amount transferred to the Government of Quebec is expected to increase from \$284.5 million in 2013–2014 to \$320.0 million in 2014–2015.

4.8 Electronic Travel Authorization

The Electronic Travel Authorization system will be implemented in 2015 to make it easier to manage risks before travellers arrive at a point of entry. This initiative will screen visitors from other countries who are not required to have visitor visas, except for United States citizens. The officials stated that this initiative will enhance security and improve border effectiveness while facilitating the movement of legitimate travellers. Funding for this initiative is expected to be \$18.1 million by 2017–2018.

4.9 Roadmap for Official Languages

The Committee was informed of the purpose of the additional funding allocated to language training under the Roadmap for Canada's Official Languages. The funding will support newcomers who settle in official language minority communities by helping them improve their language skills.

The \$4.2 million provided in the *2014–15 Main Estimates* is only part of the \$29.5 million allocated over five years. The department is also investing \$120 million in other initiatives to support Canada's official language minority communities. In total, about \$600 million is spent each year outside Quebec to support linguistic minorities.

4.10 International Experience Canada Program

The Committee asked the officials about the decline in funding for the International Experience Canada program. They explained that this program was transferred from Foreign Affairs, Trade and Development Canada to Citizenship and Immigration Canada last year. This transfer came with a loan of \$5.2 million from Foreign Affairs, Trade and Development Canada to facilitate the transition of the program. This loan has already been repaid.

The program's annual revenue is approximately \$12 million and is generated by levying fees. The Committee learned that the \$5.2-million decrease listed in the *2014–15 Main Estimates* refers to the amount lent for the program transition.

5. Department of Canadian Heritage

5.1 Departmental Role

The officials from Canadian Heritage began by explaining how the department and Canada's major national cultural institutions play a vital role in the social, civic and economic life of Canadians. The department's objective is to support Canada's cultural life through the arts, heritage, official languages, citizenship and youth participation in sports.

The Committee was told that, according to recent data from Statistics Canada, artistic and cultural activities employ more than 630,000 people across the country and contribute \$49.9 billion to the Canadian economy, or 3.5% of the gross domestic product. The officials from Canadian Heritage also presented the main findings of a study conducted in 2013, which showed that every dollar invested by departmental support programs over the past five years has generated \$8.50 in economic benefits. Other studies showed that participation in arts and cultural activities is associated with better health, increased volunteering and greater life satisfaction.

The department has established four priorities:

- celebrating Canada's history and heritage on the road to 2017;
- advancing opportunities in a global and digital era for a prosperous cultural sector;
- bringing Canadians together and investing in our communities;
- serving Canadians by ensuring operational efficiencies and service excellence.

5.2 Departmental Estimates

According to the *2014–15 Main Estimates*, the department has a budget of \$1.39 billion, allocated as follows:

- \$178.9 million under Vote 1 – operating expenditures;
- \$1.19 billion under Vote 5 – grants and contributions;
- \$24.0 million under statutory funding.

The main estimates for 2014–2015 show an increase of \$72.8 million over the previous year, owing primarily to a one-time increase of \$71.6 million for the Pan and Parapan American Games, which will be held in Toronto in 2015.

In addition, the National Capital Commission's Capital Experience program was transferred in September 2013, representing an increase of \$14.2 million in operating expenses and the transfer of 80 program and communications employees.

These two funding increases are partially offset by the following decreases:

- \$4.7 million for the Aboriginal Peoples' Program, which focuses on strengthening the cultural identity of Aboriginal peoples, encouraging their full participation in Canadian life, and contributing to the preservation of Aboriginal languages and cultures through community projects that incorporate Aboriginal values, cultures and traditions;
- \$3.7 million representing the end of funding for activities to commemorate the War of 1812.

5.3 2015 Pan and Parapan American Games

Several departments are involved in preparing for the 2015 Pan and Parapan American Games. A total of \$500 million has been allocated to this event, \$377.1 million of which is earmarked for infrastructure.

Total funding also includes \$65 million in legacy initiatives to cover infrastructure operating costs for a certain number of years following the games, and \$6 million to develop a federal cultural strategy. Departmental officials did not specify exactly how many years will be covered by the \$65 million. Lastly, \$3 million has been set aside to help Canadian teams prepare for the games.

Given that most of the funds for this event have already been allocated, the officials stated that the department is not expected to request much additional funding in the next fiscal year.

The Committee asked whether spending on the games will exceed estimates and was told that preparations were going well and there was no expectation of cost overruns. Slightly less than half of the earmarked for the sports infrastructure (\$153 million) has already been allocated to the games' organizers.

5.4 150th Anniversary of the Charlottetown Conference

Committee members were told that federal funding for celebrations to mark the 150th anniversary of the Charlottetown Conference and for renovations to the Confederation Centre will reach \$6 million. This funding was announced last year by the Minister of Canadian Heritage and Official Languages, and the Minister of National Revenue and the Atlantic Canada Opportunities Agency.

5.5 Canada Periodical Fund

The officials agreed to provide the Committee with a list of grant recipients under the Canada Periodical Fund. Grants awarded through the fund total \$72.8 million for 2014–2015. This information was still pending at the time of writing.

5.6 Estimates for Canadian Heritage portfolio organizations

The Committee learned that 18 Canadian Heritage portfolio organizations have a total budget of \$2.6 billion for 2014–2015. This amount includes \$1.8 billion in appropriations and \$803.7 million in revenue.

There are several museums within the department's portfolio. Most of these generate revenue through admission fees and rental charges. Portfolio museums generate between \$6 and \$17 million each annually.

5.6.1 Canadian Museum of History

The officials discussed the additional \$8.6 million in funding allocated to the Canadian Museum of History for the museum's creation. The federal funding for the museum between 2012 and 2016 will total \$25 million.

5.6.2 Canadian Museum of Immigration at Pier 21

Funding for the Canadian Museum of Immigration at Pier 21 was reduced by \$8.6 million in 2014–2015 due to a change in the funding profile for the consolidation and renovation of the museum's facilities. The federal government is providing a total of \$24.4 million between 2010 and 2015 to support this recently created museum.

5.6.3 Canadian Museum for Human Rights

The Canadian Museum for Human Rights will be located in Winnipeg, Manitoba, and is scheduled to open in September 2014. The Committee learned that the \$21.7 million allocated to the museum for 2014–2015 is reserved entirely for operations. Although the museum has not yet opened its doors, it has already incurred operating expenses, primarily for the preparation of exhibits.

Construction costs are about \$351 million, \$100 million of which is to come from the federal government. In recent years, the department has loaned the museum some \$35 million from the operating budget to be used for capital expenditures. The amount will be paid back to the department over six years as of fiscal year 2018–2019 through the private-sector funding anticipated by the museum.

6. Health Canada

6.1 Departmental Estimates

According to the *2014–15 Main Estimates*, Health Canada has a budget of \$3.657 billion, an increase of \$365.1 million over the main estimates from the previous fiscal year. This increase is primarily attributable to the following items:

- \$311.7 million to stabilize, renew or expand health programs and services for First Nations and Inuit individuals, families and communities. In response to a question from the Committee, officials explained that previous core funding for the department's programs did not take into account program growth. Every year or two, the department was forced to request additional funding through the supplementary estimates. The amount in question is equal to a 5% increase in expenditures in the previous year's main estimates, and it will enable the department to deliver its programs without having to request additional funds;
- \$63.2 million in funding to implement the B.C. Tripartite Framework agreement on First Nation Health Governance;
- \$51.5-million in statutory revenues as a result of the Shared Services Partnership Agreement between Health Canada and the Public Health Agency of Canada, reached following the spending review launched in the 2012 federal budget;
- \$49.4 million for First Nation and Inuit health programs to meet the increased demand generated by a growing population base.

This increased funding will be partially offset by the following decreases:

- \$64.8 million for cancelled programs such as the Territorial Health System Sustainability Initiative, to which \$30 million had been allocated;
- \$26.7 million as a result of the end of funding for the Plan of Action for Drinking Water in First Nations Communities;
- \$59.1 million in savings resulting from the streamlining of internal operations through the spending review launched in the 2012 federal budget;
- \$10.7 million resulting from a rate adjustment for the department's employee benefit plans.

6.1.1 Savings Identified in the 2012 Federal Budget

The officials agreed to provide a list of the savings to be achieved in 2014–2015 as part the spending review launched in the 2012 federal budget and to explain the decreased funding for the Substance Use and Abuse program. The Committee had still not received this information at the time of writing.

6.1.2 Health Canada Funding for Services

The Committee was told that the funding allocated to the department under the *2014–15 Main Estimates* will enable it to continue delivering important services to Canadians. Funding is attributed as follows:

- \$2.6 billion to improve access to quality health services for First Nations and Inuit people;
- \$496 million to keep Canadians safe through regulatory programs for food, products and environmental factors;
- \$299 million to support and sustain health systems and programs across the country.

6.1.3 Health Canada Funding for First Nations and the Inuit

The Committee learned that 71% of the department's total budget will be allocated to direct services for First Nations and Inuit communities. A total of \$2.6 billion will be attributed as follows:

- 44% will fund non-insured supplementary health services for First Nations and Inuit peoples, regardless of where they live. These services include dental care, drugs, mental health services and medical transport;
- 33% will fund First Nations and Inuit primary care and health-care activities on reserve and in Inuit communities, mainly through contribution agreements. These activities and services are to be consistent with the health services offered by provincial and local governments, insofar as is possible;
- 23% will go to supporting the health infrastructure of First Nations and the Inuit.

6.1.4 Statutory Items

The main estimates for the department also contain \$167.1 million for statutory items. The officials explained that \$115.5 million of this amount is allocated primarily to employee benefit plans and \$51.5 million to the Shared Services Partnership Agreement between Health Canada and the Public Health Agency of Canada.

6.2 2014 Federal Budget Initiatives

Officials described the three departmental initiatives announced in the 2014 federal budget. The first involves an allocation of \$70 million over three years for the Territorial Health Investment Fund to improve the quality of health services in First Nations and Inuit communities across Canada. This initiative replaces the Territorial Health System Sustainability Initiative, which concluded at the end of 2013–2014.

The second initiative involves an allocation of \$47.4 million over two years to continue the First Nations Water and Wastewater Action Plan, which concluded at the end of March 2014.

Under the third initiative, \$40 million will be allocated over five years to expand the focus of the National Anti-Drug Strategy from illicit drug abuse to prescription drug abuse in Canada.

6.3 Performance Management Framework for the British Columbia Tripartite Framework Agreement

The officials pointed out that the British Columbia Tripartite Framework Agreement on First Nation Health Governance is the only one of its kind in Canada.² The initiative will receive an additional \$63.1 million in 2014–2015, although the total amount is not specifically set out in the budget documents. Committee members were interested in how funds for the Tripartite Framework Agreement are spent and what results are achieved. The officials agreed to provide the information requested but it had not been delivered at the time of writing.

In response to a question from the Committee, the officials stated that the agreement with British Columbia has a comprehensive performance management framework that has been approved by the Treasury Board of Canada.

The first component of the framework involves health surveillance data collected over more than 10 years. Data collection began after the First Nations of British Columbia asked to receive hospitalization data on community members. Health Canada, and Aboriginal Affairs and Northern Development Canada then got involved in the project. The data have been particularly useful in identifying the health-care needs of First Nations communities.

Data quality is improving as time goes on, and the data collected facilitate resource planning for health care and disease prevention. Data on sub-regional disease rates for illnesses like diabetes are available for all the provinces and all Canadians but not for on-reserve populations, which poses a problem. In addition, data that include on-reserve populations do not always distinguish between First Nations, Inuit and other Canadians.

The second component of the performance management framework is sound, community-based planning to support resource management. Since each community faces different challenges, planning is vital in order to direct resources to their priority health issues and problems. The Committee was told that community health planning is tied to community evaluation in order to determine the progress and outreach of the various programs.

The third component is the cost effectiveness of funding. For example, the Non-Insured Health Benefits Program for First Nations and Inuit provides coverage for some 980,000 people. According to departmental performance evaluations, funding for this program is not rising faster than that of other programs. The Committee learned that in 2013, program funding increased by 2.8%, while funding for the Canadian health care system grew by 5.2% according to the Canadian Institute for Health Information.

² On 1 October 2013, the federal government transferred the design and delivery of its health programming in British Columbia, including the staff at Health Canada's B.C. regional office and related funding, to the new First Nations Health Authority.

In summary, the Committee was told that the department was seeking to establish long-term health planning and sustainable arrangements under the British Columbia Tripartite Framework Agreement that will lead to successful programs and services integrated with the provincial health care system.

7. Institutions Regulated by the Office of the Superintendent of Financial Institutions

As part of its study of the *2013–14 Main Estimates*, the Committee heard from representatives of the Office of the Superintendent of Financial Institutions. The Committee asked them about the office's role in regulating and supervising federally regulated financial institutions, insurance companies and some pension plans. Following the meeting, the Committee decided it would be worthwhile to continue its study of the office by inviting representatives of the Canadian Bankers Association and various financial institutions, which are regulated by the Office of the Superintendent of Financial Institutions, to appear before it.

7.1 Estimates of the Office of the Superintendent of Financial Institutions

According to the *2014–15 Main Estimates*, the Office of the Superintendent of Financial Institutions is seeking parliamentary approval for nearly \$938,000 of a total budget of \$142.7 million. In the previous fiscal year, the organization had requested a parliamentary appropriation of \$907,000 out of a total budget of \$140.3 million. The amount requested for 2014–2015 will enable the Office of the Chief Actuary to deliver actuarial valuation and advisory services to the federal government for the various public-sector pension and social benefits plans.

The office's other expenditures for 2014–2015 total nearly \$141.8 million and are fully recovered through the assessments and user fees that it collects from the entities it regulates, namely, banks and all federally regulated insurance companies, trust and loan companies, and private pension plans.

7.2 Fees charged by the Office of the Superintendent of Financial Institutions

The Committee was interested in finding out what representatives from the financial sector think about the fees charged by the Office of the Superintendent of Financial Institutions. In response to the Committee's questions, representatives stated that they have an excellent relationship with the Office and hold regular discussions on fees and other issues. At the beginning of each fiscal year, the Office gives clients a detailed explanation of the scope of the work that will be conducted. Although the actual amount of the fees is not specified at that time, the sector representatives said that the process is helpful. They also understand that the fees are based on the company's risk-weighted assets and the type of work to be performed by the Office.

During their testimony, representatives from the financial sector also stated that the fees paid to the Office of the Superintendent of Financial Institutions are scaled according to the size and complexity of each organization. They understand that there has been extensive regulatory reform in this area, and that the Office requires skilled employees in order to apply the regulations effectively and efficiently. In summary, representatives from the financial sector believed that the cost of \$141.8 million for the Office is justified given the exemplary performance of Canada's banking industry.

7.3 Relationship between the Office of the Superintendent of Financial Institutions and the Financial Sector

In response to the Committee's questions, representatives from the financial sector stated that Canada has been well served by the strong relationship between the banking industry and the Office of the Superintendent of Financial Institutions, as demonstrated during the last global financial crisis. They believe that Canada's banks fared much better than their counterparts in other countries and noted that Canada is consistently recognized as having one of the strongest banking systems in the world. As an aside, representatives also mentioned that the World Economic Forum has ranked Canada's banking system as the most sound in the world for six consecutive years.

They attribute this strong performance mainly to two factors: the prudent manner in which Canadian banks are managed; and the strong regulatory and supervisory framework for banking in Canada, which is under the responsibility of the Office of the Superintendent of Financial Institutions.

The representatives noted that the Canadian banking industry is one of the most heavily regulated and supervised sectors of the economy. For example, Canadian banks are required to meet stringent guidelines established by the Office of the Superintendent of Financial Institutions in a wide range of areas, including capital, liquidity, corporate governance and accounting, to name just a few. The Committee was also told that Canadian banks are fortunate in that they deal with only one prudential regulator, which simplifies the regulatory process.

8. Industry Canada

8.1 Departmental Estimates

According to the *2014–15 Main Estimates*, Industry Canada projects budgetary expenditures of \$1.1 billion for 2014–2015, representing a net decrease of \$82.4 million over expenditures in the *2013–14 Main Estimates*. Voted appropriations account for \$872 million and require Parliament's approval. The remaining \$205 million represent statutory appropriations that do not require additional approval and are provided for information purposes.

Officials from Industry Canada stated that transfer payments represent about 65% of the total projected expenditures; operating and capital, 30%; and statutory expenditures, 5%. The Committee also learned that items identified in the 2014 federal budget, such as ongoing support for the Automotive Innovation Fund and for access to high-speed broadband networks, are not reflected in the *2013–14 Main Estimates*. They will be addressed in the supplementary estimates.

Industry Canada officials explained that the department's budget supports various strategic outcomes:

- 45% of the budget goes to fostering the knowledge-based economy and supporting advancements in science, technology and innovation;
- 34% goes to advancing the marketplace in order to ensure that it is efficient and competitive;
- 14% is allocated to encouraging business innovation and productivity by promoting economic development in communities across the country; and
- 7% goes to Internal Services.

Officials also told the Committee that the net decrease of \$82.4 million is due primarily to the scheduled wrap-up of temporary program funding, for example:

- a \$55.4-million decrease in funding requirements due to the phasing out of transfer payments to support research and development for the Bombardier CSeries airliner;
- a \$41.6-million decrease due to the end of temporary resources approved for the Strategic Aerospace and Defence Initiative;
- a \$6-million decrease due to the termination of the contribution program for the Institute for Quantum Computing;
- a \$1.7-million decrease due to the new National Shipbuilding Procurement Strategy, which is managed by Public Works and Government Services Canada and replaces the Structured Financing Facility;
- a \$1.2 million-decrease due to cancellation of the contribution program for the Ivey International Centre for Health Innovation.

Officials also drew the Committee's attention to increases in various contributions, such as the following:

- \$19.4 million for the Automotive Innovation Fund, which supports large-scale research and development projects;
- \$14.0 million for Mitacs, which supports research internships;
- \$10.2 million for the Technology Demonstration Program, which supports large-scale collaborative research and development projects in the aerospace, defence, space and security sectors;
- \$9.0 million for the Canadian Youth Business Foundation, which provides financial support and business expertise to young entrepreneurs;
- \$7.9 million for Genome Canada, which funds research into genomics and proteins, and supports six regional genome centres; and
- \$3.4 million for Canarie Inc., which operates and develops an advanced high-speed research network that helps Canada's research and science facilities, educational institutions and hospitals connect to each other and to their international counterparts.

8.2 Grants and Contributions

When questioned by the Committee on the regional distribution of grants and contributions, officials from Industry Canada replied that, although the department gathers regional information, there are no specific targets for regional distribution since the programs are pan-Canadian.

Officials also specified that contributions under the Community Futures Program represent contributions to various FedNor and FedDev Ontario programs.

The Committee asked how Industry Canada measures the success of these contribution programs and was told that they are evaluated every five years under the [Federal Accountability Act](#). The department can also assess its contribution programs by using the conditions and performance indicators built into the contribution agreements.

9. Public Works and Government Services Canada

9.1 Departmental Estimates

According to the *2014–15 Main Estimates*, Public Works and Government Services Canada has requested funding of more than \$2.6 billion for 2014–2015: \$2.5 billion in voted appropriations and \$118 million in statutory appropriations. The total amount represents a net decrease of close to \$197 million (6.9%) over the previous year's main estimates.

During their appearance before the Committee, officials from Public Works and Government Services Canada explained that this net decrease is attributable mainly to the following items:

- a decrease of \$102.8 million due to the annual funding adjustment for real property fit-ups;
- a decrease of \$71.2 million due to the completion of remediation and future land use activities for the Sydney Tar Ponds and Coke Ovens Remediation Project in Nova Scotia;
- a decrease of \$57.2 million due to the savings generated by the spending review launched in the 2012 federal budget, which led to operating efficiencies and improved productivity;
- a decrease of \$49.9 million due to completion of the purchase of Les Terrasses de la Chaudière in the National Capital Region, for which one-time funding was provided in 2013–2014;
- a net decrease of \$7.5 million due to various items, such as the termination of current funding for the Surplus Federal Real Property Initiative and the transfer to Shared Services Canada of the Cyber Authentication Renewal; and
- an increase of \$91.9 million to ensure the preservation of the Parliament Buildings as heritage assets and national symbols.

9.2 Canada Lands Company

In response to the Committee's questions about the Canada Lands Company, officials explained that it is an arm's length, self-financing Crown corporation that reports directly to the Minister of Public Works and Government Services Canada. When the department determines that a building is surplus, it evaluates the following two considerations:

- the property has no added value, in which case its disposal constitutes a standard transaction; or
- the property may be strategic; in other words, there is a possibility for development or an opportunity to develop the land and increase its value.

According to officials, Public Works and Government Canada sells only strategic properties to the Canada Lands Company, which then becomes responsible for developing the property and will attempt to increase its value. The Corporation also assumes responsibility for managing the property.

9.3 Real property Funding

The Committee asked about a decrease in the estimates for the annual funding adjustment for real property fit-ups. Officials explained that the figure of \$102.8 million is shown as a decrease in the *2014–15 Main Estimates* because of the way in which financial information is presented. The amount of this expenditure is not known when the main estimates are tabled and therefore cannot be included in the

department's funding request to Parliament. It should be noted that \$102.8 million is the amount requested for this expenditure in the previous fiscal year. The funding request for this expenditure will be in the 2014–2015 supplementary estimates and could be quite different.

When questioned by the Committee, officials stated that they cannot predict price fluctuations but that an evaluation will be conducted toward the end of the fiscal year using a very sophisticated formula. They explained that Public Works and Government Services Canada and the Treasury Board of Canada Secretariat believe that this is a healthy way to manage the quasi-statutory budget of the department's Real Property Branch.

As for how they arrived at the figure of \$102.8 million, officials stated that during the previous fiscal year, \$63 million was requested in the *Supplementary Estimates (C), 2013–14* for the fit-up of four buildings. The funding request included \$36.3 million for expenses related to 310,000 square metres to accommodate a number of departments in various parts of Canada. Lastly, \$2.5 million was requested to cover the increase in leasing costs.

The Committee will watch for the change in this expenditure as part of its study of the 2014–2015 supplemental estimates.

FOLLOW-UP ON OUTSTANDING ISSUES FROM THE INTERIM REPORT ON THE 2014–15 MAIN ESTIMATES

1. Canada's Tax Debt

On 6 March 2014, the Committee questioned officials from the Canada Revenue Agency regarding the tax debt. In their written response, officials informed the Committee that the undisputed tax debt was \$31 billion as of 31 March 2013. The disputed tax debt stands at \$11.6 billion, which includes amounts that are the subject of a challenge or appeal before the Tax Court, the Federal Court or the Supreme Court. The total tax debt is therefore \$42.6 billion.

2. Fees for Collecting Provincial and Territorial Taxes

On 6 March 2014, the Committee questioned officials from the Canada Revenue Agency regarding the fees charged to the provinces and territories for administering their tax programs. Officials from the Agency informed the Committee that in 2012–2013, it charged the provinces and territories a total of \$109.7 million for administering duties, taxes and benefits:

- \$25.5 million for federal-provincial tax programs that are similar to equivalent federal programs; and
- \$84.2 million for unharmonized tax programs (including tax credits and benefits) and initiatives operating on a cost-recovery basis.

3. Decreased Budget for the Taxpayer and Business Assistance Program

During the appearance by Canada Revenue Agency officials in March 2014, the Committee asked about the decreased budget for the Taxpayer and Business Assistance program. The Committee has since learned that most of this net decrease of \$188.8 million is related to a \$203-million decrease in disbursements to the provinces under the [Softwood Lumber Products Export Charge Act, 2006](#). According to the *2013–14 Main Estimates*, the Agency expected to disburse \$283 million to the provinces in 2013–2014. The Department of Finance expects these disbursements to total only \$80 million in 2014–2015.

This decrease is partially offset by a technical adjustment regarding the reallocation of funding for accommodation and real property services provided by Public Works and Government Services Canada. The Canada Revenue Agency reallocated funding for Internal Services to the Taxpayer and Business Assistance Program.

4. Total Funding Allocated to First Nations and Inuit Communities

During their appearance before the Committee in March 2014, officials from Aboriginal Affairs and Northern Development Canada were asked to provide information on the total federal funding allocated to First Nations and Inuit communities. The Treasury Board of Canada Secretariat has since told the Committee that a total of \$10.8 billion has been allocated to Aboriginal peoples for 2014–2015, primarily by Aboriginal Affairs and Northern Development Canada (\$8.1 billion) and Health Canada (2.6 billion). The primary purpose of this funding is to support public services in First Nations and Inuit communities in the areas of education, health, social and economic development, and capital.

Close to \$119.4 million is provided through transfer payments from various departments and agencies, such as the Canadian Northern Economic Development Agency, Fisheries and Oceans Canada, Canadian Heritage, Justice Canada, Natural Resources Canada, the Northern Pipeline Agency, the Public Health Agency of Canada, and Public Safety Canada. The transfer payments support various on- and off-reserve initiatives such as fisheries and forest management programs.

In addition, funds are allocated by the Registry of the Specific Claims Tribunal of Canada (\$2.9 million) and the Indian Residential Schools Truth and Reconciliation Commission (\$2.1 million) to “address particular aspects of Aboriginal claims against the Crown.”³

Lastly, other organizations such as the Canada Mortgage and Housing Corporation, Employment and Social Development Canada and the Royal Canadian Mounted Police administer programs or components of programs that support First Nations and Inuit communities and agencies.

5. Funding for Water Supply Systems

The Committee asked officials from Aboriginal Affairs and Northern Development Canada about funding for water supply systems during their appearance in March 2014. The Committee has since received information on this subject. A total of 177 projects concerning water and wastewater systems were carried out between April 2006 and March 2012. Departmental funding for these projects totalled \$838.6 million.

6. Savings Achieved by Aboriginal Affairs and Northern Development Canada through the Spending Review Launched in the 2012 Federal Budget

During the interim study of the *2014–15 Main Estimates*, the Committee asked departmental officials about the savings achieved through the spending review launched in the 2012 federal budget. The Committee was invited to consult the department’s [web page](#), where this information is posted by program, vote and fiscal year.

The savings identified totalled \$240.2 million, broken down as follows:

- \$24.4 million in 2012–2013;
- \$55.1 million in 2013–2014;
- \$160.6 million in 2014–2015 and ongoing.

Savings were achieved primarily in the following areas:

- \$61.3 million resulting from changes to project funding for Aboriginal Representative Organizations and Tribal Councils;
- \$51.7 million following the review of the Governance and Institutions of Government program;
- \$42.2 million through internal streamlining and restructuring;
- \$28.5 million through restructuring of the Co-operative Relationships program;
- \$16.7 million through the restructuring of Aboriginal economic development programs.

³ Treasury Board of Canada Secretariat (written submission), reply by the Treasury Board of Canada Secretariat to the Standing Senate Committee on National Finance, 15 April 2014.