SENATE SÉNAT

CANADA

SECOND INTERIM REPORT ON THE 2013-14 MAIN ESTIMATES

Standing Senate Committee on National Finance

TWENTIETH REPORT

Chair
The Honourable Joseph A. Day

Deputy Chair
The Honourable Larry Smith

MAY 2013

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SECOND INTERIM REPORT ON THE 2013-14 MAIN ESTIMATES

Introduction

The *2013-14 Main Estimates* were tabled in Parliament on 25 February 2013, and subsequently referred to the Standing Senate Committee on National Finance for review. On 26 March 2013, the Committee tabled its first interim report on the *2013-14 Main Estimates* which presents the testimony of five departments and two agencies. This document is the Committee's second interim report on the study of the *2013-14 Main Estimates*. It sets out the key testimony of the eight departments and seven agencies that have appeared before the Committee since the first interim report was tabled.

On 16 April 2013, the following Treasury Board Secretariat (TBS) officials appeared: David Enns, Deputy Assistant Secretary, Expenditure Management Sector; Amanda Jane Preece, Executive Director, Expenditure Management Sector; and Sally Thornton, Executive Director, Expenditure Management Sector.

On 17 April 2013, the Committee heard from officials from one department and two agencies. The Department of Canadian Heritage was represented by Nada Semaan, Associate Deputy Minister, and Robert Hertzog, Director General, Financial Management Branch, Strategic Policy, Planning and Corporate Affairs. Marie-Claude Guérard, Chief Financial Officer, appeared on behalf of the Canadian Space Agency (CSA), and Michel A. Piché, Vice President, Corporate Management and Chief Financial Officer, Gail E. McLellan, Director General, Finance Branch, and Bogdan Ciobanu, Vice President, Industrial Research Assistant Program, represented the National Research Council of Canada (NRCC).

On 23 April 2013, the Committee welcomed Citizenship and Immigration Canada (CIC), represented by Amipal Manchanda, Assistant Deputy Minister, Chief Financial Officer; Catrina Tapley, Associate Assistant Deputy Minister, Strategic and Program Planning; and Robert Orr, Assistant Deputy Minister, Operations. Departmental representatives of Public Safety Canada also appeared: John Ossowski, Associate Deputy Minister; and Gary Robertson, Chief Financial Officer and Assistant Deputy Minister, Corporate Management Branch. Correctional Service of Canada was represented by Don Head, Commissioner, and Liette Dumas-Sluyter, Assistant Commissioner, Corporate Services.

On 24 April 2013, the Committee heard from officials from one department and one agency. The Department of Industry was represented by Iain Stewart, Assistant Deputy Minister, Strategic Policy Sector, Susan Bincoletto, Chief Financial Officer, and Johanne Bernard, Director General, Resource Planning and Investments. Gina Rallis, Senior Assistant Deputy Minister and Chief Financial Officer, Corporate Services, and Benoît Long, Senior Assistant Deputy Minister, Transformation, Service Strategy and Design, appeared on behalf of Shared Services Canada.

On 30 April 2013, the Committee invited three federal agencies to testify. The Canadian Air Transport Security Authority was represented by Mario Malouin, Chief Financial Officer, and John Stroud, Vice President, Human Resources and Corporate Affairs. The Jacques Cartier and Champlain Bridges Incorporated was represented by Claude Lachance, Senior Director, Administration, and Jean-Vincent Lacroix, Director, Communications, General Management. Robert St-Jean, Chief Financial and Administration Officer, and Gerry Kolaitis, Director, Strategic Planning, Finance and Administration, appeared on behalf of VIA Rail Canada.

On 1 May 2013, the Committee welcomed the Department of Agriculture and Agri-food, represented by Greg Meredith, Assistant Deputy Minister, Strategic Policy Branch, and Pierre Corriveau, Assistant Deputy Minister, Corporate Management. The Canadian Food Inspection Agency was represented by Peter Everson, Vice President, Corporate Management, and Paul Mayers, Associate Vice President, Policy and Programs Branch. Representatives of the Department of Finance Canada also appeared: Sherry Harrison, Assistant Deputy Minister, Corporate Services Branch; Jean-Michel Catta, Assistant Deputy Minister, Consultations and Communications Branch; Diane Lafleur, Director General, Financial Sector Branch; Frank Des Rosiers, Director General, Tax Policy Branch; Brian Pagan, Director, Fiscal Policy, Economic and Fiscal Policy Branch; Nicholas Leswick, Director, International Finance and Development Division; Chantal Maheu, General

Director, Federal-Provincial Relations and Social Policy Branch; and Ross Ezzeddin, Director, Sector Policy Analysis, Economic Development and Corporate Finance.

Study of the 2013-14 Main Estimates

Senators asked the officials appearing before the Committee about the federal government's rationale for voted appropriation authorization requests and the reasons for changes to statutory appropriation levels for federal departments and agencies.

1. **Treasury Board Secretariat (TBS)**

In their testimony before the Committee on 16 April 2013, TBS officials described the new structure of the *2013-2014 Reports on Plans and Priorities* (RPPs) and explained the connections between the RPPs and the *Main Estimates* in the parliamentary financial cycle.

The TBS officials explained that the estimates consist of three parts:

- Part I, the *Government Expenditure Plan*, provides an overview of government spending and sets out the changes made to planned spending from one fiscal year to the next;
- Part II, the *Main Estimates*, directly supports the appropriation act. It contains detailed information about expenditure plans and appropriations requested by each department and agency; and
- Part III, the *Departmental Expenditure Plans*, includes the RPPs and Departmental Performance Reports (DPRs).

The officials then added that the RPPs provide a three-year outlook on the departments' and agencies' plans and priorities, by the strategic objectives and programs. They also provide the basis for reporting on performance at the end of the fiscal year, in the DPRs.

The RPPs are ministerial documents and are prepared by the federal departments and agencies designated in Schedules I, I.1 and II to the *Financial Administration Act*; the *Main Estimates* are the responsibility of the President of the Treasury Board and are prepared by TBS.

Tabling of the *Main Estimates* occurs before 1 March, whereas tabling of the RPPs generally occurs before 31 March.

The structure of RPPs consists of four main sections:

- Section I, *Organizational Overview*, provides an overview of the department;
- Section II, *Analysis of Program by Strategic Outcome*, explains the plans for each program based on a department's program architecture;
- Section III, *Supplementary Information*, includes a financial highlights section and a summary of the future-oriented statement of operations and the net financial position. It also provides links to supplementary information tables and to the Department of Finance's *Annual Tax Expenditures and Evaluations Report*; and
- Section IV, *Other Items of Interest*, provides contact information and any additional information that the departments might want to include.

The TBS officials also drew the Committee's attention to the changes made to the presentation of the RPPs for 2013-2014. For example, in response to the report of the House of Commons Standing Committee on Government Operations and Estimates entitled *Strengthening Parliamentary Scrutiny of Estimates and Supply*, the following changes have been made:

- in the table of financial resources in Sections I and II of the RPP, a column entitled Total Budgetary Expenditures has been added to facilitate comparing the financial information provided in the RPPs and the *Main Estimates*;
- financial information by program for three previous fiscal years and for three future years have been added to the RPPs;
- a hyperlink to the Department of Finance's *Annual Tax Expenditures and Evaluations Report*[1] has been added to the RPPs.

[1] The federal government can choose to use the tax system directly to achieve public policy objectives through the application of special measures such as low tax rates, exemptions, deductions, deferrals and credits. These measures are often described as "tax expenditures" because they are used directly to achieve

The following other changes have also been made to the presentation of the RPPs:

- the nomenclature of the Policy on Management, Resources and Results Structures has been updated;
- the presentation of the planning summary tables has been simplified;
- the definitions of the terms "planned spending" and "full-time equivalents" have been clarified; and
- the redundancies in the previous RPPs have been eliminated.

The Committee also learned that the 2013-2014 DPRs will present financial and non-financial information for the entire program architecture of federal departments and agencies.

The officials also said they were currently working on instituting electronic reporting to allow for standardized data collection to automate the production of the RPPs and DPRs, and generate reports for programs from the lowest level of the departments' and agencies' program architecture. Once that project is completed, the electronic reports will be available on the Internet via a searchable database.

Regarding questions from certain senators about the difference between cash accounting[2] and accrual accounting,[3] the TBS officials illustrated the main differences between the two accounting methods by providing the example of an individual who purchases a house.

Suppose that an individual purchases a house for $1 million over five years and commits to paying $200,000 per year over the five-year term.[4] Accrual accounting records an accounting entry of $1 million at the time the house is purchased, while cash accounting

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policy objectives at the cost of lower tax revenue. See Department of Finance of Canada, *Tax Expenditures and Evaluations 2012*, http://www.fin.gc.ca/taxexp-depfisc/2012/taxexp-depfisc12-eng.pdf.

[2] The cash method of accounting records revenue when it is received and expenses when they are paid.

[3] The accrual method of accounting records income only when it is earned and expenses only when they are incurred.

[4] This example assumes that the cost of borrowing is nil and the individual will make five identical payments.

records an accounting entry of $200,000 each time the individual makes the annual payment.

As that example illustrates, the two accounting methods are useful and complementary, because they each offer a different perspective on the federal government's spending.

The officials also provided the Committee with information about the results of their study on the two types of accounting. The results of this study suggest that both types of accounting are important to support decision-making, but accrual accounting is not suitable for appropriations.

2. Department of Canadian Heritage

In 2013-2014, the Department of Canadian Heritage projects budgetary expenditures of $1.32 billion: $1.13 billion in grants and contributions and $184.8 million in operating expenditures. This represents an increase of $36.7 million from the budgetary expenditures set out in the *2012-13 Main Estimates*.

That $36.7 million net increase includes a $54.6 million increase in grants and contributions and a $17.9 million decrease in operating expenditures.

The $54.6 million increase in grants and contributions is largely due to new funding for the Pan American Games, combined with the transfer of some components of the Aboriginal Peoples' Program to the Department of Aboriginal Affairs and Northern Development and the savings of $17.9 million resulted from the Budget 2012 Spending Review.

The Canadian Museum for Human Rights projects budgetary expenditures of $31.7 million in 2013-2014, an increase of $21.7 million compared to 2012-2013.

The Canadian Museum of Immigration at Pier 21 projects expenditures of $18.5 million in 2013-2014, which represents an increase of $8.5 million compared to 2012-2013. According to the Department of Canadian Heritage, the increase is due to a change in the funding profile for the consolidation and renovation of museum facilities.

Some senators also asked about a $31.7 million expenditure in 2013-2014 for the Canadian Museum for Human Rights. Officials replied that $10 million of that figure consists of an advance so that construction can continue in spite of private donations being lower than anticipated. The $10 million will be paid back over the next 10 years through private donations from the Friends of the Museum. The remaining $21.7 million will fund the Museum's operating expenses in 2013-2014, which will be gradually reduced over the next 10 years.

Certain senators wanted to know how the Department of Canadian Heritage evaluates the impact of funds allocated to commemorative events. Officials replied that the performance indicators vary, depending on the programs. For example, one of the outcomes for the Building Communities through Arts and Heritage program is that communities celebrate important events and involve a variety of volunteers and artists. Each time an event is funded under this program, the Department asks the organizers how many people participated, what the key themes were and how many volunteers participated.

On the other hand, for the commemorations of the War of 1812, the evaluation took the form of a survey in which the Department asked Canadians what the media coverage of the commemorations had taught them about the War of 1812. The results of the survey are available on the Department's website.

3. Canadian Space Agency (CSA)

The CSA projects budgetary expenditures of $488.7 million in 2013-2014: $477.9 million in voted appropriations and $10.7 million in statutory appropriations. This represents a $125.5 million increase over the budgetary expenditures presented in the *2012-13 Main Estimates*.

That increase is mainly attributed to the following expenditure items:

- an increase of $112.5 million for the RADARSAT Constellation mission;
- an increase of $34.0 million related to the forecasted cash flow requirements of various projects and initiatives;

- an increase of $3.9 million related to the ratification of collective bargaining agreements; and
- a decrease of $24.7 million due to savings identified in the Budget 2012 Spending Review.

Some senators wanted to know whether the three satellites in the RADARSAT Constellation mission will generate revenue by providing services to private firms. CSA officials replied that they did not know whether those satellites would be used by private firms, but they undertook to provide that information to the Committee in writing.

In response to senators' questions about a $24.7 million decrease related to savings identified in the Budget 2012 Spending Review, CSA officials said that those savings were primarily attributed to improved efficiency, which made it possible to eliminate 49 staff positions.

4. National Research Council of Canada (NRC)

In the *2013-14 Main Estimates,* the NRC projects budgetary expenditures of $820.0 million in 2013-2014, which includes $637.8 million in voted authorities and $182.2 million in statutory authorities. This represents a net increase of $119.5 million over the *2012-13 Main Estimates*.

The $119.5 million net increase is primarily attributed to the following items:

- a net increase of $110.0 million for the Industrial Research Assistance Program (IRAP) from Budget 2012;
- an increase of $10.2 million from the reprofiling of funds from the *2011-12 Main Estimates* for the Digital Technologies Adoption Pilot Program and the Canadian HIV Technology Development Initiative;
- an increase of $10.0 million in statutory revenue related to the alignment of NRC's business activities and processes with industry needs; and
- a decrease of $15.2 million related to savings identified in the Budget 2012 Spending Review.

NRC officials informed the Committee that their agency should receive $121 million in funding announced in Budget 2013 over the next two years to support the ongoing alignment of the NRC's research activities and processes with market demands and industry needs. Budget 2013 also proposes to provide $20 million over three years for a new pilot program to help small and medium-sized enterprises (SMEs) access research and business development (business R&D) services.

In response to senators' questions about how the NRC assesses the impact of federal investments in IRAP, NRC officials explained that they use a variety of performance indicators. For example, the results of the most recent evaluation of IRAP, which covers the period from 2007 to 2012, indicate that for every dollar IRAP invested in small businesses, their sales rose by about $10.

Senators sought more information about the transformation initiated by the NRC to realign its activities with market demand and industry needs. NRC officials said they have put together a rigorous approval process that requires program managers to demonstrate the value derived from investments in their research activities and demonstrate that their activities respond to an actual market demand or industry need. This collaborative, industry-driven approach will be put into effect by integrating a project review and approval process that can continue for five to seven years.

In response to questions from senators about a $5 million item for the Youth Employment Strategy, NRC officials said that this program helps small SMEs hire young graduates from colleges and universities in Canada by paying up to $30,000 of the first year's salary per graduate that they hire. Nearly 77% of young graduates hired by SMEs under this program stay with the SMEs.

Senators asked questions about the budget of the NRC's office in Charlottetown, Prince Edward Island. NRC officials replied that the budget would be $3.4 million in 2013-2014, compared to $3.8 million in 2012-2013.

5. Citizenship and Immigration Canada (CIC)

Citizenship and Immigration Canada projects budgetary expenditures of $1.65 billion in 2013-2014: $1.5 billion in voted authorities and $152.9 million in statutory authorities. This represents a net increase of $109.9 million over the budgetary expenditures presented in the *2012-13 Main Estimates.*

This net increase of $109.9 million is attributed primarily to the following items:

- an increase of $96.0 million related to statutory payments, primarily to reimburse fees for skilled worker applicants. According to CIC, about 280,000 people requested a refund of their immigration application fees because of processing delays; and
- an increase of $21.3 million to fund security initiatives under the *Canada-U.S. Perimeter Security and Economic Competitiveness Action Plan*. Under the plan, Canada and the United States will share information on all applications for temporary or permanent resident visas and work or study permits, and refugee protection claims made inland and overseas.

Officials explained that CIC previously had no control over the number of immigration applications received, in spite of the fact that only 240,000 to 260,000 people could be admitted to Canada annually. This explains in large part why the backlog of immigration applications grew in recent decades.

To address the problem, the federal government made changes to the *Immigration and Refugee Act* in the mid-2000s to give the Minister and CIC more control over the types of applicants selected (e.g. lists of occupations).

More recently, the 2012 and 2013 federal budgets mentioned that CIC would transform Canada's economic immigration programs by adopting an expression of interest (EOI) system based on an approach developed by New Zealand and now used by Australia. Under the EOI system, potential immigrants fill out an online form expressing their "interest" in coming to Canada as permanent residents. The form contains information relating to, for example, language ability, work experience and assessed education credentials. These EOIs are scored, ranked and added to a pool of candidates from which the federal government, the provinces and employer groups can select persons who best match Canada's national and regional labour market needs; selected candidates can be invited to submit an immigration application that will receive priority processing. According to CIC officials, this new EOI system should be in place by the end of 2014.

In response to questions about a $21.3 million increase to support immigration information sharing with the United States, CIC officials said that this initiative would enable Canada and the United States to exchange biographic and biometric information about third-country nationals.

Senators asked a series of questions about the new Start-Up Visa Program. CIC officials explained that this is an experimental program that the Minister recently announced, to match immigrant entrepreneurs with private sector organizations in Canada that have experience working with start-ups and can provide essential resources. For these immigrant entrepreneurs to fulfil their potential and maximize their impact on the Canadian labour market, they will require the support of a group of potential investors or a venture capital fund before they can apply for a Start-up visa. CIC officials were not able to provide the Committee with a report on the results of this experimental program because it has not yet been fully implemented.

Senators sought more details about a $4.0 million increase for government advertising campaigns. CIC officials replied that most of these advertising campaigns would provide newcomers with information about federal services for immigrants. For example, advertising planned for 2013-2014 will provide information on foreign credential recognition, family reunification and super visas for parents and grandparents. CIC officials also said they monitor the most frequently asked questions on social media in order to add them to the question-and-answer section of their Internet site. That section, which currently contains 500 questions and answers, has reduced the number of questions received by the CIC call centre by 77,000, because potential immigrants or newcomers can find most of the information they need on the CIC Internet site.

6. Public Safety Canada

The Department of Public Safety and Emergency Preparedness projects expenditures of $440.9 million in 2013-2014, which includes $425.0 million in voted authorities and $15.9 million in statutory authorities. This represents a net increase of $8.2 million over the budgetary expenditures presented in the *2012-13 Main Estimates.*

This net increase of $8.2 million is primarily attributed to the following items:

- an increase of $38.2 million to provide financial support for the 2011 flood mitigation measures;
- an increase of $2.9 million to make cyber networks more secure and resilient;
- an increase of $2.5 million for national security and emergency management initiatives under the Beyond the Border action plan;
- an increase of $1.8 million for the Kanishka research project, which funds research into terrorism and counter-terrorism;
- a decrease of $15.8 million related to savings identified in the Budget 2012 Spending Review;
- a decrease of $14.8 million related to the sunsetting of a two-year temporary funding arrangement for the sustainability of agreements under the First Nations Policing Program; and
- a decrease of $7.9 million related to the completion of *ex gratia* payments to families of the victims of Air India Flight 182.

Public Safety Canada officials warned the Committee that their department planned to request additional funds for disaster financial assistance in the 2013-2014 supplementary estimates.

In response to questions about an increase of $38.2 million to fund 2011 flood mitigation, officials said that negotiations were still under way between the federal government and the provinces concerned to determine the final amount of the financial assistance. The negotiating process begins with the production of an order-in-council stating that a natural disaster is eligible for financial assistance. Then, the federal government and the province concerned estimate the amount of the financial assistance based on a formula adopted in 2008. The province has a maximum of five years to submit its audited claims for financial assistance to the federal government in order to receive a federal payment under the Disaster Financial Assistance Arrangements.

Some senators had questions about a decrease of $14.8 million in vote 5, grants and contributions, owing to the sunsetting of two arrangements for the sustainability of agreements under the First Nations Policing Program. Officials replied that on 4 March 2013, the Minister announced that the government would be providing more stable funding for the policing agreements with First Nations communities by changing the term of the agreements from two years to five years. The government has signed a one-year agreement and is in the process of negotiating an agreement for the next four years.

7. Correctional Service of Canada (CSC)

The CSC projects budgetary expenditures of $2.6 billion in 2013-2014, which includes $2.4 billion in voted authorities and $233.1 million in statutory authorities. This represents a net decrease of $428.4 million from the budgetary expenditures presented in the *2012-13 Main Estimates*.

This decrease of $428.4 million is primarily attributed to a $203.9 million decrease resulting from a decline in the number of inmates forecast, and from savings identified in the Budget 2012 Spending Review.

In 2013-2014, the CSC plans to utilize 19,023 employees, a decrease of 1,249 employees from the number forecast in the *2012-2013 Report on Plans and Priorities*.

In response to questions from senators about the decline in the number of inmates forecast, CSC officials explained that those estimates had been prepared in 2008 based on 2004-2005 data from the Canadian Centre for Justice Statistics. Those data showed a continual increase in the number of inmates over the next few years. More recent data, combined with improvements to CSC's projections model, have enabled CSC to estimate that the number of inmates should be lower than forecast.

Senators sought more information about the $154.3 million in savings identified in the Budget 2012 Spending Review. CSC officials replied that most of the savings resulted from efficiency gains and the closures of the Kingston Penitentiary in Ontario and the Leclerc institution in Laval, Quebec, which enabled the CSC to save about $120.0 million per year. In addition, the construction of 2,752 new cells in new penitentiaries should further reduce CSC's operating costs.

8. Department of Industry

The Department of Industry forecasts budgetary expenditures of $1.2 billion for 2013-2014: $945 million in voted authorities and $215 million in statutory authorities. This represents a net decrease of $145.0 million from the budgetary expenditures presented in the *2012-13 Main Estimates*.

This decrease is primarily attributed to the following items:

- a decrease of $82.0 million for the Canada Foundation for Innovation;
- a decrease of $18.0 million due to the end of the current funding for the Canadian Youth Business Foundation and Computers for Schools;
- an increase of $49.2 million in funding for CANARIE, Genome Canada and the Canadian Institute for Advanced Research; and
- an increase of $14.7 million in funding for the Perimeter Institute and for the Broadband Canada initiative.

Officials said that certain expenditures announced in Budget 2013 and Budget 2012 were not included in the *2013-14 Main Estimates* because the formal approval processes had not yet been completed. Those expenditures include an announcement in Budget 2013 of $250 million for the Automotive Innovation Fund and announcements in Budget 2012 of $500 million for the Canada Foundation for Innovation and $35 million for MITACS, a national not-for-profit research organization.

Officials explained the approval process for expenditures by federal departments and agencies, which precedes the inclusion of those expenditures in the main estimates or supplementary estimates. When a federal budget announces either that an existing program is renewed or that a new program is put in place, the department responsible for administering the program works with the Department of Finance of Canada and the Treasury Board to determine the best means to provide policy authority for the program. If a Memorandum to Cabinet is necessary to provide the policy authority, the department has to prepare the memorandum and have it approved by Cabinet. On the other hand, if the program requires terms and conditions, the department must prepare a Treasury Board submission and have it approved by the Treasury Board Cabinet Committee. After those steps, the department may include the expenditures in the main estimates or supplementary estimates.

In response to questions from senators about Canada's low ranking for productivity and innovation, officials explained to the Committee that this problem was not due to the federal government's policies, since university-based research that receives federal funding, for example through the Canada Foundation for Innovation, is at the international level. According to the officials, the productivity and innovation problem is largely explained by low R&D investment by Canadian companies.

Senators asked about the Canadian Youth Business Foundation (CYBF). Officials replied that the CYBF helps young entrepreneurs who want to start a business by providing financial assistance and advice. Since its creation in 1996, the CYBF has assisted over 5,600 young Canadian entrepreneurs and created 22,000 jobs. Officials also said that CYBF funding had been reduced from $10 million to $9 million per year for the next two years.

In response to questions about the Broadband Canada program, officials said that this program was developed as part of the government economic recovery program in 2009 to enable as many remote and rural regions as possible to have Internet access with an average speed of 1.5 megabits per second. According to departmental officials, this program facilitated broadband connection in about 99% of homes in Canada.

Officials then added that this program ended in 2011-2012 and the request for $10.1 million in the *2013-14 Main Estimates* did not represent additional contribution agreements, but rather payments for contribution agreements signed before the end of the program. Those payments will be used to add satellite capacity for Canada’s Far North.

9. Shared Services Canada (SSC)

SSC projects budgetary expenditures of $1.4 billion in 2013-2014, including $1.2 billion in operating expenditures and $178.7 million in capital expenditures. This represents a decrease of $121.0 million from the 2012-2013 estimates to date.[5]

According to departmental officials, the $121.0 million decrease is largely attributed to savings identified in the Budget 2012 Spending Review and net adjustments to funding from partnering departments.

Officials stated that the email transformation initiative was the most advanced of the three renewal strategies. During the past 18 months, SSC has carried out substantial planning, analysis and consultation with the technology sector and within government. It is now in the final stage of a procurement process for a single government-wide email system that will be phased in over the next two years to replace the current 100 email systems.

SSC is also finalizing plans to consolidate and streamline the services that are now scattered among more than 300 data centres and 4,000 telecommunications networks across the government.

In response to questions about the number of employees who have been transferred from partner departments and agencies to SSC, officials said that about 6,400 employees had been transferred to SSC. Of that number, approximately 1,000 employees are currently working in 300 locations outside the National Capital Region.

Senators asked a series of questions about the email transformation initiative. SSC officials replied that while most federal departments and agencies use the Microsoft Exchange program, some departments and agencies use older software like Group Wise or Lotus Notes. The goal of the email transformation initiative is to bring 377,000 employees

[5] The estimates to date are the sum of the budgetary expenditures presented in the Main Estimates and the Supplementary Estimates.

from 44 departments and agencies, including SSC, under a single email service. That should allow SSC to concentrate its financial resources and security expertise on securing a single email system. For example, SSC will be able to have a virtual replica of the single email system to cover in the event the system goes down.

On the question of data centres and telecommunications networks, SSC officials said that centralizing departments' and agencies' systems will enable the federal government to better protect its computer systems and concentrate its efforts on security and on reducing the number of entry points for computer hackers.

Some senators asked whether there were examples of agencies similar to SSC in other countries. According to SSC officials, most Canadian provinces, several American states, Australia and the United Kingdom have created agencies similar to SSC to consolidate all of their information technology (IT) systems. However, none of those countries, states or provinces has established an entity like SSC that will consolidate all services for all departments and agencies.

Senators wanted to know whether SSC would offer optional services to partner departments and agencies in exchange for revenue. SPC officials replied that their department would generate revenue of about $317 million in 2013-2014 by providing optional services such as computer support services for partner departments and agencies.

10. Canadian Air Transport Security Authority

According to officials, the Canadian Air Transport Security Authority (CATSA) projects budgetary expenditures of $598.3 million in the *2013-14 Main Estimates*, a net increase of $21.9 million or 3.8% over the *2012-13 Main Estimates*.

When questioned by senators, CATSA representatives explained that their organization projects operating expenditures of $457 million in 2013-2014: $19 million or 4% less than the $476 million shown in the *2012-13 Main Estimates*. According to officials, the variation is primarily attributed to savings identified in the Budget 2012 Spending Review.

CATSA also projects capital expenditures of $141 million in 2013-2014, an increase of $41 million or 41% over the previous fiscal year. In response to senators' questions, officials explained that the increase in the estimated capital expenditures is due to a new hold baggage screening system to comply with the new regulations. Officials also pointed out that these equipment purchases were made as part of the 10-year life cycle management program for these capital assets. The new equipment will be brought on line in the 89 designated airports in Canada in order of priority, starting with the main airports. The 89 designated airports represent 99% of air traffic in Canada. Officials added that the plan to replace this security equipment, which is scheduled over 10 years, is being respected but that some investments may be postponed a year because of various constraints, some of which relate to the industry.

Some senators asked how CATSA addressed the various threats that affect air transport, particularly as they relate to equipment. CATSA representatives replied that Transport Canada was the body responsible for making regulations appropriate to the circumstances and CATSA was the operator. They added that the Canadian approach to acquiring new equipment is aligned with the approach taken by the United States.

Senators asked about the use of funds allocated to pre-board screening, for which the expenditures forecast are $310 million in the *2013-14 Main Estimates*, as compared to $319 million in the previous fiscal year. Officials said the primary factors behind the $9 million decrease were related to the implementation of new service contracts in November 2011. The new contracts enabled CATSA to generate $8 million in annual savings as a result of a lower hourly rate and efficiency gains, primarily in the way that search hours are planned. Officials said that the work still meets regulatory requirements in the transportation industry, particularly in relation to safety.

In answer to senators' questions about the item representing CATSA's internal services, officials explained that this item covers expenditures not related to front-line services, such as maintenance and communications. According to the officials, the amount was reduced by $8.8 million after a review was done and is now $48.7 million, as shown in the *2013-14 Main Estimates*. Officials went on to tell the Committee that CATSA employs 55 fewer full-time (or full-time equivalent) employees than the previous year.

11. The Jacques Cartier and Champlain Bridges Incorporated (JCCBI)

In the *2013-14 Main Estimates*, JCCBI, a Crown corporation that is a subsidiary of the Federal Bridge Corporation Limited, projects budgetary expenditures of $203.6 million, a net increase of $532.2 million or 29% over the *2012-13 Main Estimates*.

Senators asked about the planned use of the $203 million requested by JCCBI. JCCBI representatives explained that the Crown corporation planned to spend about $104 million on maintenance and major works, such as rebuilding and repairing the structures. According to officials, the expenditures are related to such activities as inspection and instrumentation, engineering and construction, oversight contracts and laboratory contracts.

The officials went on to explain that the *2013-14 Main Estimates* projected expenditures of $99 million in 2013-2014, divided among four main projects:

1. The project to rebuild the Champlain Bridge, which is in its fifth year and has projected expenditures of $212 million over 10 years. According to officials, $92 million has already been spent since 2009-2010 to maintain the Champlain Bridge.
2. Phase 2 of the project to rebuild the Honoré Mercier Bridge, for which expenditures of $146 million are projected. The first phase involved rebuilding the access ramps on the south shore. Phase 2 of the project consists of rebuilding the structure and rebuilding the deck on the federal portion of the bridge.
3. The contaminated sites project along the Bonaventure Autoroute between the Champlain Bridge and the Victoria Bridge. Those contaminated sites are part of the federal contaminated sites action plan.
4. The JCCBI plans to build a bypass bridge as part of the Nuns' Island causeway project. The work should start in August or September 2013 and be completed in 2015.

Officials stated that when selecting contractors and issuing tenders related to the funds requested in the main estimates, JCCBI has added the Public Works and

Government Services Canada code of conduct for procurement to its specifications, and also certain statutory clauses relating directly to the Régie du Bâtiment du Québec.

The officials added that the Registre des entreprises non autorisées à participer aux appels d'offres publics (RENA) is now part of JCCBI's contractual clauses and construction specifications. When a supplier appears on the RENA list, it is completely excluded from all tenders issued by JCCBI. The directives relating to approval authorities to issue invitations to tender and award contracts have also been revised.

As is the case at Public Works and Government Services Canada, JCCBI now has a fairness monitor who sits on the evaluation committee and, as the chair, makes sure there is transparency and openness in the various procurement processes.

When questioned about the management of all bridges under federal jurisdiction in Canada, JCCBI officials undertook to provide the Committee with answers in writing as soon as possible.

12. VIA Rail Canada

In the *2013-14 Main Estimates*, VIA Rail, a Crown corporation, projects budgetary expenditures of $187.8 million, a net decrease of $118.7 million or 38% from 2012-13.

According to officials, VIA Rail's total revenue amounts to about $300 million per year, with operating expenses of about $500 million, excluding pension costs and annual capital spending needs. The shortfall for operating the system therefore comes to about $200 million and is funded by the federal government.

Since 2009, VIA Rail has been able to reduce its operating deficit by $38.5 million, excluding pension costs. In three years, revenue has risen by $12 million and spending has declined by $26.5 million. According to officials, this represents a productivity improvement of nearly 12% in three years. This improvement was made possible by investing in technology, which led to a workforce reduction of over 15%.

When questioned by senators, VIA Rail representatives explained that the decrease in the funds requested in its main estimates is mainly explained by two factors. First, 75%

to 80% of the total reduction is attributed to a decrease in capital expenditures, in particular because the $983 million investment in capital expenditures announced by VIA Rail in 2007 is coming to an end in 2013, and a large proportion of the funds has already been spent. The other portion of the decrease comes from the fact that VIA Rail achieved efficiency and productivity gains in the Budget 2012 Spending Review.

Regarding management of the organization and the reasons why VIA Rail's revenue fell in 2012, representatives said that the decrease in revenue observed in the last two years is largely explained by the economy, competition from cars, buses and airlines, and the price of fuel.

When questioned about what actions VIA Rail has taken to improve its financial performance given this drop in revenue, officials explained that in addition to adjusting the number of service personnel, VIA Rail has adopted a new operating strategy to improve its revenue. Officials called the strategy "intermodality," which consists of working with partners such as Aéroports de Montréal and the GO commuter service to offer consumers integrated transportation solutions. The officials added that new trip frequencies will be added to the Quebec City–Windsor corridor, which accounts for 90% of the Crown corporation's passengers and 75% of its revenue.

The officials went on to explain that VIA Rail will also limit costs through a series of productivity improvements focusing on improving traffic and revenue as well as increasing operating and maintenance efficiency. These improvements are possible as a result of a capital investment of nearly $1 billion that the federal government has paid to VIA Rail since 2007. When questioned about these investments, VIA Rail officials replied that about $250 million had been invested in renovating rail cars, over $400 million in infrastructure, and $200 million in locomotives, stations and computer systems.

Senators wanted more details about the cost to Canadian taxpayers of all VIA Rail operations. VIA Rail representatives agreed to provide the Committee with a full explanation as soon as possible.

13. Department of Agriculture and Agri-food

The officials from Agriculture and Agri-food Canada (AAC) said that the *2013-14 Main Estimates* project departmental expenditures of about $2.2 billion in 2013-2014, a net decrease of $227 million, or 9.3% less than in 2012-2013.

AAC officials explained that the reduced spending authorizations are primarily due to the fact that the *2013-14 Main Estimates* do not contain funding for the cost-shared portion of the Growing Forward 2 policy framework, or funding for AAC's business risk management programs. According to officials, because of delays in producing the *2013-14 Main Estimates*, funding for those programs should appear in the supplementary estimates instead.

When questioned by senators, the officials explained that under the Growing Forward 2 policy framework, an investment of over $3 billion is forecast over the next five years—$600 million a year funded from both provincial and federal governments, will focus on innovation, competitiveness and market development initiatives to help producers meet domestic and international demand. According to officials, the funds available to provinces represent a 50% increase over the previous program, Growing Forward.

Some senators wanted to learn more about the use of funds intended for the three new contribution programs that are part of the Growing Forward 2 policy framework. Officials pointed out that AAC is requesting $60.4 million for the AgriInnovation program, which focuses on investments to help the agriculture industry get new products and technologies off the drawing board and on the market. Through that program, AAC would continue to support the market cluster model, which has done a great job of driving industry-led research across a number of sectors.

The AAC budget includes $35.5 million for the new AgriMarketing program, designed to help the industry develop food safety and traceability assurance systems. According to AAC representatives, the program also aims to help producers advance the development of domestic and international markets. The officials went on to say that in Canada, 60% of pork production, 70% of wheat production and close to 85% of canola production is exported, making these sectors highly dependent on foreign markets. The

Minister of AAC has therefore made the Market Access Secretariat a priority and those efforts will intensify under Growing Forward 2.

According to officials, AAC is requesting $3.1 million for the AgriCompetitiveness program, which is designed to enhance the agriculture industry's production capacity by helping producers adapt to business opportunities both inside and outside Canada, and by attracting new agricultural producers to the industry.

In response to questions concerning Canadian wheat exports, and in particular the effects of removing the monopoly of the Canadian Wheat Board (CWB), officials replied that Canadian wheat exports were doing very well, and that Statistics Canada figures show that acreage should reach record levels in the coming years. They added that since the end of the CWB monopoly, wheat producers have positioned themselves on the market, railway companies report that cycle times are up, and logistics are clearer because producers are able to organize themselves.

The AAC witnesses reminded the Committee that the CWB is still carrying on some operations; for example, the CWB enables producers who want to pool their production to do so in order to reduce their risk. The *2013-14 Main Estimates* also provide for $53.5 million to fund the organization's transition costs.

Senators asked about investments in research and development in the agriculture industry in Canada, and in particular about the funding decrease of $39 million provided in the *2013-14 Main Estimates* for the Science, Innovation and Adoption program. Officials explained that there are very significant investments on behalf of governments, federal and provincial, to the innovation stream of Growing Forward 2.

The officials said that the funding decrease shown in the *2013-14 Main Estimates* was explained by several factors, but that over $700 million will still be invested in the next five years in scientific research and innovation under the Growing Forward 2 framework, a 40% increase over Growing Forward. They also told the Committee that the budget for the new AgriInnovation contribution program, designed to stimulate innovation in the agriculture industry, is $60.4 million. Officials also drew the Committee's attention to scientific advancements, citing the example of improved genomic and biotechnology techniques that will cut the wheat breeding cycle from 10-12 years down to 5-6 years. According to officials, AAC is in a position to achieve double the agricultural productivity as a result of the present level of science, even with fewer scientists. The result is spending fewer dollars in a particular sector, but the dollars are leveraging more science, because the department is doing it more efficiently, and leveraging private sector and university investments. The AAC representatives also said that the portion of the funding that AAC will offer the provinces under its cost-share agreements does not appear in the *2013-14 Main Estimates* as it did the previous year, and a request for approval of those funds will be made in the *Supplementary Estimates (A)*.

With regard to the Farm Debt Mediation Service program, the Career Focus program and the Rural and Co-operatives Development program, the AAC representatives undertook to provide the Committee with complete answers to the senators' questions as soon as possible.

14. Canadian Food Inspection Agency (CFIA)

The officials reported that the CFIA projects total budgetary expenditures of $687 million in 2013-2014, a net increase of $2.4 million over 2012-2013, or less than 1%. This increase is due mainly to funding resources to modernize Canada's food and safety inspection and for the Plum Pox Monitoring and Management Program (PPMMP), which reflects the CFIA's efforts to allocate resources to the Agency's priority activities while contributing to reducing the budget deficit.

In response to senators' questions, CFIA officials said that protecting the health and safety of Canadians was the Agency's top priority. Since 2006, there has been a 25% increase in the number of front-line inspectors. Official went on to state clearly that, food safety will not be compromised as a result of any cost-saving measures undertaken by the CFIA.

The officials also pointed out that the CFIA has achieved deficit reduction objectives by both increasing efficiency and reducing certain services, while continuing to focus on the mandate of the organization. They told the Committee that about half of the reductions are administrative, for example, the reduction of its executive complement and merging security and commissionaire services. Savings of approximately $4 million per year have been realized by transferring meat inspection to the provinces where the CFIA had long-term contracts: British Columbia, Saskatchewan and Manitoba.

In answer to questions about the independent inquiry into the 2008 listeriosis crisis, CFIA officials confirmed that the government has accepted and implemented all of the recommendations in the investigator's report.

15. Department of Finance Canada

In its *2013-14 Main Estimates*, the Department of Finance Canada projected budgetary expenditures of $87.6 billion, a net decrease of $2.2 billion or 2.6% from the *2012-13 Main Estimates*. The main changes observed in 2013-2014 are:

- A net increase of $2.4 billion for statutory items, resulting primarily from the $1.7 billion[6] increase in the Canada Health Transfer.
- A $1.5 billion increase as a result of payments to the provinces for the harmonized sales tax under the comprehensive integrated tax coordination agreements with Quebec and Prince Edward Island.[7]
- A $1.3 billion decrease attributed to the decrease in the average forecast of interest rates on the federal debt.
- A $426.0 million decrease in other interest costs attributed to the decrease in the average long-term bond rate.
- A $10 million increase for direct payments to the International Bank for Reconstruction and Development (IBRD) for agricultural market guarantees.
- A $6.5 million increase attributed to savings realized in the Budget 2012 Spending Review, offset by net redemption and administration costs due to accelerated penny redemption rates.

[6] The $1.7 billion increase reflects the annual 6% increase in the funding commitment included in the September 2004 10-Year Plan to Strengthen Health Care.
[7] The *2013-14 Main Estimates* project $1,467.0 million in expenditures for Quebec and $14 million for Prince Edward Island.

- A $210.0 million decrease in grants and contributions attributed to the cessation of payments to Export Development Canada for debt relief via the Paris Club.
- A $10 million increase in operating expenses, primarily because of upgrades to the Crown property at 90 Elgin Street.

In answer to questions about the comprehensive integrated tax coordination agreement signed with British Columbia concerning the Harmonized Sales Tax (HST), departmental officials said that the repayment from British Columbia was not reflected in the main estimates but would be reported in the Public Accounts of Canada as revenue.

Regarding the increase of $6.5 million for the purchase of Canadian coinage, officials said that the amount shown in the main estimates for the previous year was $120 million for all coinage that the Department buys from the Royal Canadian Mint, for a total of $126.5 million in 2013-2014. Several factors affect that amount, including the price of the metals used to produce the coins and demand in the market from the financial institutions that distribute the coins to the public.

When asked about the withdrawal of the penny, the officials said that people have returned their pennies to financial institutions, and thus to the Royal Canadian Mint, much faster than anticipated. According to the officials, the Department’s proactive approach, particularly in terms of communication and collaboration with all of the stakeholders involved, such as retailers, consumer groups, other levels of government and charitable organizations, explains the smooth transition.

According to the officials, one of the main reasons for that success is that charities took advantage of this business opportunity and organized very successful fundraising campaigns. The departmental representatives reiterated that withdrawing the penny will save the government money because it cost 1.6 cents to produce a penny. They pointed out that for 5 cent, 10 cent and 25 cent pieces, the Department is still making a profit, which will also be entered in the Public Accounts of Canada.

Outstanding Questions

While the Committee has received answers to members' questions on the *Main Estimates 2013-14* from most departments and agencies, at the time of the writing of this report, the Committee had not yet received answers from the following departments and agencies*:*

- Canadian Space Agency (17 April 2013);
- Citizenship and Immigration Canada (23 April 2013);
- Correctional Service of Canada (23 April 2013);
- Canadian Air Transport Security Authority (30 April 2013);
- VIA Rail (30 April 2013);
- Department of Agriculture and Agri-Food Canada (1st May 2013).