

**REPORT ON THE
SUPPLEMENTARY ESTIMATES (B), 2018–19**

Standing Senate Committee on National Finance

THIRTY-EIGHTH REPORT

Chair

The Honourable Percy Mockler

Deputy Chairs

The Honourable Mobina Jaffer

The Honourable André Pratte

March 2019

ORDER OF REFERENCE

The Honourable Senator Bellemare moved, seconded by the Honourable Senator Harder, P.C.:

That the Standing Senate Committee on National Finance be authorized to examine and report upon the expenditures set out in the Supplementary Estimates (B) for the fiscal year ending March 31, 2019, with the exception of Library of Parliament Vote 1b; and

That, for the purpose of this study, the committee have the power to sit, even though the Senate may then be sitting, and that rule 12-18(1) be suspended in relation thereto.

February 21, 2019

ORDER OF REFERENCE	1
EXECUTIVE SUMMARY	3
INTRODUCTION.....	5
1 EMPLOYMENT AND SOCIAL DEVELOPMENT CANADA.....	7
2 NATIONAL ENERGY BOARD	9
3 INDIGENOUS SERVICES CANADA	11
4 CROWN-INDIGENOUS RELATIONS AND NORTHERN AFFAIRS CANADA	14
5 IMMIGRATION, REFUGEES AND CITIZENSHIP CANADA.....	16
6 DEPARTMENT OF FINANCE CANADA.....	18
7 DEPARTMENT OF NATIONAL DEFENCE	20
8 VETERANS AFFAIRS CANADA.....	22
9 TREASURY BOARD OF CANADA SECRETARIAT	24
10 VIA RAIL CANADA INC.	26
11 INNOVATION, SCIENCE AND ECONOMIC DEVELOPMENT	28
APPENDIX – WITNESSES WHO APPEARED BEFORE THE COMMITTEE	30

EXECUTIVE SUMMARY

Supplementary Estimates (B), 2018–19

As part of its oversight role, the Standing Senate Committee on National Finance considered the *Supplementary Estimates (B), 2018–19*, which were tabled in the Senate on February 19, 2019 and referred to our committee for study on February 21, 2019. These supplementary estimates request Parliament's approval for an additional \$2.5 billion in voted expenditures and increase forecasted statutory expenditures by \$3.7 billion, for a total increase in budgetary expenditures of \$6.2 billion.

In order to examine the *Supplementary Estimates (B), 2018–19*, our committee held four meetings and questioned officials of 11 organizations that are requesting total appropriations of approximately \$2.1 billion, which is 85% of the total voted amount requested in these supplementary estimates.

Our committee's observations from issues raised during our meetings include:

1. While ESDC has put in place several mechanisms to help students better manage their loans and support them in repayment efforts, such as raising the annual income threshold above which recipients are required to make debt payments, our committee believes that more can be done to help students manage their debt and improve debt collection, as well as reviewing access to grants.
2. As the National Energy Board has completed its reconsideration of the Trans Mountain Pipeline expansion project, the Government of Canada needs to complete its review of the project in a timely manner, as soon as it concludes its consultations with First Nations.
3. At the earliest opportunity, the government should table standalone legislation to solidify Indigenous Services Canada's mandate, clarify its minister's powers and duties and make consequential amendments to the *Department of Indian Affairs and Northern Development Act*.
4. Crown-Indigenous and Northern Affairs Canada needs to give greater urgency to resolving First Nations' claims in a timely manner and continue to work towards reconciliation with Indigenous people.
5. Immigration, Refugees and Citizenship Canada needs to put in place performance measures to track where asylum seekers are settling and what costs are being incurred, as well as a mechanism for determining which provincial and municipal costs related to the increased volume of asylum seekers are eligible for reimbursement.
6. While the Department of Finance Canada is undertaking ongoing tax analyses, an independent comprehensive review of the Canadian tax system is necessary to reduce complexity, ensure competitiveness and enhance overall fairness.
7. The Department of National Defence needs to publish financial information in its annual reports that would allow Canadians and parliamentarians to monitor spending on specific major capital projects, such as the Arctic Offshore and Patrol Ship.

8. As more veterans access its programs, Veterans Affairs Canada needs to have sufficient capacity to provide timely access to its vital services. It also needs to urgently reimburse veterans for \$165 million in underpayments due to an accounting error.
9. While the Treasury Board of Canada Secretariat has made efforts to improve accountability, transparency and reliability through Vote 40 – Budget Implementation, further efforts should be made to include new budget spending in departmental estimates votes. The Secretariat should also review its allocation schedule to ensure parliamentarians and other interested parties are able to follow the money from Budget 2018 to departments through Vote 40.
10. As the government examines the viability of VIA Rail's \$4 billion plan for dedicated tracks on the Windsor-Quebec City corridor, it also needs to pay close attention to improvements to other routes.
11. Innovation, Science and Economic Development Canada needs to ensure that all rural, remote and north of 60 communities have sufficient access to high-speed, broadband internet, , which is very important for health, safety and education.

INTRODUCTION

The Standing Senate Committee on National Finance (our committee) has an important role to play on behalf of Parliament and Canadians in examining the federal government's spending plans, as outlined in the main and supplementary estimates. Our committee reviews and presents reports on the government's proposed spending in order to examine whether it is reasonable, takes into account value-for-money, will be effective in achieving the government's objectives, and allows parliamentarians to follow the money.

As the main estimates do not contain all of the government's spending needs for the year, the government also presents supplementary estimates to Parliament for approval, usually in the fall and winter.

The *Supplementary Estimates (B), 2018–19* were tabled in the Senate on February 19, 2019 and referred to our committee for study on February 21, 2019.

The *Supplementary Estimates (B), 2018–19* request Parliament's approval of an additional \$2.5 billion in voted expenditures, and forecast additional statutory expenditures of \$3.7 billion, for a total of \$6.2 billion in additional planned budgetary spending, which represents an increase of 2.2% over authorities to date in 2018–2019. An additional \$14 million of non-budgetary voted authorities are being requested, and an increase of \$708 million in non-budgetary statutory authorities is forecasted. Of the 123 organizations represented in the 2018–19 Main Estimates, 48 have identified additional requirements as part of these supplementary estimates.

Table 1 shows the estimates to date.

Table 1 – Main and Supplementary Estimates, 2017–2018 and 2018–2019 (\$)

	2017–2018	2018–2019			
	Estimates	Main Estimates	Supplementary Estimates (A)	Supplementary Estimates (B)	Proposed Authorities to Date ^a
Budgetary					
Voted	114,364,499,985	112,866,043,852	7,547,444,901	2,492,921,487	122,906,410,240
Statutory	155,899,261,279	163,101,677,725	555,125,940	3,680,770,468	167,337,574,133
Total	270,263,761,264	275,967,721,577	8,102,570,841	6,173,691,955	290,243,984,373
Non-budgetary					
Voted	71,103,003	57,103,001	–	14,000,004	71,103,005
Statutory	643,316,617	542,457,741	–	707,957,052	1,250,414,793
Total	714,419,620	599,560,742	–	721,957,056	1,321,517,798

Note: a. Proposed Authorities to Date represents the sum of all the amounts reported in the estimates of the current fiscal year and allocations from Treasury Board Central Votes.

Sources: Table prepared using data obtained from Treasury Board of Canada Secretariat, *Supplementary Estimates (A), 2018–19* and *Supplementary Estimates (B), 2018–19*.

In order to examine the *Supplementary Estimates (B), 2018–19*, our committee held four meetings and questioned officials of 11 organizations that are requesting total voted appropriations of approximately \$2.1 billion, which represents 85% of the total voted amount requested in these supplementary estimates.

This report highlights issues discussed during our examination of the supplementary estimates and presents our observations on key concerns facing each organization.

Further information about our hearings can be found in the meeting transcripts, which are available on the committee's [website](#).

1 EMPLOYMENT AND SOCIAL DEVELOPMENT CANADA

Employment and Social Development Canada (ESDC) manages income security payments to seniors and unemployed workers, financial assistance to post-secondary students, and payments to parents of young children. It also oversees federal labour regulatory responsibilities and funds labour market and social development projects.

Committee Observations

ESDC spends approximately \$2 billion each year providing grants and loans to students enrolled in post-secondary studies. It writes off \$150 million to \$200 million in student loans each year. Student loan defaults are a significant cost to the government and have adverse effects on the credit rating of recipients.

While ESDC has put in place several mechanisms to help students better manage their loans and support them in repayment efforts, such as raising the annual income threshold above which recipients are required to make debt payments, our committee believes that more can be done to help students manage their debt and improve debt collection, as well as reviewing access to grants.

1.1 Estimates Overview

In the *Supplementary Estimates (B), 2018–19*, ESDC is requesting additional voted appropriations of \$181,614,879 for five spending items:

- \$163,501,480 to write off debts for unrecoverable Canada Student Loans;
- \$6,955,130 to implement the 2030 Agenda for Sustainable Development;
- \$6,201,440 to support a proactive approach to end systemic discrimination of persons with disabilities;
- \$3,363,599 for the Canada Summer Jobs program; and
- \$1,593,230 to migrate to a government-wide call centre platform.

When transfers are included, this is an increase of 5.5% compared to ESDC's total voted authorities to date of \$3,283,967,592.

Forecasted budgetary statutory expenditures for ESDC are increasing by \$539,514,561, including \$409,315,347 for Canada Student Grants and \$96,166,085 for student financial assistance. The forecast for non-budgetary statutory expenditures is increasing by \$358,460,133, primarily for student loans. A net amount of \$96,500 is being transferred to other organizations. ESDC's total proposed authorities to date, including voted and statutory expenditures and transfers, are \$61,820,842,592.

1.2 Student Loans

Through statutory authorities, ESDC spends approximately \$2 billion each year providing grants and loans to eligible students enrolled in post-secondary studies. The amounts have risen in recent years due to increased demand and more generous eligibility thresholds.

Officials from ESDC informed our committee that about 600,000 students receive funding from the federal government annually. About 900,000 individuals are actively repaying their loans, and of those, 200,000 are struggling with repayment. The average student owes \$13,000 to the Government of Canada, though they may receive additional loans from provincial programs, as the federal government only covers up to 60% of a student's assessed need.

In these supplementary estimates, ESDC is requesting \$164 million to write off debts for 31,658 unrecoverable student loans. While this amount represents 0.85% of the total \$20 billion loan portfolio, the loan default rate is approximately 9%.

The Chief Actuary projects that the number of student loan write-offs will continue to increase due to more loans being issued and rising interest rates. However, officials pointed out that their results tend to be below the Chief Actuary's projections.

Officials said they were trying to lower the default rate by using more grants, targeting support to more vulnerable recipients, providing more information and encouraging recipients to use the Repayment Assistance Plan. They acknowledged that recipients may be unaware that defaulting on their student loans could have significant adverse effects on their credit rating.

1.3 Sustainable Development Goals

ESDC is requesting \$7.0 million to implement the 2030 Agenda for Sustainable Development, which is a 15-year framework adopted by United Nations member states centred on 17 sustainable development goals.

Officials said \$3 million would be used to establish a unit within ESDC that would be responsible for government-wide coordination and \$4 million would be used for a sustainable development goals funding program.

Funding for this initiative was also included in the Treasury Board Secretariat's Vote 40 – Budget Implementation, which is a new central vote designed to include all budget spending in the main estimates. However, as no department was identified for the initiative at that time, which is a requirement for disbursing Vote 40 funds, the Secretariat withheld the funds from Vote 40.

2 NATIONAL ENERGY BOARD

The National Energy Board (NEB) is an independent regulatory agency with quasi-judicial powers that oversees international and inter-provincial aspects of the oil, gas and electric utility industries.

Committee Observations

The NEB completed its reconsideration of the Trans Mountain Pipeline expansion project on February 22, 2019.

The Government of Canada now needs to complete its reconsideration of the project in a timely manner, as soon as it concludes its consultations with First Nations, which are led by former Supreme Court of Canada Justice Frank Iacobucci.

2.1 Estimates Overview

In the *Supplementary Estimates (B), 2018–19*, the NEB is requesting additional voted appropriations of \$6,045,266 for one spending item: the reconsideration of the Trans Mountain Expansion Project.

This is an increase of 7.3% compared to the NEB's total voted authorities to date of \$82,676,091.

Forecasted statutory expenditures for the NEB are increasing by \$41,921 for contributions to employee benefit plans. The NEB's total proposed authorities to date, including voted and statutory expenditures, are \$97,463,409.

2.2 Reconsideration of the Trans Mountain Pipeline Expansion Project

On August 30, 2018, the Federal Court of Appeal quashed the order in council approving the Trans Mountain Pipeline expansion project. In September 2018, the government instructed the NEB to reconsider its recommendations, taking into account the effects of project-related marine shipping, notably on resident killer whales.

The NEB released its report on February 22, 2019 and made 16 new recommendations to the Government of Canada. During its reconsideration, the NEB heard from 118 intervenors, of which 81 filed written submissions. The NEB also held 25 individual oral traditional evidence sessions.

In these supplementary estimates, the NEB is requesting \$6.0 million for its reconsideration of the Trans Mountain Pipeline expansion project. Officials from the NEB informed our committee that \$4.2 million of the funds are for the anticipated costs of the Participant Funding Program, which provides financial assistance to individuals and groups to allow them to participate in hearings. The program covers costs for expert evidence, studies, travel costs and honorariums. The funding cap is \$80,000 for groups and \$12,000 for individuals. Applicants must have valid expense claims, and the NEB typically pays out 80% of what was awarded. The NEB granted funding to 69 participants.

Officials pointed out that 97% of the NEB's costs are recovered from industry.

The NEB's request is part of a multi-departmental submission for funds. An additional five organizations are requesting funding totalling \$11 million in these supplementary estimates.

3 INDIGENOUS SERVICES CANADA

Indigenous Services Canada (ISC) works with First Nations, Inuit and Métis to provide them access to various services, including primary health care, education, water and wastewater systems, housing, community infrastructure, social programs, and emergency management.

Committee Observations

Since its creation in 2017, ISC has been operating without departmental legislation.

The government should table standalone legislation at the earliest opportunity to solidify ISC's mandate, clarify its minister's powers and duties and make consequential amendments to the *Department of Indian Affairs and Northern Development Act*.

The government needs to avoid duplication and overlap between ISC and CIRNAC, specify how the departments will work together and enable parliamentarians to follow the money for the various programs and services.

3.1 Estimates Overview

In the *Supplementary Estimates (B), 2018–19*, ISC is requesting additional voted appropriations of \$318,042,258 for nine spending items:

- \$99,820,049 for the Emergency Management Assistance Program;
- \$70,319,780 to reform First Nations Child and Family Services;
- \$64,428,590 to advance the new fiscal relationship with First Nations;
- \$37,500,000 for the transformation of First Nations elementary and secondary education programs;
- \$31,700,000 for internal support services;
- \$10,507,057 to address the recommendations in the National Inquiry into Missing and Murdered Indigenous Women and Girls Interim Report;
- \$1,780,659 to renew and enhance the Federal Tobacco Control Strategy;
- \$1,648,500 to advance the Northern Ontario Grid Connection Project; and
- \$337,623 for the reconsideration of the Trans Mountain Expansion Project.

When transfers are included, this is an increase of 2.4% compared to ISC's total voted authorities to date of \$11,299,506,705.

Forecasted statutory expenditures for ISC are increasing by \$2,877,716 due to contributions to employee benefit plans. A net amount of \$47,285,257 is being transferred to other organizations. ISC's total proposed authorities to date, including voted and statutory expenditures and transfers, are \$11,663,399,356.

3.2 The Creation of Indigenous Services Canada

ISC was created in November 2017 through an order-in-council. Officials from ISC told our committee that the fact that ISC operates through the order-in-council is not unusual since several departments also operate on the same basis. Officials stated that it would be ideal if there was a legislative frame to solidify ISC's mandate, as well as its minister's powers and duties. While the government had committed to tabling legislation for the department in the fall of 2018, officials said the legislation is still subject to discussion within the government and no date has been set for tabling the legislation in Parliament.

ISC included \$31.7 million in the *Supplementary Estimates (B), 2018–19* for internal support services. Officials from ISC explained that this funding would support two components in the creation of ISC. The first is an ongoing effort to create internal services capacity to support programs in the new department, while the other component is a three-year transitional operation to integrate IT systems of the former department.

Regarding the division of responsibilities between the two departments, officials from ISC stated that the strategic mandate of ISC is to provide high-quality services to Indigenous peoples and to advance their self-determination through the devolution of those services. Officials from Crown–Indigenous Relations and Northern Affairs Canada (CIRNAC) said that its mandate is to advance nation-to-nation, Crown–Indigenous relationships and to support Indigenous people's vision of self-determination by developing self-government agreements.

3.3 New Fiscal Relationship with First Nations

ISC is requesting \$64.4 million to advance the new fiscal relationship with First Nations so that it moves towards sufficient, predictable and sustained funding for First Nation communities. Officials from ISC explained that the new fiscal relationship is co-developed with the Assembly of First Nations and the First Nations Financial Management Board (FNFMB). The FNFMB sets out two pillars of financial management: a history of meeting five-year financial performance ratios, and the implementation of a financial administration law that includes among others an independent finance and audit committee. First Nations that achieve these two pillars can receive a funding arrangement for their core services on a grant basis. There is also funding to help others achieve the standards.

3.4 The Reform of First Nations Child and Family Services

In the *Supplementary Estimates (B), 2018–19*, ISC is requesting \$70.3 million to reform First Nations Child and Family Services, which funds prevention and protection services to support the safety and well-being of First Nation children and families living on reserve. Officials from ISC told the committee that this funding would be used to provide services to children in and out of care, as well as their families.

With regard to the disproportionately high percentage of Indigenous children in foster care, officials explained that as ISC has been subject to a human rights complaint, it is working with partners to find a new funding approach to address this issue. ISC has invested resources towards prevention and keeping children and families together in their home and communities. They believe that with the initial investment in prevention, more families will access the system but over time the number of children in care will decrease.

3.5 Transformation of First Nations Elementary and Secondary Education Programs

ISC is requesting \$37.5 million for the transformation of First Nations elementary and secondary education programs. Officials stated that ISC has entered into agreements with First Nations school boards in Manitoba and Alberta where the First Nations have assumed control. Officials cited the BC Tripartite Education Agreement as a partnership with the province, First Nations and ISC to address education for First Nation children on reserve, as well as those who attend provincial schools.

4 CROWN–INDIGENOUS RELATIONS AND NORTHERN AFFAIRS CANADA

Crown–Indigenous Relations and Northern Affairs Canada (CIRNAC) manages the relationship between the Government of Canada and First Nations, Inuit and Métis; works with Indigenous peoples to build capacity for self-determination; and leads the government’s activities in the North.¹

Committee Observations

CIRNAC has taken steps to settle out-of-court litigations with First Nations. CIRNAC needs to give greater urgency to resolving First Nations’ claims in a timely manner and continue to work towards reconciliation with Indigenous people.

4.1 Estimates Overview

In the *Supplementary Estimates (B), 2018–19*, CIRNAC is requesting additional voted appropriations of \$112,776,992 for seven spending items:

- \$57,000,000 for out-of-court settlements;
- \$48,400,000 for the Métis Nation Housing Strategy and Métis National Heritage Centre;
- \$4,900,000 for internal support services;
- \$1,442,910 for First Nation fiscal institutions;
- \$621,247 to renew the Nova Scotia Mi’kmaq Education Agreement;
- \$312,835 for the reconsideration of the Trans Mountain Expansion Project; and
- \$100,000 to renew and enhance the Federal Tobacco Control Strategy.

When transfers are included, this is an increase of 3.6% compared to CIRNAC’s total voted authorities to date of \$4,794,140,135.

Forecasted statutory expenditures for CIRNAC are increasing by \$66,333 due to contributions to employee benefit plans. A net amount of \$62,082,242 is being transferred from other organizations. CIRNAC’s total proposed authorities to date, including voted and statutory expenditures and transfers, are \$5,068,937,780.

4.2 Out of Court Settlements

In the *Supplementary Estimates (B), 2018–19*, CIRNAC is requesting \$57 million for out-of-court settlements. Officials from CIRNAC explained that the funds would be used to settle two court cases with two different First Nations: a \$45 million settlement for all matters relating to the construction, use and operation of the St. Lawrence Seaway; and a \$12 million settlement for breach of fiduciary duty for

¹ The legal name of the department, and the name used in the estimates, is the Department of Indian Affairs and Northern Development.

not maximizing proceeds from the sale of land. Officials stated that they favour entering out-of-court settlements, since it is respectful, fairer and less costly.

4.3 First Nation Fiscal Institutions

CIRNAC is requesting \$1.44 million for First Nation fiscal institutions. Under the *First Nations Fiscal Management Act*, the First Nations Financial Management Board, the First Nations Tax Commission and the First Nations Finance Authority work together to improve the ability of First Nation governments to address the social and economic well-being of their communities, while providing the tools available to other governments for modern fiscal management. Officials from CIRNAC said that the amount in the *Supplementary Estimates (B), 2018–19* is in addition to \$12.3 million in the *2018–19 Main Estimates* and \$6 million in *Supplementary Estimates (A), 2018–19*. The total funding to support these First Nation financial institutions is \$19.7 million, which officials said is sustainable for at least the next four years.

5 IMMIGRATION, REFUGEES AND CITIZENSHIP CANADA

Immigration, Refugees and Citizenship Canada (IRCC) screens and approves for admission immigrants, foreign students, visitors and temporary workers; resettles refugees; manages settlement and integration services for newcomers; and grants citizenship.²

Committee Observations

IRCC is requesting \$100 million to compensate provinces and municipalities for temporary housing costs associated with the increased volume of asylum seekers.

Our committee is concerned that IRCC has not put in place performance measures to track where asylum seekers are settling and what costs are being incurred, as well as a mechanism to determine which provincial and municipal costs related to asylum seekers are eligible for reimbursement.

5.1 Estimates Overview

In the *Supplementary Estimates (B), 2018–19*, IRCC is requesting additional voted appropriations of \$192,026,357, for five spending items:

- \$114,722,073 to support the increased volume of asylum seekers;
- \$69,196,000 for the Canada–Quebec Accord on Immigration;
- \$4,641,039 to expand biometric screening in the immigration system;
- \$3,200,000 for the 2018–20 Immigration Levels Plan; and
- \$267,245 to write off outstanding immigration loans.

When transfers are included, this is an increase of 8.2% compared to IRCC's total voted authorities to date of \$2,353,592,131.

No forecasted statutory expenditures for IRCC is included in the *Supplementary Estimates (B), 2018–19*. Transfers to other organizations total \$47,110. IRCC's total proposed authorities to date, including voted and statutory expenditures and transfers, are \$2,705,012,332.

5.2 Response to Irregular Migration

In the *Supplementary Estimates (B), 2018–19*, IRCC is requesting \$115 million to support the increased volume of asylum seekers. Of this amount, \$100 million would be used to compensate provinces and municipalities for temporary housing costs and \$15 million would be used to provide federal interim lodging facilities services to supplement the capacity of provincial and municipal partners. This funding is in addition to \$50 million presented in the *Supplementary Estimates (A), 2018–19*.

² The legal name of the department, and the name used in the estimates, is the Department of Citizenship and Immigration.

Officials from IRCC stated that the funding is available to all provinces affected by irregular migration. They are in discussions with several provinces, including Quebec, Ontario, Manitoba and British Columbia. The amount that will be paid to each of them for the current fiscal year is not yet established.

Regarding the processing time for asylum seekers, officials from IRCC said that the Immigration and Refugee Board of Canada has put in place measures to allow it to process 33,000 claims a year. However, the backlog has grown to 70,000 cases, and the projected time to process new claims is now 24 months.

With respect to the cost of processing asylum seekers, officials indicated that it is still too early to determine the total amount spent by all government departments on irregular migration. The reconciliated final number will likely be available in mid-June, when the public accounts are prepared.

5.3 Canada–Quebec Accord on Immigration

IRCC is seeking \$69.1 million for the Canada–Quebec Accord on Immigration. The 1991 *Canada–Québec Accord Relating to Immigration and Temporary Admission of Aliens* enables Quebec to select, receive and integrate immigrants to the province, and receive funds from the Government of Canada for settlement and language services. Officials from IRCC explained that this amount is based on a formula consisting of two components: the annual increase in federal government spending and the annual number of non-French-speaking immigrants resettled in Quebec. The increase in funding is included in the Supplementary Estimates (B) because final data are only available in the fall.

5.4 Biometric Data Sharing with International Partners

IRCC is requesting \$4.6 million to expand biometric screening in the immigration system. This funding would support operating and capital expenditures to procure and deploy equipment and systems, as well as develop training material. Collected biometric-based information is shared with the Migration 5 partners: Australia, New Zealand, United Kingdom and United States. Regarding privacy, officials from IRCC explained that the biometric sharing agreement with Canada's partner countries has strict protocols on the sharing, use and retention of the biometric data. IRCC worked with the Privacy Commissioner in developing and implementing its full protection regime with privacy impact assessments.

6 DEPARTMENT OF FINANCE CANADA

The Department of Finance Canada develops the overall financial framework in which federal spending takes place and provides advice on matters of fiscal and tax policy.

Committee Observations

The Department of Finance Canada is requesting funds to analyze the impacts of international tax changes, notably the effect of recent tax changes in the United States on Canadian businesses.

While our committee supports ongoing tax analyses, we noted in our 2017 study on proposed changes to the taxation of private corporations that the last comprehensive review of Canada's tax system was completed in 1966. We continue to believe that an independent comprehensive review of the Canadian tax system is necessary to reduce complexity, ensure competitiveness and enhance overall fairness.

6.1 Estimates Overview

In the *Supplementary Estimates (B), 2018–19*, the Department of Finance Canada is requesting additional voted appropriations of \$3,283,364 for seven items:

- \$884,956 for the review of open banking;
- \$781,416 to support tax policy analysis and development;
- \$750,000 for legal costs associated with financial sector policy development and implementation;
- \$385,063 for pricing carbon pollution and supporting clean growth;
- \$226,089 for trade dispute policy and administration;
- \$175,000 for membership fees for international anti-money laundering organizations; and
- \$80,840 for the permanent advisory committee on the charitable sector.

This is an increase of 3.0% compared to the department's total voted authorities to date of \$107,911,482.

The department is forecasting a net increase in budgetary statutory expenditures of \$779,862, which includes a decrease of \$138,000,000 for interest on unmatured debt, an increase of \$105,000,000 for other interest costs and \$99,000,000 for payments to the Canada Infrastructure Bank. Non-budgetary statutory expenditures are forecast to increase by \$248,496,919 for payments to the International Bank for Reconstruction and Development and \$100,000,000 for financial assistance to the World Bank Group.

The department's total proposed budgetary authorities to date, including voted and statutory expenditures, are \$94,477,252,117.

6.2 Canada Infrastructure Bank

In the *Supplementary Estimates (B), 2018–19*, the Department of Finance Canada increased its forecast of statutory payments to the Canada Infrastructure Bank by \$99 million, from \$477 million to \$576 million.

Officials informed our committee that the Minister of Finance is responsible for ensuring the bank has sufficient funds to support its operations and projects.

The Crown corporation has one project identified in its corporate plan, the *Réseau Électrique Métropolitain* in Montreal. The agreement for this project was signed in August 2018.

6.3 Open Banking

Under open banking, financial institutions' data would be shared more broadly, enabling the development of innovative financial services. In September 2018, the Minister of Finance appointed an advisory committee on open banking, and on January 11, 2019, the Department of Finance Canada released a discussion paper and announced consultations on open banking. In these supplementary estimates, the department is requesting approximately \$900,000 for the review of open banking.

According to officials, these funds would be used for the advisory committee's consultations across Canada, to enter into contracts with experts and for a secretariat within the department to do research and support the committee. The department is currently at the fact-finding stage and will subsequently consider implementation options.

6.4 Tax Policy Analysis

In these supplementary estimates, the Department of Finance Canada is requesting approximately \$800,000 to support tax policy analysis and development.

These funds would be used to support ongoing, internal analyses of the impacts of international tax changes, notably how Canadian companies are affected by recent tax reforms in the United States.

7 DEPARTMENT OF NATIONAL DEFENCE

The Department of National Defence (DND) defends Canada's sovereignty, participates in defence partnerships and assists in times of natural disaster or other emergencies.

Committee Observations

DND is requesting \$159 million for the Arctic and Offshore Patrol Ships, which has an overall project budget of \$4.3 billion.

Our committee is concerned, however, that DND does not publish financial information in its annual reports that would allow Canadians and parliamentarians to monitor how much is spent each year on specific major capital projects, such as the Arctic and Offshore Patrol Ships.

7.1 Estimates Overview

In the *Supplementary Estimates (B), 2018–19*, DND is requesting additional voted appropriations of \$561,833,189 for seven spending items:

- \$313,938,637 for various operations;
- \$159,000,000 for the Arctic and Offshore Patrol Ships;
- \$75,667,664 for the UN Peacekeeping Operation in Mali;
- \$10,523,475 for the 2018 G7 Summit in Charlevoix, Quebec;
- \$1,741,340 for the reinvestment of royalties from intellectual property;
- \$901,384 for the C6 General Purpose Machine Gun Modernization; and
- \$60,689 for the reinvestment of revenues from the sale or transfer of real property.

When transfers are included, this is an increase of 2.8% compared to DND's total voted authorities to date of \$19,937,861,421.

Forecasted statutory expenditures for DND are increasing by \$7,546,634 for contributions to employee benefit plans. A net amount of \$10,172,250 is being transferred to other organizations. DND's total proposed authorities to date, including voted and statutory expenditures and transfers, are \$21,699,188,146.

7.2 Arctic and Offshore Patrol Ships

In January 2015, the Government of Canada announced a \$2.6 billion contract for the construction of five Arctic and Offshore Patrol Ships, with an option for a sixth ship. On 2 November 2018, the government announced that it would be acquiring a sixth patrol ship. The first patrol ship was launched in September 2018 and will deploy in the Arctic in the summer of 2020. Three ships are in full production and steel cutting for the fourth ship has begun.

In these supplementary estimates, DND is requesting \$159 million for the ships. Officials from DND said the funds would cover the acquisition of material for the fifth and sixth ships.

Officials informed our committee that the total amount spent on the ships to date is \$2.1 billion, with \$339 million spent in 2018–2019. The defence policy *Strong, Secure, Engaged* budgeted \$583 million for the ships in 2018–2019.

They said the overall project budget is \$4.3 billion, which includes the Nanisivik Naval Facility in the North, training, spare parts and technical data.

7.3 United Nations Peacekeeping Operation in Mali

On 19 March 2018, the Government of Canada announced that it would deploy an air task force to the United Nations peacekeeping operation in Mali. The first members of the Canadian team arrived in June 2018.

In these supplementary estimates, DND is requesting \$75.7 million for the mission. Officials said the total cost of the mission is budgeted for \$511 million, covering the period of 2017–2018 to 2021–2022.

However, the mission will be completed by the end of July 2019.

7.4 G7 Summit in Charlevoix Quebec

In June 2018, leaders of the Group of Seven (G7) met in Charlevoix, Quebec. Officials indicated that DND budgeted \$34.2 million for its role in supporting the Royal Canadian Mounted Police in providing security for the summit.

In these supplementary estimates, DND is requesting \$10.5 million, which is in addition to the \$2 million spent in 2017–2018.

8 VETERANS AFFAIRS CANADA

Veterans Affairs Canada (VAC) is responsible for the care, treatment and re-establishment in civil life of Veterans and the care of their dependents and survivors. VAC meets its responsibilities through its programs for disability pensions, Veterans allowances, pension advocacy, health care and commemoration.

Committee Observations

VAC is experiencing an increased workload due to more veterans accessing its services, which indicates they value the programs available.

VAC is also implementing the new Pension for Life program.

Given the importance of its programs, the government needs to ensure that VAC has sufficient capacity to provide veterans with timely access to vital services. VAC also needs to urgently reimburse veterans for \$165 million in underpayments due to an accounting error.

8.1 Estimates Overview

In the *Supplementary Estimates (B), 2018–19*, VAC is requesting additional voted appropriations of \$323,177,757 for one item: funding for demand-driven programs and services which provide support to eligible Veterans and their families.

When transfers are included, this is an increase of 6.7% compared to VAC's total voted authorities to date of \$4,439,390,772.

No forecasted statutory expenditures for VAC is included in the *Supplementary Estimates (B), 2018–19*. VAC's total proposed authorities to date, including voted and statutory expenditures and transfers, are \$4,798,494,613.

8.2 Erroneous Payments to Veterans between 2003 and 2010

Due to an accounting error resulting from the omission of a change in the personal tax exemption under the *Income Tax Act*, approximately 270,000 veterans, survivors or members of the Royal Canadian Mounted Police were issued incorrect disability pension payments between 2003 and 2010. The estimated value of the error is approximately \$165 million.

Officials from VAC said since they received the information from the Veterans Ombudsman, they have validated the amount of the error and are working on an implementation plan to ensure that all veterans who are owed this payment will receive it prior to the end of 2020. Officials further explained that they are unable to solve this issue at an earlier date due to two factors: the team that would be responsible for the issuance of the back payments is currently working on the proper implementation of the new Pension for Life program; and they want to ensure that all payments are in accordance with the legal outcome of the four confirmed class-action lawsuits.

8.3 Increased Demand for Services from Veterans

In the *Supplementary Estimates (B), 2018–19*, VAC is requesting \$323 million to support increases in the number of veterans accessing support for various programs, such as the Disability Award and the Earnings Loss grant.

Officials from VAC stated that they undertake a client forecast re-evaluation every year based on the number of current clients and expected future clients. They believed that the reason for the increase in workload at VAC is due to multiple factors, including more programs to support veterans, the expansion of eligibility criteria for certain programs, as well as proactive outreach to various groups. They also emphasized that the application approval rate has increased to 84%.

Regarding the backlog of applications, officials acknowledged the delay in processing veterans' applications for benefits; however, they believed that the unified IT system and the new Pension for Life program, which replaced six programs, will provide veterans with speedier services.

8.4 Re-Allocation of Unspent Funding

In November 2018, the House of Commons passed a motion to allow VAC to re-allocate any money unspent in the previous year to service delivery to ensure VAC meets its commitment to service excellence for Veterans. Officials from VAC explained that they are currently working with central agencies to obtain the authority to do so and will produce an implementation plan.

9 TREASURY BOARD OF CANADA SECRETARIAT

The Secretariat (TBS) supports the Treasury Board of Canada in its role as the government's management board: overseeing the operations of the federal government as a whole, providing oversight of the financial management of departments and agencies, and acting as the employer of the core public service.

Committee Observations

In the *2018–19 Main Estimates*, the TBS implemented a new Vote 40 – Budget Implementation to include all new budget measures in the main estimates.

While our committee recognizes the TBS' efforts to improve accountability, transparency and reliability through Vote 40, which has a number of controls, we believe that further efforts should be made to include new budget spending in departmental estimates votes.

Vote 40 has presented new challenges in following the money. TBS should review its allocation schedule to ensure parliamentarians and other interested parties are able to follow the money from Budget 2018 to departments through Vote 40.

Our committee also recognizes the stated commitment by the President of the Treasury Board to ensure effectiveness and alignment through all related departments and agencies.

9.1 Estimates Overview

In the *Supplementary Estimates (B), 2018–19*, the Treasury Board of Canada Secretariat (TBS) is requesting additional voted appropriations of \$303,934,268 for seven spending items:

- \$200,000,000 for adjustments made to terms and conditions of service or employment of the federal public administration;
- \$90,000,000 to support a liquefied natural gas (LNG) investment in Kitimat, British Columbia;
- \$8,247,749 for compensation adjustments – Transfers to departments and agencies for negotiated salary adjustments;
- \$3,042,000 to advance proactive pay equity for federally regulated workers;
- \$2,000,000 for the modernization of the *Canada Election Act*;
- \$474,932 to support a proactive approach to end systemic discrimination of persons with disabilities; and
- \$169,587 to support the organization and delivery of an Open Government Partnership Global Summit in Canada.

This represents an increase of 4.1% over the total voted authorities of \$7,368,517,353 obtained by the TBS in previous main and supplementary estimates.

Statutory expenditures are forecasted to increase by \$3,107,018,114, due to additional contributions to employee benefit plans. As noted in *Supplementary Estimates (B), 2018–19*, the TBS's total proposed authorities to date are \$11,149,414,752.

9.2 Vote 40 - Budget Implementation

In the *2018–19 Main Estimates*, the TBS included a new Vote 40 – Budget Implementation, which incorporated \$7 billion in new funding announced in Budget 2018 in a central vote managed by the TBS. Once the Treasury Board approves departmental submissions related to the initiatives outlined in Vote 40, the TBS releases the funding for the specified purposes. A report prepared by the Parliamentary Budget Officer in December 2018 stated that the Treasury Board Central Vote 40 reduced parliamentarians' ability to scrutinize and oversee government spending and has not accelerated the government's implementation of budget measures.

Officials from the TBS said that there are greater controls on Vote 40 – an amount must be used for the initiative and by the department specified in the budget annex and any deviation from the specified purpose would have to be approved by Parliament. However, some parliamentarians are of the opinion that oversight has been reduced.

Officials stated that Vote 40 is a two-year pilot to realign the budget and the main estimates. They are looking at ways to include budget allocations in departmental votes, although the level of detail is subject to the constraints of the budget annex.

9.3 Pay Equity

In the *Supplementary Estimates (B), 2018–19*, the TBS is requesting \$3 million to advance pay equity for federally regulated workers. The new *Pay Equity Act* would place the responsibility on employers to proactively develop plans to achieve equitable compensation for employees in female-predominant jobs in federally regulated workplaces.

Officials from the TBS said that since the Act came into force, they have been working to put in place all associated regulations by the end of 2020. They will subsequently work with collective bargaining agents on specific pay equity plans. The requested \$3 million would be used towards the establishment of a new pay equity commissioner.

10 VIA RAIL CANADA INC.

VIA Rail Canada Inc. (VIA) is a Crown corporation that operates Canada's national passenger rail service.

Committee Observations

VIA Rail has proposed a \$4 billion plan for dedicated tracks along the Quebec City–Windsor corridor, which would allow VIA to increase train frequency and ridership.

As the government examines the viability of this plan, our committee also encourages it to pay close attention to improvements to other routes, which are very important to the communities and regions served by them.

10.1 Estimates Overview

In the *Supplementary Estimates (B), 2018–19*, VIA is requesting additional voted appropriations of \$105,251,000 for one spending item: fleet renewal for the Quebec City–Windsor Corridor.

This is an increase of 20% compared to VIA's total voted authorities to date of \$538,088,193.

A net amount of \$1,531,805 is being transferred from other organizations. VIA's total proposed authorities to date, including transfers, are \$644,870,998.

10.2 Fleet Renewal

VIA is planning to replace its existing fleet in the Quebec City–Windsor corridor, which accounts for 94% of its passenger trips, with new diesel, bi-directional trains. A \$989 million contract to build 32 trainsets (a bi-directional locomotive and five to six cars) was awarded to Siemens Canada in December 2018. According to VIA, the new trains would improve efficiency, lower operating costs and provide more passenger capacity. Delivery of the trains is scheduled to begin in 2022, until 2024.

In these supplementary estimates, VIA is requesting \$105.3 million for fleet renewal. According to officials, the funding would provide an advance to Siemens Canada to begin the project. Officials said the award of the contract respects international trade agreements. Siemens has agreed to provide Canadian content of up to 20% in supplies and services.

10.3 Quebec City–Windsor Corridor

To increase ridership, reduce travel times and increase on-time performance, VIA has proposed a \$4 billion plan for dedicated tracks along the Quebec City–Windsor corridor.

Budget 2018 provided Transport Canada with \$8 million over three years, beginning in 2018–2019, to conduct an in-depth assessment of VIA Rail's high frequency rail proposal.

Officials from VIA were not able to say when this assessment would be completed, but they noted that improving ridership in the Quebec City–Windsor Corridor would provide additional funds to support improvements on other routes.

11 INNOVATION, SCIENCE AND ECONOMIC DEVELOPMENT

Innovation, Science and Economic Development Canada (ISED) seeks to improve conditions for investment in Canada, enhance Canada's innovation performance, increase Canada's share of global trade and build a fair, efficient and competitive marketplace.³

Committee Observations

Through the Connect to Innovate program, ISED will invest \$500 million by 2021 to bring high-speed internet to some rural and remote communities.

While we are encouraged that 900 communities will benefit from funding, we are concerned that some rural, remote and north of 60 communities will continue to have insufficient access to high-speed broadband internet, which is very important for health, safety and education.

11.1 Estimates Overview

In the *Supplementary Estimates (B), 2018–19*, ISED is requesting additional voted appropriations of \$4,762,175 for two spending items:

- \$3,650,000 for out-of-court settlements; and
- \$1,112,175 to implement the Women Entrepreneurship Strategy.

When transfers are included, this is an increase of 0.2% compared to ISED's total voted authorities to date of \$2,958,147,829.

Forecasted statutory expenditures for ISED are increasing by \$156,712 due to contributions to employee benefit plans. A net amount of \$1,122,072 is being transferred from other organizations. ISED's total proposed authorities to date, including voted and statutory expenditures and transfers, are \$3,160,772,758.

11.2 Canada-China Year of Tourism

On September 1, 2016, Prime Minister Justin Trudeau and Chinese Premier Li Keqiang announced that 2018 would be the Canada-China Year of Tourism. In these supplementary estimates, ISED is requesting \$3.7 million to support this initiative.

According to officials, the funding would be used for events in the fiscal year 2018–2019 that promoted Canada as a tourism destination for Chinese travellers. ISED also developed tools and offer workshops to help Canadian tourism businesses understand and adapt to the Chinese marketplace.

³ The legal name of the department, and the name used in the estimates, is the Department of Industry.

Officials noted that in 2009, 160,000 Chinese tourists visited Canada. Statistics Canada reported that as of December 2018, Canada had welcomed 740,000 Chinese tourists in 2018. Visits by Chinese tourists to Canada grew by 17% in 2017 and another 10% in 2018.

11.3 Women Entrepreneurship Strategy

Budget 2018 announced a new Women Entrepreneurship Strategy of \$105 million over five years to support investments in women-led businesses, delivered primarily through the regional development agencies. Officials from ISED described the initiative's four pillars: helping women-led businesses grow, increasing access to capital, improving access to federal business innovation programming and enhancing data and knowledge.

The funding would be provided in two components: \$85 million to build ecosystems for women entrepreneurs, and \$20 million to help women entrepreneurs grow their businesses. With respect to the latter component, the call for proposals closed in November and 3,000 applications were received.

ISED is requesting \$1.1 million in these supplementary estimates to establish a secretariat within the department to ensure coordination among the regional development agencies. (The Canadian Northern Economic Development Agency is also requesting \$74,000 in these estimates for the Women Entrepreneurship Strategy.)

11.4 Reprofiting Funds

According to the Treasury Board of Canada Secretariat's online document on frozen allotments, which was released with the *Supplementary Estimates (B), 2018–19*, ISED is reprofiling (i.e., delaying) \$341 million in approved authorities for various grants and contributions programs.

Officials explained that \$182 million of this amount was related to the Innovation Superclusters Initiative, which will invest \$950 million in five large-scale industrial partnerships. Officials said applicants needed additional time to implement their strategies and address gaps in their "ecosystems." The department is extending the project by a year, to 2022–2023.

The other large reprofile is \$120 million for the Connect to Innovate program, which will invest \$500 million by 2021 to bring high-speed internet access to rural and remote communities. Officials indicated that applicants needed additional time to secure and confirm co-funding for projects. They expect that all contribution agreements will be signed in 2018–2019 and 900 communities will benefit from funding, up from the target of 300 communities.

APPENDIX – WITNESSES WHO APPEARED BEFORE THE COMMITTEE

Crown-Indigenous Relations and Northern Affairs Canada

Alex Lakroni, Chief Finances, Results and Delivery Officer
Eric Marion, Senior Director Fiscal Policy, Policy Development and Coordination Branch
(26-02-2019)

Department of Finance Canada

Leah Anderson, Assistant Deputy Minister, Financial Sector Policy Branch
Darlene Bess, Chief Financial Officer
Richard Botham, Assistant Deputy Minister, Economic Development and Corporate Finance Branch
Miodrag Jovanovic, Associate Assistant Deputy Minister (Analysis), Tax Policy Branch
Nicholas Leswick, Assistant Deputy Minister, Economic and Fiscal Policy Branch
Nicolas Moreau, Director General, Funds Management Division, Financial Sector Policy Branch
(26-02-2019)

Department of National Defence

Julie Charron, Acting Assistant Deputy Minister (Finance) and Acting Chief Financial Officer
Patrick Finn, Assistant Deputy Minister (Materiel)
(26-02-2019)

Employment and Social Development Canada

Alexis Conrad, Assistant Deputy Minister, Learning Branch
Mark Perlman, Chief Financial Officer and Senior Assistant Deputy Minister, Chief Financial Officer Branch
Jason Won, Deputy Chief Financial Officer, Chief Financial Officer Branch
(26-02-2019)

Immigration, Refugees and Citizenship Canada

Daniel Mills, Assistant Deputy Minister and Chief Financial Officer, Corporate Management
Mike MacDonald, Associate Assistant Deputy Minister, Operations
(26-02-2019)

Indigenous Services Canada

Odette Johnston, Director General, Children and Families Branch
Paul Thoppil, Chief Finances, Results and Delivery Officer
(26-02-2019)

Innovation, Science and Economic Development Canada

Paul Arvanitidis, Senior Director, Tourism Policy
Krista Campbell, Director General, Digital Transformation Service Sector, Connected Canada Branch
Andrea Johnston, Assistant Deputy Minister, Innovation Canada
Frances McRae, Assistant Deputy Minister, Small Business and Marketplace Services
Philippe Thompson, Assistant Deputy Minister, Corporate Management Sector
(27-02-2019)

National Energy Board

Jim Fox, Vice President, Integrated Energy Information and Analysis
Mark Power, Vice President, Performance and Results and Chief Financial Officer
(26-02-2019)

Philpott, The Honourable Jane, P.C., M.P., President of the Treasury Board and Minister of Digital Government

(27-02-2019)

Treasury Board of Canada Secretariat

Karen Cahill, Assistant Secretary and Chief Financial Officer
Glenn Purves, Assistant Secretary, Expenditure Management Sector
Marcia Santiago, Executive Director, Expenditure Strategies and Estimates
(27-02-2019)

Veterans Affairs Canada

Michel Doiron, Assistant Deputy Minister, Service Delivery
Faith McIntyre, Acting Assistant Deputy Minister, Strategic Policy and Commemoration
Elizabeth Stuart, Assistant Deputy Minister, Chief Financial Officer and Corporate Services
(26-02-2019)

VIA Rail Canada Inc.

Jacques Fauteux, Director, Government and Community Relations
Patricia Jasmin, Chief Financial Officer
(27-02-2019)