



**SECOND INTERIM REPORT ON THE  
*MAIN ESTIMATES 2017–18***

**Standing Senate Committee on National Finance**

**SIXTEENTH REPORT**

*Chair*  
The Honourable Percy Mockler

*Deputy Chair*  
The Honourable Anne C. Cools

June 2017

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## EXECUTIVE SUMMARY

### *Main Estimates 2017–18*

The Standing Senate Committee on National Finance has an important role to play on behalf of the Senate in assuring Canadians that government spending plans are reasonable, offer good value for money and achieve the government's objectives. To fulfill this role, our committee closely examines and reports to the Senate on the government's spending plans.

In the *Main Estimates 2017–18*, tabled in the Senate on 28 February 2017 and referred to our committee for consideration on 1 March 2017 (see Appendix 1), the government is requesting that Parliament authorize \$102.1 billion in spending and is forecasting \$155.8 billion in statutory expenditures, for total budgetary expenditures of \$257.9 billion in fiscal year 2017–2018, an increase of \$7.8 billion compared with the *Main Estimates 2016–17*.

To review these estimates, our committee held four meetings since 1 April 2017 with officials from eight departments, from Moody's Investors Service and from the International Monetary Fund. Our committee noted and decided to report on the key issues raised at its meetings.

Our committee has made the following observations for each organization reviewed:

1. Canada Mortgage and Housing Corporation (CMHC) officials explained that it is the first time in the agency's history that it has been required to pay a dividend in keeping with recent direction from the government.

CMHC is confident that it will have the financial resources to deal with various critical scenarios. Although mortgage insurance provided by CMHC remains a risk-reducing factor for financial institutions, our committee is concerned that this transfer of risk will affect the government's budgetary balance. Our committee therefore encourages CMHC to conduct its operations in a prudent manner; select the loans it provides according to strict criteria; and regularly share its results to the government and the Canadian public.

2. Our committee encourages the Office of the Superintendent of Financial Institutions to continue monitoring financial and capital markets closely as they evolve. Our committee appreciates the role played by the Office in maintaining public confidence in our institutions and financial system.
3. Our committee supports Innovation, Science and Economic Development Canada objective of attracting private investment in innovation in Canada, as in the case of the Automotive Innovation Fund. However, our committee encourages the department to ensure that its funding actually helps to stimulate investment in innovation in Canada.
4. Our committee encourages the Department of Health to continue its efforts to close the gap between Indigenous peoples and other Canadians with regard to health and access to drinking water. To achieve this objective, our committee expects the department to: prioritize its activities effectively, establish sound performance indicators and be transparent in sharing its outcomes.
5. Our committee encourages the department to of Indigenous and Northern Affairs Canada closely monitor the construction and renovation of schools on reserve, and the construction and management of drinking water facilities.

Our committee supports the new requirement that makes federal funding for on-reserve construction and renovation projects contingent on compliance with the National Building Code. However, it encourages the department to develop and issue the necessary performance indicators for this requirement.

6. Our committee encourages the department of Transport to establish its budgetary spending based on its priorities, in order to get concrete results in the transportation sector.
7. Our committee encourages the department of Canadian Heritage to develop transparent and efficient performance measures as part of its grants and contributions programs.

## INTRODUCTION

The Standing Senate Committee on National Finance has an important role to play on behalf of the Senate and Canadians in its examination of the federal government's spending plans, as submitted in the main and supplementary estimates. Our committee reviews the government's proposed spending plans and estimates in order to determine whether they are reasonable, provide value for money and will help to achieve the government's stated objectives. Our committee then presents its reports to the Senate. The *Main Estimates 2017–18*, tabled in the Senate on 28 February 2017, contain total budgetary expenditures of \$257.92 billion (see Table 1).

**Table 1 – Main Estimates 2017–18 (\$ billions)<sup>1</sup>**

	2015–2016 Actual Expenditures	2016–2017		2017–18 Main Estimates
		Main Estimates	Estimates to Date	
<i>Budgetary expenditures</i>				
Voted	85.17	89.85	103.18	102.14
Statutory	156.21	160.29	153.98	155.78
<b>Total budgetary</b>	<b>241.38</b>	<b>250.14</b>	<b>257.17</b>	<b>257.92</b>
<i>Non-budgetary expenditures</i>				
Voted	0.04	0.03	0.06	0.03
Statutory	55.55	0.34	(0.09)	(0.25)
<b>Total non-budgetary</b>	<b>55.59</b>	<b>0.37</b>	<b>(0.03)</b>	<b>(0.22)</b>

Source: Table prepared by the authors using data from Treasury Board of Canada Secretariat, [Main Estimates 2017–18](#), p. I-3.

For its second interim report on the *Main Estimates 2017–18*, our committee selected eight federal institutions and reviewed their estimates over the course of three meetings:

4 April 2017:

- Department of Health
- Department of Canadian Heritage
- Canada Mortgage and Housing Corporation

5 April 2017:

- Innovation, Science and Economic Development Canada (Department of Industry)
- Indigenous and Northern Affairs Canada
- Department of Transport

17 May 2017:

- Department of Finance
- Office of the Superintendent of Financial Institutions

30 May 2017:

- Moody's Investors Service
- International Monetary Fund
- Canada Mortgage and Housing Corporation

<sup>1</sup> Note: Totals may not add due to rounding.

## 1 CANADA MORTGAGE AND HOUSING CORPORATION

The Canada Mortgage and Housing Corporation (CMHC) is Canada's national housing agency. Its mandate is to facilitate access to housing and contribute to financial stability in order to help Canadians meet their housing needs.<sup>2</sup>

### Committee observations

CMHC officials explained that it is the first time in the agency's history that it has been required to pay a dividend in keeping with recent direction from the government.

CMHC is confident that it will have the financial resources to deal with various critical scenarios.

Although mortgage insurance provided by CMHC remains a risk-reducing factor for financial institutions, our committee is concerned that this transfer of risk will affect the government's budgetary balance. Our committee therefore encourages CMHC to:

- Conduct its operations in a prudent manner;
- Select the loans it provides according to strict criteria; and
- Regularly share its results to the government and the Canadian public.

### 1.1 Estimates overview

In the *Main Estimates 2017–18*, CMHC is requesting voted authorities of \$2.7 billion, representing an increase of \$707.1 million over the amount requested in the *Main Estimates 2016–17*.

The agency also anticipates non-budgetary net repayments of \$644.8 million in 2017–2018, which is in line with the net repayments of \$644.3 million projected in the *Main Estimates 2016–17*.

CMHC officials stated that the increase of more than \$707 million in voted appropriations is due mainly to the following three items:

- \$576.5 million for social infrastructure investments;
- \$72.6 million for the Affordable Rental Housing Innovation Fund; and
- \$50 million for prepayment flexibility.

### 1.2 The problem of housing unaffordability

Our committee wanted to know what CMHC was doing to help Canadians and the government better understand the issue of housing unaffordability, particularly in major metropolitan areas. Officials explained that CMHC is constantly trying to provide Canadians with better information through the *Housing Market Assessment*, a quarterly publication that gives an overview of the country's various housing markets. It focuses primarily on markets where problematic conditions are present, known as

<sup>2</sup> Treasury Board of Canada Secretariat, [Main Estimates 2017–18](#), p. II-11.

“red territories.”<sup>3</sup> According to the most recent report, released in April 2017,<sup>4</sup> Victoria, Vancouver, Saskatoon, Hamilton and Toronto were red territories in terms of overall assessment.

The officials went on to explain that CMHC has other programs and surveys to help the government better understand various factors that affect supply and demand. They stated that information can be difficult to obtain because of the nature of the market and the fact that not all information is publicly available or easily accessible.

### **1.3 Government-backed mortgage insurance and securitization**

Our committee is concerned about the current housing situation and the impact a potential downturn could have on the federal government’s fiscal framework and program funding.

Officials told our committee that the CMHC’s mortgage insurance activities operate on a commercial basis. There are two private-sector competitors – Genworth Canada and Canada Guaranty – which are regulated by the OSFI. The OSFI also oversees CMHC but does not regulate it.

The Department of Finance recently launched consultations on lender risk sharing for government-backed mortgage insurance. Our committee was interested in learning more about the risks that CMHC’s mortgage insurance activities posed for federal finances. CMHC insures \$502 billion worth of Canadian mortgages with a legislated insurance-in-force limit of \$600 billion.<sup>5</sup> CMHC officials explained that, like the financial institutions, CMHC adheres to all the OSFI guidelines and uses a stress-testing program to understand the impacts of changes in the economy and other situations that could have financial repercussions. They stated that CMHC has ensured that it can withstand these stress scenarios and continue to operate and be solvent.

Senators were also interested to learn more about securitization and the risks associated with it. Officials explained that “the difference in our model of securitization is that the lender ultimately is still responsible on those mortgages. When we securitize a mortgage, if that mortgage goes bad, we will still look to the lender to recover 100 per cent of those funds. They will have mortgage insurance, because we will only securitize insured mortgages. They will have mortgage insurance as a backstop. However, if, for whatever reason, mortgage insurance doesn't pay or doesn't pay promptly, that lender is on the hook to provide the funds right away.”<sup>6</sup>

In closing, CMHC officials stated that the agency’s financial results are consolidated with those of the Government of Canada. In their view, taking into account the CMHC’s net income and the taxes it has paid over the past 10 years, the agency’s profits are close to \$20 billion, thereby reducing the government deficit by the same amount.

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<sup>3</sup> Specifically, overheating, accelerating prices, overvaluation and overbuilding.

<sup>4</sup> Canada Mortgage and Housing Corporation, [Housing Market Assessment](#), 2017, p. 7.

<sup>5</sup> Canada Mortgage and Housing Corporation, [Quarterly Financial Report](#), March 31<sup>st</sup>, 2017, p. 10.

<sup>6</sup> Senate, Standing Committee on National Finance, *Evidence*, 1<sup>st</sup> Session, 42<sup>nd</sup> Parliament, 4 April 2017.



## 2 CREDIT RATING OF CANADIAN BANKS DOWNGRADED

### 2.1 Introduction

On 10 May 2017, Moody's Investors Service ("Moody's") downgraded the credit rating of Canada's six largest banks. David Beattie, Senior Vice President at Moody's, explained the organization's decision by the fact that "continued growth in Canadian consumer debt and elevated housing prices leave consumers and Canadian banks more vulnerable to downside risks facing the Canadian economy than in the past. A challenging operating environment for these banks could lead to a deterioration in the bank's assets quality and increase their sensitivity to external shocks".<sup>7</sup> In the short run, Moody's does not anticipate that macroeconomic conditions will improve in Canada.

According to Mr. Beattie, the current situation does not change the fact that Canadian banks still rank among the highest in the world: "this is due to their very strong asset quality and a concentrated industry structure that gives individual banks excellent scale, efficiency and earning stability".<sup>8</sup> Globally, Canadian banks would be above the 90th percentile according to him. Mr. Beattie is also reassuring about Canada's macroeconomic profile, which he describes as "robust".

Our committee was concerned about the possible impact of this action on the government's fiscal framework, and on the continued rise in Canadian household debt and housing prices. To assist it in its study, our committee invited the following witnesses to appear:

- The Department of Finance;
- The Office of the Superintendent of Financial Institutions;
- Moody's Investors Service;
- The Canada Mortgage and Housing Corporation; and
- The International Monetary Fund.

When asked how the Department of Finance viewed the decision by Moody's, departmental officials responded that Moody's is a credit rating agency and its job is to assess the worst case scenario, not the most likely one. The agency therefore considered it appropriate to slightly downgrade the credit rating of the six largest Canadian banks. The officials added that they believe Canadian banks continue to be well regulated and have a high level of capital. Given the response of financial markets, there does not seem to be any particular concerns about the main banks at the moment.

### 2.2 Consumer debt

Canadians carrying a high level of debt are more vulnerable to changes in economic conditions, such as loss of income or higher interest rates. Officials from the Department of Finance stated that the department is monitoring this situation closely and working with federal financial institutions, the Bank of Canada and the Office of the Superintendent of Financial Institutions. They believe the Canadian economy is resilient and there are no indications that it is in difficulty.

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<sup>7</sup> Senate, Standing Committee on National Finance, *Evidence*, 1<sup>st</sup> Session, 42<sup>nd</sup> Parliament, 30 May 2017.

<sup>8</sup> *Ibid.*

Given that high consumer debt was one of the two main reasons behind Moody's decision to downgrade the credit rating of Canada's six major banks, our committee wanted to explore this subject further. Witnesses explained that the average Canadian household debt is about 167% of household income. This means that the average household owes \$1.67 for every dollar it brings in as salary in a year. They added that while this ratio seems high at first glance, mortgage debt makes up two-thirds of the total average debt and is amortized over an average of 25 years.

However, household debt is up compared with the 1990s and 2000s, when average household debt was slightly under 100%. One of the main reasons for this higher level is that interest rates have decreased, making debt more affordable. As rates have come down, households have taken on more debt, but their total monthly payments as a share of income have remained relatively the same. Households currently apply 14% of their income to servicing their debt. Fifteen years ago, this figure was about 12%. Although this situation is acceptable financially, it does leave some households vulnerable to an increase in interest rates.

### **2.3 Government-backed mortgages**

The government guarantees 100% of the Canada Mortgage and Housing Corporation's (CMHC) mortgage insurance obligations. Our committee wanted to know if there was a risk that CMHC could not meet its obligations, given the relatively high cost of housing across Canada and the threat of thousands of job losses in sectors such as softwood lumber. Department of Finance officials explained that the mortgage insurance market is well regulated and the Canadian economy is doing well overall. Therefore, they are confident that CMHC can meet all of its obligations.

When asked about Canada Mortgage and Housing Corporation, Mr. Beattie stated "that's a strength of the Canadian banking system that government-sponsored mortgage insurance is in place. [...] There are some key structural features in the Canadian mortgage market that are favourable for Canadian banks. CMHC is one".<sup>9</sup>

Representatives from CMHC noted that Moody's macroeconomic analysis is consistent with theirs. The Crown Corporation "is not concerned about the state of our financial exposure and [...] remain[s] confident in Canada's housing finance system in general".<sup>10</sup> According to Mr. Zielonka, "this is not the first time Canada's big six banks have been downgraded, but it does provide a note of caution that we need to remain vigilant against risks that could jeopardize the stability of Canada's financial system".<sup>11</sup> According to its representatives, CMHC also has sufficient assets to deal with various disaster scenarios.

### **2.4 Current financial and capital market conditions**

Officials from the Office of the Superintendent of Financial Institutions (OSFI) began their testimony by specifying that they could not provide information or express their opinion on specific institutions. Committee members were therefore unable to ask the officials certain questions.

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<sup>9</sup> Ibid.

<sup>10</sup> Ibid.

<sup>11</sup> Ibid.

During their testimony, OSFI officials noted the “[r]ecord low interest rates ... ; record high consumer debt levels; and housing prices that sometimes appear detached from economic fundamentals are all putting pressure on our financial system, and many experts are sounding alarm bells.”<sup>12</sup> The OSFI has the flexibility to change its rules and guidelines in response to this type of market environment.

On the subject of housing, the OSFI has had specific guidelines on mortgage underwriting since 2013 that establish controls and risk management practices. Although it did not amend these guidelines, it issued an open letter to the banks in July 2016, informing them that it was on high alert given the conditions in the Vancouver market. The OSFI is currently finalizing changes to its guidelines and intends to release them publicly in the coming weeks. On the subject of consumer debt, the Office’s role is to ensure that lending institutions are prudent and manage the risk that borrowers may default.

#### **Committee observations**

Our committee encourages the Office of the Superintendent of Financial Institutions to continue monitoring financial and capital markets closely as they evolve. Our committee appreciates the role played by the Office in maintaining public confidence in our institutions and financial system.

According to Cheng Hoon Lim from the International Monetary Fund (IMF), “the banking system has adequate capital and liquidity buffers”.<sup>13</sup> According to her, the probability of a shock affecting the housing market in Canada remains low. Nonetheless, the IMF had three recommendations:

1. That measures to mitigate speculative and investment activity be tightened;
2. That federal and provincial regulators work towards greater coordination;
3. That more resources be dedicated to collect comprehensive data on real estate transactions.

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<sup>12</sup> Senate, Standing Committee on National Finance, *Evidence*, 1<sup>st</sup> Session, 42<sup>nd</sup> Parliament, 17 May 2017.

<sup>13</sup> Senate, Standing Committee on National Finance, *Evidence*, 1<sup>st</sup> Session, 42<sup>nd</sup> Parliament, 30 May 2017.

### 3 INNOVATION, SCIENCE AND ECONOMIC DEVELOPMENT CANADA

Innovation, Science and Economic Development Canada<sup>14</sup> helps Canadian businesses grow, innovate and export so that they can create good quality jobs and wealth for Canadians. The department works with provinces, territories, municipalities, the post-secondary education system, employers and labour to improve the quality and impact of its programs that support innovation, scientific research and entrepreneurship, in order to build a prosperous and innovative Canada.<sup>15</sup>

#### Committee observations

Our committee supports the department's objective of attracting private investment in innovation in Canada, as in the case of the Automotive Innovation Fund. However, our committee encourages the department to ensure that its funding actually helps to stimulate investment in innovation in Canada.

#### 3.1 Estimates overview

In the *Main Estimates 2017–18*, the Department of Industry is requesting voted authorities of \$2.4 billion, an increase of \$1.3 billion over the amount requested in the *Main Estimates 2016–17*.

#### 3.2 Post-Secondary Institutions Strategic Investment Fund

Departmental officials explained that the objectives of the Post-Secondary Institutions Strategic Investment Fund were established in partnership with the provinces, territories and participating post-secondary institutions. Projects are not submitted directly by the provinces but they are approved based on provincial priorities. The witnesses stated that “there was certainly genuine agreement with the provinces and territories when it came to the approved projects.”<sup>16</sup>

#### 3.3 Grant to the Radio Advisory Board of Canada

Senators asked for clarification regarding the grant to the Radio Advisory Board of Canada. This association represents radio communications businesses in Canada. The grant of \$4.8 million represents the federal government's contribution to the association, which provides technical advice to the public and private sectors on areas related to the use and management of the radio spectrum. The department is responsible for regulating and managing the radio spectrum in Canada.

#### 3.4 Contributions under the Automotive Innovation Fund

The department will contribute \$98.6 million under the Automotive Innovation Fund in 2017–2018. The fund supports research and development projects in the automotive sector valued at more than \$75 million. Senators were surprised that \$98.6 million would be spent on supporting already profitable multinational corporations. Witnesses explained that the fund is used to stimulate innovation in Canada and attract investment to this country that would not take place otherwise.

<sup>14</sup> For the purpose of appropriation acts, the department's legal name remains the Department of Industry.

<sup>15</sup> Treasury Board of Canada Secretariat, [Main Estimates 2017–18](#), p. II-115.

<sup>16</sup> Senate, Standing Committee on National Finance, [Evidence](#), 1<sup>st</sup> Session, 42<sup>nd</sup> Parliament, 5 April 2017.

Witnesses also stated that almost all automotive proposals funded through the Automotive Innovation Fund have a green technology component.

### 3.5 Connect to Innovate Program

Senators asked for details on the financial model for Connect to Innovate, a \$69.6-million program to introduce broadband Internet service to rural communities. Departmental officials explained that it is a public-private partnership to reduce providers' costs so that they can connect communities that do not have this service yet.

## 4 DEPARTMENT OF HEALTH

The Department of Health regulates specific products and controlled substances, works with partners to support improved health outcomes for First Nations and Inuit, supports innovation and information-sharing in Canada's health system to help Canadians maintain and improve their health, and contributes to strengthening Canada's record as a country with one of the healthiest populations in the world.<sup>17</sup>

### Committee observations

Our committee encourages the Department of Health to continue its efforts to close the gap between Indigenous peoples and other Canadians with regard to health and access to drinking water. To achieve this objective, our committee expects the department to:

- prioritize its activities effectively;
- establish sound performance indicators; and
- be transparent in sharing its outcomes.

### 4.1 Estimates overview

In the *Main Estimates 2017–18*, the Department of Health is requesting voted authorities of \$4.1 billion, an increase of close to \$518 million over the amount requested in the *Main Estimates 2016–17*.

### 4.2 Health accords

When asked about recent federal-provincial health accords, witnesses emphasized that home care is one of the pillars for achieving government objectives. So far, discussions have been limited to funding, but performance indicators and other performance evaluation parameters will be established in future to improve the quality of home care. Witnesses also noted that once the accords have been signed, the provinces will be responsible for ensuring that home care complies with the negotiated provisions. The Department of Health is responsible for the framework for provincial health accords and for performance.

<sup>17</sup> Treasury Board of Canada Secretariat, [Main Estimates 2017–18](#), p. II-107.

### 4.3 Indigenous peoples

Indigenous health is one of the department's priorities, and it has allocated significant funding to programs for First Nations and Inuit communities and individuals.

- \$1.2 billion for supplementary health benefits;
- \$1.1 billion for primary health care;
- \$796 million for health infrastructure support for First Nations and Inuit communities.

To ensure that First Nations children have access to quality health services, the department plans to spend \$138 million to introduce interim reforms related to Jordan's Principle. The department also plans to contribute \$82 million to support the delivery of health services and programs on reserve. An additional \$25 million will go to providing immediate mental health support. The department will also allocate \$58 million to continue to fulfill Canada's obligations under the Indian Residential Schools Settlement Agreement.

### 4.4 Water quality on reserve

The department administers programs to ensure that on-reserve water distribution systems operate properly and to identify potential public health risks. It also supports water quality testing and monitoring as well as training for water monitors in the communities. The department plans to allocate \$27 million to the First Nations Water and Wastewater Action Plan.

According to officials, the department has made significant progress in recent years through these programs. Community compliance with normal guidelines is apparently at about 80%. The department coordinates its activities with Indigenous and Northern Affairs Canada to invest in infrastructure when it is the source of problems.

### 4.5 Climate change

In response to our committee's questions, officials explained that the department is taking steps to address the challenges of climate change and air pollution in keeping with the government's commitments in Budget 2016. When questioned further on this subject, officials gave as an example a program to fund climate change studies in the North. The department's objective is to help communities and organizations better understand threats and prepare adaptation plans. The program will be extended to southern Indigenous communities in 2017–2018.

## 5 INDIGENOUS AND NORTHERN AFFAIRS CANADA

Indigenous and Northern Affairs Canada<sup>18</sup> supports Indigenous peoples (First Nations, Inuit and Métis) and northerners in their efforts to improve social well-being and economic prosperity; develop healthier,

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<sup>18</sup> For the purpose of appropriation acts, the department's legal name remains the Department of Indian Affairs and Northern Development.

more sustainable communities; and participate more fully in Canada's political, social and economic development – to the benefit of all Canadians.<sup>19</sup>

### **Committee observations**

Our committee encourages the department to closely monitor the construction and renovation of schools on reserve, and the construction and management of drinking water facilities.

Our committee supports the new requirement that makes federal funding for on-reserve construction and renovation projects contingent on compliance with the *National Building Code*. However, it encourages the department to develop and issue the necessary performance indicators for this requirement.

## **5.1 Estimates overview**

In the *Main Estimates 2017–18*, Indigenous and Northern Affairs Canada is requesting voted authorities of \$9.9 billion, representing an increase of \$2.6 billion over the amount requested in the *Main Estimates 2016–17*.

## **5.2 Increase in budgetary expenditures**

As the witnesses explained, the nearly 34% increase in the department's budgetary expenditures is due to an effort to close the socio-economic gap separating Indigenous peoples from other Canadians. They stated that it was a way of catching up and preparing for the future. The department also plans to introduce reforms to certain programs and improve the delivery of certain services. A portion of this spending will take place over the medium and long terms (two to five years, or ongoing), particularly in the areas of education, infrastructure and housing.

## **5.3 Pipeline projects**

In response to questions from our committee, officials stated that capacity issues are the primary cause of difficult relations between Indigenous peoples and the private sector over pipeline projects. Since Budget 2016, the department has worked to increase Indigenous organizations' core capacity to engage. The department also administers a horizontal program with Natural Resources Canada to financially support First Nations' technical capacity in order to obtain their consent for pipeline projects or reach an economic benefit agreement.

## **5.4 Specific claims**

Senators wanted more information on the increase of \$540.2 million in planned spending for the negotiation, settlement and implementation of specific and comprehensive claims. They mentioned a recent report by the Auditor General (AG) of Canada that criticized the department's handling of this program.<sup>20</sup> The witnesses explained that the amount constituted a reprofiling of funds allocated in previous fiscal years. They also stated that the department had taken the AG's recommendations and

<sup>19</sup> Treasury Board of Canada Secretariat, [Main Estimates 2017–18](#), p. II-110.

<sup>20</sup> Office of the Auditor General of Canada, [Report 6—First Nations Specific Claims—Indigenous and Northern Affairs Canada](#), Ottawa, Fall 2016.

findings into account and was discussing possible reforms with the Assembly of First Nations. Discussions are ongoing and are expected to conclude later this year.

### **5.5 Construction and renovation on reserve**

Senators noted problems regarding the construction and renovation of schools on reserve. Witnesses responded that since Budget 2016, federal funding in this area has been contingent on compliance with the *National Building Code*. Departmental officials did not have any performance indicators for this initiative but said they have not been notified of any lack of compliance.

### **5.6 Water quality on reserve**

The department funds the construction and management of water supply systems and other drinking water facilities on reserve, and it trains the operators. Witnesses were unable to say whether the additional \$1.8 billion in funding would make it possible to meet the Prime Minister's commitment to end boil water advisories on reserve by 2021. However, they explained that the department was focusing on communities where boil water advisories have been in effect for more than a year.

## **6 DEPARTMENT OF TRANSPORT**

The Department of Transport is responsible for the Government of Canada's transportation policies and programs. The department develops legislative and regulatory frameworks, and conducts transportation oversight through legislative, regulatory, surveillance and enforcement activities. While not directly responsible for all aspects or modes of transportation, the department plays a leadership role to ensure that all parts of the transportation system across Canada work together effectively.<sup>21</sup>

### **Committee observations**

Our committee encourages the department to establish its budgetary spending based on its priorities, in order to get concrete results in the transportation sector.

### **6.1 Estimates overview**

In the *Main Estimates 2017–18*, the Department of Transport is requesting voted authorities of \$1.1 billion, representing an increase of \$72 million over the amount requested in the *Main Estimates 2016–17*.

### **6.2 Canada Infrastructure Bank and trade priorities**

Senators asked the witnesses about the \$5 billion earmarked for the Canada Infrastructure Bank to address trade and transportation priorities. They were concerned that the department had forecasted \$5 billion in spending even before the Infrastructure Bank has been established and its priority projects identified. The witnesses explained that the department will fund projects based on their quality, as it

<sup>21</sup> Treasury Board of Canada Secretariat, [Main Estimates 2017–18](#), p. II-136.



does with the Asia-Pacific Gateway and Corridor Initiative Transportation Infrastructure Fund, and the Gateways and Border Crossings Fund.

### 6.3 Capital budget

The officials were asked why the department did not allocate more funds to maintain its infrastructure in good condition. They explained that the department's base capital budget is approximately \$60 million annually, and amounts may be added to it through a range of infrastructure programs. As the officials told our committee, "Requests and internal requirements far outweigh [the department's] immediate funding, so the investments are staggered."<sup>22</sup> The department sets its priorities and makes the most of available funding. It is also possible to change a project's timeline and defer expenditures to the next fiscal year.

## 7 DEPARTMENT OF CANADIAN HERITAGE

The Department of Canadian Heritage participates in the cultural, civic and economic life of Canadians. It supports culture, arts, heritage, official languages, community participation and initiatives tied to the Indigenous languages and cultures, youth and sport.<sup>23</sup>

### Committee observations

Our committee encourages the department to develop transparent and efficient performance measures as part of its grants and contributions programs.

### 7.1 Estimates overview

In the *Main Estimates 2017–18*, the Department of Canadian Heritage is requesting voted authorities of \$1.4 billion, representing an increase of \$150 million compared with the amount requested in the *Main Estimates 2016–17*.

Departmental officials informed our committee that this increase is due primarily to the following items:

- an increase of \$82.8 million for Social Infrastructure – Canada Cultural Spaces Fund;
- an increase of \$17.6 million to preserve Indigenous languages in the Northwest Territories, Yukon and Nunavut;
- an increase of \$10.5 million for the Grants and Contributions Modernization Initiative;
- an increase of \$8.6 million to transfer funds and responsibilities for the Multiculturalism Program.

<sup>22</sup> Senate, Standing Committee on National Finance, [Evidence](#), 1<sup>st</sup> Session, 42<sup>nd</sup> Parliament, 5 April 2017.

<sup>23</sup> Treasury Board of Canada Secretariat, [Main Estimates 2017–18](#), p. II-82.

## 7.2 Canada Cultural Spaces Fund

The main estimates forecast an increase of \$82.8 million for the Canada Cultural Spaces Fund. Officials stated that the amount would serve to renovate and upgrade cultural facilities such as museums and performance spaces. Budget 2016 allocated close to \$168.2 million over two years to this fund.

As of 28 February 2017, approximately \$136.8 million had already been approved to support 62 projects in 100 Canadian communities. In Budget 2017, the government stated that it would invest a further \$300 million over 10 years. In addition, nearly \$1.3 billion of Infrastructure Canada's budget will be allocated to cultural and recreational spaces over 10 years. Under the Infrastructure Canada program, projects are submitted by the provinces and territories. At this time, it is not possible to foresee what the provinces and territories will propose.

## 7.3 Grants and contributions

The department's various grants and contributions programs total \$1.2 billion out of an overall budget of \$1.4 billion, representing close to 84% of total budgetary spending for 2017–2018. According to the *Main Estimates 2017–18*, the department's primary grants and contributions are as follows:

Contributions:

- \$201.8 million for the Development of Official-Language Communities Program;
- \$146.6 million for the Sport Support Program; and
- \$134.1 million for the Canada Media Fund.

Grants:

- \$72.8 million for the Canada Periodical Fund;
- \$44.5 million for the Celebration and Commemoration Program; and
- \$33.3 million for the Development of Official-Language Communities Program.

In August 2016, the Departmental Audit Committee expressed “strong concerns that some of the performance measures were of questionable value and/or lacked sufficient ambition.”<sup>24</sup> The Senate committee wanted more information about the performance indicators that the department uses to assess the results of grants and contributions spending.

Departmental officials explained that each program has its own performance indicators. In addition, in order to spend funds under a specific program, the department must submit a request to the Treasury Board of Canada Secretariat and identify the expected results as well as the related performance indicators. The department constantly seeks to improve its performance indicators, although it is sometimes difficult to obtain useful data.

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<sup>24</sup> Department of Canadian Heritage, [2015–2016 Departmental Audit Committee Annual Report](#).

## **APPENDIX 1 – ORDER OF REFERENCE**

Extract from the *Journals of the Senate* of Wednesday, 1 March 2017:

The Honourable Senator Bellemare moved, seconded by the Honourable Senator Petitclerc:

That the Standing Senate Committee on National Finance be authorized to examine and report upon the expenditures set out in the Main Estimates for the fiscal year ending March 31, 2018, with the exception of Library of Parliament Vote 1; 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.

The question being put on the motion, it was adopted.

*Clerk of the Senate*

Charles Robert

## **APPENDIX 2 – WITNESSES WHO APPEARED BEFORE THE COMMITTEE**

### **Canada Mortgage and Housing Corporation**

Charles MacArthur, Senior Vice President, Regional Operations and Assisted Housing  
Wojo Zielonka, Chief Financial Officer and Senior Vice President, Capital Markets  
(04-04-2017)

### **Canada Mortgage and Housing Corporation**

Wojo Zielonka, Chief Financial Officer and Senior Vice President, Capital Markets  
Romy Bowers, Chief Risk Officer  
(30-05-2017)

### **Department of Canadian Heritage**

Andrew Francis, Chief Financial Officer  
Guylaine F. Roy, Assistant Deputy Minister, Cultural Affairs  
(04-04-2017)

### **Department of Finance**

Phil King, Director, Economic Analysis and Forecasting, Economic and Fiscal Policy Branch  
Cynthia Leach, Chief, Housing Finance, Financial Sector Policy Branch  
Elisha Ram, Director, Financial Markets Division, Financial Sector Policy Branch  
(17-05-2017)

### **Department of Health**

Randy Larkin, Assistant Deputy Minister and Chief Financial Officer, Chief Financial Officer Branch  
Sony Perron, Senior Assistant Deputy Minister, First Nations and Inuit Health Branch  
(04-04-2017)

### **Department of Transport**

Laureen Kinney, Assistant Deputy Minister, Safety and Security  
André Lapointe, Assistant Deputy Minister and Chief Financial Officer, Corporate Services  
(05-04-2017)

### **Indigenous and Northern Affairs Canada**

Paul Thoppil, Chief Finances, Results and Delivery Officer, Finances, Results and Delivery Sector  
Stephen Van Dine, Assistant Deputy Minister, Northern Affairs Sector  
(05-04-2017)

### **Innovation, Science and Economic Development Canada**

Mitch Davies, Assistant Deputy Minister, Strategic Policy Sector  
Colette Downie, Assistant Deputy Minister, Chief Financial Officer, Corporate Management Sector  
(05-04-2017)

### **International Monetary Fund**

Cheng Hoon Lim, Assistant Director for the Western Hemisphere Department  
(30-05-2017)

**Moody's Investors Service**

David Beattie, Senior Vice President, Financial Institutions Group  
(30-05-2017)

**Office of the Superintendent of Financial Institutions**

Carolyn Rogers, Assistant Superintendent, Regulation Sector  
Michele Bridges, Managing Director, Finance and Corporate Planning  
Judy Cameron, Senior Director, Legislation, Approvals and Strategic Policy  
(17-05-2017)