

## **BUDGETING IN CANADA<sup>1</sup>**

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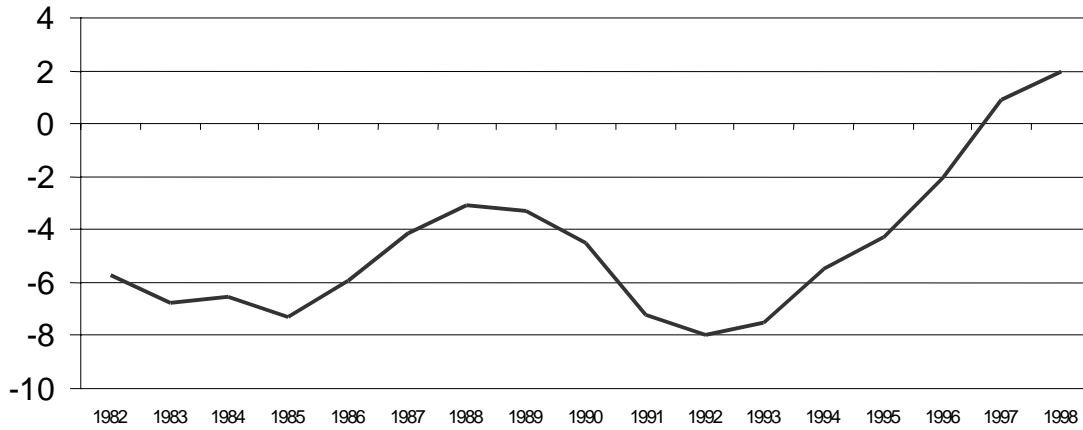
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<sup>1</sup> This paper is based on the OECD review of the Canadian budgeting process in 1999.

## BUDGET FORMULATION PROCESS

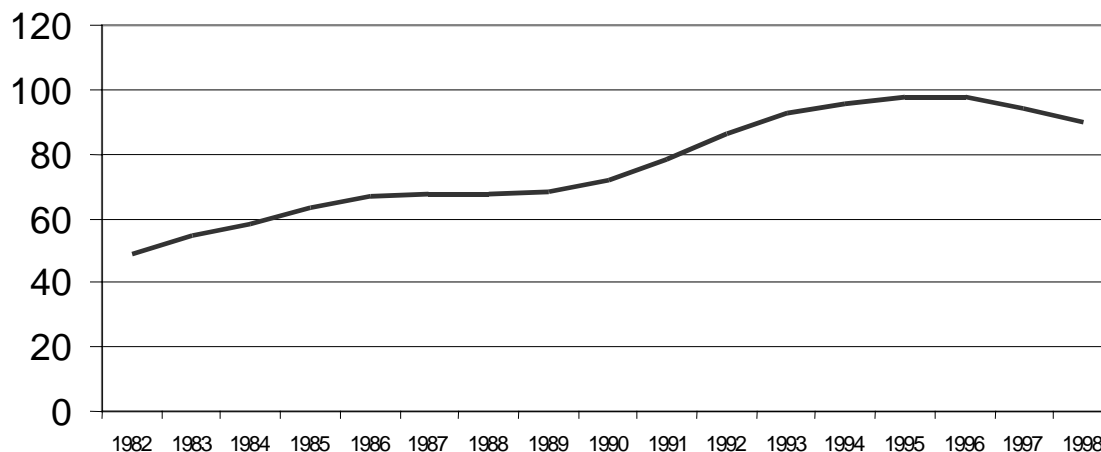
Canada's level of indebtedness, as a percentage of GDP, increased from a level lower than the average for OECD Member countries in the early 1980s to a high of 97.6 per cent in 1995. This was a level of debt exceeded only by Italy among G-7 nations and Belgium and Greece among the wider OECD community. Fiscal management reached a breaking point in 1994. It was recognised that the fiscal situation had reached crisis proportions and strong corrective measures were needed. Today, Canada is enjoying a budget surplus and is repaying debt. This chapter surveys these developments.

**Figure 1. General Government Financial Balance 1982-1998  
as % of GDP**



Source: OECD Economic Outlook

**Figure 2. General Government Gross Debt 1982-1998  
as % of GDP**



Source: OECD Economic Outlook

### *Overview*

The underlying cause of the sharp deterioration of the fiscal position during the 1980s and early 1990s has been attributed primarily to a belief that the fiscal problem was largely cyclical in nature, resulting in there being insufficient public and political will to confront the fiscal problems. The deficits in each year were blamed on various temporary events in the economy which would correct themselves, there was no urgent need to take specific actions.

In 1984, a new government had come to power and it made specific cuts in various programs in its first budget. It attempted to do the same in the following year's budget but was met with strong public opposition and its political will for expenditure control dissipated somewhat as a result. The fall in commodity prices in 1986 and the stock market crash in 1987 and their perceived negative impact on the economy further delayed restrictive fiscal policy actions. A number of structural reforms were being made to the economy at the same time, including tax reform, privatisation and the launching of the Canada-USA Free Trade Agreement. This served to crowd out the efforts needed for fiscal consolidation and further de-emphasised it.

However, by the late 1980s, it became evident that actions were required to address the deterioration in the fiscal situation. A number of measures were taken in the 1989 budget. This was followed in the 1990 budget with the Expenditure Control Plan – a two-year plan which affected about 60 percent of program spending. The Expenditure Control Plan was the first comprehensive review of program spending since 1984. The Expenditure Control Plan was extended in the 1991 Budget to fiscal years 1995-96. A comparison between the Expenditure Control Plan and the actual outcome in each year is shown in the following table:

## Federal Government Deficit: Projections and Outcomes

Public accounts basis; Canadian dollars

Fiscal Year	Expenditure Control Plan	Actual Outcome
1991-92	30.5 billion	34.4 billion
1992-93	24.0 billion	41.0 billion
1993-94	16.6 billion	42.0 billion
1994-95	10.0 billion	37.5 billion
1995-96	6.5 billion	28.6 billion

Source: Department of Finance

### *The PEMS experience*

In 1980, Canada introduced a budget formulation process known as the *Policy and Expenditure Management System* which was in use until 1994. The system evolved over this time period but its essentials were as follows. The budget formulation process was based on a series of spending envelopes that included all spending in a particular policy area with overall expenditure ceilings for each envelope to be established. Originally, there were ten such spending envelopes. For example, a single envelope encompassed all spending in the economic development field, including agriculture, fisheries, industry, tourism, commerce, regional development and transportation. As the spending envelopes generally included the expenditures of several ministers, they were administered by a series of cabinet committee composed of all ministers whose spending was included in a given spending envelope. The objective was to foster resource reallocation by having all government programs in a given field judged side by side; funding for one program could be reduced to finance an increase in another program.

This, however, did not materialise. As the Treasury Board Secretariat noted in a 1995 publication<sup>i</sup>, “In reality, however, PEMS did not achieve the intended results. Policy committees never came to grips with the difficulties of trade-off and reallocations.” Ministers simply did not “volunteer” any savings initiatives because those savings would enter the envelope “pool”, i.e. they could be used for any program within the spending envelope, not necessarily a spending program for the minister who originated the savings proposal. Another minister, whose program was thought to be more deserving, might benefit from a savings initiative offered by another minister. This in fact is how the system was to operate in theory. In practice, however, the system worked in such a manner that ministers did not offer any savings initiatives whatsoever. There was no reallocation; not even by a minister to fund another program under his control because the savings in one program could be “hijacked” by another minister through the cabinet committee system. The shared approach to fiscal management simply did not work; there were no obvious incentives on individual ministers to act in a fiscally responsible fashion. This was further complicated by the fact that the Cabinet in the late 1980s had grown in size to around 40 ministers, each with his own portfolio. As the Treasury Board Secretariat noted, “The incentive for individual ministers to offer up reductions was weak since the end results would be the reallocation of these resources often to another Minister...PEMS was based on a shared approach to fiscal management. It did not succeed because the partnership that was envisaged was never achieved.”<sup>ii</sup> The system of policy envelopes was eventually abandoned.

The policy envelopes were augmented by numerous central policy reserves. They however served to reinforce the reluctance to reallocate resources for unforeseen new initiatives. It was considered responsible budgeting to incorporate reserves for new policy initiatives as needed during the year. In practice, the focus of all ministers became to obtain funds from the policy reserves rather than to reallocate resources to fund new initiatives. Therefore, the system served to foster incremental increases in programs (often small individually) that in the end added up to significant additional spending. It should be noted that the size of the reserves was reduced over time, but the underlying behaviour remained the same.

At the same time, the Minister of Finance and the President of the Treasury Board Secretariat (see box) would be formulating centrally driven expenditure reductions in specific programs. This was further proof that the shared approach to expenditure management as envisaged by the PEMS did not work. These endeavours were generally met with great hostility from other Cabinet members. Although some targeted cuts were implemented, the Cabinet in the end had to rely largely on wage and entitlement benefit freezes and across-the-board cuts in order to meet its expenditure objectives. This was the most politically acceptable route in the first instance, but there were severe limits to it. Across-the-board cuts could be justified in terms of efficiency (productivity) gains for general operating costs, but could hardly be applied to all government expenditures. Across-the-board cuts also served to undermine any sense of priority setting in government.

In the end, there simply was no real fiscal policy anchor which was appropriate to the underlying fiscal situation. Under these circumstances, it was extremely difficult to maintain the discipline necessary to achieve fiscal consolidation. This was further exacerbated by the fact that in the early 1990s, the budget was based on inaccurate economic forecasts, primarily reflecting a severe economic downturn – the worst since the Great Depression. The economic assumptions were consistently more “optimistic” than the actual economic situation justified. This led to the actual fiscal outcome being significantly worse than originally forecast.

This is the background to the deterioration of the fiscal position during the 1980s and early 1990s and the lead-in to the reforms to the budget formulation process instituted by a new government in 1994 and 1995.

### **The Department of Finance and the Treasury Board Secretariat**

The central budget office function in Canada is divided between the Department of Finance and the Treasury Board Secretariat. The Department of Finance is responsible for general economic affairs and for the fiscal policy framework. In addition, it is directly responsible for the administration of several transfer programs. The Minister of Finance presents the budget to parliament. The Treasury Board Secretariat is responsible primarily for the operating costs and capital components of the budget and for general management in government. This accounts for roughly 30 per cent of total government outlays in Canada. The President of the Treasury Board presents *the Estimates* to parliament. The Department of Finance has a staff of 580 while the Treasury Board Secretariat has a staff of 800.

### ***Reforms to the Budget Formulation Process***

In 1994 and 1995, significant reforms were made to the budget formulation process and formalised with the introduction of a new *Expenditure Management System*. These reforms can be divided into two groups. First, reforms to create a hard budget constraint. Secondly, reforms to meet the new hard budget constraint. Each of these is discussed in turn below.

### *Establishing a Hard Budget Constraint*

The key reform was to establish and maintain a hard budget constraint. This took the form of a new government (elected in October 1993) committing to lowering the deficit to 3 per cent of GDP by fiscal year 1996-1997. At first, this had not been considered an especially challenging fiscal objective by outside observers.

That assessment would change. The economic crisis in Mexico soon engulfed the economy. The Canadian dollar weakened substantially; there were significant increases in interest rates; credit-rating agencies downgraded the sovereign debt of the Canadian government. The mood of the public also changed profoundly, the culmination of a change in public attitudes which had been developing over the past 1-2 years. It now viewed deficit reduction as an urgent task as evidenced by a number of public opinion polls. In response, the government reaffirmed its commitment to fiscal consolidation and to reducing the deficit to 3 per cent of GDP by fiscal year 1996-1997, a fiscal objective that had now become more challenging due to the unfavourable economic environment. The government went to great lengths to publicise its actions and to generate further public understanding of the actions required to meet this constraint. For example, it instituted a formal pre-budget consultation process that is discussed further in the chapter on the Role of Parliament.

There was much greater political commitment to this target than previous governments had exhibited. The government introduced successive rolling 2-year fiscal objectives. The reason for this relatively short time horizon was that the government wanted to be absolutely confident that it could deliver what it had promised and be held accountable for meeting its promises. In political terms, the government had -- by design -- created heavy potential costs for itself if it did not succeed. In economic terms, Canada's credibility in the financial markets was already very low due to the high annual deficits and the rapid build-up of debt. A failure to deliver by this government could have had serious consequences.

The government also established two institutional features to its budget formulation process to promote its effectiveness: it started using systematically-biased "prudent" economic assumptions and incorporating a contingency reserve. The previous perception of "optimistic" economic assumptions being used in the budget had significantly downgraded the believability of government-generated economic forecasts. Rather than relying on internally generated economic forecasts to be used in the budget, the government started employing the average of forecasts made by private sector economic forecasters and then adjusting them downwards. This was done in order to achieve credibility -- both in the eyes of the public and in the eyes of financial markets.

The Department of Finance systematically revises the private sector forecasts downwards as a further measure of prudence. This takes the form of the government adding 50-100 basis points (0.5-1.0 percentage points) to the average private sector economic forecasts for interest rates and then feeding this through its entire econometric model, thus producing lower forecast economic activity. This provides a buffer in order to maintain the government's fiscal objectives. As a further buffer, the government established a significant contingency reserve fund -- 2.5 billion-3.0 billion Canadian dollars each year. This fund can only be used to compensate for forecasting errors and unpredictable events. It cannot be used for any new policy initiatives. Recourse has never had to be made to the contingency reserve funds and they have been applied to deficit reduction (surplus) in their entirety in each year.

### **Prudent Economic Assumptions**

Canada instituted the following measures of prudence to foster the credibility of the economic assumptions applied in the budget and to act as a buffer against any forecasting errors and unpredictable events:

- Using average private sector economic forecasts
- Systematically revising downwards the average private sector economic forecasts by adding 50-100 basis points to the interest rate forecasts and feeding this through the entire economic forecast model.
- Contingency reserve equal to 2.5–3.0 billion Canadian dollars each year. Can only be used to compensate for forecasting errors and unpredictable events. If not used, goes towards deficit reduction (surplus) in its entirety.

### *Meeting the Hard Budget Constraint*

In meeting the hard budget constraint, the government recognised that across-the-board cuts would no longer suffice. It also completely abolished the central policy reserves in recognition of the fact that there were no new funds available. This was also designed to change the mindset: targeted cuts in specific programs had to be employed. This was achieved by a process known as Program Review. Program Review was a comprehensive assessment of the proper role of the government in the economy and as such included reviews of the various programs that the government was involved with. Program Review was announced in the new government's first budget in February 1994. In launching Program Review, the Minister of Finance described it as "a review of all aspects of departmental spending to ensure that lower priority programs are reduced or eliminated and that the government's diminished resources are directed to the highest priority requirements and to those areas where the federal government is best placed to deliver services."

Canadian authorities cite three key reasons for the success of Program Review. One was the crisis atmosphere. In explaining the success of Program Review, the minister responsible for the exercise stated that "very few things are ever put into place unless we have no choice...So when you have no choice it's a bit like the threat of death. It makes you think better." Secondly, there was a general realisation that across-the-board cuts were hurting the good as well as the bad programs and that they simply were not viable for achieving the necessary cuts. Third, the process by which Program Review was carried out played a large role in its success.

### **Program Review Timeline**

<b>February 1994</b>	The launch of program review is announced in the budget.
<b>Spring 1994</b>	Creation of program review secretariat at the Privy Council Office (Cabinet Office) The six criteria for program review are enunciated Department and agencies to self-review their programs Specific targets given to departments and agencies
<b>Summer 1994</b>	Execution
<b>Autumn 1994</b>	Department of Finance and Treasury Board Secretariat review proposals Committee of senior officials review proposals Committee of senior ministers review proposals
<b>February 1995</b>	Cabinet approves measures Measures presented to Parliament in the budget

The Program Review exercise was located in the Privy Council Office (Cabinet Office) and was headed by a special Minister Responsible for Public Service Renewal. A special cabinet Committee on Program Review was created. Its membership was composed of a cross-section of the Cabinet and included the most senior ministers in the government.

In the first instance, six criteria for carrying out program review were enunciated and departments and agencies given the mandate to self-review their programs according to the six criteria. This process did not yield significant savings.

As a result, each department and agency was given a target for expenditure reductions, ranging from 5 - 60 per cent to be implemented over the coming three years starting with the fiscal year 1995-96. The targets were proposed by the Department of Finance and the Treasury Board Secretariat and approved by ministers. The targets were based primarily on "intelligence" on each program gathered by those central agencies over the years. The Department of Finance and the Treasury Board Secretariat had participated in a number of expenditure reduction exercises over the years, which had identified specific cuts in programs. These cuts had often not been implemented but the central agencies made a very conscious decision to maintain and update this inventory of expenditure reduction options.

A number of factors led to the acceptance of these cuts. First, as noted earlier, there was a fiscal crisis atmosphere in Canada during this time. Second, the Minister of Finance had the strong backing of the Prime Minister in carrying out the reductions. Third, this was a new government and the respective line ministers had not become "entrenched" in their portfolios. Each minister was given responsibility for developing program changes to meet the assigned targets. The proposals were examined and commented upon by a committee of senior officials (deputy ministers) and then by the committee of senior ministers. Ministers frequently had to revise their proposals as the two committees judged their proposals to be unrealistic or infeasible. Departments and agencies then had to submit formal business (adjustment) plans that showed in detail how they would alter their activities in order to achieve the reductions. The results were given a final vetting by full cabinet in mid-January 1995 and then incorporated into the February budget. This exercise was repeated on a much more limited basis the next year and thus added a fourth year to the original Program Review timeframe. The second round of Program Review differed somewhat from the first round as many of the cuts were made in order to fund new high priority spending initiatives rather than being dedicated entirely towards deficit reduction.

### **The Six Criteria for Program Review**

- Does the program serve a public interest?
- Is this an appropriate role for the government?
- Could this be better done by another level of government – provincial? – municipal?
- Could this be left to the private sector or volunteer sector?
- Could the program be delivered more efficiently?
- Is it affordable?

Separate from Program Review, major reforms were made in the system of transfers to the provinces with the aim of making them more cost effective and flexible. In addition to delivering spending cuts through reduced funding to provinces, these changes have led to improved control of federal spending in this area. The new Canada Health and Social Transfer (CHST), made in the form of a block grant to provinces, replaced transfers under the Canada Assistance Plan (CAP), with funding of provincial social welfare programs based on a shared-cost basis and the Established Programs Financing (EPF) system, which provided block grants to finance provincial post-secondary education and health. The switch away from cost-sharing towards the provision of block grants was designed to increase the incentive for provinces to limit additional social expenditure since individual provinces would bear the full incremental cost of any expansion in their social welfare programs, rather than being able to share those costs with the Federal government. In addition, reforms were made to the unemployment insurance system to reduce the generosity of the program and return it to more of an insurance program.

The results of Program Review and the changes in the major transfer programs were essentially to lock in the key variables of government expenditure for the next four years. The hard decisions taken in 1994 and 1995 involved expenditure targets for each program until 1998-99. Implementing those hard decisions of course involved significant effort in each of the out-years. The actions associated with Program Review and the reforms to the transfer programs can be viewed as a one-off corrective measure. The challenge for Canada is to ensure that a hard budget constraint is maintained in the current environment of relative fiscal abundance and that the reallocative mechanisms are in full use. The danger is that such measures will be abandoned now that the economic and fiscal environment is friendlier.

### ***Current Practice***

It is useful to outline the main points in the annual budget process as it is now practised.

<b>Budget Formulation Timetable</b>	
<b>Late June</b>	Cabinet Retreat I
<b>Late September</b>	Cabinet Retreat II
<b>Fall</b>	Two cabinet committees review new policy initiatives
<b>Late January</b>	Cabinet reviews budget strategy
<b>Early February</b>	Prime Minister and Finance Minister make final decisions on Budget
<b>February</b>	Budget (Estimates) presented to Parliament
<b>1 April</b>	Start of fiscal year
<b>Late June</b>	Approval of Budget (Estimates) by Parliament

The annual budget cycle starts with a Cabinet retreat immediately following the recess of Parliament in the summer. A second Cabinet retreat takes place immediately prior to the opening of Parliament in September. At these retreats, the Minister of Finance will provide information on the economic and fiscal outlook and the likely fiscal policy stance required in the coming year. No decisions are taken at these meetings but they do serve as the initial phase of the budget process. The first retreat can be described as a theme setter, a way to condition the expectations of ministers. The second retreat begins to formulate the key elements of the upcoming budget. In contrast to other Cabinet meetings, there are no official minutes kept of the discussions at these Cabinet retreats.

During this time, the Department of Finance works to get more aspects of the fiscal framework in place - for example, updating economic assumptions and how they will impact on existing policies. The Treasury Board Secretariat updates the operating costs and capital components of the fiscal framework in a process known as Annual Reference Level Updates (ARLU).

Departments are also busy with new policy initiatives. The new initiatives are framed to be in line with the government's general themes that were discussed at the Cabinet retreat (which in turn would flow from *the Speech from the Throne* – see box). New policy initiatives are presented directly by ministers to one of two cabinet committees: the economic union committee or the social union committee depending on the nature of their initiatives. The committees meet every week during the fall to discuss the merits of the policy proposals presented to them by ministers and in the end rank them for possible funding. The two committees may have joint meetings to discuss such proposals.

The Treasury Board Secretariat has also recently instituted a separate *Program Integrity* process. This is designed to correct any critical shortfalls in funding of *current* programs. This is in recognition of the fact that the processes intended to prioritise new policy initiatives run the risk of overlooking “risks” to current programs.

Very late in the year, the Finance Minister and the Prime Minister will decide how much money to allocate for the policy initiatives taking into account *inter alia* the rankings established by the committees and the results of the Program Integrity process. The Prime Minister and the Finance Minister take the final

decisions on resource allocation after consultation with ministers. Although the broad outlines of the budget will be known to all cabinet members, the exact details of the budget are only known to the Prime Minister and the Finance Minister when it is presented to Parliament.

### **Speech from the Throne**

The Speech from the Throne is the prime vehicle for articulating the government's longer-term policy priorities. The Speech is read in Parliament by the Governor-General. It is considered to be the most important statement of the government's political intentions and is a major tool in seeking coherent policy actions. Many of the themes from the Speech from the Throne are represented in the budget as the cabinet uses the contents of the Speech from the Throne in guiding its prioritisation choices. The most recent Speech from the Throne of 23 September 1997 outlined key priorities as follows:

Building a stronger Canada;  
Investing in children;  
Investing in quality care and good health;  
Building safer communities;  
Creating opportunities for young Canadians;  
Investing in knowledge and creativity;  
Expanding opportunities in Aboriginal communities;  
Looking outward; and  
Celebrating the millennium.

### **Conclusion**

The budget situation in Canada has been turned around in recent years. The years of advancing budget deficits and debt accumulation have given way to budget surpluses and debt reduction. The Program Review exercise and the reforms to major transfer programs were a very important part of an effective response to the fiscal crisis. The record since 1993-94 has done much to restore credibility to the federal government's budget making. A new budget process has sought to institutionalise these new practices.

But the climate of relative fiscal abundance places different pressures on the institutions of budgeting. The past two budgets have seen quite substantial increases in program spending. The Government was re-elected on the platform of dividing the "fiscal dividend" equally between new spending on the one hand and debt reduction and tax reduction on the other hand. The government's aggregate fiscal policy objectives are characterised as running "a balanced budget, or better." With the prudence measures in place in the budget, this should result in significant budget surpluses.

The federal government's debt level remains significantly higher than the OECD average. Even today -- after several years of fiscal consolidation and at historically low levels of interest rates -- public debt charges absorb 27 per cent of revenue. The need to maintain fiscal discipline in order to bring the debt levels down to levels more commensurate with other OECD Member countries is a top priority for the Canadian government.

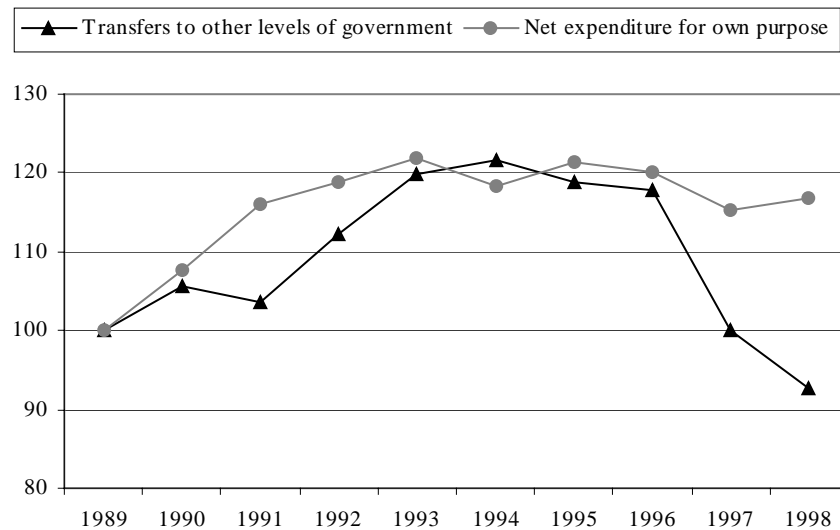
## Sources of changes in the federal budgetary balance

		1993-94 to 1998-99
		(billions of dollars)
Factors increasing the balance		
Reduction in program spending		15.4
Higher revenues due to economic growth		37.8
One-time revenue adjustments		2.7
Net impact of revenue actions		0.0
Subtotal		55.9
Factors reducing the balance		
Spending actions in 1998 and 1999 budgets		7.5
Increase in public debt charges		3.4
Inclusion of Contingency Reserve in 1998-99		3.0
Subtotal		13.9
Net improvement in federal budgetary balance		42.0

Source: The Budget Plan 1999

## Changes in Federal Government transfers to other level of Government

Base 100 – 1989



Source : Public Accounts of Canada, 1998, Vol 1

## THE ROLE OF PARLIAMENT

### A Note on Terminology

A specialised terminology is used in the parliamentary budget process. The *Budget* is the document tabled in the House of Commons by the Minister of Finance giving the government's overall fiscal plan for revenues and expenditures, including new initiatives. The *Main Estimates* are the detailed plans for government expenditures, by department and agency, tabled several days after the Budget by the President of the Treasury Board. Together, these and other related documents are referred to as "*money bills*." In this chapter, the term *budget process* is used to refer to the development and authorisation of both the budget and the Estimates.

### Introduction

Constitutional provisions, political traditions and institutional features all place limits on parliament's ability to modify the government's "money bills".

The Canadian Constitution grants the government the exclusive power to initiate expenditure proposals. Parliament can only approve the government's proposals, either in full or at a reduced level of funding, or reject them altogether. Parliament itself is prohibited from proposing new expenditure programs, or increasing the level of funding requested. This constitutional provision is common to all Westminster countries and derives from 18<sup>th</sup> century budgeting practices in Great Britain where the monarch "billed" Parliament for his expenses; the Parliament did not "volunteer" funds to the monarch.

The role of Parliament is further limited by the Confidence Convention: a vote on any "money bill" is considered a vote of confidence in the government. This is not enshrined in any legislation but is rather a political tradition enforced through party discipline. The Confidence Convention is interpreted very strictly in Canada to mean that *any* vote on a "money bill" is a vote of confidence in the government. Absolutely no changes to the government's proposals are permitted. For example, the Clark government resigned in 1979 due to Parliament's refusal to adopt its budget proposals. More frequently, the government would ensure that its proposals enjoy the support of parliament before introducing them, or withdrawing specific aspects of them in case parliamentary support is not ensured.

Parliament does not approve the Main Estimates prior to the start of the fiscal year. The fiscal year starts on 1 April but the Main Estimates is not approved until just before Parliament's summer recess in late June. (Special provisions govern the funding of government during this interim period as is discussed later in this chapter.) A quarter of the fiscal year has thus elapsed when Parliament formally approves the Main Estimates as proposed by the government.

Another factor limiting Parliament's role in the budget process is the fact that over 70 per cent of government expenditure does not require annual funding through the budget process but is rather

“statutory” in nature. Such expenditures can be divided into three categories. First, interest payments and other public debt charges. Second, funding for transfer (grant) programmes to provincial governments. The programs for the provinces, however, come up for renewal every five years. Third, various entitlement programmes whose original enabling legislation granted permanent spending authority for them. There is no need for Parliament to approve appropriations on an annual basis for these programs, or even to discuss them at all.

These factors have conditioned Members of Parliament to devote little effort to a discussion of the Main Estimates. A recent report by the House of Commons Committee on Procedure and House Affairs included the results of a survey among serving Members of Parliament. Members were quoted as using expressions such as “a profound degree of dissatisfaction”, “a total waste of time,” a “ cursory review” and “futile attempts to bring about change” to describe the current system.<sup>iii</sup> There has also been a very substantial turnover of Members of Parliament at recent elections which has severely diminished institutional knowledge of the complex parliamentary budget process.

A number of reforms have been instituted in recent years to the role of Parliament in the budget process. These are discussed as part of the general outline of the parliamentary budget process in the following section.

### **The Parliament of Canada**

The Canadian Parliament is composed of two chambers: the House of Commons and the Senate. The House of Commons has 301 members elected in single-member constituencies for 5 year terms. The Senate is not elected. It is ordinarily composed of 104 members who are appointed by the Prime Minister for life-long terms, with mandatory retirement at age 75. Constitutionally, the House of Commons enjoys pre-eminence in budgetary matters. There are 5 political parties currently represented in the House of Commons (and 2 independent members). The next general elections can be held no later than 2001.

### **The Parliamentary Budget Process**

The parliamentary budget process can be divided into two very distinct periods: the Pre-Budget Consultation Process and the Approval Process.

#### ***The Pre-Budget Consultation Process***

In the fall of 1994, a formal Pre-Budget Consultation Process was introduced involving parliament. Previously, the Minister of Finance had conducted consultations with a number of interested parties in a series of one-on-one discussions. This formalised process was part of the government’s endeavours to reduce the tradition of secrecy associated with the budget formulation process which had become the subject of persistent and increasing criticism. The stated purpose of the Pre-Budget Consultations was “to provide Canadians with a formal mechanisms by which they could make suggestions as to the contents of the next budget.” The Pre-Budget Consultations would, however, appear to have been launched primarily to educate the public about the dire fiscal situation and create an environment more conducive to accepting the difficult budget decisions that lay ahead. By using Parliament as the vehicle for this, it also served the purpose of involving the Opposition in this discussion.

### **The Pre-Budget Consultation Process**

<b>Late September</b>	House of Commons Standing Committee on Finance begins public hearings on budget policy.
<b>Mid-October</b>	Minister of Finance announces government's broad budget policy themes to the Committee and releases the government's Economic and Fiscal Update report.
<b>Late November</b>	Committee completes public hearings on budget policy.
<b>Early December</b>	Committee presents its report on pre-budget consultations.
<b>Mid-December</b>	House of Commons debates budget policy. No vote is taken.

In mid-October, the Minister of Finance appears before the Committee. This is a major event and is televised nationally. During his presentation, the Minister outlines the current and prospective economic situation and relates this to the government's broad budget policy objectives. Concurrently, the Department of Finance releases the *Economic and Fiscal Update*, which provides supporting material to the Minister's presentation. During his presentation, the Minister of Finance outlines a number of specific questions that he wishes the Committee to report back on following their consultations.

After the Minister's presentation, the Committee continues its public hearings. In 1998, the Committee held a total of 20 public hearings in 10 different locations throughout Canada. These hearings have in the past included "town hall" meetings where ordinary citizens participate, as well as meetings where organised interest groups participate. The Committee concludes this process by presenting a report in early December. This report serves to prepare the ground for the government's budget proposal. There are generally several minority opinions released in addition to the Committee's (majority) report. In recent years, the Opposition has decided to use one of its "allotted days" (see below) to debate general budget policy on the basis of the report and the minority opinions. There is, however, no vote taken.

It must be emphasised that Parliament has no decision-making role in this process. The Pre-Budget Consultations started during the fiscal crisis of the mid-1990s as a vehicle for promoting the government's budget policy. Although the nature of the fiscal issues faced by Canada has changed over time, there is no indication that this process will be abandoned. The Pre-Budget Consultations have been an important element in opening up the budget process and creating an atmosphere where the public feels it can have an input.

### ***The Budget Approval Process***

The government presents a hierarchy of documents to Parliament at the launch of the budget approval process:

- The Budget;
- The Main Estimates, including
- The Reports on Plans and Priorities.

The Budget is a comprehensive statement of the government's fiscal framework, consistent with the government's strategic priorities as outlined in the Speech from the Throne. The Budget discusses the overall level of revenues, expenditures, surplus (or deficit) and relates these aggregates to the economic environment. In addition, the Budget contains a detailed technical announcement of proposed changes in tax laws. The Minister of Finance introduces the Budget.

The Main Estimates contain details of the government's expenditures. They are composed of three parts. Part I provides an overview of government spending and provides the link between the Budget and Part II of the Estimates. Part II of the Estimates then itemises each government expenditure for which parliamentary approval is required. Part II also contains, for information purposes only, an estimate of the cost of statutory programs for which spending authority has been granted through existing legislation. The Estimates are legalistic in nature. The President of the Treasury Board introduces the Main Estimates.

The Reports on Plans and Priorities were introduced in 1994. They were a recasting of the traditional Part III of the Estimates.<sup>iv</sup> They are prepared by each individual department (ministry) and agency. The reports were designed to provide detailed information through a focus on results in a more strategic, multi-year perspective on program delivery. They contain information on objectives, initiatives and planned results, including links to related resource requirements over a three-year time horizon. In the current year, more than 80 separate documents were presented to Parliament. They are tabled in Parliament by the President of the Treasury Board on behalf of the minister who presides over the respective department (ministry) or agency. This is further discussed later in this report.

### **Supplementary Estimates**

The Main Estimates provide funding only for programs and activities for which there is existing parliamentary authority, i.e. separate enabling legislation. Parliament will be asked in Supplementary Estimates tabled later in the year for funding for new initiatives once the necessary legislative provisions have been made. The Supplementary Estimates will also contain funding for unforeseen contingencies. Provision is made in the budget for funding for new initiatives and contingencies. In 1998, supplementary estimates bills altogether increased total appropriations by over 5 per cent.

The Estimates must be presented to Parliament no later than 1 March, one month prior to the start of the fiscal year. There is no such legal requirement regarding the timing of the Budget. In fact, there is no legal requirement to introduce the Budget at all. In practice, however, the Budget is presented to Parliament several days prior to the introduction of the Estimates so as to provide an appropriate overall context to the Estimate. The Reports on Plans and Priorities must be presented no later than 31 March, the day before the start of the fiscal year. Previously, Part III had been introduced at the same time as Part I and Part II.

## **The Budget Approval Process**

<b>Late February</b>	Minister of Finance introduces Budget. President of the Treasury Board introduces Estimates. Standing Committees begin their examination of the Estimates.
<b>Late March</b>	President of the Treasury Board introduces Reports on Plans and Priorities for each department (ministry) and agency. Parliament grants Interim Supply to end-June.
<b>1 April</b>	Start of fiscal year.
<b>Late May</b>	Standing Committees to report on the Estimates.
<b>Late June</b>	Approval of the Estimates.

Following the presentations by the Minister of Finance and the President of the Treasury Board, the House of Commons begins its deliberations. This is known as the *Business of Supply*. As Parliament will not finish its deliberations until just prior to its summer break at the end of June, it grants the government *Interim Supply* from the beginning of the fiscal year on 1 April until the end of June. Interim Supply allows the government to spend during this period the funds necessary for its ongoing operations.

The Estimates are then automatically referred to the Standing Committees of the House. Each Standing Committee examines those parts of the Estimates that fall within its mandate. For example, the Standing Committee on Agriculture examines the proposed expenditures of the Department of Agriculture and Agri-Foods. There is, however, no committee that co-ordinates the examination of the Estimates, or examines them on an aggregated level. A number of reforms have been introduced to provide Standing Committees with better information to conduct their examination of the Estimates --- the Reports on Plans and Priorities being the prime example. The Standing Committees can call Ministers, senior officials and other interested parties to appear. The Committees are to report back to the House on the Estimates before 31 May. If they have not reported, they are deemed to have reported. This was designed so that Committees could not delay the parliamentary budget process by not reporting back to the House.

In fact, committees do not report back at all as a general rule. A senior official of one department (ministry) reported that they themselves had called the committee, rather than the other way around, in order to present their Report on Plans and Priorities to the committee. At the conclusion of the presentation, questions from committees member focused on *why* the department had taken the time to present the report, not on any of the information contained in the report. This is not an isolated example.

The rules governing the running of the House are contained in the Standing Orders which require that a certain number of days are reserved for debate of the government's expenditure proposals in full House session. There are 20 such days that are referred to as *allotted days*, 19 of which are reserved for the Opposition. This means that the Opposition is free to choose any topic for debate during those days. Although these days are fully used by the Opposition, they are not used for debate on the Estimate per se. Rather, they are simply an opportunity for the Opposition to debate general policy on any matter of their choice, rather than to specifically debate the Estimates. The fact that these Opposition days are distributed throughout the year rather than all being used prior to the approval of the Estimates reinforces this. In late June, a vote is taken on the Estimates.

The Committee on Procedure and House Affairs in April 1997 recommended that Standing Committees be permitted to report to the House proposing reallocation of up to 5 percent within each of the estimates

referred to them. This Committee also recommended that other conventions be reinterpreted to allow the Government to bring back to the House a modified spending proposal to give effect to the recommendation. The Government could then agree or reject Committee views and provide the House the reasons for so doing. The recommended change has not been accepted by the Government. by the agencies.

## **Conclusion**

As can be seen from this discussion, Parliament is not in a position to alter the government's "money bills" once they have been introduced as this would be equated with a vote of non-confidence in the government as the Confidence Convention is currently interpreted. This does, however, mask the fact that the government consults extensively with Parliament prior to introducing any "money bills" to ensure that they enjoy the support of parliament. Similarly, the government will withdraw certain aspects of its budget framework if majority support for them is not certain. As such Parliament can exert strong influence on the government in this indirect manner. There does not appear to be a desire to make this role of Parliament more explicit by relaxing the interpretation of the conventions governing parliament's role in the budget process and by reforming certain institutional features of the parliamentary budget process.

## Notes

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- i. *The Government of Canada's Expenditure Management System*, December 1995, p. 5.
- ii. *Ibid.*, p. 6.
- iii. Sixty-Fourth Report of the Standing Committee on Procedure and House Affairs, April 1997.
- iv. This was part of the Improved Reporting to Parliament Project which also included the introduction of Performance Reports. This is further discussed in the next chapter under *Accountability for Results*.