Department of Finance Canada

Departmental Performance Report

2008–09

James M. Flaherty
Minister of Finance

Table of Contents

Minister's Message

The Honourable James M. Flaherty

The *2008–09 Departmental Performance Report* highlights the Department of Finance Canada's important work over the past year to address the many challenges posed by the global economic crisis.

In particular, in 2008–09 the Department worked to develop and implement *Canada's Economic Action Plan: Budget 2009* to provide necessary, timely, and comprehensive economic stimulus to weather the global recession and emerge with an even stronger economy. In fact, the International Monetary Fund (IMF) has recently praised our Action Plan as being "appropriately large, timely, well diversified and structured for maximum effectiveness."

Canada's Economic Action Plan is a vast set of initiatives, which are being implemented in record time. These measures provide a needed boost to the economy and employment today and also represent an investment in our future. The Plan does the following:

- reduces taxes permanently;
- helps the unemployed through enhanced Employment Insurance and training programs;
- avoids layoffs by enhancing the Employment Insurance work-sharing program;
- creates jobs through a massive injection of infrastructure spending;
- helps create the economy of tomorrow by improving infrastructure at colleges and universities and supporting research and technology;
- supports industries and communities most affected by the global downturn; and
- improves access to and the affordability of financing for Canadian households and businesses.

Through the Economic Action Plan, the Government of Canada is working to strengthen our economic fundamentals and ensure that this country emerges from the current recession with an even stronger economy to the benefit of all Canadians.

Section I: Departmental Overview

Raison d'être

The Department is committed to making a difference for Canadians by helping the Government of Canada develop and implement strong and sustainable economic, fiscal, tax, social, security, international, and financial-sector policies and programs. It plays an important role in ensuring that government spending is focussed on results and delivers value for taxpayer dollars. The Department interacts extensively with other federal departments and agencies and plays a pivotal role in the analysis and design of public policy across a wide range of issues affecting Canadians.

Responsibilities

The Department of Finance Canada's responsibilities include the following:

- preparing the federal budget;
- developing tax and tariff policy and legislation;
- managing federal borrowing on financial markets;
- administering major transfers of federal funds to the provinces and territories;
- developing regulatory policy for the country's financial sector; and
- representing Canada within international financial institutions and groups.

The Department also plays an important role as a central agency working with other departments to ensure that the government's agenda is carried out and that ministers are supported with first-rate analysis and advice.

Strategic Outcome and Program Activity Architecture

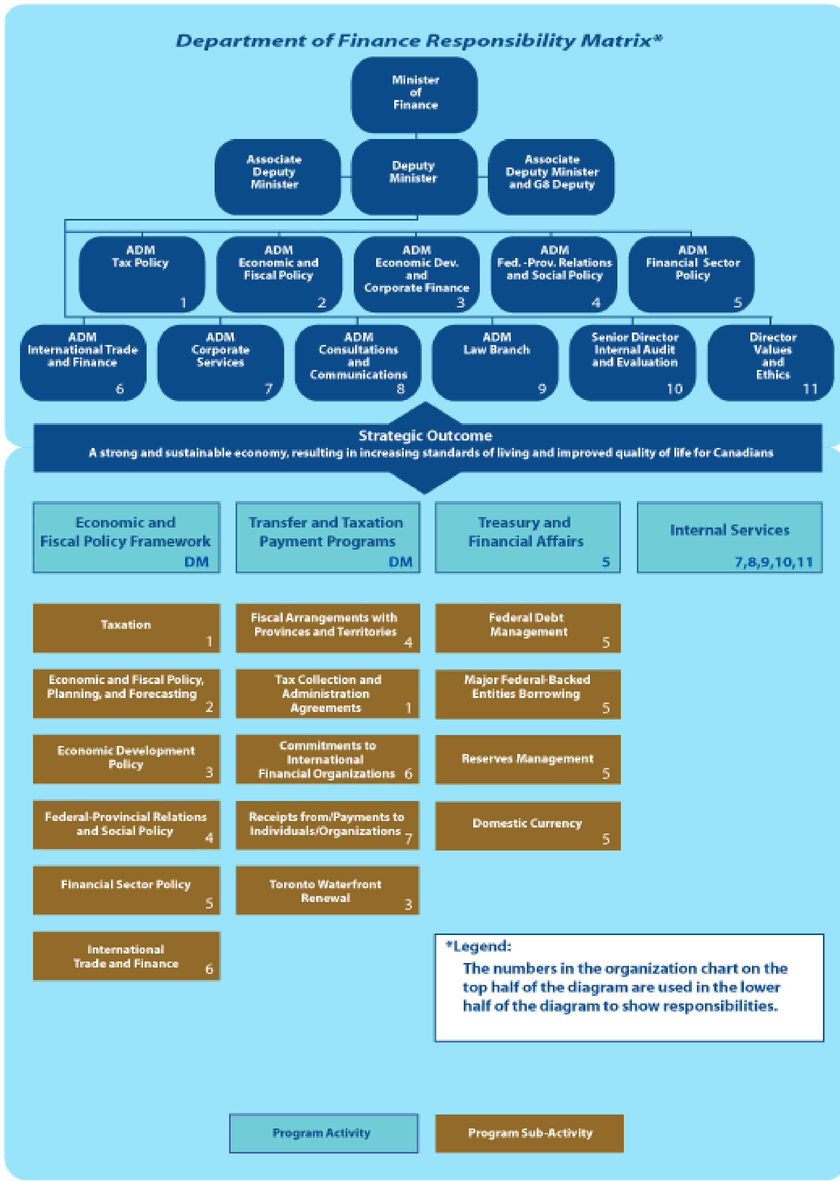
The Department of Finance Canada provides effective economic leadership with a clear focus on one strategic outcome:

A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians.

In 2007, the Department revised its strategic outcome and program activity architecture (PAA) to better reflect focussed departmental efforts to improve the well-being of all Canadians. This revision positioned the Department to be better able to report to Parliament on its priorities and strategic directions.

The revised strategic outcome and PAA were fully reflected for the first time in the Department's *2008–09 Report on Plans and Priorities* (RPP). A crosswalk comparing the planned spending of the earlier 2007–08 PAA with the new 2008–09 structure was presented in the 2008–09 RPP.[1]

The current PAA structure is illustrated in the figure below, which includes details on which parts of the Department are responsible for each activity area.[2]



1. http://www.tbs-sct.gc.ca/rpp/2008-2009/inst/fin/fin00-eng.asp
2. Federal responsibility for the Toronto Waterfront Revitalization Initiative was transferred from Environment Canada to the Department of Finance Canada in November 2008. Due to the timing of the transfer, reporting for fiscal year 2008–09 will be undertaken by Environment Canada, and reporting for 2009–10 and forward will be done by the Department of Finance Canada.

Performance Summary

2008–09 Financial Resources ($ millions)

Planned Spending	Total Authorities	Actual Spending[3]
79,959.6	210,969.1	210,800.0

2008–09 Human Resources (Full-time equivalents)

Planned	Actual	Difference
835	836	-1

Strategic Outcome: A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians		
Performance Indicators	**Targets**	**2008–09 Performance**
Canada's medium-term fiscal framework	Annual debt reduction of $3 billion Keep program spending growth below economic growth on average A declining debt-to-GDP ratio	Since the 2008–09 RPP, the economic environment has changed dramatically. As a consequence, the targets originally made for the period were revised, and the focus is now on implementing the Government of Canada's Budget 2009.

3. The Department of Finance Canada's actual spending in 2008–09 was $211 billion. This is an increase of $124 billion over 2007–08. The increase results from the government's announcement in Budget 2007 to meet the domestic borrowing needs of Farm Credit Canada, Business Development Bank of Canada, and the Canada Mortgage and Housing Corporation (CMHC) through direct lending to reduce overall borrowing and improve the liquidity of the government securities market. Before this change, these Crown corporations obtained funding directly through the capital markets under their own name. Spending also included $55 billion to the CMHC's Insured Mortgage Purchase Program as part of the efforts to maintain the availability of longer term credit in Canada in response to the global financial and economic crisis in fall 2008. These expenditures were not included as part of planned spending in the Report on Plans and Priorities.

Strategic Outcome: A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians		
Performance Indicators	**Targets**	**2008–09 Performance**
Competitiveness and fairness of Canada's tax system	Tax system that raises the required revenue in a manner that compares favourably to other G7 countries	Actions taken since 2006 will reduce taxes by $220 billion over 2008–09 and the following five fiscal years. These actions include federal corporate income tax reductions that will allow Canada to reach the goal of the lowest overall tax rate on new business investment (marginal effective tax rate or METR) in the G7 by 2010 and to have the lowest statutory corporate income tax rate in the G7 by 2012. For a full description of further actions taken, please see "Supporting tax relief and prudent fiscal management" under PA 1.1: Economic and Fiscal Policy Framework below.
Soundness, efficiency, and competitiveness of Canada's financial sector	Healthy, growing financial sector that serves the needs of Canadians	The Canadian financial system has been exceptionally resilient during the ongoing financial crisis that started in August 2007. While the crisis caused a series of financial institution failures in other countries, Canadian financial institutions have remained sound and well capitalized. Nevertheless, Canada was not immune to the global crisis and departmental action was required in a number of areas to support the effective functioning of the financial system and strengthen Canada's regulatory framework. The Department also led the development of the recommendations to enhance sound regulation and transparency that served as input for the G20 Leaders Summit in London.

($ millions)

Program Activity	2007–08 Actual Spending	2008–09				Alignment to Government of Canada Outcomes[4]
		Main Estimates	Planned Spending	Total Authorities	Actual Spending	
PA 1: Economic and Fiscal Policy Framework	105.6	101.8	105.8	135.0	122.7	Strong economic growth
PA 2: Transfer and Taxation Payment Programs	47,945.7	46,023.8	46,023.8	48,758.3	48,601.5	All government outcomes

4. In accordance with input received from Treasury Board during the development of the Department's PAA, two of the Department's program activities have been designated as aligning with all government outcomes.

PA 3: Treasury and Financial Affairs	38,328.3	33,830.0	33,830.0	162,075.8	162,075.8	All government outcomes
Total	**86,379.6**	**79,955.6**	**79,959.6**	**210,969.1**	**210,800.0**	

Contribution of Priorities to the Strategic Outcome

Operational priorities

In 2008–09, the Department of Finance Canada continued to focus on its four key ongoing priorities.

Sound fiscal management

- Status: Successfully met

In 2008–09, the Department continued to play a major role in ensuring that the government continues to manage spending responsibly, maximizes the benefits of government assets to Canadians, and takes measures to reduce the cost of government operations while maintaining their effectiveness.

The Department did the following:

- contributed to the implementation of the Government of Canada's policy priorities through the development of the Fall 2008 Economic and Fiscal Statement and Budget 2009;
- provided effective analysis of domestic and international economic activity in and the implications of heightened risks for the Canadian economy;
- provided advice on expenditures and priorities in the Strategic Review of departments and agencies within its portfolio responsibilities; and
- continued to manage Government of Canada funds in accordance with the guiding principles of transparency, regularity, liquidity, and prudence.

Sustainable economic growth

- Status: Successfully met

In 2008–09, due to the severe economic downturn, the Department worked to develop and implement the Economic Action Plan to provide necessary, timely, and comprehensive economic stimulus to weather the global recession and emerge with an even stronger economy. The Plan has been designed to get stimulus out as quickly and effectively as possible. Support included funding for industries, communities, infrastructure, human capital, innovation, and financial market governance. In addition, tax reductions introduced in the Plan will help ease financial pressure on individuals, families, and businesses and contribute to a solid foundation for future economic growth.

As the government's source of analysis and advice on economic and fiscal matters, the Department continued to help ensure that policies and programs create the conditions necessary for sustainable long-term economic growth and help the country emerge from the global economic downturn.

Sound social policy framework

- Status: Successfully met

In 2008–09, the impact of the global economic downturn, coupled with volatile resource prices, necessitated actions to ensure the long-term sustainability of the Equalization Program and continuing fairness in the Canada Health Transfer (CHT).

The Department did the following:

- continued to support social programs delivered by provinces and territories—including social assistance, social services, post-secondary education, and programs for children—by means of transfer payments to provincial and territorial governments;
- provided analysis and advice on stimulus initiatives announced in Budget 2009 and on social policy measures related to social housing, employment insurance, and labour market training; and
- contributed to the implementation of Budget 2008 initiatives for improving the capacity and flexibility of Canada's immigration system to respond to evolving labour market needs, improving federal supports for post-secondary education, and removing the disincentives to work for low-income seniors.

Effective international influence

- Status: Successfully met

As a result of the economic crisis, global finance and trade arrangements were subject to an intensive re-evaluation. In responding to the new and significant challenges that arose during this time, the Department worked to ensure that Canada demonstrated leadership in the international response to the crisis, promoted Canada's view of the response to the crisis, and promoted Canada's financial sector as a leader in regulatory practices.

Specific examples of the Department's contributions include:

- participating in international discussions to ensure that multilateral development banks (such as the World Bank) and the IMF had sufficient capacity to respond to the global economic crisis, which resulted in a number of new Canadian financing commitments, including a US$10 billion bilateral loan to the IMF, an innovative US$4 billion temporary increase in capital resources at the Inter-American Development Bank, and a US$200 million contribution to the World Bank's Global Trade Liquidity Program;
- working closely with G7 and G20 partners to deal with the global financial crisis, including participating in all four G20 working groups formed to deal with the various aspects of the crisis and co-chairing the Working Group on Enhancing Sound Regulation and Strengthening Transparency;

- supporting the Minister of Finance and the Prime Minister at a number of extraordinary international meetings to deal with the crisis, including two Leaders' Summits;
- acting as a world leader in the G7, G20, and World Trade Organization (WTO) forums in the area of resisting protectionist pressures during the global economic downturn; and
- participating in international discussions focussed on increasing IMF surveillance quality as well as countries' willingness to coordinate their economic policies and work more effectively with the IMF and others to avoid future crises.

Management priorities

In 2008–09, the Department of Finance Canada continued its efforts on the following five previously committed to priorities.

Strengthening outreach to primary partners and clients through regular meetings, presentations, and direct contact

- Status: Met all expectations

In 2008–09, the Department worked on strengthening its outreach to primary partners and clients through regular meetings with and presentations to tax professionals, business groups, non-governmental organizations, international organizations, and not-for-profit groups and regular meetings and ongoing contact with provincial and territorial counterparts (ministers, deputy ministers, and senior officials) and Aboriginal governments. The Department also played a key role in promoting a strong multilateral system of global economic and financial governance, most importantly in supporting the Minister's participation in the G7, G8, and G20 processes.

Implementing results of the 2007 strategic review

- Status: Met all expectations

In 2007, the Department conducted an in-depth review of the funding, relevance, and performance of all its programs to ensure results and value for money from programs that are a priority for Canadians. A key outcome of the review resulted in the move to dedicated corporate services for the Department and the transfer of approximately 425 FTEs who provided shared corporate services to the Treasury Board of Canada Secretariat. This transition was fully implemented with the February 2009 signing of the related Order-in-Council. The transition has resulted in a new Corporate Services Branch that is focussed on responding to the needs of the Department and better positioned to meet stewardship and accountability requirements.

Implementing an integrated gender-based analysis framework

- Status: Met all expectations

In 2008–09, the Department continued to implement an integrated gender-based analysis (GBA) framework. The Department has a GBA champion responsible for promoting GBA, facilitating its conduct, and raising its profile. In 2008–09, to support high-quality GBA, the Department's GBA champion ensured that employees had access to GBA training and examples of good GBA, which were posted on the Department's internal website. The Department, in its capacity as a central agency, played a challenge function, requiring departments and agencies to consider all relevant factors when developing a policy or program for budget consideration, including gender issues whenever appropriate. As a developer of policy, the Department of Finance Canada performed GBA on all new spending and tax policy proposals presented to the Minister, when appropriate and when data existed.

Going forward, the Department will continue to ensure that GBA is well integrated into the development and assessment of its own policies and programs, when appropriate and when data exist, and will continue to challenge other departments and agencies to do the same.

Integrated business and human resources planning

- Status: Met all expectations

In 2008, the Department adopted a results-based integrated corporate business planning framework that encompasses priority setting, environmental scanning, risk assessment, and business planning and fully integrates financial and human resource (HR) requirements with business plans. In 2008–09, a three-year HR management plan was developed and implemented to support the government's HR priorities. The plan addresses HR management gaps—including succession planning, recruitment, retention, diversity, and official languages—and responds to employee concerns. The planning cycle for 2009–10, implemented in late 2008, was structured to result in a fully integrated corporate business plan, which would link HR planning activities with business requirements.

This integrated planning framework, coupled with the Department's risk-based audit plan, positions the Department to better report on and demonstrate accountability for results and resources to Parliament and to Canadians. It also allows the Department to more strategically integrate priority setting with performance measurement and HR planning.

Continued implementation of the enhanced requirements of the 2006 Treasury Board Policy on Internal Audit

- Status: Met all expectations

The Department continued to implement the requirements of the *Federal Accountability Act*. As part of this process, the Department established an independent Audit and Evaluation Committee and increased funding to implement the requirements of the *Policy on Internal Audit*.

Risk Analysis

As an open economy, Canada has been affected by the downturn in the global economy. The Canadian economy entered a recession during the fourth quarter of 2008. Since last fall, private-sector forecasters substantially revised down their economic projections for 2009 and 2010.

In response to these extraordinary events, Budget 2009 announced a set of stimulus measures designed to protect the economy from the immediate threat of the global downturn. The Department also took action on a number of areas to support the timely implementation of the Action Plan, ensure the effective functioning of the financial system, and implement action plans agreed to by G8 and G20 leaders.

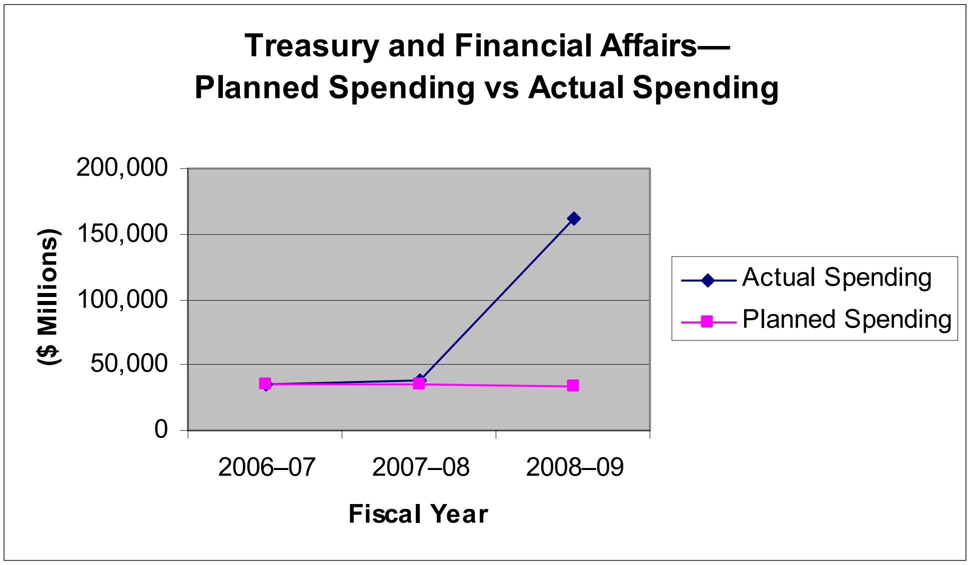
The combined impact of the recession and the cost of the measures under the Action Plan have resulted in sizeable projected deficits for the 2009–10 fiscal year and the next three fiscal years. These were neither planned nor foreseen at the beginning of 2008. However, there are now signs that the economic situation in Canada is stabilizing, with most private sector economists expecting a return to growth in the third quarter of 2009.

In this difficult and uncertain economic context, the Department continues to closely monitor the government's fiscal position, to rapidly update fiscal projections, and to closely assess the risks and uncertainties of the fiscal outlook through the Fall 2008 *Economic and Fiscal Statement*, Budget 2009, and the monthly *Fiscal Monitor*. In March and June 2009, respectively, the Department released the first two quarterly reports on the government's actions to stimulate the Canadian economy and combat the global recession.[5]

5. http://www.actionplan.gc.ca

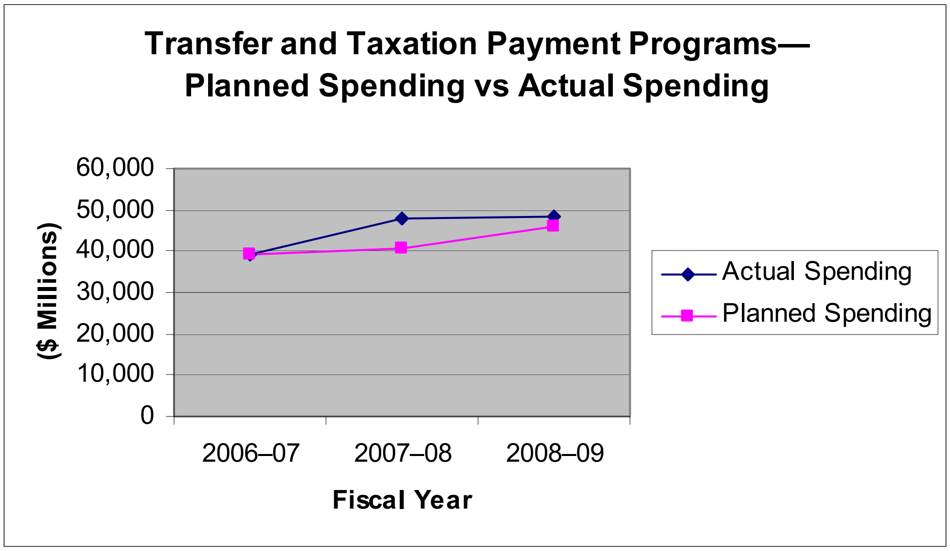
Expenditure Profile

The Department of Finance Canada's actual spending in 2008–09 was $211 billion. The graphs below illustrate the Department's actual spending in comparison to planned spending by program activity from 2006–07 to 2008–09.

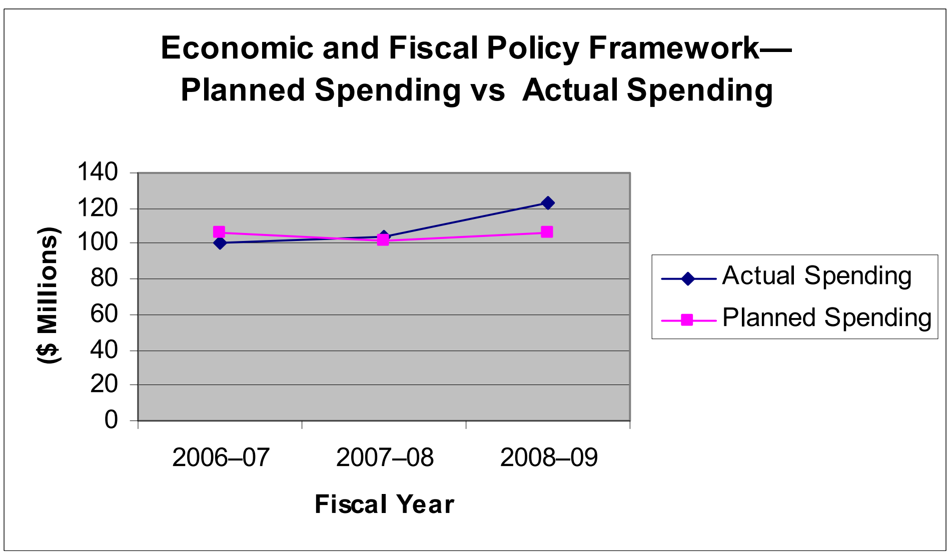


The Treasury and Financial Affairs program activity increased expenditures by $124 billion in 2008–09 primarily as a result of the government's announcement in Budget 2007 to meet all of the domestic borrowing needs of Farm Credit Canada, Business Development Bank of Canada, and the Canada Mortgage and Housing Corporation (CMHC) through direct lending in order to reduce overall borrowing and improve the liquidity of the government securities market. This includes loans of $55 billion to the CMHC for the Insured Mortgage Purchase Program as part of the efforts to maintain the availability of longer term credit in Canada in response to the global financial and economic crisis in fall 2008. The impact of this was $127 billion; this was partially offset by a $3 billion decrease in "Interest and Other Costs" as a result of a significantly reduced interest rate environment in 2008–09.

Farm Credit Canada and Business Development Bank of Canada were provided limited early access to direct lending in 2007–08 and borrowed a total amount of $4.8 billion. This largely explains the increase in departmental spending from 2006–07 to 2007–08. Before this change, these Crown corporations obtained funding directly through the capital markets under their own name.



The Transfer and Taxation Payment Programs program activity increased expenditures by less than $1 billion in 2008–09 as a result of increases in ongoing statutory vote expenditures being almost completely offset by statutory votes that were discontinued at the end of 2007–08. Expenditures in 2007–08 exceeded those in 2006–07 by $8 billion because of increased expenditures on ongoing statutory votes and the implementation of statutory votes that were in effect for 2007–08 only.



The Economic and Fiscal Policy Framework program activity increased expenditures by $20 million in 2008–09 as a result of increased expenditures on advertising as well as on advisory panels. Expenditures between 2006–07 and 2007–08 were fairly consistent.

Voted and Statutory Items
($ thousands)

Vote No. or Statutory Item (S)	Truncated Vote or Statutory Wording	2006–07 Actual Spending	2007–08 Actual Spending	2008–09 Main Estimates	2008–09 Actual Spending
1	Operating expenditures[1]	89,286	91,556	89,793	111,124
5	Grants and contributions[2]	315,598	93,377	374,800	572,034
(S)	Minister of Finance—salary and motor car allowance	73	74	76	76
(S)	Territorial Financing (Part I.1—*Federal-Provincial Fiscal Arrangements Act*)	2,118,264	2,221,297	2,312,939	2,312,939
(S)	Payments to International Development Association	318,270	318,270	318,280	318,280
(S)	Contributions to employee benefit plans	11,761	12,104	11,910	11,431
(S)	Purchase of Domestic Coinage[3]	135,602	182,736	147,000	126,368
(S)	Interest and Other Costs[4]	34,108,504	33,212,372	33,683,000	29,939,794
(S)	Statutory Subsidies (*Constitution Acts, 1867–1982*, and Other Statutory Authorities)	31,821	31,822	32,000	31,968
(S)	Fiscal Equalization (Part I—*Federal-Provincial Fiscal Arrangements Act*)[5]	11,535,064	12,924,677	13,619,924	13,462,236
(S)	Canada Health Transfer (Part V.1—*Federal-Provincial Fiscal Arrangements Act*)[6]	20,139,876	21,474,272	22,629,304	22,759,015
(S)	Canada Social Transfer (Part V.1—*Federal-Provincial Fiscal Arrangements Act*)[7]	8,500,000	9,590,219	10,557,729	10,567,868
(S)	Youth Allowances Recovery (*Federal-Provincial Fiscal Revision Act, 1964*)[8]	(706,788)	(943,805)	(717,374)	(332,659)

(S)	Alternative Payments for Standing Programs (Part VI—*Federal-Provincial Fiscal Arrangements Act*)[9]	(3,177,016)	(2,719,889)	(3,256,839)	(2,973,912)
–	Items not required—Payment to Ontario (*Budget Implementation Act*, *2007*)	0	250,000	150,000	150,000
(S)	Incentive for Provinces to Eliminate Taxes on Capital[10]	0	0	0	170,000
(S)	Public Transit Capital Trust 2008[11]	0	0	0	500,000
(S)	Police Officers Recruitment Fund[11]	0	0	0	400,000
(S)	Saskatchewan Carbon Capture and Storage Demonstration Trust[11]	0	0	0	240,000
(S)	Payment to Saskatchewan[11]	0	0	0	31,204
(S)	Payment to Nova Scotia for Carbon Storage[11]	0	0	0	5,000
(S)	Payment to Nunavut[11]	0	0	0	705
(S)	Payment pursuant to the *Halifax Relief Commission Pension Continuation Act*	18	18	0	18
(S)	Payment of liabilities previously transferred to revenue	2,075	1,848	0	2,303
(S)	Net Loss on Exchange[12]	120,555	89,177	0	121,723
(S)	Payment to British Columbia[13]	0	30,000	0	0
(S)	Payment to Yukon[13]	0	3,500	0	0
(S)	Payment to Northwest Territories[13]	0	54,400	0	0
(S)	Clean Air and Climate Change Trust Fund[13]	0	1,518,925	0	0
(S)	Patient Wait Times Guarantee[13]	0	612,000	0	0
(S)	Transitional Payments[13]	0	614,038	0	0
(S)	Child Care Spaces[13]	0	250,000	0	0

(S)	Human Papilloma Virus Immunization[13]	0	300,000	0	0
(S)	Community Development Trust[13]	0	1,000,000	0	0
(S)	Refunds of amounts credited to revenue in previous years	0	36	0	0
(S)	Payments to the IMF's Poverty Reduction and Growth Facility	2,615	0	0	0
	Total budgetary	**73,545,578**	**81,213,024**	**79,952,542**	**78,527,515**
L10	In accordance with the *Bretton Woods and Related Agreements Act*, the issuance and payment of non-interest bearing, non-negotiable demand notes in an amount not to exceed $384,280,000 to the International Development Association[14]	318,270	318,280	0	384,280
(S)	Payments and encashment of notes issued to the European Bank for Reconstruction and Development—Capital subscriptions	6,498	4,334	3,075	2,650
(S)	Advances pursuant to subsection 12(2) of the *Farm Credit Act*[15]	0	3,840,000	0	47,104,810
(S)	Advances pursuant to section 19 of the Business Development *Bank of Canada Act*[15]	0	1,000,000	0	23,047,000
(S)	Advances pursuant to subsection 21(1) of the Canada Mortgage and *Housing Corporation Act*[15]	0	0	0	61,729,821
(S)	Advances pursuant to subsection 13(1) of the *Financial Consumer Agency of Canada Act*	5,000	4,000	0	4,000
	Total non-budgetary	**329,768**	**5,166,614**	**3,075**	**132,272,561**
	Total Department	**73,875,346**	**86,379,638**	**79,955,617**	**210,800,076**

1. Variance between 2008–09 Main Estimates and 2008–09 Actual Spending is attributable to funding received of $15 million for advertising, $3.8 million for the Advisory Panel on Canada's System of International Taxation and

supporting Secretariat to review Canada's system of taxation, and $2.8 million to support the development of a common securities regulator to help create a Canadian advantage in global capital markets.

Variance between 2007–08 Actual Spending and 2008–09 Actual Spending is primarily attributable to increases in advertising of $10 million, Panel expenditures of $5.5 million, and salary increases of $4.5 million due to collective bargaining increases.

2. Variance between 2008–09 Main Estimates and 2008–09 Actual Spending is primarily attributable to increased funding of $234.4 million for the Payment to Nova Scotia in respect of the Crown Share Adjustment Payment regarding amounts relating to previous years up to March 31, 2008.

   Variance between 2007–08 Actual Spending and 2008–09 Actual Spending is attributable to the Crown Share Adjustment Payment of $234.4 million, an increase of $100 million to the grant for Debt payments to international organizations on behalf of poor countries, arising from an accelerated payment to the World Bank and African Development Fund, and the balance being attributable to increases in the grant payments for Compensation to Canadian agencies or entities established by an Act of Parliament for reduction of debts of debtor countries.

3. Variance between 2007–08 and 2008–09 Actual Spending is attributable to lower than projected demand from financial institutions for newly minted coins.

4. Variance between 2007–08 and 2008–09 Actual Spending is attributable to a significantly lower interest rate environment in 2008–09.

5. Variance between 2007–08 and 2008–09 Actual Spending is attributable to Newfoundland and Labrador re-estimate under their Equalization formula.

6. Variance between 2007–08 and 2008–09 Actual Spending is attributable to prior year adjustments arising from the Estimates cycle as well as deductions made under the *Canada Health Act*.

7. Variance between 2007–08 and 2008–09 Actual Spending is attributable to prior year adjustments arising from the Estimates cycle as well as a revised estimate of 2008–09 requirements made in October 2008.

8. Variance between 2007–08 and 2008–09 Actual Spending is attributable to prior year adjustments arising from the Estimates cycle as well as a revised estimate of 2008–09 requirements made in February 2009. The $611 million reduced recovery from 2007–08 is a result of Quebec making a payment in 2007–08 toward its 2008–09 obligation as well as changes in the value of tax points used to calculate the recovery.

9. Variance between 2007–08 and 2008–09 Actual Spending is attributable to prior year adjustments arising from the Estimates cycle as well as a revised estimate of 2008–09 requirements made in February 2009.

10. Variance between 2007–08 and 2008–09 Actual Spending is attributable to the statutory vote being approved through the *Budget Implementation Act*, *2007*.

11. Variance between 2007–08 and 2008–09 Actual Spending is attributable to the statutory vote being approved through the *Budget Implementation Act*, *2008*.

12. Increase in losses resulting from re-evaluation of assets and liabilities denominated in foreign currencies to Canadian currencies.

13. Variance between 2007–08 and 2008–09 Actual Spending is attributable to the statutory vote being approved after the preparation of the 2008–09 Main Estimates.

14. Loan note listed in the Main Estimates as a $1 item. Authority is in note wording. Variance between 2007–08 and 2008–09 Actual Spending represents increase in the value of the next International Development Association negotiated agreement.

15. The government announced in Budget 2007 that it plans to meet all of the domestic borrowing needs of Farm Credit Canada, Business Development Bank of Canada, and the Canada Mortgage and Housing Corporation through direct lending beginning April 1, 2008.

Section II: Analysis of Program Activities by Strategic Outcome

Program Activity 1.1: Economic and Fiscal Policy Framework

This program activity is the primary source of advice and recommendations to the Minister of Finance regarding issues, policies, and programs of the Government of Canada in the areas of economic, fiscal, and social policy; federal-provincial-territorial relations; financial affairs; taxation; and international trade and finance. The work conducted in this program area involves extensive research, analysis, and consultation and collaboration with partners in both the public and private sectors. In addition, it involves the negotiation of agreements and drafting of legislation. To help develop first-rate policy and advice to ministers, the Department of Finance Canada works with the public and Canadian interest groups; departments, agencies, and Crown corporations; provincial, territorial, and Aboriginal governments; financial market participants; the international economic and finance community; and the international trade community. The aim of this program area is to support the fiscal and economic framework that generates revenue for expenditures in line with the budget plan as well as for the financial operations of the Government of Canada.

Program Activity: Economic and Fiscal Policy Framework					
2008–09 Financial Resources ($ millions)			**2008–09 Human Resources (FTEs)**		
Planned Spending	**Total Authorities**	**Actual Spending**	**Planned**	**Actual**	**Difference**
105.8	135.0	122.7	806	812	-6
Expected Results	**Performance Indicators**	**Targets**	**Performance Status**	**Performance Summary**	
Effective management of the government's fiscal plan	Annual debt reduction Debt-to-GDP ratio	Annual debt reduction of $3 billion Reduce the federal debt-to-GDP ratio to 25 per cent by 2011–12	Target to be revised due to global economic situation Target to be revised due to global economic situation	In *Canada's Economic Action Plan: Budget 2009*, the Government of Canada announced a set of stimulus measures designed to protect the economy from the threat of global recession. The Department took a large number of actions to support the implementation of the Action Plan, which the IMF has praised	

	Nominal growth in government program spending	Below the nominal growth in the economy on average	Target to be revised due to global economic situation	as being "appropriately large, timely, well diversified, and structured for maximum effectiveness."[6] Thanks to a strong fiscal position heading into the recession, the IMF also expects Canada's position to remain the strongest in the G8 for 2008 and 2009.
Canada has a sound, efficient, and competitive financial sector	Soundness, efficiency, and competitiveness of Canada's financial sector	Healthy, growing financial sector that serves the needs of Canadians	Met all	While the financial sector environment changed dramatically since the 2008–09 RPP and commitments originally made were overtaken by global events, the World Economic Forum recognizes the Canadian banking system as the strongest in the world.
Canada has a competitive, efficient, and fair tax system	Competitiveness, efficiency, and fairness of Canada's tax system	Tax system that raises the required revenue in a manner that compares favourably to other G7 countries	Met all	Actions taken since 2006 will reduce taxes by $220 billion over 2008–09 and the following five fiscal years. These actions include federal corporate income tax reductions that will allow Canada to reach the goal of the lowest overall tax rate on new business investment (marginal effective tax rate or METR) in the G7 by 2010 and to have the lowest statutory corporate income tax rate in the G7 by 2012. For a full description of further actions taken, please see "Supporting tax relief and prudent fiscal management" below.

Benefits for Canadians

A sound economic and fiscal policy framework enables the Canadian economy to perform well despite economic shocks and challenges. Moreover, sound fiscal planning is essential to the country's long-term prosperity. As a result of the severe economic downturn and the recession in the Canadian economy, there has been a significant downward revision to projected revenues and an upward revision to program expenses, particularly to Employment Insurance benefits. In response to these extraordinary events, Budget 2009 included a broad set of stimulus measures designed to protect the economy from the immediate threat of the global downturn.

6. Quote taken from the May 2009 IMF report entitled, Canada: 2009 Article IV Consultation—Staff Report.

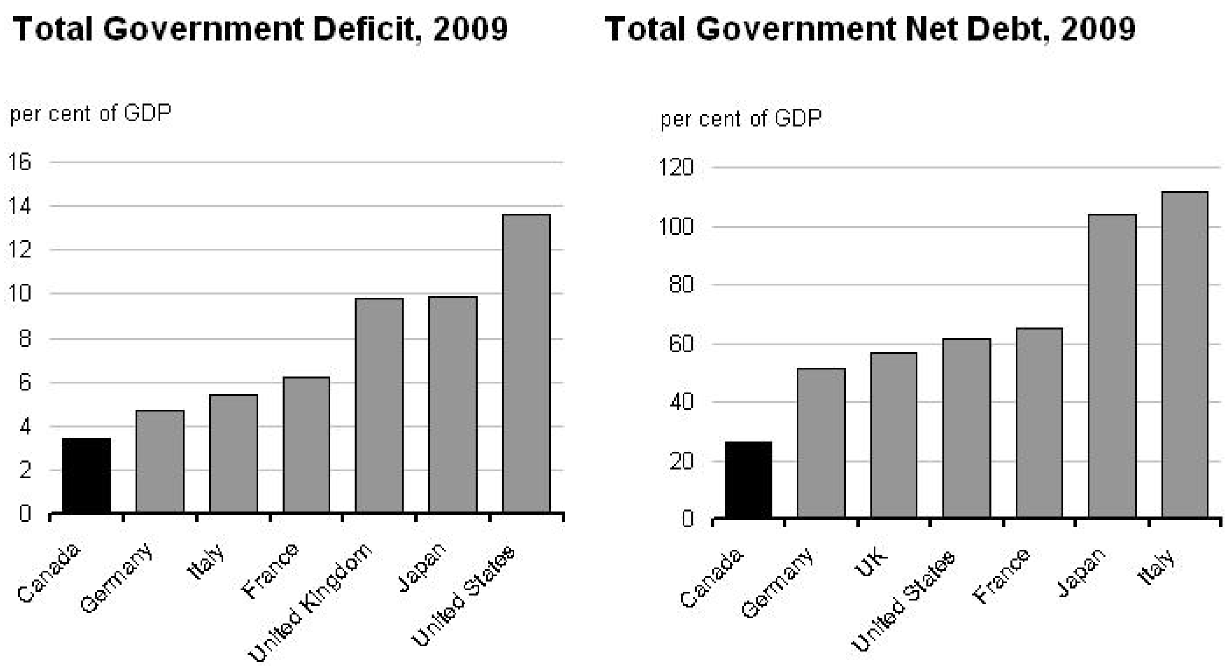
Performance Analysis

Key initiatives identified in the Department of Finance Canada's 2008–09 RPP included:

Supporting prudent fiscal management and tax relief

In light of the exceptional global economic circumstances, the Government of Canada is focussing on stabilizing the economy through the implementation of Budget 2009. The Government of Canada remains committed to strong fiscal management and will dedicate any surpluses to repaying the deficits that are expected over the coming years. This will help to secure Canada's solid fiscal position, which the IMF notes is the strongest among all G7 nations (see Figure 1)

Figure 1



Note: For Canada, figures include the federal, provincial-territorial and local government sectors, as well as the Canada Pension Plan and Québec Pension Plan.
Source: IMF

To ensure that spending is sustainable in the long term, the Government of Canada committed to keeping the rate of program spending growth, on average, below the rate of growth of the economy. This was achieved for the period from 2005–06 to 2008–09, when program spending growth averaged 4.2 per cent, well below the nominal GDP growth of 5.6 per cent. In order to ensure that the government's fiscal position remains structurally sound, most new spending being undertaken in response to the economic crisis will end in 2011–12.

In 2008–09, the Department developed and provided advice and guidance to the government related to the tax measures included in Budget 2009. The tax reductions introduced in

Budget 2009 are an essential part of the government's effort to stimulate the economy and to create and maintain jobs. Lower taxes help ease the financial pressure on individuals, families, and businesses and help build a solid foundation for future economic growth. The tax reductions in Budget 2009 are helping to improve the competitiveness and efficiency of the tax system, raise standards of living, and fuel job creation and investment in Canada.

Budget 2009 includes the following measures that will reduce the tax burden for Canadian families and businesses by over $20 billion in 2008–09 and the next five fiscal years:

- general personal income tax relief to allow Canadians to earn more income before paying federal income tax or being subject to higher tax rates;
- enhancements to the Working Income Tax Benefit (WITB), which effectively doubled the tax relief provided through the WITB and will further reduce the welfare wall and help ensure that low-income Canadians are financially better off as a result of getting a job;
- an increase of the Age Credit amount by $1,000 to provide tax savings to about 2.2 million seniors;
- permanent and temporary measures to help stimulate Canadian businesses, including the commitment to move ahead with the broad-based tax reductions in the federal general corporate income tax rate, the increase in the small business income limit to $500,000, the temporary 100-per-cent capital cost allowance (CCA) rate for investments in computers, and the one-year extension of the Mineral Exploration Tax Credit; and
- a temporary Home Renovation Tax Credit that will help stimulate economic activity, boost the value of Canada's housing stock, and increase energy-efficiency. Other measures to support home ownership were also introduced.

Significant progress toward a more competitive and efficient tax system was also supported by the signing in March 2009 of a Memorandum of Agreement with the Government of Ontario to harmonize the Ontario retail sales tax with the goods and services tax (GST). This agreement will assist Canadian businesses by increasing the proportion of business inputs in Canada that will no longer be subject to sales tax. During 2008–09, an amendment to the Canada–Ontario Tax Collection Agreement (TCA) was also signed to allow for the federal government to collect Ontario corporate taxes, commencing with taxation years ending after December 31, 2008. This will reduce compliance costs for businesses by allowing for a single annual tax return for both federal and Ontario corporate taxes, a single tax collector, and one set of income tax rules. Under TCAs, the Canada Revenue Agency now collects personal income taxes for all provinces and territories except Quebec and corporate income taxes for all provinces and territories except Quebec and Alberta.

The Department played a central role in ensuring the timely implementation of the Tax-Free Savings Account (TFSA) announced in Budget 2008. The TFSA allows Canadians to set money aside in eligible investment vehicles and watch those savings grow tax-free throughout their lifetimes.

The Department also assisted in the implementation of the Registered Disability Savings Plan (RDSP), which became available to Canadians in December 2008. The 2008 contribution period for RDSPs was extended to March 2, 2009, to allow more Canadians with disabilities to take advantage of the grants and bonds associated with the RDSP for 2008.

The Department continued the expansion and modernization of Canada's income tax treaty network. During the reporting period, new treaties were signed with Columbia and Greece, Canadian government approval was secured for the signature of a number of other treaties, and negotiations were held with a number of other countries on new or revised income tax treaties.[7] Finally, Canada's goal of entering into international Tax Information Exchange Agreements was advanced with formal negotiations being held with a number of jurisdictions, and informal discussions with a number of others.

Supporting provinces and territories

In response to unsustainable growth in the Equalization Program, the Government of Canada took action to bring the program in line with a three-year moving average of nominal GDP growth. This will help to ensure stability and predictability for both orders of government while still being responsive to changes in economic conditions. Changes to the program were announced in November 2008 to provide certainty to provinces[8] and were included in Budget 2009.[9] These changes will be reflected in payments for 2009–10.

The *Budget Implementation Act, 2009* also included action to ensure fairness for all provinces under the CHT by ensuring that all Equalization-receiving provinces, including Ontario, would receive equal per capita cash support, thereby addressing a technical anomaly in the calculation of the CHT. Equal per capita cash support was legislated for 2009–10 and 2010–11 through a special payment to Ontario, after which the fairness provision will be addressed within the CHT funding envelope. Overall support for the CHT and the Canada Social Transfer (CST) will continue to grow at 6 per cent and 3 per cent respectively, as per commitments made under the *10-Year Plan to Strengthen Health Care* and Budget 2007. (See also Program Activity 1.2.)

In preparation for the next renewal of the fiscal arrangements, which are currently legislated until 2013–14, focus has been put on enhancing research capacity and working with provinces and

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7. For details on income tax treaty developments, please see http://www.fin.gc.ca/treaties-conventions/treatystatus_-eng.asp.
8. http://www.fin.gc.ca/n08/08-085-eng.asp
9. http://www.budget.gc.ca/2009/plan/bpc3f-eng.asp#1

territories on technical issues aimed at improving the efficiency, equity, accuracy, and transparency of major federal transfers.

In addition to the ongoing, sound administration of Territorial Formula Financing, the Department is also supporting the government's Northern Strategy[10] and supporting and advising on mechanisms to facilitate the negotiation and implementation of Aboriginal specific claims agreements.

Supporting work, innovation, and skills

The Department worked closely with other departments to help ensure the timely and effective implementation of Budget 2008 initiatives such as the modernization of the system of student financial assistance, the rollout of the new labour market training program, improvements to the immigration system and the Temporary Foreign Worker Program and those promoting the labour market participation of older workers.

Significant investments to support workers affected by the global slowdown and to create opportunities for workers through skills development were also made through Budget 2009. Specifically, the Canada Skills and Transition Strategy includes $6.3 billion over two years to strengthen benefits for Canadian workers, enhance the availability of training and maintain low Employment Insurance premium rates. These measures reflect a balance between the need to provide immediate assistance to support workers affected by the economic slowdown and to ensure that they are able to take advantage of the emerging economic opportunities over the longer term.

Finally, the Department will continue to work with Industry Canada on implementing Canada's science and technology strategy, *Mobilizing Science and Technology to Canada's Advantage*. Additional resources were provided in Budget 2009 in support of knowledge infrastructure, research, people, and commercialization.

Supporting the financial system

Since the 2008–09 RPP was issued, the financial sector environment changed dramatically. The initial departmental plan primarily was to review the causes of the credit market turbulence that started in 2007 and to extend initiatives from the government's Capital Markets Plan announced a year earlier. This plan was entirely overtaken by events occurring during 2008–09.

In light of the financial market turbulence that was experienced in 2007–08, the Department supported initial action by the government in mid-2008 to modernize the authorities of the Bank of Canada and to implement new rules for government-guaranteed mortgages aimed at protecting

10. http://www.ainc-inac.gc.ca/ai/mr/is/n-strat-eng.asp

and strengthening the Canadian housing market. Following the dramatic worsening of the crisis in the fall and winter of 2008–09, the Department, in conjunction with a large group of partner federal organizations,[11] supported significant action by the government to improve access to financing and reinforce Canada's financial system. These measures were contained in the Fall 2008 *Economic and Fiscal Statement*[12] and Budget 2009.[13]

Action taken in the fall of 2008 on access to financing was focussed on supporting Canada's financial institutions, most notably through creation of the Insured Mortgage Purchase Program (IMPP). The IMPP, managed by the Canada Mortgage and Housing Corporation, provided over $55 billion in term financing to banks by the end of 2008–09 supporting their ongoing lending activity. This was done at no additional risk to the taxpayer and generated a positive financial return for the government. In addition, the Canadian Lenders Assurance Facility (CLAF) and the Canadian Life Insurers Assurance Facility (CLIAF) were launched to provide insurance on the wholesale term borrowing of federally regulated deposit-taking institutions and life insurers. The CLAF and CLIAF was not used in 2008–09 but nonetheless provided confidence that domestic financial institutions could, if needed, access global credit markets on a competitive basis with government-supported foreign financial institutions.

For Budget 2009, the Department developed the $200 billion Extraordinary Financing Framework (EFF),[14] which embraced new and existing initiatives supporting access to financing for Canadian households and businesses and provided an immediate and effective response to alleviate the impact of the global financial market turmoil on Canada. The EFF increased the availability of financing support for businesses and addressed disruptions in securitization markets. To help manage the EFF, the Department helped to establish and support an external Advisory Committee on Financing.

The *Budget Implementation Act* passed in March 2009 contained legislative initiatives to strengthen Canada's financial system and modernize the regulatory framework going forward. To reinforce financial stability, the Canada Deposit Insurance Corporation (CDIC) was provided with more flexible and up-to-date regulatory tools for dealing with weak or failing institutions in Canada, the authority of the Minister of Finance was broadened to promote financial stability and maintain efficient and well-functioning markets, and the government was provided with standby authority to inject capital into federally regulated financial institutions to support

11. Partners included the Bank of Canada, the Office of the Superintendent of Financial Institutions, Canada Deposit Insurance Corporation, Financial Consumer Agency of Canada, the Business Development Bank of Canada, Canada Mortgage and Housing Corporation, and Export Development Canada.
12. http://www.fin.gc.ca/ec2008/ec-eng.html
13. http://www.budget.gc.ca
14. See Chapter 3 of Budget 2009 at www.budget.gc.ca.

financial stability. To modernize the regulatory framework, the Department took steps in 2008–09 to develop transparency-enhancing measures for credit cards and mortgage insurance.

Throughout the winter of 2009, the Department played a key role in international efforts to address the financial crisis by taking on a leadership role in the G20, including co-chairing the Working Group on Enhancing Sound Regulation and Strengthening Transparency. Recommendations for financial sector reform developed by this working group were broadly supported by G20 leaders at the London Summit in April 2009.

For federally regulated pension plans, the Department supported temporary solvency funding relief in respect of serious solvency deficiencies that emerged as a result of the financial market turmoil in 2008. The relief, announced in the 2008 *Economic and Fiscal Statement*, allowed plans to extend their solvency amortization period to 10 years from 5, subject to certain conditions. In order to assist the Office of the Superintendent of Financial Institutions (OSFI) in providing further pension funding flexibility, in Budget 2009, the Department supported plan member protection by taking steps to make the amount of any deferral of funding that results from use of an asset valued in excess of 110 per cent, as allowed by OSFI, subject to a deemed trust. In addition, in January 2009, the Department initiated public consultations on the legislative and regulatory framework for pension plans subject to the *Pension Benefits Standards Act, 1985*.

In the area of anti-money laundering and anti-terrorist financing, the Department continued to take steps to address deficiencies identified in the Financial Action Task Force's (FATF) mutual evaluation report on Canada and to address areas of domestic risk. This included the coming into force of new legislative and regulatory measures, greater collaboration and development of innovative solutions with public and private sector partners, and new tools to enhance the policy development process. Canada reported on these measures at the FATF meeting in February 2009 and continued to actively contribute to the work of the FATF in strengthening its standards and their global implementation, including at FATF-style regional bodies such as the Asia/Pacific Group on Money Laundering and the Caribbean Financial Action Task Force.

Supporting business competition, trade, and foreign investment

The Department worked to develop measures to maintain access to affordable credit for Canadian businesses. For example, the 2008 *Economic and Fiscal Statement*[15] included additional resources for the Business Development Bank of Canada to increase its term lending and develop a new time-limited guarantee facility for financial institutions for their lines of credit for viable small- and medium-sized firms. Also, the Department worked to expand the mandate of Export Development Canada (EDC) to allow it to provide financing and insurance in the

15. http://www.fin.gc.ca/ec2008/ec-eng.html

domestic market. EDC's domestic activities will be available in collaboration with other financial institutions to creditworthy companies. EDC's new powers in the domestic market will be in place for two years.

The global crisis created a severe shortage in the availability of trade financing in developing economies. The Department responded by working with World Bank officials by participating in the Global Trade Liquidity Program (GTLP)—a new facility aimed at increasing the amount of liquidity available for trade financing in developing countries.[16] Preparatory work at the end of 2008–09 culminated with an announcement on April 2, 2009, that Canada would contribute US$200 million to the GTLP. This in turn is expected to generate up to US$2 billion in trade financing over two years.

In support of Canada's trade liberalization strategy, the Department led the negotiations that concluded free trade agreements with Colombia and Peru and developed implementing legislation for the Canada–European Free Trade Association Trade Agreement.

Domestically, the Department contributed to the elimination of tariffs on a range of machinery and equipment in Budget 2009, which will lower costs for Canadian businesses importing specialized equipment from overseas to modernize their operations. The Department also continued to provide tariff relief in support of Canadian industry through statutory authorities under the *Customs Tariff* and the approval of seven orders-in-council providing duty relief to Canadian companies.

The Department also contributed to the efforts of the G7, the G20, and the WTO in establishing international commitments to resist protectionist actions that could hinder global economic recovery. In the same vein, the Department supported the initiatives of a number of international bodies (including the WTO and the Organization for Economic Co-operation and Development) to monitor and report on trade measures during the economic downturn.

In 2008–09, the Department contributed to a number of measures in support of debt management capacity building in low-income countries. This is an area of systemic weakness in many poor debtor countries, and over 70 per cent of these countries face a medium or high risk of debt distress. As a result of Canada's advocacy of the importance of building debt management capacity to groups such as the G7, G20, IMF, and the World Bank, the World Bank initiated talks with Canada on establishing a new Debt Management Facility (DMF) for Low-Income Countries.[17]

16. See http://www.ifc.org/ifcext/about.nsf/Content/FinancialCrisis_GTLP.
17. http://go.worldbank.org/8P70EDTP80

The DMF, officially launched in November 2008, will assess debtor countries' current level of capacity, create a technical assistance program to address any weaknesses highlighted in the assessment, and help the debtor countries formulate and implement a medium-term debt strategy. Canada has played a strong leadership role in guiding the DMF's creation and implementation and will hold a seat on its Steering Committee for the next two years. This will help to ensure that priority issues of the Government of Canada are addressed, such as ensuring that countries that have benefited from substantial debt relief have the means necessary to maintain their debt levels at sustainable levels.

Implementation of improvements to Canada's competition and investment laws and policies were included in Budget 2009. These changes, which were based on the recommendations of the Competition Policy Review Panel, will help to better protect consumers and encourage new foreign investments while ensuring these investments do not jeopardize national security.

Budget 2009 included targeted support for traditional industries such as automobile manufacturing, forestry, shipbuilding, and tourism to help these industries invest in their long-term success and create new opportunities and jobs for Canadians in all areas of the country.

In 2008–09, the Department continued to contribute to the government-wide Paperwork Burden Reduction Initiative.[18] On March 20, 2009, the Government of Canada announced that the goal of a 20 per cent reduction in the federal paperwork burden on Canadian small businesses had been successfully met.

Environment and infrastructure

Budget 2009 contained a number of funding initiatives in support of the environment and infrastructure, including the following:

- green infrastructure projects, energy-saving home retrofits, and the remediation of federal contaminated sites;
- a new Clean Energy Fund that supports clean energy research, development, and demonstration projects;
- resources to accelerate and enhance infrastructure projects that support the government's long-term infrastructure agenda and provide a stimulus to the Canadian economy;
- the establishment of PPP Canada Inc., a Crown corporation that will spearhead federal efforts to promote the use of public-private partnerships in Canada; and
- the Home Renovation Tax Credit that is providing temporary support for eligible home renovation expenditures, including those that increase energy efficiency.

18. http://www.reducingpaperburden.gc.ca

In 2008–09, pursuant to a commitment in Budget 2009, the Department launched consultations on the potential extension of accelerated capital cost allowance to assets used in carbon capture and storage.

Provide support for advisory panels

Throughout 2008, the Department supported to the work of the Advisory Panel on Canada's System of International Taxation, including administrative support to ensure the effective functioning of the Panel and its secretariat, and responded to requests from the Panel for information. The Panel released its final report on December 10, 2008. In Budget 2009, the government indicated that it would study and respond to the Panel's report in due course and determine which consultations would be held. At the same time, the government took action to address certain issues that arose in the context of the Advisory Panel's report and merited a more immediate response.

An agreement was reached between the federal government and the Government of Nova Scotia to work together to implement the recommendations of the independent Crown Share Panel for past Crown Share Adjustment Payments, which would enable the calculation of Crown Share Adjustment Payments for future years. To this end, the government provided Nova Scotia with a payment of $234.4 million covering the period up to the end of 2007–08, and the Department is working with Natural Resources Canada and officials from the Government of Nova Scotia to develop regulations with respect to the Crown Share Adjustment Payments.[19]

On January 12, 2009, the Expert Panel on Securities Regulation released its final report, *Creating an Advantage in Global Capital Markets*, and a draft securities act. In Budget 2009, the government committed to move forward quickly with willing provinces and territories on a Canadian Securities Regulator on the basis of the Expert Panel's report. The Department supported this commitment by preparing for the establishment of the Transition Office,[20] which will be responsible for developing a transition plan and leading the transition to a Canadian Securities Regulator. The *Budget Implementation Act* provided the legal authority and mandate to set up the Transition Office.

Tax treatment agreements and treaties with Aboriginal governments

The Department works with Aboriginal governments to negotiate tax treatment agreements and the tax-related content of land claim, self-government, and modern treaty agreements. During

19. http://www.fin.gc.ca/n08/data/08-053_4-eng.asp
20. http://www.fin.gc.ca/n08/data/09-064_1-eng.asp

2008–09, negotiations were completed for treaty agreements and tax treatment agreements with two Aboriginal governments in British Columbia.[21]

Lessons Learned

Uncertainty of forecasting

To ensure objectivity and transparency, the economic forecast used to develop the Government of Canada's fiscal projections is based on an average of private sector economic forecasts. This process has been followed for over a decade, and the government continues to maintain this approach. However, given the considerable uncertainty about the future course of the economy, compounded by uncertainty about commodity prices and how they affect nominal income growth in Canada, Budget 2009 adjusted downward the private sector forecast for nominal GDP for budget planning assumptions. Further, in the June 2009 Report to Canadians,[22] the government, following a new survey of private sector economists, revised down the projections of nominal income growth. The government will continue to monitor economic developments with a view to providing an update to Canadians in the fall.

Sound structural policies

The severe financial market turmoil has taught important lessons to governments around the world about the composition, behaviour, and regulation of the financial sector. While the Canadian financial system has been among the most resilient in the world, there are a number of important areas where further action is warranted. The agenda for action is expected to require significant departmental resource commitments over at least the next two years.

Given the scale of the disruption and the economic consequence, measures taken to support access to financing will need to be sustained for a period of time in 2009–10, after which time the Department will need to work with the private sector to redevelop well-functioning markets and identify effective exit strategies.

A key role for the Department going forward will be to continue supporting the development and legislative implementation of a Canadian Securities Regulator, which will help to address financial stability risks. In addition, departmental action needs to be taken, in conjunction with partner agencies, to review the regulatory framework to better monitor and address systemic risks; to ensure the degree of oversight—for systemically important institutions and markets or instruments—is sufficient and the type of regulation applied is appropriate; and to strengthen other regulatory standards. This work will likely require legislative and regulatory initiatives by

21. For details on other treaty or tax treatment agreements, please see http://www.fin.gc.ca/access/tt-it/aboriginaltax-eng.asp.
22. http://www.fin.gc.ca/pub/report-rapport/2009-2/index-eng.asp

the Department to ensure the framework and regulatory tools in Canada remain at the leading edge of global practices.

Evidently, international coordination and surveillance were inadequate and did not provide an effective defence against excessive risk taking by financial institutions; therefore, there is a need for the Department to continue to play a leadership role in coordinated international efforts to help prevent future crises.

Based on input received from recently completed consultations, the Department plans to propose changes to the regulatory framework in 2009–10 to address the ongoing challenges facing federally regulated pension plans.

Supporting business competition, trade, and foreign investment

The urgency to quickly address the needs of business to access financing, new markets, and tariff relief on inputs was accentuated by following the global economic crisis.

Transfer payment programs

Transparency continues to be a priority to ensure accountability with respect to the transfer payment programs. The expectations of provinces, territories, and other parties (including academics) for more extensive consultations were not always met. Enhanced transparency, consultation, and engagement with respect to federal transfers are areas of focus for the Department in 2009–10. (See also PA 1.2 for additional information on transfer payments.)

Importance of setting objectives for tax policy

Establishing and communicating objectives for tax policy, to encourage collaboration and consensus among the different parties involved, is an important goal.

For example, to strengthen Canada's business tax advantage, in recent years the federal government has proposed the general elimination of capital taxes at both the federal and provincial levels of government—a move toward the goal of a 25-per-cent combined federal-provincial corporate statutory income tax rate and the creation of a fully modernized and efficient consumption tax system in Canada. Leadership in the setting of these national tax policy objectives has encouraged and facilitated discussions and collaboration among tax authorities across Canada, which are helping to improve Canada's overall tax efficiency, international competitiveness, and economic growth. This recent experience shows the importance of setting policy objectives for fostering collaboration among governments, with the ultimate goal of improving Canadians' living standards.

Managing ongoing workload arising from new policy initiatives

In 2008–09, the Department invested significant resources to design and implement new tax measures, such as the Registered Disability Savings Plan (RDSP), and to negotiate Tax Information Exchange Agreements with other countries. In addition, Budget 2009 contains several major initiatives under the Extraordinary Financing Framework (EFF) that give rise to substantial financial positions or contingent liabilities for the government that must be prudently managed and accounted for.

While the Department has managed to re-prioritize workload to ensure the initial policy development and design work is completed, these initiatives also generate ongoing workload, which has increased with the volume of new measures, particularly in the area of taxation. This will require the dedication of increased resources over the coming year.

Looking forward, other new initiatives may need to be developed to respond to the evolving financial market circumstances and to possible decisions by additional provinces to harmonize their retail sales taxes with the GST, which will also require additional resources. This includes further engagement in coordinated international efforts to address the financial crisis and help prevent future crises as well as various legislative and regulatory initiatives to ensure the framework and regulatory tools in Canada remain at the leading edge of global practices.

Program Activity 1.2: Transfer and Taxation Payment Programs

This program activity administers transfer and taxation payments to provinces, territories, and Aboriginal governments. Payments are made in accordance with legislation and negotiated agreements to enable Canadian provinces and territories to provide their residents with public services and to support Aboriginal self-government. This program activity also covers commitments and agreements with international financial institutions aimed at aiding the economic advancement of developing countries. These commitments can result in payments, generally statutory transfer payments, to a variety of recipients, including individuals, organizations, and other levels of government.

Program Activity: Transfer and Taxation Payment Programs					
2008–09 Financial Resources ($ millions)			2008–09 Human Resources (FTEs)		
Planned Spending	Total Authorities	Actual Spending	Planned	Actual	Difference
46,023.8	48,758.3	48,601.5	0	0	0
Expected Results	Performance Indicators	Targets	Performance Status	Performance Summary	
Payments to support Canadian provinces and territories in providing their residents with public services in areas of shared national priority and payments to international organizations to help promote of economic advancement of developing countries	Payments are made on time and according to levels and formulas set out in legislation and are audited by the Office of the Auditor General of Canada (OAG).	100 per cent	Met all	The transfer and taxation payments to Canadian provinces, territories, and Aboriginal governments were all made on time and according to levels and formulas set out in legislation or tax agreements. The OAG conducted a preliminary audit in March 2009 and did not report fault with the transfer payments system. The OAG annually audits the tax payments and did not report any material errors.	

Benefits for Canadians

The Department's work in 2008–09 to ensure the continued delivery of timely transfer payments to the provinces and territories—such as Equalization, Territorial Formula Financing, the Canada Health Transfer (CHT), and the Canada Social Transfer—helped to support the provision of public services, universally accessible health care services, post-secondary education, social programs, and other targeted areas.

During 2008–09, the Department effectively administered tax collection agreements with the provinces and territories, and tax administration agreements with Aboriginal governments, making accurate and timely payments. Tax collection agreements with provinces and territories allow the federal government to streamline service and reduce administrative costs by having a single tax form and a single tax collector. To support Aboriginal self-government, tax administration agreements with Aboriginal governments allow the federal government to vacate a negotiated portion of its GST and personal income tax room, to share it with Aboriginal governments, and to administer Aboriginal tax regimes.

Performance Analysis

Key initiatives identified in the Department of Finance Canada's 2008–09 RPP included:

Implementation of new fiscal arrangements

In 2008–09, the Department focussed on implementing the new fiscal arrangements flowing from Budget 2007 through the adoption of the required regulatory amendments, ensuring timely and accurate payments to provincial and territorial governments, consistent with the government's commitments and policy objectives. Adjustments were made to the formula for the CHT and for Equalization to ensure fairness for all provinces involved in the CHT and the continued sustainability and affordability of the Equalization program. These new arrangements were included in the *Budget Implementation Act, 2009*.

Tax collection agreements with provincial and territorial governments

The Department administers tax collection agreements for personal income tax with all provinces and territories (except Quebec) and for corporate income tax with all provinces and territories (except Alberta and Quebec). During 2008–09, an amendment to the Canada–Ontario TCA was signed to allow for the federal government to collect Ontario corporate taxes.

In addition to making timely and accurate payments to provinces and territories under the tax collection agreements, the Department reviewed provincial income tax changes for the purposes of federal administration under the agreements.

Comprehensive Integrated Tax Co-ordination Agreements with provincial governments

The Department also continued to effectively manage the terms of the Comprehensive Integrated Tax Co-ordination Agreements with Newfoundland and Labrador, Nova Scotia, and New Brunswick, including the provision of the estimates under Annex A of the agreements, which ensures that each province receives its share of the revenues assessed under the GST/Harmonized Sales Tax (HST).

Tax administration agreements with Aboriginal governments

During 2008–09, new administration agreements for the First Nations goods and services tax (FNGST) were concluded and signed with four Aboriginal governments in western Canada.[23]

Revenue Allocation Framework under the Comprehensive Integrated Tax Co-ordination Agreements

In 2008–09, the Department continued to work with officials in the three Atlantic provinces covered by the Revenue Allocation Framework to ensure that all parties to the agreements receive their revenue from the HST in an efficient and effective manner.

Payments to provincial and territorial governments, international financial organizations, and Canadian creditors

In 2008–09, Canada made all transfer payments to provincial and territorial governments on time. It also made debt-relief payments on time. These payments help poor countries achieve debt sustainability. The Department also provided timely payments to a number of international financial organizations. For instance, Canada proceeded with the scheduled encashment of promissory notes for the European Bank for Reconstruction and Development (EBRD) under the institution's last capital increase in 1998. This additional capital helps the EBRD better respond to the significant financing needs of its regional countries during the global economic crisis.

The Department's efforts in administering Canada's international financial commitments and various related transfer payments helped to reduce the debt load of developing countries, provide grants to the world's poorest countries to support poverty reduction and economic growth, and foster a transition toward open, market-oriented economies.

Lessons Learned

Transfer payment programs

Because many of the major transfer programs to provinces and territories use economic and fiscal data in their formulas, transfer programs are not immune to the impact of global and

23. For more information on other tax administration agreements, visit http://www.fin.gc.ca/access/tt-it/aboriginaltax-eng.asp.

national economic volatility. In this context, the Department's initiative to provide Equalization payment information for 2009–10 well in advance of the legislated release date allowed for provinces to better plan their 2009–10 budgets. In the coming years, in addition to work to improve transparency and provincial-territorial engagement (see PA 1.1), the Department will work to ensure the accuracy, efficiency, and predictability of federal transfers in preparation for the next renewal of the fiscal arrangements (currently legislated until 2013–14).

The Department will continue to strive to maintain its target of 100 per cent in terms of accurate and on-time transfer of funds to provinces and territories. It will also work to improve the models used in the computation of transfer payments to respond to information requests in a more timely and transparent manner.

Equalization payments

Changes to the transfer programs announced in Budget 2007 as well as the changes to the Equalization program announced in 2008–09 may have simplified the calculation of payments in many respects but have added a layer of complexity to the computation of some of the transfer payment programs. The Department will continue to strive to maintain its target of 100 per cent in terms of the accuracy and timeliness of the transfer of funds to provinces and territories and will work to improve models to allow the Department to be able to respond to information requests on the computation of transfer payments in a more timely and transparent manner.

Multilateral Debt Relief Initiative

Canada makes payments to the International Development Association (IDA) of the World Bank and the African Development Fund (AfDF) to cover its share of the Multilateral Debt Relief Initiative (MDRI). To further strengthen the commitment to IDA and the AfDF, Canada resubmitted new Instruments of Commitment to the institutions with an accelerated payment schedule and accordingly made a payment of $107.84 million to the AfDF and $41.44 million to IDA to cover our share of the costs of the MDRI.

The current payment vehicle for Canada's MDRI contributions is not conducive for this type of payment as it does not effectively secure funds for this Initiative. Going forward, the Department will examine ways to make the payment vehicle better suited to the specific parameters governing Canada's commitment to the MDRI.

Debt payments to Canadian creditors (bilateral debt relief)

Slight variations between planned and actual spending are attributable almost exclusively to certain countries failing to meet the requirements of their IMF programs, which led to a delay in debt forgiveness for these countries. A small amount of the variance is due to interest rate and currency fluctuations, which could not be anticipated.

Program Activity 1.3: Treasury and Financial Affairs

Canada's debt and reserves management activities include the funding of government operations, which involves the payment of debt service costs and investments in financial assets that are needed to maintain a prudent liquidity position. This program activity supports the ongoing refinancing of government debt coming to maturity, the execution of the budget plan, and other financial operations of the government, including governance of the borrowing activities of major government-backed entities such as Crown corporations. The program area also includes oversight of the system of circulating Canadian currency (banknotes and coins) to meet the needs of the economy.

Program Activity: Treasury and Financial Affairs					
2008–09 Financial Resources ($ millions)			2008–09 Human Resources (FTEs)		
Planned Spending	Total Authorities	Actual Spending	Planned	Actual	Difference
33,830.0	162,075.8	162,075.8	29	24	5
Expected Results	Performance Indicators	Targets	Performance Status	Performance Summary	
Prudent and cost-effective management of the government's treasury activities and financial affairs	Public debt structure	60 per cent fixed-rate debt	Met all	As a result of the rapid increase in issuance levels stemming from the need to fund the Insured Mortgage Purchase Program and other measures—planned to be achieved through a relatively higher proportion of short-term debt—the fixed-rate share of the debt fell to 57 per cent in 2008–09.	
	Measures of market performance	Well-bid and well-covered auctions	Met all	All bill and bond operations were fully covered and raised their allocated amount of funding.	
	Market consultation	Positive feedback from market participants on initiatives	Met all	A series of consultations were undertaken. Views expressed by market participants were taken into consideration in the development of the debt management strategy.	

Benefits for Canadians

Managing public debt effectively helps keep public debt costs low and financial markets functioning well. Fiscal savings from debt management better positions Canada to weather economic storms and improves intergenerational equity by ensuring that future generations do not have to pay for the benefits received by their predecessors. In 2008–09, fiscal savings from previous years helped to fund the stimulus initiatives contained in Budget 2009.

Performance Analysis

The general objectives of meeting the operational needs of the government and the Crowns operational needs, maintaining a prudent financial position, conducting effective operations, and sustaining a well-functioning Government of Canada securities market were maintained in 2008–09. However, as a result of the dramatic changes in the economic outlook and fiscal plan during the year, the Department was required to address major strategic and operational challenges in managing the Treasury and Financial Affairs program activity.

To meet the fiscal needs stemming from measures to support access to credit and from higher government spending, the Department, in conjunction with the Bank of Canada, substantially increased the size of the federal borrowing program. The bond program was increased by 114 per cent, from $35 billion in 2007–08 to $75 billion in 2008–09, while the Treasury bill stock was increased by $79 billion to $196 billion. Despite the increase, all operations were conducted successfully, with strong bidding at auctions. The Department also worked closely with the Crown corporations that supported EFF initiatives to ensure that their funding requirements were effectively met.[24]

The Department provided advice to the Minister on his responsibilities for the effective functioning of the domestic currency system, which primarily involve the production of counterfeit-resistant banknotes by the Bank of Canada and the cost-efficient production of circulating coinage by the Royal Canadian Mint. In 2008–09, new banknote designs were reviewed and further analysis was undertaken on the coinage system.

Lessons Learned

The strategic and operational challenges faced in 2008–09 underlined the value of the Department's past efforts to maintain diversified, flexible borrowing programs and consolidate the borrowings of most of the financial Crown corporations.

Looking forward, the measures in Budget 2009 will require a continued increase in federal borrowing in 2009–10. This increase is planned to be met through measures announced in

24. http://www.budget.gc.ca

Budget 2009 under Annex 4 “Debt Management Strategy 2009–2010.”[25] However, the timing and amount of financial requirements is expected to be variable and depend in part on the degree and pace of private market recovery. To support a well-functioning market in Government of Canada securities through transparency and predictability regarding borrowing operations, updates to the Debt Strategy will be published periodically and consultations with market participants will be undertaken as required.

More generally, the Department will also need to continue to advise the Minister on prudent and cost-effective management of a growing debt stock, the management of the foreign reserve portfolio, and means to enhance the currency system.

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25. http://www.budget.gc.ca/2009/plan/bpa4-eng.asp

Section III: Supplementary Information

Financial Highlights

($ thousands)			
Condensed Statement of Financial Position At March 31, 2009	**% Change**	**2009**	**2008**
ASSETS			
Total Assets	+146	144,039,291	58,526,784
TOTAL	**+146**	**144,039,291**	**58,526,784**
LIABILITIES			
Total Liabilities	+30	523,766,016	403,311,572
EQUITY			
Total Equity	+10	(379,726,725)	(344,784,788)
TOTAL	**+146**	**144,039,291**	**58,526,784**

($ thousands)			
Condensed Statement of Financial Position At March 31, 2009	**% Change**	**2009**	**2008**
EXPENSES			
Total Expenses	–3	76,728,369	79,388,617
REVENUES			
Total Revenues	+12	5,439,058	4,830,065
NET COST OF OPERATIONS	**–4%**	**71,289,311**	**74,558,552**

The significant increase in Total Assets is primarily attributable to the launch of the Consolidated Borrowing Program in April 2008. Crown corporations will no longer be issuing debt in the capital and money markets, but rather will be borrowing directly from the Government of Canada.

The increase in Total Liabilities is primarily attributable to the increase in Unmatured debt and other financial instruments.

Financial Statements

The Department of Finance Canada's *Unaudited Financial Statements* for 2008–09 can be found online at http://www.fin.gc.ca/afc/pp-pr-eng.asp.

List of Supplementary Information Tables

Table 1: Sources of Respendable and Non-Respendable Revenue

Table 2: Details on Transfer Payment Programs

Table 3: Horizontal Initiatives

Table 4: Sustainable Development Strategy

Table 5: Green Procurement

Table 6: Response to Parliamentary Committees and External Audits

Table 7: Internal Audits and Evaluations

The Supplementary Information Tables can be found online at http://www.tbs-sct.gc.ca/dpr-rmr/2008-2009/inst/fin/st-ts00-eng.asp.