

Introduction

Mr. Chairman.

I appreciate this opportunity to meet with you and the members of the Committee today to discuss the Auditor General's study on Federal Transfers to Provinces and Territories. With me is Barbara Anderson, Assistant Deputy Minister of the Federal-Provincial Relations Division and Social Policy Branch at Finance.

Also with me is Alfred MacLeod, Assistant Deputy Minister of Intergovernmental Policy from the Privy Council Office, Department of Intergovernmental Affairs.

The Auditor General and her staff are to be commended for their ability and willingness to shed some light on these complex yet vital programs, and to communicate their conclusions in a succinct, but comprehensive manner.

In 2009-10, the Department of Finance is responsible for administering over \$52 billion in federal cash transfers to the provinces and territories.

This is a responsibility the Department carries out with the utmost regard for accuracy and fairness, and our record in this respect is one we can take pride in.

Transfers provide principled and growing financial support for the delivery of shared priorities, including the health and social programs that are so important to Canadians.

I'd like to take a moment to consider some of the fundamental principles and structures that are central to our administration of the transfer system.

As the Auditor General's study indicates, there are four main transfer programs: The Canada Health Transfer (CHT), the Canada Social Transfer (CST), Equalization and Territorial Formula Financing (TFF).

The CHT and CST are conditional equal per capita transfers which supports specific policy areas such as health care, post-secondary education, social assistance and social services, and programs for children.

Equalization and Territorial Formula Financing, on the other hand, are formula-based, unconditional transfers, which mean that provinces and territories are able to direct funds to their own priorities.

Equalization enables less prosperous provincial government to provide their residents with public services that are reasonably comparable to those in other provinces, at reasonably comparable levels of taxation.

TFF similarly provides territorial governments with funding to support public services in recognition of the higher cost of providing programs and services in the north.

It is important to bear in mind that during these challenging economic times, these transfers are providing unprecedented and growing financial support to provincial and territorial government to assist them in the provision of programs and services. In 2009-10, the Government of Canada provides:

- \$24 billion through the CHT. This funding is legislated to grow at 6 per cent annually until 2013-14. This substantial federal support reflects commitments made in Budget 2007 and our ongoing commitment to the implementation of the 10 Year Plan to Strengthen Health Care;
- \$10.9 billion through the CST, growing at 3 per cent annually until 2013-14, again reflecting commitments made in Budget 2007;
- \$14.2 billion in Equalization payments. Support through the Equalization program has grown by 55 per cent over the last five years and will continue to grow in line with the economy; and
- \$2.5 billion in TFF payments. This support for the three territories remains on a sustainable growth path

Provinces and territories also benefit from support for infrastructure, training and skills development, and housing, which brings total federal support to an all-time high of nearly \$60 billion.

In addition to the major transfers, the Auditor General's study examined the use of trust funds to provide funding to provinces and territories.

The objective of trust funds is very clear. They are transparent financial vehicles that the Government of Canada uses to transfer targeted funds to provinces and territories for short-term, urgent pressures in areas of shared national priority.

Trust funds also offer flexibility to provinces and territories to either draw down any funds immediately or over a specified long period of time, according to their respective needs and priorities and accounting practices.

Trust funds are very similar to the major transfer programs. Regardless of whether federal funding flows through major transfers or trust funds, provinces and territories are accountable to their residents, legislatures, and auditors general on how they spend the funds.

Public accountability is the cornerstone of a mature federation. In the Canadian context, it reflects the respect for the roles and responsibilities of two distinct levels of government in our federation,

which is one of the most open and decentralized in the world.

Mr. Chairman, I appreciate this opportunity to review the nature of federal transfers to the provinces and territories, and we look forward to answering any questions Committee members may have.

Thank you.