Department of Finance Canada

Departmental Performance Report

For the period ending
March 31, 2008

James M. Flaherty
Minister of Finance

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Section I: Overview

Minister's message

The Department of Finance Canada plays a vital role in helping the Government of Canada develop social and economic policies to continue improving the standard of living and quality of life of Canadians, their families, and their communities in the years to come.

The Honourable James M. Flaherty

Over the last year, the Department has continued building on *Advantage Canada*, the Government's long-term economic plan, and the foundation on which we base new policy ideas.

For example, last fall's Economic Statement introduced broad-based tax reductions for individuals, families, and businesses of $60 billion over 2007–08 and the following five fiscal years. The broad-based tax reductions included acceleration and deepening of the Government's previously announced corporate income tax (CIT) reductions, bringing the federal CIT rate to 15 per cent by 2012. The Statement also included an additional one-percentage-point reduction in the GST, effective January 1, 2008, fulfilling the Government's commitment to reduce the GST to 5 per cent.

By moving early to stimulate the Canadian economy, we anticipated the global economic slowdown and helped cushion its effects on our country's future economic and fiscal health. This decisive action was further enhanced in Budget 2008, a balanced, focussed, and prudent plan to strengthen Canada amid deepening global economic uncertainty.

Budget 2008 contained provisions for reducing debt and taxes, focussing government spending, and providing additional support for sectors of the economy in most need. It also introduced the Tax-Free Savings Account, a general-purpose account that will allow Canadians to watch their savings—including interest income, dividend payments, and capital gains—grow tax-free.

Though we have a bright and promising future, Canada is not an island. Many challenges are still to be met. Nevertheless, as a result of our strong economic fundamentals, we are in a good position to weather the current economic storm.

By focussing on four key priorities—ensuring sound fiscal management, promoting sustainable economic growth, fostering a sound social policy framework, and providing effective international influence—the Department of Finance Canada has demonstrated vision, commitment, and leadership for the benefit of all Canadians.

This Departmental Performance Report highlights the department's many successes in strengthening our economic fundamentals and better positioning Canada to compete in the highly competitive global economy.

Management representation statement

I submit for tabling in Parliament the *Department of Finance Canada 2007–08 Departmental Performance Report (*DPR).

This document has been prepared based on the reporting principles contained in the *Guide to the Preparation of Part III of the 2007–08 Estimates: Reports on Plans and Priorities and Departmental Performance Reports*:

- It adheres to the specific reporting requirements outlined in the Treasury Board of Canada Secretariat guidance;
- It is based on the department's approved strategic outcome and Program Activity Architecture (PAA) that were approved by the Treasury Board;
- It presents consistent, comprehensive, balanced, and reliable information;
- It provides a basis of accountability for the results achieved with the resources and authorities entrusted to the Department; and
- It reports finances based on approved numbers from the Estimates and the Public Accounts of Canada.

Rob Wright
Deputy Minister

Summary information

Department's 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, 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 the widest range of issues affecting Canadians.

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 ministers are supported with first-rate analysis and advice.

Financial Resources ($ thousands)

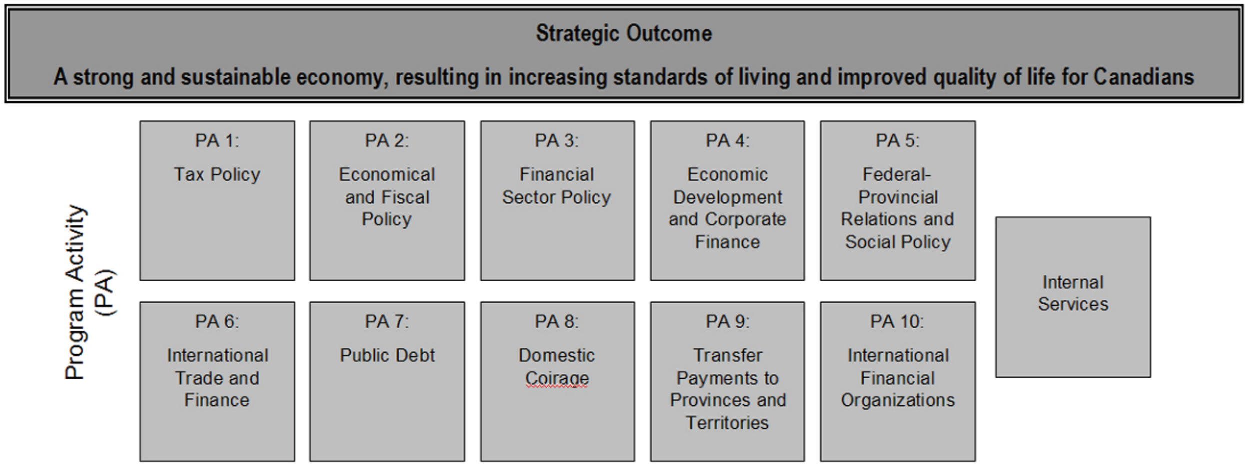
	2007–08	
Planned Spending	Total Authorities	Actual Spending
75,817,194	86,583,644	86,379,638

Human Resources (Full-Time Equivalents—FTEs)

	2007–08	
Planned	Actual	Difference
798	790	8

Program Activity Architecture

The Department of Finance Canada's PAA, used as the basis for the 2007–08 Report on Plans and Priorities, includes ten program activities (plus internal services) supporting the achievement of one strategic outcome, as follows:



In 2007, the Department revised its PAA to focus on three main activities: economic and fiscal policy making; transfer payments to provinces, territories, and international organizations; and the management of Government of Canada debt. The Department also developed a performance measurement framework that will help improve reporting to Parliament. This revision was reflected for the first time in the 2008–09 Report on Plans and Priorities.

However, to ensure consistency with performance expectations set out in the 2007–08 Report on Plans and Priorities and to maintain good links between performance and plans, performance information in this year's DPR is presented using the earlier PAA.

Summary of departmental performance

The following provides an overview of the strategic outcome, priorities, and program activities of the Department of Finance Canada and associated results, resources, and performance status for 2007–08.

Departmental Priorities

Name	Type	Performance Status
Priority 1: Sound Fiscal Management	Ongoing	Successfully met
Priority 2: Sustainable Economic Growth	Ongoing	Successfully met
Priority 3: Sound Social Policy Framework	Ongoing	Successfully met
Priority 4: Effective International Influence	Ongoing	Successfully met

Program Activities by Strategic Outcome

Program Activity and Expected Results	Performance Status	2007–08 ($ thousands) Planned Spending	Actual Spending[1]	Contributes to the Following Priority
Strategic Outcome: A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians				
Program Activity 1: Tax Policy				
Improving the fairness, efficiency, and competitiveness of the personal, corporate, sales, and excise tax systems while raising the required amount of tax revenue	Successfully met	30,400	31,123	1, 2, 3
Sound fiscal relationships with provinces, Aboriginal governments, and other countries	Successfully met	2,288	2,343	1, 2, 3
Program Activity 2: Economic and Fiscal Policy				
Transparent fiscal planning and sustainable fiscal policy	Successfully met	6,229	6,404	1
Effective analysis of economic performance	Successfully met	8,778	8,843	2
Program Activity 3: Financial Sector Policy				
Prudent and cost-effective treasury management of the borrowing activities of Crown corporations and the government's investment portfolios	Successfully met	3,370	904,770	1
A regulatory framework that promotes a sound, efficient, and competitive Canadian financial sector that serves the needs of individuals, businesses, and the economy	Successfully met	10,599	2,845,649	2
A legislative and regulatory framework that ensures the security and viability of federally regulated defined benefit pension plans	Successfully met	971	262,675	3
An effective anti-money laundering and anti-terrorist financing framework	Successfully met	3,172	851,262	4

1. For an explanation of the spending variances shown in the chart, please see the description of each program activity in Section III.

Program Activity 4: Economic Development and Corporate Finance				
Sound advice to the Minister on economic, funding, and policy proposals	Successfully met	8,289	7,995	1, 2, 3
Program Activity 5: Federal-Provincial Relations and Social Policy				
A principled framework to restore fiscal balance in Canada	Successfully met	7,032	7,237	1
Sound advice to the Minister on government social policy priorities	Successfully met	5,265	5,460	3
Program Activity 6: International Trade and Finance				
Secure access to key markets for Canadian exporters and investors	Successfully met	6,445	6,570	2
Canadian leadership and influence in the international forums on international economic, financial, development, and trade finance issues	Successfully met	9,433	9,454	4
Program Activity 7: Public Debt				
Stable low-cost financing for the Government of Canada	Successfully met	34,597,000	33,116,651	1
A well-functioning market in Government of Canada securities	Successfully met	100,000	95,721	1
Program Activity 8: Domestic Coinage				
A supply of coinage at a reasonable cost	Successfully met	145,000	182,736	1
Program Activity 9: Transfer Payments to Provinces and Territories				
Administration of federal transfers to the provinces and territories including Equalization, Territorial Formula Financing, Canada Health Transfer, and Canada Social Transfer	Successfully met	40,328,203	47,211,456	3
Program Activity 10: International Financial Organizations				
Payments to international organizations and Canadian creditors consistent with our commitments	Successfully met	544,717	823,289	4

Operating environment and context

The Department of Finance Canada is dedicated to the creation of a strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians. To that end, the Department continues to work to maintain a balanced approach that will ensure a sustainable fiscal structure and encourage a more productive, competitive, and dynamic Canada while, at the same time, supporting and sustaining Canadian society.

Departmental priorities

The Department of Finance Canada's plan of action for 2007–08 was guided by four ongoing priorities: ensuring sound fiscal management; promoting sustainable economic growth; fostering a sound social policy framework; and providing effective international influence.

Priority 1: Sound Fiscal Management

A strong economy requires sensible, strong financial management and leadership. Canada's solid macroeconomic framework underpins economic growth and helps ensure the sustainability of Canada's social safety net. A sound fiscal structure also includes a competitive, efficient, and fair tax system to promote economic growth, create jobs, and boost living standards in a fiscally sustainable manner. The Department of Finance Canada plays a major role in sound fiscal management by keeping the government focussed on what it does best: improving services, helping to build a climate for the overall economy to perform better, and ensuring responsible spending, efficient operations, and effective results for taxpayers.

Priority 2: Sustainable Economic Growth

Promoting the competitiveness, efficiency, safety, and soundness of Canada's financial sector and ensuring that domestic financial markets function well are necessary conditions for achieving sustainable growth in the Canadian economy. As the government's source of analysis and advice on economic and fiscal matters, the Department helps to ensure that policies and programs create the conditions necessary for sustainable long-term economic growth by supporting business investments and research and development (R&D) and by helping Canadians meet the demands of the global economy. The Department also assists government partnerships with the provinces, territories, and the private sector in strategic areas that contribute to strong economies, including primary scientific research, a clean environment, and modern infrastructure.

Priority 3: Sound Social Policy Framework

Long-term, predictable, stable, formula-based transfer support for provinces and territories and improvements to the social policy framework contribute to improved public services for Canadians. The Department plays a key role in this regard by designing and administering transfers to provincial and territorial governments that assist provinces and territories in providing important programs and services for Canadians, including health care, education, social programs, and infrastructure. Through its analysis and advice, the Department also helps advance government objectives supporting the quality of Canada's communities, health care, education, social safety net programs, and equality of opportunity for all citizens.

Priority 4: Effective International Influence

In an increasingly competitive and integrated global economy, Canada must work to maintain secure and open borders, strengthen global growth and stability, advance the country's trade and investment interests, help foster development aimed at reducing global poverty, and advance international standards to prevent abuses to the international financial system, including anti-terrorist financing measures. The Department contributes to policies and measures designed to achieve these objectives by representing Canada in a wide range of international financial institutions and economic organizations. It also assists the government in creating the right economic conditions to encourage Canadian firms to invest and flourish and to be open to trade and foreign investment. As a result, goods, services and technologies can flow freely into Canada, and Canadian firms can have ready access to foreign markets to compete with the world's best.

Key partners and clients

The working environment of the Department is characterized by a strong commitment to consultation, coordination, and collaboration with a wide range of partners and client groups and a dynamic engagement with a rapidly changing global economy. An important component of the work conducted by the Department involves consultation and collaboration with partners in both the public and private sectors. This keeps the Department attuned to the interests and pressures faced by other government departments and stakeholders. Its primary partners and clients include Parliament and parliamentary committees; provincial, territorial, and Aboriginal governments; other departments and agencies; Crown corporations; Canadian interest groups; tax professionals; financial market participants; the international economic and finance community; the international trade community; and civil society more broadly.

The Department's activities are also undertaken in the context of a rapidly integrating, technology-driven global economy. Events that take place far from Canada can have a powerful effect, both adverse and beneficial, on Canada's economy. To support its work on international economic issues, including international trade negotiations and initiatives to enhance the competitiveness of Canadian industry through tariff relief measures, the Department holds domestic consultations not only within the federal government but also with provincial and territorial governments, the private sector, and the Canadian public.

The Department also plays 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. It also plays a lead role in managing the country's activities related to international financial institutions and organizations, such as the International Monetary Fund (IMF), the World Bank, the European Bank for Reconstruction and Development (EBRD), the Financial Stability Forum, and the Financial Action Task Force on Money Laundering.

Challenges and opportunities

The Canadian economy has experienced solid growth for 16 consecutive years, and its economic fundamentals are strong:

- The budget is balanced;
- Unemployment is near its lowest point in a generation;
- Interest rates are low;
- Inflation remains low, stable, and predictable;
- Business and household finances are strong, and the federal, provincial, and territorial governments also remain in a strong fiscal position;

- Canada is one of the few countries in the world with sound public pension plans; and
- Canada is on the best fiscal footing of the major Western industrialized countries, with the largest budgetary surplus as a share of gross domestic product (GDP) and the lowest debt burden in the G7.

The Canadian economy successfully dealt with a number of challenges in 2007–08, including a weakening U.S. economy and increased volatility in global financial markets. The higher Canadian dollar continues to present a challenge to export-intensive sectors, most notably manufacturing and forestry. In addition, Canada's population is aging, putting pressure on government programs and services, and a shortage of skilled workers in a number of sectors is already apparent.

The government's long-term economic plan, entitled *Advantage Canada*, aims to foster conditions in which all Canadians can reach their full potential. It is creating an environment that welcomes investment and encourages businesses to flourish.

Advantage Canada is the prism through which the government analyzes policies—whether they are fiscal ideas; entrepreneurial ideas; ideas related to post-secondary education, research, and development; or tax ideas—and determines whether these are policies or strategies that Canada should be adopting.

The Department worked extensively in 2007–08 to implement the priorities set out in *Advantage Canada*, including releasing *Mobilizing Science and Technology to Canada's Advantage* (also known as Canada's science and technology strategy), helping to increase the use of public-private partnerships, and leveraging investment in infrastructure through the establishment of a new Crown corporation, PPP Canada Inc.

The government's ambitious policy agenda, which has resulted in almost 150 tax measures' being announced since Budget 2006, together with the increased activity associated with a minority Parliament, have caused a substantial increase in the demand for advice from the Department of Finance Canada. In particular, private members' bills have resulted in a realignment of departmental priorities and resources, given the risk these bills pose to the government's fiscal position.

As well, the Government has made restoring fiscal balance a key priority, which includes renewing and strengthening major federal transfers and ensuring greater accountability of government through the clarification of roles and responsibilities. This priority has major implications for the work of the Department, particularly given its responsibilities with respect to fiscal arrangements and federal-provincial-territorial relations more broadly. For example, the analysis and advice supporting significant changes to major transfers created considerable ongoing workload pressures to ensure that legislation and regulations were updated to reflect the new program commitments, that internal data collection and calculation methodologies were established and tested, and that provincial and territorial colleagues were kept up to date with respect to the new transfer arrangements.

As a result of the Strategic Review conducted in 2007–08, the Department of Finance Canada is improving the efficiency of its operations and general administration—for example, by refocussing long-term tax policy research, reassigning tax policy analysis responsibilities, and investigating the use of new database software to allow for more robust modelling capacity as well as more powerful storage and backup capacity. The Department is also re-examining and adjusting its plans to ensure ongoing support for highest-priority activities, for example, timely, accurate payment of major transfers and provision of analysis and advice.

Additionally, due to competitive labour markets, the Department faced challenges in 2007–08 in recruiting and retaining the talent needed to meet the increasing demands of a changing economy. To this end, the Department actively participated in recruitment efforts, which include its university recruitment program, as well as succession planning to ensure a full complement of economists, analysts, taxation specialists, and managers to deliver on the Department's challenging mandate.

Overall departmental performance

Over the course of 2007–08 the government has reduced the public debt burden, delivered significant tax relief to all Canadians, and invested in important economic and social priorities.

Recent government initiatives have helped to create an environment that enhances productivity through broad-based personal income tax cuts, corporate tax cuts, a new Tax-Free Savings Account to help Canadians save for their future, investments in infrastructure and skills training, and one of the most generous tax regimes in the world in support of research and development.

The government has also made it clear that it wishes to work with the provinces to help them contribute to the creation of a more competitive tax system. These initiatives will help Canada successfully compete in the increasingly competitive and volatile global marketplace.

Building on a sound economic and fiscal policy framework

Canada's solid macroeconomic framework, which includes transparent fiscal management and a competitive, efficient, and fair tax system, has placed Canadians in a good position to weather both domestic and global economic uncertainties. A key focus for the Department in 2007–08 was to monitor and assess the implications for the Canadian economy of the U.S. economic slowdown and financial market turbulence, as well as the continuing adjustment of the domestic economy to the higher Canadian dollar. The Canadian economy continued to grow at a relatively robust pace of 2.7 per cent in 2007, second only to the U.S. among G7 countries.

The Department contributed to the development and implementation of the October 2007 Economic Statement and Budget 2008. Both documents put in place important measures to support the economy, providing broad-based tax reductions for individuals, families, and businesses worth $60 billion over 2007–08 and the following five fiscal years. Since Budget 2006, total tax relief over the same period is close to $200 billion.

In addition, Budget 2008 built on the government's strong record by doing the following:

- keeping the federal debt-to-GDP ratio on a sustainable downward trajectory by working to reduce the ratio to 25 per cent by 2011–12;
- delivering the benefits of lower debt to Canadians through the Tax Back Guarantee—by 2009–10, $2 billion in annual interest savings will be dedicated to ongoing personal income tax relief;
- keeping spending focussed and disciplined by requiring federal organizations to conduct regular Strategic Reviews of their programs and spending—as a result, some $386 million in annual savings were identified and reallocated to higher priorities in Budget 2008; and
- providing more long-term and predictable funding for infrastructure, making gas tax funding for municipalities permanent, and providing additional funding for public transit.

The Department also worked with governments in other countries to review, improve, and expand Canada's network of international tax treaties and to obtain tax information exchange agreements with non–tax treaty jurisdictions. Tax treaty negotiations with Spain, Greece, and Colombia were announced during 2007–08.

A fifth set of changes to the Canada–U.S. Income Tax Convention—known as the Fifth Protocol—was signed in September 2007 and enacted into Canadian law in December. The Protocol, which is a major updating of the treaty, will enter into force once it is ratified by the U.S. In addition, an updated tax treaty with Mexico entered into force on April 12, 2007.

Following commitments made in Budget 2007 in support of financial stability, the Department further implemented legislation and regulations to ensure greater certainty in the treatment of eligible financial contracts in insolvency, and it provided certain immunities to the Bank for International Settlements in recognition of its role in enhancing global stability.

On March 29, 2007, Bill C-37, *An Act to amend the law governing financial institutions and to provide for related and consequential matters*, came into force, and the first package of regulations to implement the legislation came into force on March 8, 2008. During 2007–08, the Department of Finance Canada also worked on the development of regulations associated with Bill C-57, *An Act to amend certain Acts in relation to financial institutions*, which modernized the governance framework for federal financial institutions and updated certain governance standards that are unique to financial institutions.

The Department of Finance Canada also continued to take the lead role in Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime, which combats money laundering and terrorism financing by providing appropriate tools to law enforcement while respecting the privacy of Canadians and conforming to international standards. For example, the majority of regulations required to implement Bill C-25, *An Act to amend the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and the Income Tax Act and to make a consequential amendment to another Act*, were finalized in 2007–08 and are expected to come into force in 2008–09.

Budget 2008 announced reinvestments over the next two years to strengthen Canada's international network and extend its reach to new markets. The Department worked on a number of tariff relief initiatives to enhance the competitiveness of Canadian industry, which provided relief of some $170 million in payment of customs duties on current and future importations.

In 2007–08, the Department worked with other government departments to advance work under the Security and Prosperity Partnership of North America (SPP), which included steps to fund initiatives based on commitments made at the North American Leaders' Summit in Montebello, Quebec, in August 2007.

The Department also worked closely with other government departments to ensure that the border is secure and conducive to trade. To this end, Budget 2008 announced significant funding over two years for initiatives to ensure that the Canada Border Services Agency has the resources needed to effectively manage the border, implement a higher-security 10-year electronic passport by 2011, expand the joint Canada–United States New Exporters to U.S. South (NEXUS) program for low-risk frequent travellers across the border, and support provinces and territories that are planning to introduce an enhanced driver's licence.

Fulfilling obligations with respect to transfer programs

The Department administers transfer programs to provinces and territories in support of the quality of Canada's communities, health care, education, and social safety net, as well as efforts to enhance the equality of opportunity for all citizens.

In 2007–08, the Department restructured the Equalization and Territorial Formula Financing (TFF) programs, consistent with Budget 2007. Equalization returned to a formula basis, using a higher 10-province standard, a new approach to the treatment of natural resource revenues, and a fiscal capacity cap. Combined, these measures strengthened the program to bring it in line with the Constitutional commitment to provide payments to ensure reasonably comparable services at reasonably comparable levels of taxation. The new formulas were used to determine payments for 2007–08.

Over the course of 2007–08, Canada Health Transfer (CHT) and Canada Social Transfer (CST) estimates of payments were calculated and released on a semi-annual basis. The CST was also renewed and strengthened, with the addition of $687 million to support the move to equal per capita cash, an additional $250 million annually for child care, as well as $800 million annually for post-secondary education. The funding is now legislated to 2013–14 with annual growth of three per cent, to ensure stable, predictable, and growing federal support for a range of social programs.

In 2007–08, the Department also provided timely payments to a wide range of international financial organizations and Canadian creditors, consistent with the Department's commitments, which play an important role in mobilizing resources for poverty reduction in low-income and least-developed countries. For example, in December 2007, Canada committed $1.3 billion to the International Development Association (IDA) of the World Bank to support poverty reduction programs and projects in the world's poorest countries.

Canada's participation in both bilateral and multilateral debt relief initiatives has also helped recipient countries redirect freed-up resources to poverty reduction initiatives to improve the lives of their citizens and reach their long-term development goals. For example, Canada contributed $44 million to clear Liberia's payments in arrears to international financial institutions, which, along with contributions from other G8 countries, cleared the way for Liberia to become eligible for $3 billion in debt relief.

Providing critical treasury and financial affairs operations

The Government is committed to ongoing, measured debt reduction, planning debt reduction of $10.2 billion for 2007–08, $2.3 billion for 2008–09, $1.3 billion for 2009–10, and $3 billion per year for 2010–11 to 2012–13. This will allow the Government to meet its commitment to reduce the debt-to-GDP ratio to 25 per cent by 2011–12, three years ahead of the original target date. To underscore the importance of these measures, with the $10.2 billion in planned debt reduction for 2007–08, the national debt will have been reduced by more than $1,500 for every man, woman, and child in Canada since the Government came to power in January 2006.

A realignment of organizational responsibilities for the retail debt program, involving the closure of the Canada Investment and Savings Agency and the transfer of responsibilities to the Bank of Canada and the Department of Finance Canada, was also successfully completed in 2007–08.

Advancing the management agenda

The Department is renewing and strengthening its commitment to values and ethics in order to ensure that departmental personnel continue to observe the highest standards of professional ethics and conduct. To that end, a new position of Director of Values and Ethics has been created and is anticipated to be filled in summer 2008. Among other duties, the Director will ensure that all persons working in the Department comply with the *Values and Ethics Code for the Public Service* and with the Department's conflict of interest code. The Department also adopted new policies and procedures mandated by the coming into force of the *Public Servants Disclosure Protection Act* in April 2007.

The decision to focus on the conflict of interest code followed senior management's identification of conflict of interest as an important risk for the department to manage. Risk management—a key building block for good governance and accountability—is also well ingrained in the decision-making and resource allocation processes of the Department. In November 2007, the Department's senior management approved a corporate risk profile, identifying key corporate risks and mitigation strategies. The profile also established a risk management framework for the Department to help guide its management decisions as part of its business planning activities, priority setting activities, and resource allocation choices.

The Department has a strong commitment to accountability and risk management in its day-to-day business. To this end, the Department has adopted an integrated corporate business planning and resource allocation framework that encompasses priority setting, business planning, work planning, and results and performance measurement applying to both financial and human resources (HR) requirements. This framework, coupled with the Department's risk-based audit and evaluation plans, 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.

In 2007–08, the Department's Internal Audit and Evaluation Division built a solid foundation for a professional and independent internal audit and evaluation function. Significant progress was made to implement requirements of the 2006 Treasury Board *Policy on Internal Audit* by hiring additional professional auditors, providing training and development for professional accreditations, and developing key infrastructure elements including a three-year audit plan and internal procedures, protocols, and approaches. For the evaluation function, the focus in 2007–08 was on building and strengthening capacity and meeting expectations of the Management Accountability Framework and the *Federal Accountability Act*. With the implementation of a new Treasury Board evaluation policy anticipated in 2008–09, considerable efforts were also made to begin the development of the evaluation infrastructure. A needs assessment was conducted and a one-year evaluation plan approved in the fall of 2007.

The Standing Committee on the Status of Women presented reports on gender-based analysis (GBA) to the House of Commons in April 2005 and in May 2006. In July 2005, in response to the April 2005 report, the Department of Finance Canada committed to appoint a GBA champion, conduct a pilot project in the Tax Policy Branch to train analysts and managers in GBA, and hold pre-budget consultations with various groups. The Department has fulfilled all three commitments.

The Department responded in August 2006 to the May 2006 report and committed to post good examples of GBA on the Department's internal website, provide GBA training workshops to branches in addition to the Tax Policy Branch, include GBA in the training curriculum for new employees, and report on progress made in its 2007–08 DPR. Over the last year, the Department has continued to work to fulfill its commitments by offering GBA training to officers and managers from all branches of the Department, including GBA in its training curriculum for new employees, reporting on GBA in the Department's DPRs, and preparing good examples of GBA to be posted on the Department's internal website.

Section II: Analysis of Program Activities by Strategic Outcome

Strategic outcome

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.*

All program activities support the Department's strategic outcome.

Program Activity 1: Tax Policy

The Tax Policy program activity develops and evaluates federal taxation policies and legislation, negotiates international tax treaties and tax information exchange agreements as well as tax elements of comprehensive land claim and self-government agreements with Aboriginal governments, and provides advice and recommendations for changes aimed at improving the tax system while raising the required amount of revenue to finance government priorities. It focusses on the following areas: personal income tax, business income tax, Aboriginal tax policy, and sales and excise taxes. It is also involved with federal-provincial tax coordination, federal-provincial tax collection and reciprocal agreements, federal-Aboriginal tax administration agreements, and tax policy research and evaluation.

Financial Resources ($ thousands)

Planned Spending	Authorities	Actual Spending
32,689	35,797	33,466

Human Resources (Full-Time Equivalents—FTEs)

Planned	Actual	Difference
244	247	–3

The Tax Policy program activity supports and contributes to the Department's strategic outcome and priorities by ensuring that the tax system raises sufficient revenues in an economically efficient and fair manner to pay for public services, including social programs (e.g. universal health care and public safety and security), and strategic investments in areas that promote a more competitive and productive Canadian economy (e.g. education and training, basic scientific research, and infrastructure). Regardless of their objective, proposed policies are reviewed for gender and environmental impacts.

Why is this important? Improvements to the competitiveness, efficiency, and fairness of Canada's tax system increase incentives to work, increase standards of living, fuel growth in the economy, encourage investment in Canada, and further strengthen Canadians' confidence in the tax system.

Expected result: Improving the fairness, efficiency, and competitiveness of the personal, corporate, sales, and excise tax systems while raising the required amount of tax revenue

Performance indicators

- Proposals and research to improve the competitiveness, efficiency, and fairness of the personal, corporate, sales, and excise tax systems
- Amount of tax revenue raised

Data sources

- The federal budgets, legislation, regulations, press releases, tax treaties, the Department's marginal effective tax rate models, Public Accounts of Canada, tax evaluations, working and research papers, and tax expenditure reports

Targets

- Proposals in the budget and throughout the year, as required, to implement the government's tax policy agenda and maintain a competitive, effective, and fair tax system
- Collection of sufficient tax revenues to pay for public services
- Publication of the tax expenditures and evaluations report
- Two published evaluations per year

Status

- Successfully met

The Tax Policy program activity carried out a number of tax initiatives during 2007–08 aimed at improving the competitiveness, efficiency, and fairness of the personal, corporate, sales, and excise tax systems in a fiscally sustainable manner. Many of these measures were developed to support implementation of *Advantage Canada*—the government's strategic long-term economic plan.

In particular, Tax Policy program staff provided sound and timely advice and recommendations to the Minister of Finance and senior officials in preparation for the October 2007 Economic Statement and Budget 2008. This work contributed to the development of measures such as broad-based tax reductions for individuals, families, and businesses worth $60 billion over 2007–08 and the following five fiscal years, bringing total tax relief since Budget 2006 over this same period to almost $200 billion.

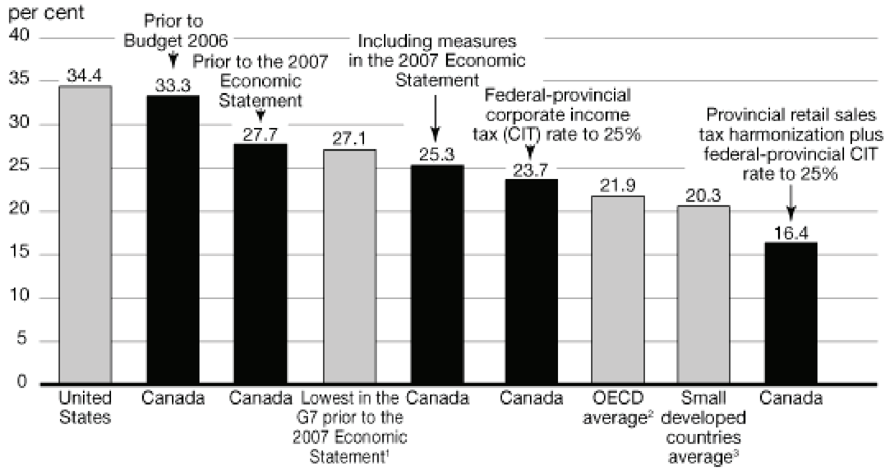
Some measures of direct benefit to individuals included the following:

- reducing the goods and services tax (GST) rate by an additional percentage point as of January 1, 2008, fulfilling the Government's commitment to reduce the GST to 5 per cent;
- reducing the lowest personal income tax rate to 15 per cent from 15.5 per cent and increasing the basic amount that all individuals can earn tax-free; and
- introducing a new Tax-Free Savings Account to help Canadians save for the future.

Key measures introduced during 2007–08 to improve the competitiveness, efficiency, and fairness of Canada's business tax system included the following:

- historic tax reductions that will encourage new business investment, improve productivity and job creation, and bolster confidence in the Canadian economy on a long-term basis—these broad-based corporate tax reductions will reduce the federal corporate income tax rate to 15 per cent by 2012 from 22.12 per cent (including the corporate surtax) in 2007;
- further assistance to Canada's manufacturing and processing sector by extending accelerated capital cost allowance (CCA) treatment for investment in machinery and equipment by three additional years;
- expansion of the accelerated CCA for clean-energy generation equipment to additional applications involving ground-source heat pump and waste-to-energy systems;
- improvements to the scientific research and experimental development (SR&ED) tax incentive program to enhance support for small-and medium-sized businesses and to provide investment tax credits for certain SR&ED activities carried out outside of Canada;
- alignment of CCA rates with the useful life of assets for railway locomotives and carbon dioxide pipelines (a key component of carbon capture and storage systems); and
- introduction of the Anti-Tax Haven Initiative and creation of the Advisory Panel on Canada's System of International Taxation, to improve the fairness and competitiveness of Canada's system of international taxation.

Canada's Progress Towards a New Era of Business Taxation METR on New Business Investment, Selected Country Groups, in 2012



[1] Prior to the 2007 Economic Statement, Italy had the lowest METR in the G7 at 27.1 per cent.
[2] Excluding Canada.
[3] Small developed countries comprise Australia, Austria, Denmark, Finland, Greece, Hong Kong, Iceland, Ireland, Luxembourg, the Netherlands, New Zealand, Norway, South Korea, Spain, Sweden and Switzerland.
Source: Department of Finance Canada.

The Tax Policy program also published a research report on the effect of corporate income tax rate reductions on business investment in the 2007 Tax Expenditures and Evaluations report available at http://www.fin.gc.ca/taxexp/2007/taxexp07_4e.html#part2.

Expected result: Sound fiscal relationships with provinces, Aboriginal governments, and other countries

Performance indicators

- Active negotiation of additional tax administration agreements with provincial and Aboriginal governments
- Effective network of tax treaties with other countries
- Effective meetings of the Federal-Provincial Tax Committee

Data sources

- Federal-provincial agreements, federal-provincial meetings, federal-Aboriginal agreements, and federal-Aboriginal negotiations

Target

- Increased number of tax agreements and tax treaties signed

Status

- Successfully met

The Tax Policy program activity contributed to the expected result of improving the coordination of the federal tax system with those of the provinces, territories, Aboriginal governments, and other countries during 2007–08.

To promote a more competitive tax system, the federal government continued to encourage provinces that have retail sales taxes to facilitate a transition to a provincial value-added tax harmonized with the GST.

The Tax Policy program regularly works with Aboriginal groups and governments to manage the First Nations sales tax (FNST), the First Nations goods and services tax (FNGST), and the First Nations personal income tax (FNPIT) administration agreements. During 2007–08 Tax Policy program staff negotiated tax elements related to 20 agreements in principle and to 4 final comprehensive land claim agreements and self-governing agreements with Aboriginal peoples.

The Tax Policy program also works with governments of other countries to review, improve, and expand Canada's network of international tax treaties and tax information exchange agreements (TIEA) with non–tax treaty jurisdictions. Tax treaty negotiations with the following countries were announced during 2007–08: Spain, Greece, and Colombia. A fifth set of changes to the existing Canada–U.S. Income Tax Convention—known as the Fifth Protocol—was signed in September 2007 and enacted into Canadian law in December. The Protocol, which is a major updating of the treaty, will enter into force once it is ratified by the U.S. In addition, an updated tax treaty with Mexico entered into force on April 12, 2007.

These and other treaty-related developments can be found on the Department of Finance Canada's website at http://www.fin.gc.ca/treaties/treatystatus_e.html.

Program Activity 2: Economic and Fiscal Policy

This program area analyzes Canada's economic and fiscal situation and advises on the government's economic policy framework, budget planning framework, and spending priorities. It is responsible for monitoring and preparing forecasts of Canada's economic and fiscal position and plays a lead role in the management of the government's fiscal framework. The program also provides analytical support on a wide range of economic and financial issues related to the government's macroeconomic and structural policies.

Financial Resources ($ thousands)

Planned Spending	Authorities	Actual Spending
15,007	16,186	15,247

Human Resources (Full-Time Equivalents—FTEs)

Planned	Actual	Difference
121	118	3

The work under this program activity contributes to the Department's strategic outcome and priorities by helping to ensure that fiscal planning in the Government of Canada is transparent and supports long-term fiscal sustainability. It also helps to ensure that the government understands the strengths and weaknesses of the Canadian economy now and in the future in order to develop economic policies that lead to sustained economic growth.

Why is this important? Sound economic and fiscal policies enable the Canadian economy to perform well. Moreover, sound fiscal planning and lowering the public debt are essential to the country's long-term prosperity. Lower debt helps keep interest rates low and frees up funds for more productive uses, such as lower personal income taxes. Lower debt levels also strengthen the government's ability to deal with challenges—such as an aging population—and help to reduce the overall level of interest rates, leading to more private sector investment and a more productive economy.

Expected result: Transparent fiscal planning and sustainable fiscal policy

Performance indicators

- Publication of fiscal projections
- Federal debt as a share of the GDP

Data sources

- The federal budget and the Economic and Fiscal Update
- Annual Financial Report of the Government of Canada

Targets

- Publish two-year and five-year fiscal projections
- Reduce the federal debt-to-GDP ratio to 25 per cent by 2011–12

Status

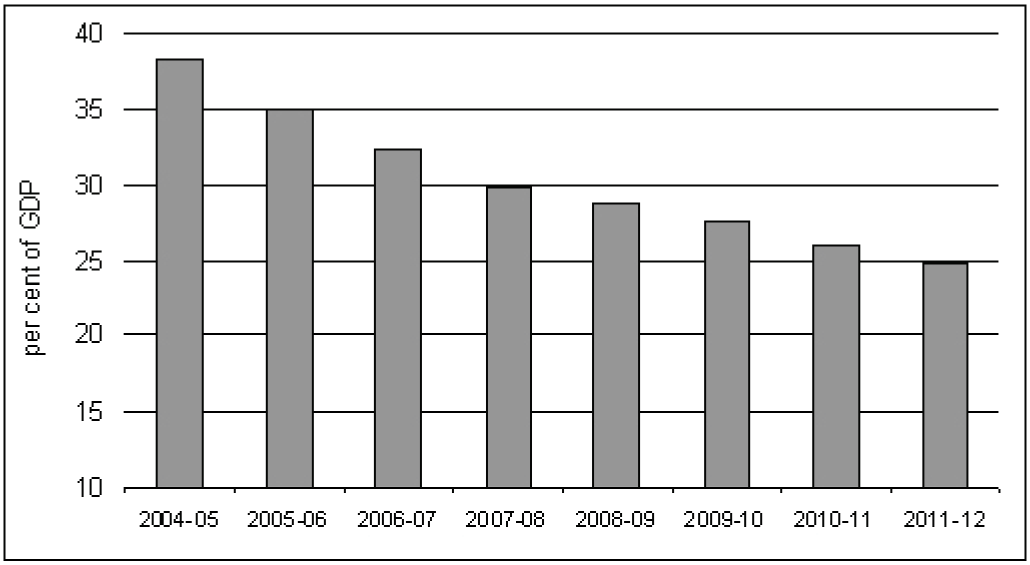
- Successfully met

The government has taken significant steps to ensure that fiscal planning is transparent and enhances accountability and that fiscal policy remains sustainable. In 2007–08, the Department continued to monitor and assess the government's fiscal position and to update fiscal projections through the Economic Statement, the Budget Plan, and the monthly Fiscal Monitor. The Department also provided quarterly updates of the fiscal outlook for the year in progress, as committed to in the Federal Accountability Action Plan. Further information on the government's fiscal performance can be found in the Annual Financial Report of the Government of Canada at http://www.fin.gc.ca/purl/afr-e.html.

In light of global economic uncertainty, the Department updated and presented the five-year budget balance projections initially presented in the October 2007 Economic Statement in Budget 2008. The federal budget will continue to focus on a two-year planning horizon.

The government is committed to ongoing, measured debt reduction, planning debt reduction of $10.2 billion for 2007–08, $2.3 billion for 2008–09, $1.3 billion for 2009–10, and $3 billion per year for 2010–11 to 2012–13. This will allow the government to meet its commitment to reduce the debt-to-GDP ratio to 25 per cent by 2011–12, three years ahead of the original target date. The chart below shows the Budget 2008 projection of the federal debt-to-GDP ratio.

Federal Debt-to-GDP Ratio (Projections for 2007–08 Onward)



The Tax Back Guarantee was legislated in Budget 2007. Under the guarantee, the government dedicates the effective interest savings from federal debt reduction each year to permanent and sustainable personal income tax reductions. As of 2009–10, tax reductions provided under the Guarantee will amount to $2 billion. This accounts for nearly 40 per cent of the personal tax relief provided since Budget 2006.

To ensure that spending is sustainable for the long term, the Government is committed to keeping the rate of growth of program spending, on average, below the rate of growth of the economy. In Budget 2008, program spending as a share of GDP in 2007–08 and 2008–09 is below the track set out in Budget 2007, and program spending is projected to decline as a share of GDP over the next five years.

Expected result: Effective analysis of economic performance

Performance indicators

- Canada's GDP growth relative to the G6 (G7 less Canada)

Data sources

- IMF World Economic Outlook

Target

- Above-G6 average for annual GDP growth rate

Status

- Successfully met

The Department continued to provide effective analysis of economic activity in Canada, the U.S., and abroad. This information includes, among other things, chapters on economic developments and outlook in the Economic Statement and the Budget Plan. For example, Budget 2008 presented an analysis of some key structural factors underlying Canada's economic performance, including the following:

- the improvement in Canada's terms of trade due to higher commodity prices and its positive effect on the increase in Canadians' living standards;
- the changes in the composition of the labour market following the continuing adjustment to the higher Canadian dollar in the manufacturing and forestry sectors; and
- federal debt reduction's role in helping lower the overall level of private sector borrowing interest rates and in freeing up financial resources for more productive uses in the economy.

Regular consultations with and participation in meetings of the Organisation for Economic Co-operation and Development (OECD) and the IMF enabled the Department to monitor global economic developments and, given the openness of the Canadian economy, promote the growth potential of Canada.

A key focus for 2007–08 was to monitor and assess the implications for the Canadian economy of the U.S. economic slowdown and financial market turbulence, as well as the continuing adjustment of the domestic economy to the higher Canadian dollar. These implications were presented in Budget 2008, in conjunction with the Department's survey of private sector forecasters regarding their outlook on the Canadian economy and a thorough examination of the risks and uncertainties in that outlook.

Program Activity 3: Financial Sector Policy

This program area ensures the soundness, efficiency, and competitiveness of Canada's financial sector in support of strong, sustainable growth in the Canadian economy. This program provides analysis of Canada's financial services sector and financial markets, and it develops the legislative and regulatory framework governing federally regulated financial institutions (banks, trust and loan companies, insurance companies, and co-operative credit associations) and federally regulated defined benefit pension plans. This program activity also spearheads the federal strategy to combat money laundering and terrorist financing. It plays a lead role in conducting Canada's relations and negotiating Canada's commitments with foreign governments in the area of trade in financial services.

Financial Resources ($ thousands)

Planned Spending	Authorities	Actual Spending
18,113	4,934,982	4,864,357[2]

Human Resources (Full-Time Equivalents—FTEs)

Planned	Actual	Difference
129	130	–1

The Financial Sector Policy program supports and contributes to the Department's strategic outcome and priorities by ensuring that Canada's financial sector and domestic financial markets function well—conditions necessary to achieve sustainable growth in the Canadian economy.

Why is this important? A sound, efficient, and competitive Canadian financial sector is necessary to support the savings and investment needs of individuals, businesses, and the economy as a whole.

Expected result: Prudent and cost-effective treasury management of the borrowing activities of Crown corporations and the government's investment portfolios[3]

Performance indicators

- Crown borrowing costs
- Net returns on liquid asset portfolios
- Amount of exposure to financial risk
- Administrative costs of treasury functions

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2. Variances between "Total Authorities" and "Actual" include $2.3 million in operating budget surpluses from internal services allocations primarily attributable to staff turnover.

   Program Activity 3: Financial Sector Policy "Total Authorities" includes the following items not included in "Planned Spending": $3.8 billion for loans to the Farm Credit Canada Act; $1 billion for loans to the Business Development Bank of Canada Act; $69 million for unused authority for payments to depositors of Canadian Commercial Bank, CCB Mortgage Investment Corporation, and Northland Bank pursuant to the Financial Institutions Depositors Compensation Act; $2 million for payment of liabilities previously transferred to revenues; and $4 million for advances to the Financial Consumer Agency of Canada.

   Additional variances between "Total Authorities" and "Actual" are primarily attributable to the $69 million for unused authority for payments to depositors of Canadian Commercial Bank, CCB Mortgage Investment Corporation, and Northland Bank; variances for internal services surpluses as mentioned above; later-than-expected start for the Expert Panel on Securities Regulation; and staff turnover.

3. See also Program Activity 7: Public Debt

Data sources

- Crown annual reports and corporate plans
- Public Accounts of Canada
- Debt Management Report and Report on the Management of Canada's Official International Reserves
- Bank of Canada annual reports

Targets

- Low and stable risk-adjusted costs of borrowing and investing funds
- Positive returns on investment portfolios, net of costs
- Exposure to financial risks within Minister-approved limits
- Overhead costs in line with comparable entities

Status

- Successfully met

Treasury management operations and initiatives for the management of the Government of Canada's financial assets and liabilities continued to focus on lowering financing costs and generating positive investment returns while prudently managing investment risks within approved ministerial limits. Low and stable risk-adjusted costs of borrowing by the federal government on behalf of borrowing agent Crown corporations support a well-functioning market in an environment of declining borrowing needs. The administrative costs of treasury borrowing and investing activities are in line with those of other sovereigns.

The Minister of Finance approves all Crown borrowing within the context of annual corporate plan approvals. Crown results are available in their annual reports. Information about the plans, actions, and outcomes associated with financial asset and debt management can be found in the *Report on the Management of Canada's Official International Reserves: April 1, 2006–March 31, 2007*, as well as in the *Debt Management Report 2007–2008*, both of which will be published in the fall of 2008, following tabling of the Public Accounts of Canada for 2007–08.

Related to pursuing improvements to the borrowing framework for major government-backed entities, the borrowings of the Business Development Bank of Canada (BDC), the Canada Mortgage and Housing Corporation (CMHC), and Farm Credit Canada (FCC) were consolidated with the Government of Canada borrowing program. This allowed the Department to deliver on a related commitment from Budget 2007, reduce Crown borrowing costs, and enhance the liquidity of the Government of Canada debt market. The BDC, the CMHC, and the FCC were granted limited early access for short-term borrowings in December 2007, which helped to reduce their borrowing costs during a period of widening credit spreads.

The Department provided analysis and advice on cash and reserves investment policy in collaboration with the Bank of Canada. This analysis and advice helped maintain prudential liquidity for the government while maintaining the government's exposure to financial risk within approved limits.

In 2007–08, recommendations received through an external evaluation of cash management activities were considered, and an external evaluation of the treasury management risk framework was completed. The completed external evaluations are posted on the Treasury Evaluation Program section of the Department's website at http://www.fin.gc.ca/access/fininste.html#Treasury.

Expected result: A regulatory framework that promotes a sound, efficient, and competitive Canadian financial sector that serves the needs of individuals, businesses, and the economy

Performance indicators

- Policy, legislative, and regulatory initiatives

Data sources

- Legislation, regulations, and publications

Targets

- Implement and draft regulations for Bill C-37
- Develop Bill C-57 regulations
- Complete the IMF Financial Sector Assessment Program (FSAP) update
- Develop policies for the review of the mortgage insurance framework

Status

- Successfully met

In 2007–08, the Department conducted analysis and provided advice on a broad range of financial issues and identified potential areas of policy change needed to support a leading-edge financial services sector and domestic capital market to achieve a more productive, competitive, and dynamic economy.

Following commitments made in Budget 2007 in support of financial stability and the efficiency of Canada's capital markets, the Department implemented legislation and regulations to provide greater certainty in the treatment of eligible financial contracts in insolvency and provided certain immunities to the Bank for International Settlements in recognition of its role in enhancing global stability. The Department closely monitored financial markets and institutions domestically and internationally and worked with other government and non-governmental organizations to analyze and develop recommendations to improve resiliency in the financial sector.

The fiscal year 2007–08 has been a very challenging one for the financial system. With the onset of the global credit turmoil in the summer of 2007, the Department increased its monitoring and analysis of Canadian credit markets, notably developments in the Canadian non-bank sponsored asset-backed commercial paper (ABCP) market, which froze in August 2007.
On August 16, 2007, a group representing major investors in non-bank sponsored ABCP and the main international bank asset providers agreed to a standstill under the Montréal Accord, providing the basis for a restructuring of the affected paper. Since the standstill began, the Department, along with the Bank of Canada, encouraged all of the parties to work constructively toward an orderly resolution. The Minister of Finance issued statements supporting the restructuring process at key milestones, and on June 5, 2008, the Superior Court of Justice of Ontario approved the plan for restructuring ABCP developed by the Pan-Canadian Investors Committee.

In response to the global turmoil, G7 finance ministers and central bank governors tasked the Financial Stability Forum (FSF) in October 2007 with assessing the causes and making recommendations to enhance market and institutional resilience. The Department is an active member of the FSF, along with the Office of the Superintendent of Financial Institutions and the Bank of Canada. The Department is fully engaged in international efforts and is working collaboratively with other federal and provincial regulators to improve market resiliency and ensure that regulatory agencies have a range of flexible and up-to-date regulatory tools. The Department continues to closely monitor financial markets and institutions domestically and internationally.

On March 29, 2007, Bill C-37, *An Act to amend the law governing financial institutions and to provide for related and consequential matters*, received Royal Assent, and the first package of regulations to implement the legislation came into force on March 8, 2008. The regulations can be found on the *Canada Gazette* website at http://gazetteducanada.gc.ca/partII/2008/20080319/html/index-e.html. Bill C-37 is aimed at enhancing the interests of consumers and increasing legislative and regulatory efficiency, while also making a number of technical amendments. The Department continues to work on the development of the remaining regulations required to fully implement the Bill.

During 2007–08, the Department of Finance Canada also worked toward completing the outstanding regulations associated with Bill C-57, *An Act to amend certain Acts in relation to financial institutions*. Once completed, these regulations will allow the remaining provisions of the legislation to be brought into force. Bill C-57 brings the governance standards in the financial institutions statutes up to the standards adopted in 2001 for business corporations in the *Canada Business Corporations Act* and general co-operatives in the *Canada Cooperatives Act*. As an integrated package, the amendments clarify the roles of directors, enhance the rights of shareholders, modernize governance practices, strengthen the governance elements of the regulatory framework, and increase disclosure of information in respect of participating and adjustable life insurance policies.

In 2007–08, the Department also coordinated and completed the FSAP Update offered by the IMF. An FSAP Update report was published by the IMF on February 13, 2008, and concluded that the Canadian financial sector is mature, sophisticated, and well-managed, with many examples of best practice. The report is available online at http://www.imf.org/external/pubs/cat/longres.cfm?sk=21710.0.

At a June 2007 meeting with provincial and territorial ministers responsible for securities regulation, the Minister of Finance committed to form the third-party Expert Panel on Securities Regulation (http://www.expertpanel.ca) to advise ministers on the best way forward. The government appointed the panel of experts in February 2008. This Panel will examine how to enhance, in practical ways, the effectiveness, content, and structure of capital markets regulation, in particular by improving enforcement and by favouring proportionate, more principles-based regulation. The panel will build on the work accomplished by pre-existing private sector groups. It will provide a concrete proposal, a transition path, and a common model act based on advice from recognized experts. The Panel will report to the Minister of Finance and to provincial and territorial ministers responsible for securities by the end of 2008.

During 2007–08, the Department consulted with industry stakeholders and relevant federal and provincial regulators on the mortgage insurance framework. The Department has also reviewed market developments and examined the approaches taken in comparable jurisdictions. It is anticipated that an updated mortgage insurance framework will be introduced by the end of 2008.

Expected result: A legislative and regulatory framework that ensures the security and viability of federally regulated defined benefit pension plans

Performance indicators

- Policy, legislative, and regulatory initiatives

Data sources

- Legislation and regulations

Target

- Develop legislation and regulations as needed

Status

- Successfully met

In 2007–08, the Department continued to review and assess means to strengthen the legislative and regulatory framework for federally registered defined benefit pension plans in order to improve the security of pension benefits and ensure the viability of defined benefit pension plans. A properly designed private pension system, with appropriate incentives for both employers and employees, can contribute to the security and prosperity of Canadian workers and retirees and support increases in living standards. In addition, departmental officials worked to provide technical advice on measures pertaining to phased retirement and life income funds. Developments at the provincial level were also monitored, including the reviews undertaken in

Alberta, British Columbia, Ontario, and Nova Scotia and the effect of several court cases involving private pensions.

Expected result: An effective anti-money laundering (AML) and anti-terrorist financing (ATF) framework

Performance indicators

- Regulations
- International standards and evaluation reports
- Canadian presidency of the Financial Action Task Force on Money Laundering (FATF)
- Establishment of the Egmont Secretariat

Data sources

- Legislation, regulations
- FATF mutual evaluation report
- Report from the outgoing president of FATF
- Official announcement of the Egmont Secretariat

Targets

- Develop regulations for the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*
- Comply with international standards and the recommendation of the Auditor General of Canada and Treasury Board–mandated evaluation reports
- Deliver the FATF president's work program
- Operationalization of the Egmont Secretariat

Status

- Successfully met

The goal of Canada's AML and ATF Regime is to combat money laundering and terrorism financing by providing appropriate tools to law enforcement, while respecting the privacy of Canadians and conforming to international standards. The Department of Finance Canada continues to take the lead role in regard to the Regime, ensuring that ongoing work is undertaken in coordination with federal partners, such as the Financial Transactions Reports Analysis Centre of Canada (FINTRAC), and leading to prudent policy advice and implementation. A public-private sector advisory committee was struck in November 2007 to facilitate working more closely with private sector partners with the goal of ensuring that policy development remains current and effective.

The majority of regulations required to implement Bill C-25, *An Act to amend the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and the Income Tax Act and to make a consequential amendment to another Act*, were finalized in 2007–08 and are expected to come into force in 2008–09. The amendments include enhancing customer due diligence measures, extending the Regime to include three new reporting sectors, creating a registration regime for money service businesses, and creating an administrative and monetary penalties regime.

In February 2008, the FATF released its findings on its evaluation of Canada's AML and ATF Regime (http://www.fatf-gafi.org/dataoecd/5/3/40323928.pdf). The report found that Canada's Regime is solid in terms of its legal structure, law enforcement powers, international cooperation, and ATF standards, even though the report only took into account measures that were in place as of June 2007. Canada will be compliant with virtually all of the FATF's recommendations when the remainder of the regulations are implemented over the course of 2008–09. These measures also address the recommendations of the Auditor General of Canada and Treasury Board–mandated evaluation reports.

June 2007 marked the end to a successful Canadian presidency of the FATF. During the Canadian presidency, six countries underwent assessments of their AML and ATF regimes; the FATF strengthened its cooperation with the World Bank, the IMF, and the United Nations to promote its 40 and 9 Special Recommendations; and it improved its relationship with FATF-style regional bodies. FATF membership grew during the Canadian presidency to include China as a member and South Korea and India as observers. Canada initiated a two-year process to define a strategic direction for the FATF mid-term review in 2007–08. Finally, the Canada president was very active in engaging private sector stakeholders.

On February 15, 2008, the Minister of Finance officially opened the permanent home of the Egmont Secretariat in Toronto. The Egmont Secretariat coordinates the exchange of information, provides training, and shares expertise among its 101 financial intelligence unit members worldwide.

Program Activity 4: Economic Development and Corporate Finance

This program area is responsible for fulfilling the challenge function of the Department of Finance Canada by monitoring major economic policy issues and proposals under development in the economic departments and from outside of government. It provides advice to the Minister regarding the financial and policy implications of existing and new policies and programs. The program provides policy analysis and recommendations in the areas of traditional and knowledge-based sectors, defence, transportation, public infrastructure, environment, energy and resources, agriculture, fisheries, regional development, and privatization. It also plays a lead role in advising on corporate restructuring affecting Crown corporations and other corporate holdings.

Financial Resources ($ thousands)

Planned Spending	Authorities	Actual Spending
8,289	8,836	7,995

Human Resources (Full-Time Equivalents—FTEs)

Planned	Actual	Difference
67	63	4

The program contributes to the Department's strategic outcomes and priorities by recommending policies that contribute to higher productivity and a more competitive and dynamic Canada.

Why is this important? The Department implements the government's economic and broader policy agenda through the development of the annual budget and the Economic and Fiscal Update. To do so, the Department needs to assess and make recommendations on numerous proposals for new program spending that emanate from federal departments, other levels of government, and the Canadian public. This activity is critical if the government is to establish policy and funding priorities that contribute to sound fiscal management and sustainable economic growth.

Expected result: Sound advice to the Minister on economic, funding, and policy proposals

Performance indicators

- Announcement of measures that advance productivity and economic growth

Data sources

- The federal budget and the Economic and Fiscal Update

Target

- Implementation of the government's microeconomic policy priorities through the budget and the Economic and Fiscal Update

Status

- Successfully met

The Department fulfills a challenge function by helping to manage the funding demands of other departments and agencies, contributing to sound decisions consistent with the government's public policy agenda and a responsible use of taxpayers' money. Operating and capital budgets of economic development proposals were successfully assessed, while economic and financial advice and policy analysis were provided to the Minister on issues for consideration at Cabinet and its committees and for the annual budget and the Economic and Fiscal Update, as required.

Through its analysis and advice, the program activity continued to shape regional development and policies for key sectors such as agriculture, fisheries, aerospace, environment, and automotive.

In 2007–08, the Economic Development and Corporate Finance activity area focussed on delivering some key elements of the government's economic agenda, including the following:

- additional resources in Budget 2008 for post-secondary education, research, and commercialization to support the implementation of the government's science and technology strategy, *Mobilizing Science and Technology to Canada's Advantage*;
- more long-term and predictable funding in Budget 2008 for infrastructure, gas tax funding for municipalities, and permanent additional funding for public transit in order to contribute to economic growth, achieve Canada's environmental goals, and build stronger, more competitive communities;
- the establishment of PPP Canada Inc., a new Crown corporation that will spearhead federal efforts to promote the use of public-private partnerships in Canada;
- additional funding in Budget 2008 to implement regulations that will lead to significant reductions in greenhouse gas emissions and improvements in air quality; and
- an inventory of administrative requirements and a reduction strategy in support of the government's Paperwork Burden Reduction Initiative—the inventory provides a benchmark against which future burden reductions will be made.

The Department also contributed to sound fiscal management by providing advice on expenditures and priorities in the Strategic Review of departments and agencies within its portfolio responsibilities.

Program Activity 5: Federal-Provincial Relations and Social Policy

This program area is responsible for administering a system of fiscal arrangements between Canada and the provinces and territories that will enable the funding of national priorities and redistribution of support to less prosperous regions in order to ensure reasonably comparable services at reasonably comparable levels of taxation. The program area is also responsible for policy development and strategic advice with respect to fiscal arrangements and federal-provincial-territorial relations more broadly.

In addition, the program area fulfills the challenge function of the Department by providing policy advice to the Minister regarding the fiscal and economic implications of the government's social policies and programs related to health care, immigration, employment insurance and pensions, post-secondary education, Aboriginal and cultural programs, and benefits, as well as programs for seniors, disabled persons, and children. The program area conducts research and provides analysis and advice to the Minister and senior government officials to assist in preparation for meetings of Cabinet and its committees, the annual budget, the Economic and Fiscal Update, and responsibilities with respect to Canada Pension Plan (CPP) legislation. The program is also responsible for preparing legislation and regulatory changes related to its mandate, particularly fiscal arrangements and CPP.

Financial Resources ($ thousands)

Planned Spending	Authorities	Actual Spending
12,298	13,335	12,697

Human Resources (Full-Time Equivalents—FTEs)

Planned	Actual	Difference
92	89	3

The work under this program activity supports the Department's strategic outcome and priorities by contributing to the government's efforts to meet its objectives regarding the quality of Canada's communities, health care, education, and social safety net programs and the commitment to equality of opportunity for all citizens. It also ensures that federal-provincial-territorial fiscal arrangements are consistent with the principles of efficiency and equity underlying the government's broad social and economic agenda, and that they allow for the redistribution of wealth across regions of the country through the provision of transfer payments consistent with the government's commitments.

Why is this important? Long-term, predictable, stable, formula-based transfer support for provinces and territories and improvements to the social policy framework contribute to improved, efficient, equitable public services for Canadians and support the quality of Canada's communities, health care, education, and social safety net programs and equality of opportunity for all citizens.

Expected result: A principled framework to restore fiscal balance in Canada

Performance indicators

- Implementation of a principles-based transfer system

Data sources

- Transfer agreements

Targets

- Timely, accurate implementation of legislative and regulatory changes
- New arrangements for Equalization, TFF, and the CST
- Enhanced accountability and transparency of fiscal arrangements for citizens

Status

- Successfully met

Canada's government is committed to restoring fiscal balance, in part through the development of a principles-based transfer system, with clearer responsibilities among different orders of government and with greater overall efficiency for governments and enhanced accountability for citizens. Analysis and advice led to the introduction in Budget 2007 of new, principles-based transfer programs reflecting the recommendations of the Expert Panel on Equalization and Territorial Formula Financing (TFF) and the advice received through consultations with provinces and territories, academics, stakeholders, and the Canadian public. After tabling of the budget, ongoing consultations and meetings with provincial and territorial officials were held to support information sharing and communications regarding changes to federal-provincial-territorial fiscal arrangements.

In 2007–08, the Department restructured the Equalization and TFF programs, consistent with Budget 2007. Equalization returned to a formula basis, using a higher 10-province standard, a new approach to the treatment of natural resource revenues, and a fiscal capacity cap. Combined, these measures strengthened the program to bring it in line with the Constitutional commitment to provide payments to ensure reasonably comparable services at reasonably comparable levels of taxation. The new formulas were used to determine payments for 2007–08.

The CST was also renewed and strengthened, with the addition of $687 million to support the move to equal per capita cash, an additional $250 million annually for child care, and $800 million annually for post-secondary education. The funding is now legislated to 2013–14 with annual growth of three per cent, to ensure stable, predictable, and growing federal support for a range of social programs. Material was developed to communicate these changes and ensure greater transparency of federal support, including new online material, an improved transfer booklet, and updated media material. As well, provinces and territories were encouraged to make more transparent the support received from the Government of Canada for national priorities, including child care and post-secondary funding, as well as targeted funding provided through third-party trusts.

More information about federal transfers to the provinces and territories can be found at http://www.fin.gc.ca/access/fedprove.html.

Expected result: Sound advice to the Minister on government social policy priorities

Performance indicators

- Announcement of measures and related funding that advance social policy priorities

Data sources

- The federal budget and the Economic and Fiscal Update

Target

- Timely implementation of social policy priorities in the government's agenda

Status

- Successfully met

In 2007–08, the Department contributed to the government's social policy priorities by providing analysis and advice to the Minister of Finance and senior government officials on a wide range of social policy issues in preparation for meetings of Cabinet and its committees, the annual budget, and the Economic and Fiscal Update. The Department worked extensively with other departments to implement the commitments made in *Advantage Canada* to create a Knowledge Advantage. It worked with other government departments to deliver on measures aimed at helping people with disabilities, Aboriginal peoples in Canada, and seniors, as well as modernizing Canada's health care system. The Department also contributed to the development of several measures aimed at enhancing the security of Canadians. The work of the Department led to the inclusion in the 2007 Economic and Fiscal Update and the 2008 Budget of a series of significant measures including the new Canada Student Grant Program, improvements to the immigration program (including legislative changes), and funding for strengthened partnerships with Aboriginal peoples in Canada.

The Department worked with colleagues across government and consulted external stakeholders and academic research in developing advice on providing long-term and predictable support for post-secondary education and training. In follow-up to Budget 2007, work ensued to implement changes made to the CST to increase support for post-secondary education by $800 million, growing at three per cent annually. The Department also worked with other government departments to implement changes to the Canada Student Loans Program, following a review of the program, which resulted in the announcement in Budget 2008 of the new Canada Student Grant Program.

The Department also worked with central agencies, government departments, and external stakeholders to ensure timely decisions with respect to and the implementation of the Budget 2008 announcement to modernize the immigration system, notably through the introduction of changes to the *Immigration and Refugee Protection Act* in the *Budget Implementation Act, 2008*.

The Department also worked with central agencies, other government departments, and external stakeholders to ensure timely analysis and decision making with respect to initiatives and related funding in other areas of social policy identified by the government as priorities in the lead-up to Budget 2008, notably the creation of the Canada Employment Insurance Financing Board.

These initiatives will ensure the independence of the employment insurance (EI) premium rate setting and that these premiums are used exclusively for the EI program. The new Canada Student Grant Program will provide more effective support to students and their families, improving access to post-secondary education. The changes to the immigration program will help maintain Canada's capacity to compete globally to attract immigrants who can contribute to Canada's prosperity. Finally, the strengthened partnerships with Aboriginal peoples in Canada will contribute to improved social outcomes, notably in health, education, and child services, as well as better opportunities for economic development.

Program Activity 6: International Trade and Finance

One of the aims of this program area is to secure access to key markets for Canadian exporters and investors and to reduce tariffs where possible in order to enhance the competitiveness of domestic industries and expand their commercial opportunities. In this respect, the Department plays a key role in international trade negotiations and the development of trade policy and is responsible for the administration of tariff and other trade-related measures. This program also manages the Department's participation in international financial institutions, such as the IMF, the World Bank, and the EBRD, and international economic coordination groups such as the G7, G20, and the Asia-Pacific Economic Cooperation forum.

Financial Resources ($ thousands)

Planned Spending	Authorities	Actual Spending
15,879	16,833	16,024

Human Resources (Full-time Equivalents—FTEs)

Planned	Actual	Difference
118	118	0

The work under this program activity contributes to the departmental strategic outcome and priorities by improving Canada's overall economic performance through a stronger international trade and investment system that opens markets, enhances the competitiveness of domestic industries, and expands access to key markets for Canadian exports and investment in major foreign markets. In addition, the Department contributes to international initiatives to improve outcomes in developing economies through the effective use of international assistance, debt relief, and other means and the provision of payments consistent with the Department's commitments.

Why is this important? Canada's economic performance and future prosperity depend on a strong and stable global economy, as well as trade and investment flows supported by high standards of multilateral, regional, and bilateral trade and investment agreements. Canadian leadership and influence on international economic, financial, development, and trade issues help to promote financial and economic stability.

Expected result: Secure access to key markets for Canadian exporters and investors

Performance indicators

- Progress will be measured through various domestic, regional, and multilateral trade and investment negotiations and initiatives

Data sources

- Trade and investment negotiations and agreements

Target

- Completed negotiations and agreements

Status

- Successfully met

To secure access to key markets and expand commercial opportunities for Canadian exporters and investors, the Department worked in partnership with other government departments, most notably Foreign Affairs and International Trade Canada (DFAIT), to advance or conclude a number of international trade and investment negotiations. The Department also remained actively engaged in the current World Trade Organization (WTO) negotiations, especially in areas of Department of Finance Canada responsibility (such as non-agricultural market access and trade rules negotiations). For further information on WTO and free trade agreement negotiations, please see http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/index.aspx?menu_id=15&menu.

The Department also meets its ongoing commitments by providing policy advice on the operations and policies of other government departments with an international mandate. In 2007–08, the Department worked with DFAIT, in the context of the government's Strategic Review initiative, to enhance the effectiveness of Canadian diplomacy, better assist Canadian business participation in global market opportunities, and improve the delivery of core services in Canada and vital consular services abroad. This led to the Budget 2008 announcement of reinvestments over the next two years to strengthen international network and extend Canada's reach to new markets.

In meeting its key commitments for 2007–08, the Department played a major role in concluding the negotiations of a free trade agreement with Peru and continued its role in the trade negotiations with Colombia, which concluded in June 2008. For further information, please see the announcement on the Canada-Peru Free Trade Agreement at http://w01.international.gc.ca/MinPub/Publication.aspx?isRedirect=True&Language=E&publication_id=385802&docnumber=21.

The Department also worked on a number of tariff relief initiatives to enhance the competitiveness of Canadian industry, which provided relief of some $170 million in payment of customs duties on current and future importations. Moreover, the Department has worked with stakeholders in advancing other tariff relief measures to assist industry, including the development of an outward processing initiative concerning textile and apparel products.

In 2007–08, the Department worked with other government departments to advance work under the Security and Prosperity Partnership of North America (SPP), which included steps to fund initiatives based on commitments made at the North American Leaders' Summit in Montebello, Quebec, in August 2007. For further information on the priorities set at the August 2007 North American Leaders' Summit in Montebello, please see http://www.spp-psp.gc.ca/overview/priorities-en.aspx.

The Department also worked closely with other government departments to ensure that the border is secure and conducive to trade. To this end, Budget 2008 announced significant funding over two years for initiatives to ensure that the Canada Border Services Agency has the resources needed to effectively manage the border, implement a higher-security 10-year electronic passport by 2011, expand the joint Canada–United States New Exporters to U.S. South (NEXUS) program for low-risk frequent travellers across the border, and support provinces and territories planning to introduce an enhanced driver's licence.

Expected result: Canadian leadership and influence in the international forums on international economic, financial, development, and trade finance issues

Performance indicators

- Outcomes of international forums and policy decisions

Data sources

- Results (and communiqués) and agreements from international meetings and negotiations

Target

- Canadian policy positions and interests are reflected at international meetings and negotiations

Status

- Successfully met

In 2007–08, the Department promoted Canadian prosperity and economic security by working with its international partners to minimize international financial and economic instability. It did so by providing leadership in international forums, such as the G7 and G20, and by providing policy direction to international financial institutions consistent with Canadian interests and policy objectives. These efforts included contributing to economic and social progress in developing economies and the development and promotion of trade finance initiatives.

In addition, the Department participated in discussions at the executive boards of the IMF and the World Bank on country issues, thematic issues, and the global economic outlook to support a strong multilateral system of global economic and financial governance. The Department also monitored major industrialized economies and emerging markets and conducted research projects that focussed on current and emerging issues of importance to Canada, such as the economic effects of China's exchange rate regime on industrialized countries. Annual reports on Canada's participation in the IMF, the World Bank, and the EBRD can be found at http://www.fin.gc.ca/news08/08-031e.html.

In meeting its key commitments related to international assistance, in 2007–08, the Department participated in discussions that led to enhancements of the World Bank's International Development Association (IDA) operations in several areas, including Canadian priority areas of fragile states, debt sustainability, and aid effectiveness, and a strong increase in

Canada's financial contributions to the IDA over the next three fiscal years. For further information on the Government of Canada's pledge of $1.3 billion to the IDA, please see http://www.fin.gc.ca/news07/07-099e.html.

The Department also initiated a Development Innovation Fund, announced in Budget 2008, to fund the world's best scientists to produce breakthrough knowledge with the potential to fundamentally change conditions in developing countries. Further, Canada contributed a total of $44 million to an effort by G8 countries to clear Liberia's $1.5 billion in arrears to international financial institutions, and in March 2008 Liberia's arrears were officially cleared, making the country eligible for a total of $3 billion in debt relief.

Regarding initiatives related to government support for trade finance, the Department successfully led the Canadian delegation in negotiating the revised OECD Aircraft Sector Understanding on Export Credits for Civil Aircraft, which was announced in July 2007. This agreement levels the playing field in official support for aircraft sales financing, and as a result Canadian aircraft manufacturers will be in an even stronger competitive position to continue building on their global success. For further information, please see the announcement of the OECD Aircraft Sector Understanding at http://www.fin.gc.ca/news07/07-063e.html.

In 2007–08, the Department also provided international leadership on the IMF governance reform agenda, in particular on quota (voting) and economic surveillance reforms. These reforms will help ensure that the IMF remains a relevant, effective, and representative institution able to promote international financial stability.

Program Activity 7: Public Debt

Canada's fund management activities encompass issuance of debt, management of liquidity, and investment of financial assets. The public debt program supports the ongoing refinancing of government debt that is coming to maturity, the fulfillment of the budget plan, and other financial operations of the government, including supporting the lending activities of major government-backed entities, such as Crown corporations.

Financial Resources ($ thousands)

Planned Spending	Authorities	Actual Spending
34,697,000	33,212,372	33,212,372

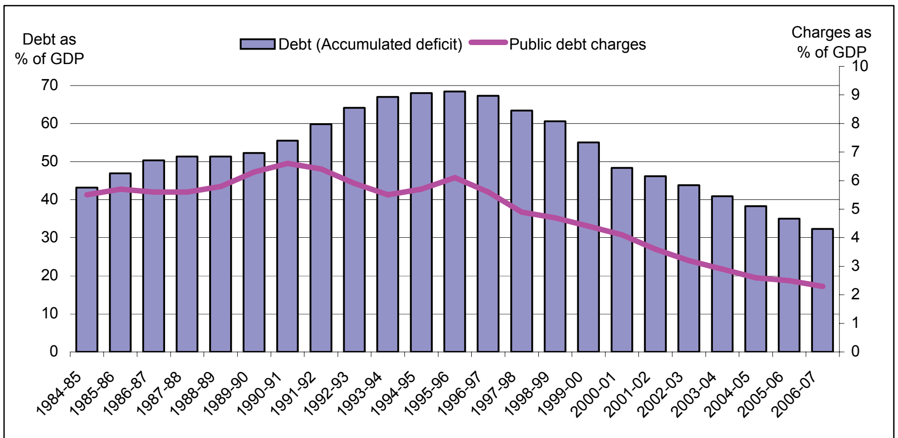
Human Resources (Full-Time Equivalents—FTEs)

Planned	Actual	Difference
28	25	3

This program activity supports the Department's strategic outcome and priorities by ensuring that debt costs are kept low and stable over time. As debt service is a large component of the spending of the federal government, the prudent and effective management of the government's debt continues to be an important element of the Department's strategy for sound fiscal management.

Why is this important? One of the keys to creating a strong economy is lifting the excessive debt burden. Reducing public debt helps keep interest rates down; it better positions Canada to weather economic storms; and it improves intergenerational equity by ensuring that future generations do not have to pay for the benefits received by their predecessors.

Reducing Public Debt



Expected result: Stable low-cost financing for the Government of Canada[4]

Performance indicators

- Measures of operational performance (e.g. auction statistics)
- Public debt structure

Data sources

- The Fiscal Monitor
- Debt Management Report
- Annual Financial Report of the Government of Canada

Targets

- Well-contested auctions and operations
- Progression of the debt structure target toward 60 per cent fixed-rate debt

4. See also performance information under Program Activity 3: Financial Sector Policy—Prudent and cost-effective treasury management of the borrowing activities of Crown corporations and the government's investment portfolios.

Status

- Successfully met

Detailed information on plans, programs, and outcomes will be available in the *Debt Management Report 2007–2008*, which will be published in the fall of 2008, after the Public Accounts of Canada for 2007–08 have been tabled.

Changes in the external environment and in the government's fiscal needs pose strategic and operational challenges for debt and cash management. These challenges are addressed through the maintenance of diversified, flexible borrowing programs.

In 2007–08, all borrowing and investment operations were successfully conducted as planned. Gross domestic bond issuance was $34 billion, and $7 billion of outstanding bonds were repurchased over 46 operations (25 auctions and switches, and 21 buybacks and switches). The total biweekly Treasury bill issuance for the year amounted to $224 billion. There were 32 cash management bill operations, amounting to $64 billion.

The debt structure objective was adjusted to reflect fiscal trends and the beginning of a period of financial turmoil, specifically through a reduction in planned Treasury bill issuance. The reduced level of borrowing for the government's own needs was offset by roughly $4 billion through the initiation of borrowing by the federal government on behalf of Crown corporations.

Planned versus actual key debt management measures, as of March 31, 2008

Broad measure	Plan	Actual
Fixed-rate share (%)	61.5	63.9
Treasury bill stock ($ billions)	138	117
Treasury bill stock—net of Crowns ($ billions)	—	112
Bond stock ($ billions)	254	254

A realignment of organizational responsibilities for the retail debt program, involving the closure of the Canada Investment and Savings Agency and the transfer of responsibilities to the Bank of Canada and the Department of Finance Canada, was successfully completed in 2007–08. Retail debt product offerings and service levels were maintained, and modest administrative savings were achieved through efficiencies within the context of the new administrative structure.

Expected result: A well-functioning market in Government of Canada securities[5]

Performance indicator

- Measures of market performance (e.g. turnover, trading spreads)

Data sources

- Debt Management Report

Target

- Operational measures, in particular operational results reporting times, and secondary market indicators, such as volumes and trading spreads, that are in line with or better than previous years

Status

- Successfully met

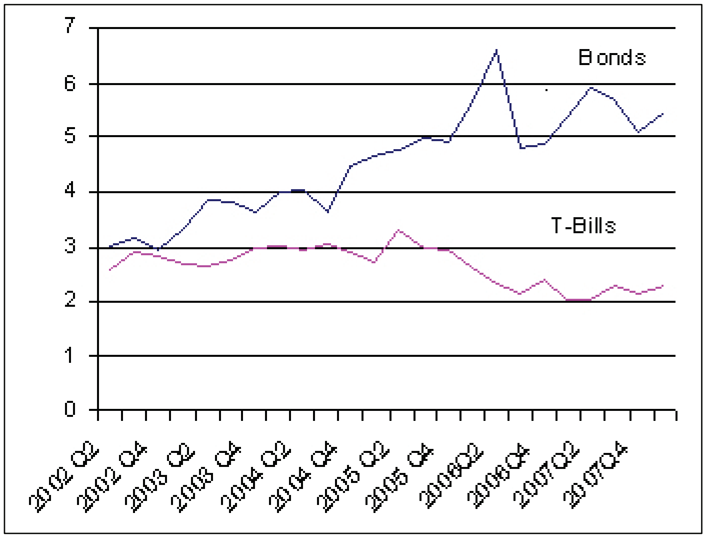
The financial market turmoil that began in August 2007 generally had a limited impact on federal debt management. The most notable effect was a general reduction in financing costs associated with the effect of flight to quality, accompanied by the reduction of interest rates by the Bank of Canada. The government also benefited from a shift to a positive return on carrying cash balances.

In 2007–08, a well-functioning market was maintained in Government of Canada securities, as demonstrated by turn-around times on security operations and turnover volumes. For the fiscal year, the average turn-around time was 1.89 minutes for bond and Treasury bill auctions and 2.98 minutes for repurchases and switches, which is well below the maximum turn-around time of 5 minutes for auctions and 10 minutes for repurchases and switches.

High turnover implies that a large number of securities changes hands over a given period of time, a hallmark of a liquid and efficient securities market. In 2007, turnover ratios for Government of Canada securities dipped slightly as a result of the financial market turmoil (i.e. investors tend to hold on to Government of Canada securities, or trade less, during periods of market uncertainty).

5. See also performance information under Program Activity 3: Financial Sector Policy—Prudent and cost-effective treasury management of the borrowing activities of Crown corporations and the government's investment portfolios.

Quarterly Turnover Ratios



The continued transparency of and public engagement with the debt program were promoted through the following:

- an enhanced borrowing authority framework;
- consultations with market participants as part of the process of developing the debt strategy;
- departmental publications on debt management (http://www.fin.gc.ca/purl/dmr-e.html and http://www.fin.gc.ca/purl/dms-e.html); and
- other supporting documentation and notices on the Bank of Canada's website (http://www.bankofcanada.ca/en/markets/markets_auct.html).

Detailed information on adjustments and measures of market function will be available in the *Debt Management Report 2007–2008*, which will be published in the fall of 2008, after the Public Accounts of Canada for 2007–08 have been tabled.

A number of specific initiatives were taken that supported a well-functioning market, including the decision to consolidate Crown corporation borrowings and provide early access to funds, a continued reduction of operational turn-around times that lowered risk for auction participants, and an increase in gross issuance in 30-year nominal and real return bonds in recognition of high demand for long-dated securities.

Program Activity 8: Domestic Coinage

This program activity is responsible for the system of circulating coinage to meet the needs of the economy. The Department provides advice to the Minister on the currency system, which involves the production of banknotes by the Bank of Canada and the circulation of coinage by the Royal Canadian Mint. This partly entails the negotiation and oversight of the payment of production and distribution costs in the domain of domestic circulating coinage.

Financial Resources ($ thousands)

Planned Spending	Authorities	Actual Spending
145,000	182,736	182,736[6]

Human Resources (Full-time Equivalents—FTEs)

Planned	Actual	Difference
N/A	N/A	N/A

This program activity supports the sound fiscal management priority of the Department by ensuring that domestic circulating coinage continues to be supplied to meet the needs of the economy at a reasonable cost.

Why is this important? An effective system of circulating coinage ensures efficient trade and commerce across Canada.

Expected result: A supply of coinage at a reasonable cost

Performance indicators

- Production and demand for coinage
- Seigniorage earned by the government

Data sources

- Royal Canadian Mint annual report
- Public Accounts of Canada

Targets

- Produce coinage sufficient to meet the demand of the economy
- Reduce costs and increase the amount of seigniorage earned by the government

Status

- Successfully met

The Department of Finance Canada buys domestic circulating coinage from the Royal Canadian Mint and resells it to financial institutions. In 2007–08, owing to lower demand for coins in the economy and increased coin recycling, the volume of coin production was lower than in

6. The variance from “Planned Spending” to “Actual” is due to the inclusion of $42 million for recycled coin costs in the actual expenses.

2006–07 but remained higher than in previous years. Details on the volume of coin production in 2007 can be found at http://www.mint.ca/royalcanadianmintpublic/index.aspx?RequestedPath=/en-ca/theroyalcanadianmint/annualreport/default.htm.

The Department works together with the Mint to ensure that the supply of coinage meets the needs of Canada's economy. In 2007–08, the Department and the Mint reviewed and amended an ongoing memorandum of understanding (MOU) that provides the Mint with incentives to enhance productivity and efficiency with respect to the production and distribution of circulation coins. In 2007–08, the Mint was able to contain fixed costs under the MOU at a level in line with prior years. The MOU is revisited on an annual basis to identify further efficiency gains and to adjust reimbursement for input costs.

During the year, the Mint also produced commemorative coins for the 2010 Vancouver Olympics that were well received by Canadians. The demand for these coins from collectors increased the amount of seigniorage earned by the Government of Canada. Seigniorage is the net revenue derived from the issuance of currency and is the difference between the face value of coins produced and the cost of producing and distributing them. Seigniorage on all circulating coinage is estimated to be $91 million in 2007–08. This is down $2 million from 2006–07 as a result of a number of factors, including less overall revenue from coins sales to financial institutions, lower production of high-value coins, and rising metal costs.

Program Activity 9: Transfer Payments to Provinces and Territories

In accordance with the *Federal-Provincial Fiscal Arrangements Act* (FPFAA), related regulations, and negotiated agreements, this program activity administers transfer payments to provinces and territories as set out in legislation and negotiated agreements to provide for Fiscal Equalization and support for health and social programs as well as targeted support to the provinces and territories in areas of shared priority, including health, social, and other sectors, through the Canada Health Transfer (CHT) and the Canada Social Transfer (CST).

Through its transfer payment programs, the government has provided support for a variety of initiatives, including the development and implementation of the Patient Wait Times Guarantee and a program of vaccination against human papilloma virus (HPV) to protect against cervical cancer. The payments are made in accordance with the terms and conditions established in associated legislation and regulations. More information on transfer payments can be found online at http://www.fin.gc.ca/access/fedprove.html.

Financial Resources ($ thousands)

Planned Spending	Authorities	Actual Spending
40,328,203	47,211,456	47,211,456[7]

Human Resources (Full-time Equivalents—FTEs)

Planned	Actual	Difference
N/A	N/A	N/A

This program activity supports the Department's strategic outcome and priorities by administering transfer and taxation payments to provinces and territories, in accordance with legislation and negotiated agreements. The FPFAA and regulations clearly outline calculation and payment schedules and mandate the Department to ensure accurate and timely payments.

Why is this important? Major transfers represent significant support to provincial and territorial governments, ranging from less than 10 per cent of gross general revenues for some provinces to over 85 per cent for some territories. This support assists provinces and territories in providing important programs and services for Canadians, including health care, education, social programs, and infrastructure. Further, the government-wide priority to restore the fiscal balance is addressed through the enhancement to the transfer programs set out in Budget 2007.

Expected result: Administration of federal transfers to the provinces and territories including Equalization, Territorial Formula Financing, the Canada Health Transfer, and the Canada Social Transfer

Performance indicators

- Timely and accurate administration of transfer payments

Data sources

- Public Accounts of Canada and the departmental financial reporting system

7. Under Program Activity 9: Transfer Payments to Provinces and Territories, "Total Authorities" includes the following amounts not included in "Planned Spending" but approved after the preparation of the 2007 Main Estimates: $1.5 billion for the Clean Air and Climate Change Trust Fund; $1 billion for the Community Development Trust; $88 million for transfer payments in connection with the Budget Implementation Act, 2007; $250 million for child care spaces; $612 million for the Patient Wait Times Guarantee; $300 million for human papilloma virus immunization; $614 million for transitional payments; and $250 million for the payment to Ontario for the transition to single administration of Ontario corporate tax. Details on transfer payments can be found in Table 6 of this report. Further variances between "Planned Spending" and "Total Authorities" and "Actual" are primarily attributable to an increase of $1.2 billion in Fiscal Equalization; $79 million in Territorial Formula Financing; $118 million in Canada Health Transfer; and $795 million in Canada Social Transfer.

Target

- Payments made according to levels and formulas set out in legislation and agreements

Status

- Successfully met

The FPFAA and related regulations establish Equalization and TFF payment amounts for 2007–08 and require that the Department issue two re-estimations of CHT and CST payments each year of all open years, incorporating more up-to-date data as available. In addition, the legislation specifies that payments to provinces and territories for major transfers be made monthly. Over the course of 2007–08, CHT and CST estimates of payments were calculated and released on a semi-annual basis, in the spring and fall. Updated information was provided to provinces and territories, as well as to Parliament, the media, and the public.

The Department also administered loans and deferral arrangements and a number of existing trust funds and established trusts supporting the improvement of patient wait times, clean air and climate change initiatives, and HPV immunization, as committed in Budget 2007, as well as the Community Development Trust announced in January 2008 (see Table 6 for further details).

Program Activity 10: International Financial Organizations

This program activity is responsible for administering Canada's international financial commitments, which are aimed at improving outcomes in developing economies. It administers transfer payments, in cooperation with Export Development Canada and the Canadian Wheat Board, to provide debt relief to developing countries as negotiated by the Paris Club. It also administers the issuance and encashment of demand notes and capital subscriptions for Canada's commitments to international financial institutions, such as the IDA, the IMF, and the EBRD, to provide international assistance to developing countries.

Financial Resources ($ thousands)

Planned Spending	Authorities	Actual Spending
544,717	951,112	823,289[8]

8. Under Program Activity 10: International Financial Organizations, "Total Authorities" includes adjustments for the following items not in "Planned Spending": $89 million for net loss on exchange for international payments; $318 million for issuance and payment of non-interest bearing, non-negotiable demand notes to the IDA in accordance with the Bretton Woods and Related Agreements Act; and $4 million for issuance of demands notes to the EBRD.

   The variance between "Total Authorities" and "Actual" is primarily attributable to a lapse of $128 million in Vote 5, Grants and Contributions, and mainly due to heavily indebted poor countries not meeting the IMF program requirements in accordance with multilateral debt relief initiatives agreed to at the Paris Club.

Human Resources (Full-Time Equivalents—FTEs)

Planned	Actual	Difference
N/A	N/A	N/A

This program activity contributes to the Department's strategic outcome and priorities by meeting commitments and agreements with international financial institutions aimed at aiding in 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.

Why is this important? Canada is committed to finding coordinated and sustainable solutions to the payment difficulties experienced by debtor nations. Canada is also strongly committed to reducing the debt burdens of the most heavily indebted poor countries to sustainable levels.

Expected result: Payments to international organizations and Canadian creditors consistent with the Department's commitments

Performance indicators

- Timely and accurate payments

Data sources

- Public Accounts of Canada and the departmental financial reporting system

Target

- Payments made in accordance with agreements and predetermined schedules or within 30 days of the invoice's being received

Status

- Successfully met

In 2007–08, the Department provided timely payments, as required, to a wide range of international financial organizations and Canadian creditors. These groups play an important role in mobilizing resources for poverty reduction in low-income and least-developed countries.

Canada's participation in both bilateral and multilateral debt relief initiatives has helped recipient countries redirect freed-up resources to poverty reduction initiatives to improve the lives of their citizens and reach their long-term development goals.

Additionally, international financial institutions are important partners for advancing Canada's own foreign and development policy interests and promoting Canadian core values of freedom, democracy, and the rule of law. Participation in these important global organizations, such as the World Bank, the IMF, and the EBRD, extends Canada's reach and influence throughout the world by providing Canada with a strong voice as a member of and leading donor to these institutions.

As part of the fiscal year 2005–06 risk-based audit plan, the Department of Finance Canada's Internal Audit and Evaluation Division conducted a review of administrative controls over international obligations and subscription payments under this program activity, the results of which were presented to the Audit and Evaluation Committee in September 2007. The work undertaken during the review found the following:

- The management framework of the administration of international obligations and subscriptions is effective in meeting the business requirements of the Department;
- Payment schedules and transaction types were compliant with the terms specified in the respective legislative acts and agreements;
- Program officials were experienced in the undertaking of their administrative responsibilities;
- Funding instruments respect the need for accountability to Parliament, while balancing the principles of cost-benefit, risk management, and policy objectives; and
- Departmental reporting demonstrated a good knowledge of program activities and performance.

Section III: Supplementary Information

Departmental link to Government of Canada outcome areas

The following table shows actual spending for the most recently completed fiscal year and outlines the contribution of program activities to the relevant Government of Canada outcome areas used in the *Canada's Performance Report*.

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

Program Activity	Actual Spending 2007–08 ($ thousands)			Alignment to Government of Canada Outcome Area
	Budgetary	Non-Budgetary[1]	Total	
Tax Policy	33,466		33,466	Strong economic growth
Economic and Fiscal Policy	15,247		15,247	Strong economic growth
Financial Sector Policy	20,357	4,844,000	4,864,357	A fair and secure marketplace
Economic Development and Corporate Finance	7,995		7,995	Strong economic growth
Federal-Provincial Relations and Social Policy	12,697		12,697	Strong economic growth
International Trade and Finance	16,024		16,024	A prosperous Canada through global commerce
Public Debt	33,212,372		33,212,372	All outcomes
Domestic Coinage	182,736		182,736	Strong economic growth
Transfer Payments to Provinces and Territories	47,211,456		47,211,456	Strong economic growth; Healthy Canadians
International Financial Organizations	500,675	322,614	823,289	Global poverty reduction through sustainable development
Total*	**81,213,024**	**5,166,614**	**86,379,638**	

** Due to rounding, figures may not add to totals shown.*

1. Non-budgetary items include loans to Crown corporations, issuance and payment of demand notes to the IDA, and payments and encashments of notes to the EBRD.

Alignment with Government of Canada outcome areas

Strong economic growth

The Department of Finance Canada provides analysis and advice on economic and fiscal matters in order to develop economic policies that lead to sustained economic growth. It also provides for a tax system that raises sufficient revenue in an economically efficient and fair manner to pay for public services and to invest strategically in areas that promote a more competitive and productive Canadian economy. In addition, the Department ensures that federal-provincial-territorial fiscal arrangements are consistent with the principles of efficiency and equity underlying the government's broad social and economic agenda and that they redistribute wealth across regions of the country. It also ensures that domestic circulating coinage continues to be supplied to meet the needs of the economy at a reasonable cost.

A fair and secure marketplace

The Department ensures that Canada's financial sector and domestic financial markets function well—conditions necessary to achieving a fair and secure marketplace.

A prosperous Canada through global commerce

The Department of Finance Canada helps improve Canada's overall economic performance through a stronger international trade and investment system that opens markets, enhances the competitiveness of domestic industries, and expands access for Canadian exports and investment in major foreign markets.

Healthy Canadians

The Department ensures that long-term, predictable, stable, formula-based transfer support for provinces and territories and improvements to the social policy framework are in place to support health care, education, and social safety net programs.

Global poverty reduction through sustainable development

The Department contributes to international initiatives to improve outcomes in developing economies through the effective use of international assistance, debt relief, and other means aimed at aiding the economic advancement of developing countries.

All outcomes

By keeping debt costs low and stable over time, the Department of Finance Canada helps to keep interest rates down, positions Canada to weather economic storms and respond to the demands of a changing society, and improves intergenerational equity by ensuring that future generations do not have to pay for the benefits received by their predecessors.

Table 1: Comparison of Planned to Actual Spending (Including FTEs)

Program Activity ($ thousands)	2005–06 Actual	2006–07 Actual	2007–08			
			Main Estimates	Planned Spending	Total Authorities	Actual
Tax Policy[1,4]	30,594	30,805	32,525	32,689	35,797	33,466
Economic and Fiscal Policy[4]	14,481	14,500	14,932	15,007	16,186	15,247
Financial Sector Policy [2,3,4]	20,993	101,443	18,022	18,113	4,934,982	4,864,357
Economic Development and Corporate Finance[4]	7,540	7,799	8,248	8,289	8,836	7,995
Federal-Provincial Relations and Social Policy[4]	14,146	14,497	12,236	12,298	13,335	12,697
International Trade and Finance[4]	14,352	14,903	15,799	15,879	16,833	16,024
Public Debt[5]	33,535,120	34,108,504	34,697,000	34,697,000	33,212,372	33,212,372
Domestic Coinage[6]	127,811	135,602	145,000	145,000	182,736	182,736
Transfer Payments to Provinces and Territories[7]	44,160,692	38,441,221	40,328,203	40,328,203	47,211,456	47,211,456
International Financial Organizations[8,9]	1,908,470	1,006,072	544,716	544,717	951,112	823,289
Total*	**79,834,199**	**73,875,346**	**75,816,681**	**75,817,194**	**86,583,644**	**86,379,638**
Less: Non-respendable revenue[10]	3,694,155	4,639,937	N/A	233,517	N/A	4,694,598
Plus: Cost of services received without charge	12,385	18,774	N/A	15,386	N/A	16,020
Total departmental spending*	**76,152,429**	**69,254,183**	**75,816,681**	**75,599,063**	**86,583,644**	**81,701,060**
Full-time equivalents	**813**	**790**	**N/A**	**798**	**N/A**	**790**

* *Due to rounding, figures may not add to totals shown.*

Notes:

1. Tax Policy program activity additional variances between “Total Authorities” and “Actual” are attributable to staff turnover and the later-than-expected start of the Advisory Panel on Canada’s System of International Taxation.
2. Financial Sector Policy program activity “Total Authorities” includes the following items not included in “Planned Spending”: $3.8 billion for loans to the *Farm Credit Canada Act*; $1 billion for loans to the *Business Development Bank of Canada Act*; $69 million of unused authority for payments to depositors of Canadian Commercial Bank, CCB Mortgage Investment Corporation, and Northland Bank pursuant to the *Financial*

Institutions Depositors Compensation Act; $2 million for payment of liabilities previously transferred to revenues; and $4 million for advances to the Financial Consumer Agency of Canada.

3. Financial Sector Policy program activity additional variances between “Total Authorities” and “Actual” are primarily attributable to $69 million for unused authority for payments to depositors of Canadian Commercial Bank, CCB Mortgage Investment Corporation, and Northland Bank; variances for internal services surpluses as mentioned in Note 4 below, later-than-expected start for the Expert Panel on Securities Regulation; and staff turnover.
4. Variances between “Total Authorities” and “Actual” include $2.3 million in operating budget surpluses from internal services allocations primarily attributable to staff turnover.
5. Public Debt program activity variances between “Planned Spending” and “Actual” are attributable to lower interest rates during the year and a slightly higher-than-anticipated reduction in market debt.
6. Domestic Coinage program activity variances between “Planned Spending” and “Actual” are due to the inclusion of $42 million for recycled coin costs in the actual expenses.
7. Transfer Payment to Provinces and Territories program activity “Total Authorities” includes the following amounts approved after the preparation of the 2007 Main Estimates: $1.5 billion for the Clean Air and Climate Change Trust Fund; $1 billion for the Community Development Trust; $88 million for transfer payments in connection with the *Budget Implementation Act, 2007*; $250 million for child care spaces; $612 million for the Patient Wait Times Guarantee; $300 million for human papilloma virus immunization; $614 million for transitional payments; $250 million for the payment to Ontario for the transition to single administration of Ontario corporate tax. Details on transfer payments can be found in Table 6 of this report. Variances between “Planned Spending” and “Total Authorities” and “Actual” are primarily attributable to an increase of $1.2 billion in Fiscal Equalization; $79 million in Territorial Formula Financing; $118 million in Canada Health Transfer; and $795 million in the Canada Social Transfer.
8. International Financial Organizations program activity “Total Authorities” includes adjustments for the following items not in “Planned Spending”: $89 million for net loss on exchange for international payments; $318 million for issuance and payment of non–interest bearing, non-negotiable demand notes to the International Development Association in accordance with the *Bretton Woods and Related Agreements Act*; and $4 million for issuance of demands notes to the European Bank for Reconstruction and Development.
9. International Financial Organizations program activity variance between “Total Authorities” and “Actual” is primarily attributable to a lapse of $128 million in Vote 5, Grants and Contributions, and mainly due to heavily indebted poor countries not meeting the International Monetary Fund’s program requirements in accordance with multilateral debt relief initiatives agreed to at the Paris Club.
10. Details of the non-respendable revenue are listed in Table 4 of this report.

Table 2: Voted and Statutory Items

Vote or Statutory Item	Truncated Vote or Statutory Wording	2007–08 ($ thousands)			
		Main Estimates	Planned Spending	Total Authorities	Actual
1	Operating expenditures[1,2]	89,343	89,855	99,139	91,556
5	Grants and contributions[3]	221,200	221,200	221,200	93,377
(S)	Minister of Finance—Salary and motor car allowance	75	75	74	74
(S)	Contributions to employee benefit plans	12,344	12,344	12,104	12,104
(S)	Transfer payments to territorial governments[4]	2,142,450	2,142,450	2,221,297	2,221,297
(S)	Payments to the International Development Association (IDA)	318,269	318,270	318,270	318,270
(S)	Purchase of domestic coinage[5]	145,000	145,000	182,736	182,736
(S)	Public debt—Interest and other costs[6]	34,697,000	34,697,000	33,212,372	33,212,372
(S)	Statutory subsidies	32,000	32,000	31,822	31,822
(S)	Fiscal Equalization[7]	11,676,353	11,676,353	12,924,677	12,924,677
(S)	Canada Health Transfer[8]	21,348,400	21,348,400	21,474,272	21,474,272
(S)	Canada Social Transfer[9]	8,800,000	8,800,000	9,590,219	9,590,219
(S)	Youth Allowances Recovery[10,11]	(661,000)	(661,000)	(943,805)	(943,805)
(S)	Alternative Payments for Standing Programs[10]	(3,010,000)	(3,010,000)	(2,719,889)	(2,719,889)
(S)	Payments pursuant to the *Halifax Relief Commission Pension Continuation Act*			18	18
(S)	Payments to depositors of Canadian Commercial Bank, CB Mortgage Investment Corporation, and Northland Bank pursuant to the *Financial Institutions Depositors Compensation Act*			68,572	
(S)	Payment of liabilities previously transferred to revenue			1,848	1,848
(S)	Spending of proceeds from the disposal of surplus Crown assets			28	
(S)	Net loss on exchange			89,177	89,177
(S)	Payment to British Columbia[12]			30,000	30,000
(S)	Payment to Yukon[12]			3,500	3,500
(S)	Payment to Northwest Territories[12]			54,400	54,400

Vote or Statutory Item	Truncated Vote or Statutory Wording	2007–08 ($ thousands)			
		Main Estimates	Planned Spending	Total Authorities	Actual
(S)	Payment to Ontario[12]			250,000	250,000
(S)	Clean Air and Climate Change Trust Fund[12]			1,518,925	1,518,925
(S)	Patient Wait Times Guarantee[12]			612,000	612,000
(S)	Transitional payments[12]			614,038	614,038
(S)	Child care spaces[12]			250,000	250,000
(S)	Human papilloma virus immunization[12]			300,000	300,000
(S)	Community Development Trust[13]			1,000,000	1,000,000
(S)	Advances pursuant to subsection 12(2) of the *Farm Credit Canada Act*[14]			3,840,000	3,840,000
(S)	Advances pursuant to section 19 of the *Business Development Bank of Canada Act*[14]			1,000,000	1,000,000
(S)	Refunds of amounts credited to revenues in previous years			36	36
(S)	Advances pursuant to subsection 13(1) of the *Financial Consumer Agency of Canada Act*			4,000	4,000
(L10a)	Issuance and payment of demand notes to the International Development Association			318,280	318,280
(S)	Payments and encashments of notes to the European Bank for Reconstruction and Development—Capital subscriptions	5,247	5,247	4,334	4,334
	Total*	**75,816,681**	**75,817,194**	**86,583,644**	**86,379,638**

** Due to rounding, figures may not add to totals shown.*

Notes:

1. "Total Authorities" includes adjustments from Supplementary Estimates or permanent allocations from various Treasury Board Votes for the following items not in "Planned Spending": $4.7 million for the 2006–07 operating budget carry forward; $2.7 million for centrally funded items; $1.6 million for collective bargaining agreements; $0.5 million for government-wide initiatives on internal audit.
2. "Operating expenditures" variances between "Total Authorities" and "Actual" are primarily attributable to staff turnover. Other factors include the later-than-expected start for the Advisory Panel on Canada's System of International Taxation and the Expert Panel on Securities Regulation.
3. "Grants and contributions" variances between "Total Authorities" and "Actual" are mainly due to heavily indebted poor countries not meeting the International Monetary Fund program requirements in accordance with multilateral debt relief initiatives agreed to at the Paris Club.
4. "Transfer payments to territorial governments" variances between "Planned Spending" and "Total Authorities" are primarily attributable to the new formula for Territorial Formula Financing that was announced in Budget 2007.

5. "Purchase of domestic coinage" variances between "Planned Spending" and "Total Authorities" are due to the inclusion of $42 million for recycled coin costs in the actual expenses.
6. "Public debt" variances between "Planned Spending" and "Total Authorities" are attributable to lower interest rates during the year and a slightly higher-than-anticipated reduction in market debt.
7. "Fiscal Equalization" variance between "Planned Spending" and "Total Authorities" is a result of the new formula for Equalization that was announced in Budget 2007.
8. "Canada Health Transfer" variance between "Planned Spending" and "Total Authorities" is attributable to the increase in the transfer payment rate as outlined in the 10-Year Plan to Strengthen Health Care.
9. "Canada Social Transfer" variance between "Planned Spending" and "Total Authorities" is attributable to the legislated amount for the Canada Social Transfer following the new commitments set out in Budget 2007.
10. Variances between "Planned Spending" and "Total Authorities" are the result of a decrease in the value of personal income tax points resulting in lower amounts to be recovered from Quebec.
11. In addition to the variances explained in Note 10, the Department received $336 million from the Province of Quebec for the 2008–09 fiscal year on March 31, 2008. The recovery from the Province of Quebec for the 2007–08 fiscal year is therefore overstated. Without the early payment, the recovery would have been shown as $(607.8) million.
12. Approved in Budget 2007.
13. Community Development Trust approved in Budget 2008.
14. The Government announced in Budget 2007 that it plans to meet all of the domestic borrowing needs of Farm Credit Canada and the Business Development Bank of Canada through direct lending beginning in 2008. Before this change, these Crown corporations obtained funding directly through the capital markets, under their own name.

To view the tables noted below, please visit
http://www.tbs-sct.gc.ca/dpr-rmr/2007-2008/index-eng.asp.

Table 3: Loans, Investments, and Advances (Non-budgetary)

Table 4: Sources of Respendable and Non-Respendable Revenue

Table 5: User Fees and External Fees

Table 6: Details on Transfer Payment Programs (TPP)

Table 7: Sustainable Development Strategy

Table 8: Response to Parliamentary Committees and External Audits

Table 9: Internal Audits and Evaluations

Table 10: Horizontal Initiatives

In 2007–08, the Department of Finance Canada was the lead department on the following horizontal initiative: Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime.

Supplementary information on the above-noted horizontal initiative can be found at http://www.tbs-sct.gc.ca/rma/eppi-ibdrp/hrdb-rhbd/profil_e.asp.

Table 11: Travel Policies

Comparison to the Treasury Board of Canada Secretariat *Special Travel Authorities*

The Department of Finance Canada follows and uses the Treasury Board policy parameters.

Comparison to the Treasury Board of Canada Secretariat *Travel Directive*, Rates, and Allowances

The Department of Finance Canada follows and uses the Treasury Board policy parameters.

Table 12: Department of Finance Canada Financial Statements (Unaudited) for the Year Ended March 31, 2008

Statement of Management Responsibility

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2008, and all information contained in this report rests with the management of the Department of Finance Canada. These financial statements have been prepared by management in accordance with Treasury Board accounting policies, which are consistent with Canadian generally accepted accounting principles for the public sector.

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment and gives due consideration to materiality. To fulfil its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of the Department of Finance Canada's financial transactions. Financial information submitted to the *Public Accounts of Canada* and included in the Department's Departmental Performance Report is consistent with these financial statements.

Management maintains a system of financial management and internal control designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded, and that transactions are in accordance with the *Financial Administration Act*, are executed in accordance with prescribed regulations, within Parliamentary authorities, and are properly recorded to maintain accountability of government funds. Management also seeks to ensure the objectivity and integrity of data in its financial statements by careful selection, training, and development of qualified staff, by organizational arrangements that provide appropriate divisions of responsibility, and by communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout the Department of Finance Canada.

The system of internal control is augmented by internal audit, which conducts periodic audits and reviews of different areas of the Department's operations. In addition, the Chief Audit Executive has free access to the Audit Committee, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting and which recommends the financial statements to the Deputy Minister of Finance.

The financial statements of the Department of Finance Canada have not been audited.

Rob Wright, Deputy Head
Ottawa, Canada
August 28, 2008

Kelly Gillis, CA, Senior Financial Officer

Department of Finance Canada
Statement of Operations (*unaudited*)
For the Year Ended March 31
($ thousands)

	2008	Restated (Note 22) 2007
Expenses (Note 4)		
Transfer Payments to Provinces and Territories	45,575,855	41,974,221
Public Debt	33,212,327	34,108,504
International Financial Organizations	304,367	190,802
Domestic Coinage	177,654	128,035
Tax Policy	38,172	36,781
Financial Sector Policy	20,859	65,511
International Trade and Finance	18,321	17,956
Economic and Fiscal Policy	17,423	17,325
Federal-Provincial Relations and Social Policy	14,485	17,719
Economic Development and Corporate Finance	9,154	9,309
Total Expenses	**79,388,617**	**76,566,163**
Revenues (Note 5)		
Transfer Payments to Provinces and Territories	182,771	205,063
International Financial Organizations	23,403	36,768
Domestic Coinage	203,566	226,843
Tax Policy	13	59
Financial Sector Policy	4,180,908	4,141,198
International Trade and Finance	6	29
Economic and Fiscal Policy	6	52
Federal-Provincial Relations and Social Policy	5	32
Economic Development and Corporate Finance	239,387	158,084
Total Revenues	**4,830,065**	**4,768,128**
Net Cost of Operations	**74,558,552**	**71,798,035**

The accompanying notes form an integral part of these financial statements.

Department of Finance Canada
Statement of Financial Position (*unaudited*)
At March 31
($ thousands)

	2008	Restated (Note 22) 2007
Assets		
Financial assets		
Accounts receivable and advances (Note 6)	6,876,772	6,777,102
Coin inventory	26,912	21,829
Foreign exchange accounts (Note 7)	42,299,109	44,178,099
Investment in Crown corporations (Note 8)	401,578	401,578
Other loans, investments, and advances (Note 9)	8,918,815	5,052,538
Total financial assets	58,523,186	56,431,146
Non-financial assets		
Prepaid expenses	14	—
Tangible capital assets (Note 10)	3,584	3,548
Total non-financial assets	3,598	3,548
Total Assets	58,526,784	56,434,694
Liabilities		
Accounts payable and accrued liabilities (Note 11)	3,416,921	4,356,295
Taxes payable under tax collection agreements (Note 12)	5,111,494	6,422,333
Interest payable (Note 13)	7,090,297	7,407,283
Notes payable to international organizations (Note 14)	350,679	359,761
Matured debt (Note 15)	91,698	108,961
Unmatured debt (Note 16)	386,776,844	411,548,404
Other liabilities (Note 17)	460,839	124,839
Employee severance benefits (Note 18)	12,800	13,604
	403,311,572	430,341,480
Equity of Canada	(344,784,788)	(373,906,786)
Total Liabilities and Equity	58,526,784	56,434,694
Contingent liabilities (Note 19)		
Contractual obligations (Note 20)		

The accompanying notes form an integral part of these financial statements.

Department of Finance Canada
Statement of Equity of Canada (*unaudited*)
At March 31
($ thousands)

	2008	Restated (Note 22) 2007
Equity of Canada, beginning of year	**(373,906,786)**	**(383,686,463)**
Net cost of operations	(74,558,552)	(71,798,035)
Current year appropriations used (Note 3)	86,379,638	73,875,345
Revenue not available for spending (Note 3)	(4,877,248)	(4,844,881)
Change in net position in the Consolidated Revenue Fund (Note 3)	22,162,139	12,528,474
Services received without charge from other government departments (Note 21)	16,021	18,774
Equity of Canada, end of year	**(344,784,788)**	**(373,906,786)**

The accompanying notes form an integral part of these financial statements.

Department of Finance Canada
Statement of Cash Flow (*unaudited*)
For the Year Ended March 31
($ thousands)

	2008	Restated (Note 22) 2007
Operating activities		
Net cost of operations	74,558,552	71,798,035
Non-cash items:		
Amortization of tangible capital assets	(1,632)	(1,472)
Amortization of loan discounts	209,706	207,031
Amortization of debt discounts and premiums	(6,361,347)	(6,153,043)
Concessionary portion of other loans, investments, and advances	(237,845)	(241,856)
Gain on disposition of securities	1,531	1,715
Gain on disposal and write-down of tangible capital assets	—	8
Unrealized foreign exchange gains and losses	(44,937)	(4,658)
Services provided without charge from other government departments	(16,021)	(18,774)
Variations in Statement of Financial Position:		
Increase (decrease) in accounts receivable and advances	99,671	(1,099,665)
Increase in coin inventory	5,083	7,567
Increase in prepaid expenses	14	—
Decrease (increase) in liabilities:		
Accounts payable and accrued liabilities	939,375	327,243
Employee severance benefits	804	(609)
Interest payable	316,985	341,432
Taxes payable under tax collection agreements	1,310,839	(409,956)
Other liabilities	(336,000)	83,573
Cash used by operating activities	70,444,778	64,836,571
Capital investment activities		
Acquisition of tangible capital assets	1,668	1,808
Proceeds from disposal of tangible capital assets	—	(566)
Cash used by capital investment activities	1,668	1,242
Investing activities		
Net advances to (settlements from) the Exchange Fund Account	(1,076,934)	2,469,709
Issuance of notes payable to the International Monetary Fund	(333,000)	(1,680,585)
Encashment of notes payable to the International Monetary Fund	213,120	1,267,000
Issuance of loans receivable	5,273,968	1,375,401
Repayment of loans receivable	(1,285,757)	(1,554,892)
Cash used by investing activities	2,791,397	1,876,633

Department of Finance Canada
Statement of Cash Flow (*unaudited*)
For the Year Ended March 31
($ thousands)

	2008	Restated (Note 22) 2007
Financing activities		
Encashment of notes payable to international organizations	322,604	324,768
Issuance of notes payable to international organizations	(318,280)	(318,270)
Net proceeds from cross-currency swaps	(373,718)	(183,919)
Issuance of debt	(330,774,706)	(355,819,562)
Repayment of debt	361,570,786	370,841,475
Net cash provided by the Government of Canada	(103,664,529)	(81,558,938)
Cash provided by financing activities	(73,237,843)	(66,714,446)

The accompanying notes form an integral part of these financial statements.

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

1. Authority and objectives

The Department of Finance Canada is established under the *Financial Administration Act* as a department of the Government of Canada.

The Department of Finance Canada is headed by the Minister of Finance, who has broad responsibility for the management and direction of the Department, the management of the Consolidated Revenue Fund (CRF), and the supervision, control, and direction of all matters relating to the financial affairs of Canada not by law assigned to the Treasury Board or to any other minister.

The goal of the Department of Finance Canada is to foster strong and sustainable economic growth, resulting in higher standards of living and an improved quality of life for Canadians. The core business of the Department is organized into the following program activities:

Tax Policy: Develops and evaluates federal taxation policies and legislation and provides advice and recommendations for changes aimed at improving the tax system while raising the required amount of revenue to finance government priorities. This program focusses on the following areas: personal income tax, business income tax, and sales and excise tax. The program is also involved with negotiating tax treaties, tax policy research and evaluation, as well as federal-provincial-territorial and federal-Aboriginal tax coordination.

Economic and Fiscal Policy: Analyzes Canada's economic and fiscal situation, advises on fiscal matters, and provides analytical support on a wide range of economic and financial issues related to the government's macroeconomic policies.

Financial Sector Policy: Provides policy analysis on Canada's financial sector and on the regulation of federally chartered financial institutions, manages the federal government's borrowing program, and provides support regarding Crown corporation and financial market and exchange rate policy.

Economic Development and Corporate Finance: Provides policy and advice regarding financial implications of the government's microeconomic policies and programs, proposals for funding of programs, sectoral policy analysis, and corporate restructuring regarding Crown corporations and other corporate holdings.

Federal-Provincial Relations and Social Policy: Provides policy and advice on federal-provincial-territorial relations and social policy issues and their economic and fiscal implications.

International Trade and Finance: Manages the Department's participation in international financial institutions (including the IMF, the World Bank Group, the Organisation for Economic Co-operation and Development, and the European Bank for Reconstruction and Development), international groups such as the G7, G20, and the Asia-Pacific Economic Cooperation forum, as well as trade and investment policy issues.

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

Public Debt: Manages the funding of interest and service costs of the public debt and the issuing costs of new borrowing.

Domestic Coinage: Is responsible for the payment of the production and distribution costs for domestic circulating coinage.

Transfer Payments to Provinces and Territories: Administers the transfer payments pursuant to statutes and agreements with provinces and territories.

International Financial Organizations: Administers international financial obligations and subscriptions.

2. Summary of significant accounting policies

The financial statements have been prepared in accordance with Treasury Board accounting policies, which are consistent with Canadian generally accepted accounting principles for the public sector.

Significant accounting policies are as follows:

a) Parliamentary appropriations

The Department of Finance Canada is financed by the Government of Canada through parliamentary appropriations. Appropriations provided to the Department of Finance Canada do not parallel financial reporting according to generally accepted accounting principles because appropriations are primarily based on cash flow requirements. Consequently, items recognized in the statement of operations and the statements of financial position are not necessarily the same as those provided through appropriations from Parliament. Note 3 provides a high-level reconciliation between the bases of reporting.

b) Consolidation

Financial statements as at March 31, 2007, included the accounts of the Canada Investment and Savings Agency, a special operating agency that administered retail debt. The accounts of the Canada Investment and Savings Agency were consolidated with those of the Department of Finance Canada and all interorganizational balances and transactions were eliminated for the year ending March 31, 2007.

The Government of Canada proceeded with the winding up of the Canada Investment and Savings Agency as of the end of the fiscal year, March 31, 2007. The financial statements as at March 31, 2008, therefore do not include the activities of the Canada Investment and Savings Agency.

Investments in government business enterprises are recorded at cost and are not consolidated.

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

c) Net cash provided by government

The Department of Finance Canada operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by the Department is deposited to the CRF, and all cash disbursements made by the Department are paid from the CRF. The net cash provided by the Government is the difference between all cash receipts and all cash disbursements, including transactions between departments of the federal government.

d) Change in net position in the CRF

Change in net position in the CRF is the difference between the net cash provided by the government and appropriations used in a year, excluding the amount of non-respendable revenue recorded by the Department of Finance Canada. It results from timing differences between when a transaction affects appropriations and when it is processed through the CRF.

e) Special drawing rights

A special drawing right (SDR) is an international reserve asset created by the IMF to supplement existing official international reserves of member countries. The value of an SDR is based on a basket of four major currencies: the euro, Japanese yen, pound sterling, and U.S. dollar. The composition of the basket is reviewed every five years to ensure that it is representative of the currencies used in international transactions and that the weights assigned to the currencies reflect their relative importance in the world's trading and financial systems.

f) Revenues

Revenues are accounted for in the period in which the underlying transaction or event occurred that gave rise to the revenues:

- Interest on Receiver General bank deposits is recognized as revenue when earned.
- Uncashed Receiver General cheques and warrants and bank account cheques for all departments and agencies are recognized as revenue of the Department of Finance Canada if they remain outstanding 10 years after the date of issue.
- Unclaimed matured bonds are recognized as revenue if they remain unredeemed 15 years after the date of call or maturity, whichever is earlier.
- Unclaimed bank balances are recognized as revenue when there has been no owner activity in relation to the balance for a period of 20 years.

g) Expenses

Expenses are recorded on the accrual basis:

- Transfer payments are recorded as expenses when the recipient has met the eligibility criteria or fulfilled the terms of a contractual transfer agreement or, in the case of transactions that do not form part of an existing program, when the government announces a decision to make a

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements.

- Public debt charges are recognized when incurred and include interest, amortization of debt discounts, premiums and commissions, and servicing and issue costs.
- Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment.
- Services provided without charge by other government departments for accommodation, the employer's contributions to the health and dental insurance plans, and legal services are recorded as operating expenses at their estimated cost.

h) Employee future benefits

Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multi-employer defined benefit pension plan administered by the Government of Canada. The Department's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. Current legislation does not require the Department to make contributions for any actuarial deficiencies of the Plan.

Severance benefits: Employees are entitled to severance benefits under labour contracts or conditions of employment. These benefits are accrued as employees render the services necessary to earn them. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the government as a whole.

i) Accounts receivable and advances

Accounts receivable and advances are stated at amounts expected to be ultimately realized; a provision is made for receivables where recovery is considered uncertain.

j) Inventory

Coin inventory is valued at the lower of cost and net realizable value. Cost is determined by the average cost method.

k) Foreign exchange accounts

Short-term deposits, marketable securities, and special drawing rights held in the foreign exchange accounts are recorded at cost. Marketable securities are adjusted for amortization of purchase discounts and premiums. Purchases and sales of securities are recorded at the settlement date. Write-downs to reflect other than temporary impairment in the fair value of securities are included in foreign exchange revenues on the statement of operations. Canada's subscriptions to the capital of the IMF are recorded at cost.

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

l) Investments in Crown corporations

Investments in the Canada Development Investment Corporation are at cost.

Income from investments in Crown corporations includes dividends from the Bank of Canada and the Canada Development Investment Corporation, which is recognized when declared.

m) Foreign currency transactions

Transactions involving foreign currencies are translated into Canadian dollar equivalents using rates of exchange in effect at the time of those transactions. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars using the rate of exchange in effect on March 31.

Gains and losses resulting from foreign currency transactions are included in the statement of operations as revenues or expenses related to international financial organizations.

n) Other loans, investments, and advances

Subscriptions and contributions are recorded at cost net of allowances.

The Department of Finance Canada does not make a return on investment and does not expect a return of capital unless it withdraws from an institution, which is unlikely. Since the terms of the subscriptions and contributions are so concessionary that the substance of the transaction is that all or a part of the investment is more in the nature of a grant, the entire investment is recognized, through an allowance, as an expense at the time the investment is made.

Loans and advances are initially recorded at cost and are adjusted to reflect the concessionary terms of those loans made on a long-term, low-interest, or interest-free basis and the portion of the loans that are expected to be repaid from future appropriations.

An allowance for valuation is further used to reduce the carrying value of loans, investments, and advances to amounts that approximate their net realizable value.

For loans and advances to international organizations, an allowance is established based on their concessionary terms and their collectibility.

o) Derivative financial instruments

The Department of Finance Canada enters into interest rate and cross-currency swaps to facilitate the management of its debt structure.

Interest rate swaps are agreements where counterparties exchange fixed- and floating-rate interest payments based on notional principal amounts of a single currency. Cross-currency swaps are agreements where counterparties exchange fixed- or floating-rate interest payments and principal amounts in different currencies.

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

Interest rate swaps are used to convert fixed-rate debt into variable rates tied to the banker's acceptance rates or London Inter-Bank Offered Rates. Cross-currency swaps are primarily used to convert domestic debt to foreign debt to fund foreign currency advances to the Exchange Fund Account. In certain cases, cross-currency swaps are used to convert foreign debt into U.S. dollar debt.

Cross-currency swaps are initially recorded at cost and are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. For cross-currency swaps where domestic debt has been converted into foreign debt, any exchange gains or losses are offset by the exchange gains or losses on foreign currency advances to the Exchange Fund Account. For cross-currency swaps where foreign debt has been converted into U.S. dollar debt, any exchange gains or losses are offset by the exchange gains or losses on the applicable foreign debt.

Interest paid and payable, and interest received and receivable on all derivative financial instruments, is included in interest on unmatured debt.

p) Tangible capital assets

All tangible capital assets and leasehold improvements having an initial cost of $10,000 or more are recorded at their acquisition cost. The Department of Finance Canada does not capitalize intangibles, works of art or historical treasures that have cultural, aesthetic or historical value, or assets located on Indian Reserves and museum collections.

Amortization of tangible capital assets is done on a straight-line basis over the estimated useful life of the asset as follows:

Asset class	Amortization period
Machinery and equipment	Three to five years
Vehicles	Three years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement
Assets under construction	Once in service, in accordance with asset type

q) Taxes receivable and taxes payable under tax collection agreements

Pursuant to various tax collection agreements, the Canada Revenue Agency (CRA) collects and administers personal income tax, corporate income and capital taxes, harmonized sales tax, sales tax, and goods and services tax on behalf of certain provinces, territories, and Aboriginal governments, and the Department of Finance Canada remits related payments to the applicable government.

Given that the Government of Canada reports information on a fiscal-year basis while tax information is calculated on a calendar year basis, there can be transactions related to several tax years during any given fiscal year. Taxes receivable and taxes payable therefore include amounts assessed, estimates of assessments based upon cash received, adjustments from reassessments, and adjustments relating to previous tax years.

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

Taxes receivable also include taxes collectible by the CRA on behalf of provincial, territorial, or Aboriginal governments that have not yet been remitted to the Department of Finance Canada and are included in accounts receivable in the statement of financial position. Similarly, taxes payable include taxes that have not yet been remitted by the Department of Finance Canada to the appropriate provincial, territorial, or Aboriginal government.

r) Unmatured debt

Premiums and discounts on public debt are amortized on a straight line basis over the term to maturity of the respective debt instrument. The corresponding amortization is recorded as part of public debt charges.

s) Other liabilities

Deposits from Crown corporations that are non-interest bearing and repayable are recorded in "Other liabilities."

The common school funds account was established under *12 Victoria 1849*, Chapter 200, to record the proceeds from the sale of lands set apart for the support and maintenance of common schools in Upper and Lower Canada, now Ontario and Quebec.

The foreign claims fund account was established by Vote 22a, *Appropriation Act No. 9, 1966*, to record the money received from the Custodian of Enemy Property.

The War Claims Fund—World War II account was established by Vote 696, *Appropriation Act No. 4, 1952*, to record monies received from the Custodian of Enemy Property or from other sources.

t) Loan guarantees

The allowance for losses on the guarantees of the Canadian Wheat Board and Export Development Canada is determined based on the government's identification and evaluation of countries that have formally applied for debt relief, estimated probable losses that exist on the remaining portfolio, and changes in the economic conditions of sovereign debtors.

u) Contingent liabilities

Contingent liabilities are potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

v) Measurement uncertainty

The preparation of these financial statements in accordance with Treasury Board accounting policies, which are consistent with Canadian generally accepted accounting principles for the

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

public sector, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable.

The most significant items where estimates are used are contingent liabilities, valuation allowances for loans receivable, discounts on loans receivable, transfer payments to provinces and territories, accruals of taxes receivable and taxes payable under tax collection agreements, the liability for employee severance benefits, and the useful life of tangible capital assets. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

3. Parliamentary appropriations

The Department of Finance Canada receives most of its funding through annual parliamentary appropriations. Items recognized in the statement of operations and the statement of financial position in one year may be funded through parliamentary appropriations in prior, current, or future years. Accordingly, the Department has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables.

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

a) Reconciliation of net cost of operations to current year appropriations used

	2008	Restated (Note 22) 2007
	($ thousands)	
Net cost of operations	**74,558,552**	**71,798,035**
Adjustments for items affecting net cost of operations but not affecting appropriations:		
Add (Less):		
Revenue not available for spending	4,877,248	4,844,881
Allowance set-up for bad debt expenses	80,425	76,414
Allowance on loan guarantees	71,733	372,463
Services provided without charge from other government departments	(16,021)	(18,774)
Inventory charged to program expense	5,083	7,567
Amortization of tangible capital assets	(1,632)	(1,472)
Employee Severance Benefits	804	(609)
Other expenses not being charged to appropriations:		
Transfer payment pursuant to the *Budget Implementation Act*	2,206,000	(3,533,000)
Crown Share Adjustment	(234,400)	—
Other	514	(785)
	6,989,754	1,746,685
Adjustments for items not affecting net cost of operations but affecting appropriations:		
Add (Less):		
Advances to Farm Credit Canada	3,840,000	—
Advances to Business Development Bank of Canada	1,000,000	—
Prepayment from Youth Allowances Recovery	(336,000)	—
Issuance of Notes payable for subscriptions and contributions to the International Development Association	318,280	318,270
Encashment of notes payable to the European Bank for Reconstruction and Development	4,334	6,498
Advances to the Financial Consumer Agency of Canada	4,000	5,000
Acquisitions of tangible capital assets	687	883
Accountable advances	17	(26)
Prepaid expenses	14	—
	4,831,332	330,625
Current year appropriations used	**86,379,638**	**73,875,345**

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

b) Appropriations provided and used

	2008	2007
	($ thousands)	
Appropriations provided		
Vote 1—Operating expenditures	99,139	102,606
Vote 5—Grants and contributions	221,200	398,605
	320,339	501,211
Statutory authorities:		
Transfer payments to provinces and territories	47,211,456	38,441,221
Public debt charges	33,212,371	34,108,504
Issuance of loans and advances (non-budgetary)	5,162,280	323,270
Encashment of notes payable to the International Development Association	318,270	318,270
Purchases of coins	182,736	135,602
Foreign exchange losses	89,177	120,555
Other statutory authorities	70,548	2,166
Contributions to employee benefit plans	12,104	11,761
Encashment of notes payable to the European Bank for Reconstruction and Development	4,334	6,498
Spending of proceeds from disposal of surplus Crown assets	29	—
Transfer payments to international organizations	—	2,615
	86,263,305	73,470,462
Less:		
Appropriations available for future years	(68,578)	—
Lapsed appropriations		
Vote 1—Operating expenditures	(7,583)	(13,320)
Vote 5—Grants and contributions	(127,823)	(83,008)
Spending of proceeds from disposal of surplus Crown assets	(22)	—
	(204,006)	(96,328)
Current year appropriations used	**86,379,638**	**73,875,345**

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

c) Reconciliation of net cash provided by government to current year appropriations used

	2008	Restated (Note 22) 2007
	($ thousands)	
Net cash provided by government	103,664,529	81,558,938
Revenue not available for spending	4,877,248	4,844,881
	108,541,777	86,403,819
Change in net position in the Consolidated Revenue Fund:		
Variation in assets and liabilities:		
Unmatured debt	(24,771,560)	(7,363,967)
Other loans, investments, and advances	(3,866,277)	209,735
Foreign exchange accounts	1,878,990	(3,351,577)
Taxes payable under tax collection agreements	(1,310,839)	409,956
Accounts payable and accrued liabilities	(939,375)	(327,243)
Interest payable	(316,986)	(341,432)
Accounts receivable	(99,670)	1,099,665
Matured debt	(17,263)	(17,214)
Notes payable to international organizations	(9,082)	(7,291)
Coin inventory	(5,083)	(7,567)
Employee severance benefits	(804)	609
Tangible capital assets	(36)	222
Prepaid expenses	(14)	—
Other liabilities	—	(83,573)
Other:		
Advances Farm Credit Canada	3,840,000	—
Advances Business Development Bank of Canada	1,000,000	—
Issuance of notes payable for subscriptions to the International Development Association	318,280	318,270
Allowance set-up for bad debt expenses	80,425	76,414
Allowance for valuation of loans, investments and advances	71,733	372,463
Other expenses not being charged to appropriation at the same time:		
Transfer payment pursuant to the *Budget Implementation Act*	2,206,000	(3,533,000)
Crown Share Adjustment	(234,400)	—
Other	13,822	17,056
Total change in the Consolidated Revenue Fund	(22,162,139)	(12,528,474)
Current year appropriations used	**86,379,638**	**73,875,345**

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

4. Expenses

The following table presents details of expenses by category:

	2008	Restated (Note 22) 2007
	($ thousands)	
Transfer payments:		
Provinces and territories (Note 4a)	45,575,855	41,974,221
International organizations (Note 4b)	331,212	560,069
Allowance on loan guarantees	(71,733)	(372,463)
Non-profit institutions and organizations	10	—
Total transfer payments	45,835,344	42,161,827
Public debt charges:		
Interest on unmatured debt (Note 4c)	20,364,430	21,182,870
Interest on other liabilities (Note 4d)	12,776,471	12,831,346
Other public debt charges	71,470	94,288
Total public debt charges	33,212,371	34,108,504
Cost of domestic coinage sold	177,654	128,035
Operating expenses (Note 4e)	118,300	121,483
Net foreign currency loss	44,757	46,112
Other expenses	191	202
Total Expenses	**79,388,617**	**76,566,163**

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

a) Transfer payments to provinces and territories

Transfer payments to provinces and territories are paid pursuant to the *Federal-Provincial Fiscal Relations Act*, budget implementation acts, and other statutory authorities.

For the period ended March 31, transfer payments to provinces and territories included the following:

	2008	Restated (Note 22) 2007
	($ thousands)	
Canada Health Transfer	21,474,272	20,139,876
Fiscal equalization payments	12,924,677	11,535,064
Canada Social Transfer	9,590,219	8,500,000
Alternative payments for standing programs	(2,719,889)	(3,177,016)
Territorial financing	2,221,297	2,118,264
Bill C-41 *Community Development Trust*	1,000,000	—
Youth Allowances Recovery	(607,805)	(706,788)
Crown Share Adjustment	234,400	—
Bill C-50 (*An Act to implement certain provisions of the budget tabled in Parliament on February 26, 2008*):		
Public Transit	500,000	—
Creation Police Officer Position	400,000	—
Carbon Capture	245,000	—
Canada Social Transfer Transition Protection Payment	32,000	—
Bill C-52 *(An Act to implement certain provisions of the budget tabled in Parliament on March 19,2007):*		
Child Care Spaces	250,000	—
Clean Air and Climate Change Trust Fund	(75)	1,519,000
Transitional Trust Fund	(62)	614,100
Patient Wait Time Guarantee Trust Fund	—	612,000
Payment to Ontario	—	400,000
HPV Immunization	—	300,000
Payment to Northwest Territories	—	54,400
British Columbia Spirit Bear Rainforest	—	30,000
Payment to Yukon	—	3,500
Statutory subsidies	31,821	31,821
Total transfer payments to provinces and territories	45,575,855	41,974,221

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

b) Transfer payments to international organizations

Transfer payments to international organizations consist of the following:

- Subscriptions and contributions to the International Development Association;
- Contributions to the International Monetary Fund's Poverty Reduction Growth Facility; and
- Grants and contributions to compensate Canadian creditor agencies whose scheduled receipts from debtor countries have been reduced by Canadian participation in the Paris Club debt or debt service reduction agreements and to contribute to international efforts to relieve the debt burdens of the world's poorest countries.

c) Interest on unmatured debt

Interest on unmatured debt includes interest incurred, amortization of debt discounts, and premiums and net interest on cross-currency and interest rate swaps.

	2008	2007
	($ thousands)	
Interest on domestic debt:		
Treasury bills	4,611,408	4,691,568
Marketable bonds	14,605,487	15,031,258
Retail debt	579,186	719,613
Bonds for Canada Pension Plan	129,685	214,531
Promissory notes	—	205
	19,925,766	20,657,175
Interest on foreign debt:		
Marketable bonds (US and euro)	277,215	337,743
Canada notes (yen)	8,864	9,267
Canada bills (US)	83,004	105,711
Euro medium-term notes (US and euro)	69,581	72,974
	438,664	525,695
Total interest on unmatured debt	20,364,430	21,182,870

d) Interest on other liabilities

The Department of Finance Canada funds interest on interest-bearing specified purpose accounts established by all departments and agencies, including superannuation accounts and retirement compensation arrangement accounts established for the benefit of public service employees and members of the Royal Canadian Mounted Police and the Canadian Forces, the CPP Account, the Employment Insurance Fund, and other accounts.

Interest on other liabilities includes interest incurred on specified purpose accounts and interest on special drawing rights allocations.

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

For the period ended March 31, interest on other liabilities included interest on the following:

	2008	2007
	($ thousands)	
Superannuation accounts	10,369,136	10,446,077
Employment Insurance Fund	1,926,315	1,912,249
Other specified purpose accounts	310,179	296,846
Retirement Compensation Arrangement accounts	116,742	115,416
Special drawing rights allocations	46,472	51,758
CPP account	7,627	9,000
Total Interest on other liabilities	12,776,471	12,831,346

e) Operating expenses

The following table presents details of operating expenses by category:

	2008	2007
	($ thousands)	
Salaries and wages	71,876	70,817
Professional and special services	15,220	14,481
Contributions to employee benefit plans	12,104	11,761
Accommodation	7,416	9,718
Transportation and telecommunications	4,838	4,972
Machinery and equipment	2,146	3,992
Information services	1,863	3,168
Amortization of tangible capital assets	1,632	1,472
Repairs and maintenance	690	542
Rentals	515	560
Total Operating expenses	118,300	121,483

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

5. Revenues

The following table presents details of revenues by category.

	2008	2007
	($ thousands)	
Investment income:		
Dividends from the Bank of Canada	1,921,014	1,983,529
Exchange Fund Account	1,828,151	1,765,275
Dividends from Canada Development Investment Corporation	234,200	156,000
Loan interest	197,007	219,243
Farm Credit Canada	19,945	—
Interest on Subscriptions to the International Monetary Fund (IMF)	9,292	22,753
Business Development Bank of Canada	1,870	—
Total investment income	4,211,479	4,146,800
Interest on bank deposits	360,661	351,230
Sales of domestic coinage	203,566	226,843
Loan interest—Canada Lands Company Ltd.	5,184	2,073
Other	49,175	41,182
Total Revenues	**4,830,065**	**4,768,128**

6. Accounts receivable and advances

The following table presents details of accounts receivable and advances.

	2008	2007
	($ thousands)	
Taxes receivable under tax collection agreements	6,449,575	6,349,774
Receivables from other federal government departments and agencies	31,209	27,012
Deposits in transit to the Receiver General	6	4
Accrued investment income	395,846	400,266
Receivables from external parties	136	46
Total Accounts receivable and advances	6,876,772	6,777,102

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

7. Foreign exchange accounts

The foreign exchange accounts represent the largest component of the official international reserves of the Government of Canada and consist of the following:

	2008	2007
	($ thousands)	
Investments held in the Exchange Fund Account	41,075,243	42,907,495
Accrued net revenue from the Exchange Fund Account	1,828,151	1,765,245
Total investments held in Exchange Fund Account (Note 7a)	42,903,394	44,672,740
Subscriptions to the International Monetary Fund (Note 7b)	10,751,719	11,105,783
Notes payable to the International Monetary Fund (Note 7c)	(10,040,500)	(10,241,599)
Special drawing rights allocations (Note 7d)	(1,315,504)	(1,358,825)
Total Foreign Exchange Accounts	**42,299,109**	**44,178,099**
Market Value	42,909,580	44,058,945

a) Exchange Fund Account

The Exchange Fund Account is an actively managed portfolio of liquid foreign currency assets maintained to provide foreign currency liquidity for the Government of Canada and to provide the funds needed to help promote orderly conditions for the Canadian dollar in foreign exchange markets. It is governed by Part II of the *Currency Act*. Assets include cash and short-term deposits, marketable securities, special drawing rights, and gold.

The advances are limited to $60 billion by Order in Council dated April 25, 2001. Foreign currency is funded by the proceeds of foreign debt issued and domestic debt converted to foreign debt through cross-currency swaps.

The following table presents the balances of the foreign exchange accounts.

	2008	2007
	($ thousands)	
Cash and short-term deposits	1,570,189	1,925,167
Deposits held under repurchase agreements	338,745	2,540,120
Marketable securities	39,261,533	38,462,632
Special drawing rights	1,090,424	1,126,655
Gold	6,441	6,653
Accrued interest and other receivables	636,062	611,513
Total Investments held in the Exchange Fund Account	**42,903,394**	**44,672,740**

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

b) Subscriptions to the International Monetary Fund (IMF)

The IMF is an international organization of 184 member countries that operates in accordance with its Articles of Agreement. It has a large pool of liquid assets, or resources, comprising convertible national currencies, special drawing rights, and other widely used international currencies provided by its members that it makes available to help members finance temporary balance of payments problems.

Upon joining the IMF and following periodic quota reviews, member countries are assigned a quota, based broadly on their relative size in the world economy.

Quotas are denominated in special drawing rights (SDR) and determine a country's subscription, voting power, access to financing from the IMF, and share of SDR allocations. The subscription is equal to the quota and is payable in full to the IMF. Up to one-quarter of the subscription is paid in the form of widely accepted foreign currencies (such as the U.S. dollar, the euro, the Japanese yen, or the pound sterling) or SDRs. The remaining three-quarters is paid in the country's own currency.

c) Notes payable to the International Monetary Fund

At least 25 per cent of Canada's quota is held by the IMF in a Canadian-dollar cash deposit at the Bank of Canada. The IMF's remaining Canadian-dollar holdings are in the form of non-negotiable, non–interest bearing demand notes that are cashed by the IMF subject to its requirements for Canadian currency.

d) Special drawing rights allocations

The IMF allocates SDRs to countries that participate in the IMF's Special Drawing Rights Department.

SDR allocations are repayable to the IMF if they are cancelled by the IMF's Board of Governors, the Special Drawing Rights Department is liquidated, the IMF is liquidated, or if Canada chooses to withdraw from the IMF or terminate its participation in the Special Drawing Rights Department.

Canada's SDR allocations are SDR779.3 million.

8. Investment in Crown corporations

The Government of Canada wholly owns three Crown corporations: the Bank of Canada, the Canada Development Investment Corporation (CDIC), and the Canada Pension Plan Investment Board (CPPIB).

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

At March 31, the investment, at cost, is as follows:

	2008	2007
	($ thousands)	
Canada Development Investment Corporation (note 8a)	395,658	395,658
Bank of Canada (note 8b)	5,920	5,920
Canada Pension Plan Investment Board (note 8c)	—	—
Total Investment in Crown corporations	401,578	401,578

a) The Canada Development Investment Corporation (CDIC)

The CDIC is a wholly owned Crown corporation incorporated pursuant to the *Canada Business Corporations Act*. The Corporation's current mandate is to wind down its operations by divesting of its remaining assets in an orderly fashion and to ready the corporation for eventual windup. The Corporation wholly owns Canada Eldor Inc. and the Canada Hibernia Holding Corporation.

The Government of Canada owns 101 common shares without a par value. The remaining balance of the investment represents the Department of Finance Canada's contributed surplus of the Canada Hibernia Holding Corporation.

b) Bank of Canada

The Bank of Canada is a wholly owned Crown corporation established by the *Bank of Canada Act* as the central bank in Canada to regulate credit and currency in the best interests of the economic life of the nation; to control and protect the external value of the national monetary unit; to mitigate by its influence fluctuations in the general level of production, trade, prices, and employment, so far as may be possible within the scope of monetary action; and to generally promote the economic and financial welfare of Canada.

The Bank of Canada has responsibilities for Canada's monetary policy, issuing bank notes, promoting the safety and efficiency of Canada's financial systems and providing funds management services and, pursuant to the *Bank of Canada Act*, is the fiscal agent of the Government of Canada.

The Government of Canada owns 100,000 shares with a par value of $50 each. The remaining balance of $920,000 represents premiums paid in respect of the acquisition, in 1938, of shares held by the public.

c) The Canada Pension Plan Investment Board (CPPIB)

The CPPIB was incorporated under the CPPIB Act, S.C., 1997, C.40, to invest the assets of the CPP in order to meet the obligation to contributors and beneficiaries under the CPP.

The Government of Canada has purchased 10 shares of the CPPIB at $10 per share, which represents 100 per cent of the outstanding shares.

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

9. Other loans, investments, and advances

The following table presents details of other loans, investments, and advances by category.

	Face value	Discounts	Allowance	Net book value 2008	Net book value 2007
			($ thousands)		
Government business enterprises					
Notes receivable from Canada Lands Company CLC Limited (Note 9a)	46,826	11,174	—	35,652	47,394
Notes receivable from Parc Downsview Park Inc.	19,000	17,207	—	1,793	1,696
	65,826	28,381	—	37,445	49,090
Crown Borrowing Program					
Farm Credit Canada (Note 9b)	3,840,000	13,636	—	3,826,364	—
Business Development Bank of Canada (Note 9c)	1,000,000	5,226	—	994,774	—
	4,840,000	18,862	—	4,821,138	—
Provincial and territorial governments					
Recoverable overpayments of transfer payments (Note 9d)	3,574,923	543,428	—	3,031,495	3,833,175
Recoverable overpayments of taxes payable under tax collection agreements (Note 9e)	852,548	145,204	—	707,344	804,310
Loans to Municipal Development Loan Boards (Note 9f)	360	—	—	360	648
Loans for the Winter Capital Projects Fund (Note 9g)	2,900	—	2,900	—	—
	4,430,731	688,632	2,900	3,739,199	4,638,133
International organizations					
Subscriptions to the European Bank for Reconstruction and Development (Note 9h)	221,927	—	221,927	—	—
Subscriptions to the International Bank of Reconstruction and Development (Note 9i)	344,508	—	344,508	—	—
Subscriptions to the International Finance Corporation (Note 9j)	83,498	—	83,498	—	—
Subscriptions to the Multilateral Investment Guarantee Agency (Note 9k)	11,017	—	11,017	—	—
Loans to the International Monetary Fund's Poverty Reduction and Growth Facility (Note 9l)	321,033	—	—	321,033	365,315
Advances to the Global Environment Facility (Note 9m)	10,000	—	10,000	—	—

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

	Face value	Discounts	Allowance	Net book value 2008	Net book value 2007
Subscriptions and contributions to the International Development Association (Note 9n)	7,811,658	—	7,811,658	—	—
	8,803,641	—	8,482,608	321,033	365,315
Other organizations					
Investment in loan portfolio acquired from Canadian Commercial Bank (Note 9o)	43,132	—	43,132	—	—
	43,132	—	43,132	—	—
Total other loans, investments, and advances	18,183,330	735,875	8,528,640	8,918,815	5,052,538

a) The Canada Lands Company Ltd

The Canada Lands Company Ltd. (CLC) was incorporated under the *Companies Act* in 1956 and was continued under the *Canada Business Corporations Act*. The CLC has acquired an interest in a number of real properties from the government in consideration for the issuance of promissory notes, which bear no interest and are repayable from the proceeds of the sale of the properties in respect of which they were issued. The notes were discounted using the CRF lending rate applicable to Crown corporations and recorded at their discounted value.

b) Farm Credit Canada

Farm Credit Canada (FCC) was established in 1959 by the *Farm Credit Act* as the successor to the Canadian Farm Loan Board and is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. Farm Credit Canada is wholly owned by the Government of Canada and is not subject to the requirements of the *Income Tax Act*.

The FCC's role is to enhance rural Canada by providing business and financial solutions for farm families and agribusiness. Additionally, Farm Credit Canada may deliver specific programs for the Government of Canada on a cost-recovery basis.

Pursuant to subsection 12(2) of the *Farm Credit Canada Act*, the federal government has made short-term funding available to the FCC.

Loans have been made to the FCC for a total of $3,840,000. The loans bear interest from 2.025 per cent to 3.862 per cent and are repayable within a year.

c) Business Development Bank of Canada

The Business Development Bank of Canada (BDC) was established in 1974 by the *Business Development Bank of Canada Act*, continued under its current name by an Act of Parliament on July 13, 1995, and is a Crown corporation named in Part I of Schedule III to the *Financial*

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Administration Act. The BDC is wholly owned by the Government of Canada and is not subject to the requirement of the *Income Tax Act*.

The role of the BDC is to promote and assist in the establishment and development of business enterprises in Canada, with specific attention to small- and medium-sized businesses. The BDC provides a wide range of lending, investment, and consulting services complementary to those of commercial financial institutions. The BDC offers Canadian companies services tailored to meet the current needs of small- and medium-sized businesses while earning an appropriate return on investment capital, which is used to further the BDC's activities.

Pursuant to section 19 of the *Business Development Bank of Canada Act*, the federal government has made short-term funding available to the BDC.

Loans have been made to the BDC for a total amount of $1,000,000. The loans bear interest from 2.025 per cent to 3.239 per cent and are repayable within a year.

d) Recoverable overpayments of transfer payments

These amounts represent underpayments and overpayments in respect of provincial equalization entitlements under the *Constitution Act, 1867* and the *Constitution Act, 1982*, the *Federal-Provincial Fiscal Arrangements Act*, and other statutory authority. The underpayments are non-interest bearing and are paid in subsequent years.

e) Recoverable overpayments of taxes payable under tax collection agreements

These amounts represent overpayments made to provinces under tax collection agreements for the tax years 1997 to 1999 stemming from the misclassification of mutual fund trust capital gains refunds. Recoveries are non-interest bearing and will take place over a 10-year period, which started in 2004–05.

f) Municipal Development and Loan Board

Loans have been made to provinces and municipalities to augment or accelerate municipal capital works programs. The loans bear interest at rates from 5.25 per cent to 5.375 per cent per annum and are repayable in annual or semi-annual instalments over 15 to 50 years, with final instalments between April 1, 2008, and July 1, 2009.

g) Winter capital projects fund

Loans have been made to provinces, provincial agencies, and municipalities to assist in the creation of employment. The loans bear interest at rates from 7.4 per cent to 9.5 per cent per annum and are repayable either in annual instalments over 5 to 20 years or at maturity. The loans are fully provisioned.

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

h) European Bank for Reconstruction and Development

At year-end, Canada subscribed to 68,000 shares of the European Bank for Reconstruction and Development's (EBRD) authorized capital valued at US$828.6 million. Only US$216.2 million or about 26 per cent of Canada's share subscription is paid in. The balance is callable, meaning the institution can request the resources in the unlikely event that it requires them to meet its financial obligations to bondholders. Payments for the share subscription are authorized by the Act. Each payment to the EBRD comprises cash and a promissory note.

As at March 31, 2008, Canada had paid-in shares valued at US$216,197,668 (US$216,197,668 in 2007). Canada's contingent liability for the callable portion of its shares is US$612,420,000.

i) International Bank for Reconstruction and Development (World Bank)

This account records Canada's subscriptions to the capital of the International Bank for Reconstruction and Development, as authorized by the *Bretton Woods and Related Agreements Act* and various appropriation acts.

As at March 31, 2008, Canada subscribed to 44,795 shares. The total value of these shares is US$5,403.8 million, of which US$319.6 million plus US$16.4 million has been paid in. The remaining portion is callable. The callable portion is subject to call by the Bank under certain circumstances. Canada's contingent liability for the callable portion of its shares is US$5,069 million.

j) International Finance Corporation

This account records Canada's subscriptions to the capital of the International Finance Corporation, which is part of the World Bank Group, as authorized by the *Bretton Woods and Related Agreements Act* and various appropriation acts.

As at March 31, 2008, Canada subscribed to 81,342 shares. These shares have a total value of US$81.3 million, all of which has been paid in.

k) Multilateral Investment Guarantee Agency

This account records Canada's subscriptions to the capital of the Multilateral Investment Guarantee Agency, as authorized by the *Bretton Woods and Related Agreements Act* and various appropriation acts.

As at March 31, 2008, Canada subscribed to 5,225 shares. The total value of these shares is US$56.5 million, of which US$10.7 million is paid in and the remaining portion is callable. The callable portion is subject to call by the Agency under certain circumstances. Canada's contingent liability for the callable portion of its shares is US$45.8 million.

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l) International Monetary Fund—Poverty Reduction and Growth Facility

This account records the loan to the International Monetary Fund in order to provide assistance to debt-distressed, low-income countries, as authorized by the *Bretton Woods and Related Agreements Act* and various appropriation acts. The total loan authority pursuant to the *Bretton Woods and Related Agreements Act* was set at $550 million or such greater amount as may be fixed by the Governor in Council. The Governor in Council subsequently increased the limit to SDR700,000,000.

As at March 31, 2008, Canada had lent a total of SDR700,000,000 (SDR700,000,000 in 2007) to the Poverty Reduction and Growth Facility. Of this amount, SDR509,823,177 (SDR490,490,901 in 2007) has been repaid. The outstanding balance of SDR190,176,823 (SDR209,509,099 in 2007) was translated into Canadian dollars at the year-end closing rate of exchange (1 SDR equals C$1.68808).

m) Global Environment Facility

This account records the funding of a facility for environmental funding in developing countries in the areas of ozone, climate change, biodiversity, and international waters, as authorized by the *Bretton Woods and Related Agreements Act* and various appropriation acts. Advances to the Global Environment Facility (GEF) are made in non-negotiable, non-interest-bearing demand notes that are later encashed.

As at March 31, 2008, advances to the GEF amounted to C$10,000,000.

n) International Development Association

This account records Canada's contributions and subscriptions to the International Development Association (IDA), as authorized by the *Bretton Woods and Related Agreements Act* and various appropriation acts. The contributions and subscriptions to the IDA, which is part of the World Bank Group, are used to lend funds to the poorest developing countries for development purposes, on highly favourable terms (no interest, a 35- to 40-year maturity, and 10 years of grace). Contributions and subscriptions to IDA are made in non-negotiable, non-interest-bearing demand notes that are later encashed. During the year, transactions included participation through the issuance of notes payable.

As at March 31, 2008, Canada's total participation in IDA amounted to C$7,811.7 million (C$7,493.3 million in 2007).

o) Canadian Commercial Bank

Advances have been made to the Canadian Commercial Bank representing the government's participation in the support group as authorized by the *Canadian Commercial Bank Financial Assistance Act*. These funds represent the government's participation in the loan portfolio that was acquired from the Bank and the purchase of outstanding debentures from existing holders.

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10. Tangible capital assets

($ thousands)

	Cost				Accumulated amortization				Net book value	
Capital asset class	**Opening balance**	**Acquisitions**	**Disposals and write-offs**	**Closing balance**	**Opening balance**	**Amortization**	**Disposals and write-offs**	**Closing balance**	**2008**	**2007**
Machinery and equipment	11,326	2,062	(915)	12,473	8,206	1,616	(915)	8,907	3,566	3,120
Motor vehicles	101	—	—	101	67	16	—	83	18	34
Leasehold improvements	239	—	—	239	239	—	—	239	—	—
Assets under construction	394	—	(394)	—	—	—	—	—	—	394
Total	12,060	2,062	(1,309)	12,813	8,512	1,632	(915)	9,229	3,584	3,548

Amortization expense for the year ended March 31, 2008, is $1,632,000 ($1,472,000 in 2007).

Acquisitions of machinery and equipment and disposals and write-offs of assets under construction include an amount of $394 million that was transferred from Assets under construction upon completion of the asset. External acquisitions were therefore $1,668 million, as shown in the statement of cash flow.

11. Accounts payable and accrued liabilities

The following table presents details of accounts payable and accrued liabilities.

	2008	Restated (Note 22) **2007**
	($ thousands)	
Accounts payable—external	2,590,688	3,566,715
Allowance for guarantees (Note 19)	428,304	500,037
Accounts payable—other government departments and agencies	392,743	284,829
Accrued vacation pay	5,186	4,714
Total Accounts payable and accrued liabilities	3,416,921	4,356,295

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12. Taxes payable under tax collection agreements

At March 31, the balance in the accounts pertaining to taxes collectible and payable to provinces, territories, and Aboriginal governments under tax collection agreements is as follows.

	2008	2007
	($ thousands)	
Corporate income taxes	2,674,900	2,626,344
Personal income taxes	2,050,830	3,392,512
Harmonized Sales Tax	384,544	402,494
First Nations Goods and Services Tax	783	370
First Nations Sales Tax	437	613
Total Taxes payable under tax collection agreements	**5,111,494**	**6,422,333**

13. Interest payable

The following table presents details of interest payable.

	2008	2007
	($ thousands)	
Domestic bonds	4,164,454	4,183,917
Retail debt	2,690,795	2,974,153
Foreign bonds	235,048	249,213
Total Interest payable	**7,090,297**	**7,407,283**

14. Notes payable to international organizations

Non-interest bearing demand notes are issued in lieu of cash in respect of subscriptions and contributions to international organizations. The notes are presented for encashment according to their terms of agreement.

At March 31, the amount outstanding is as follows:

	2008	2007
	($ thousands)	
International Development Association (Note 9n)	318,280	318,270
International Bank of Reconstruction and Development—USD (Note 9i)	24,618	27,690
European Bank for Reconstruction and Development—USD (Note 9h)	4,488	10,097
Multilateral Investment Guarantee Agency—USD (Note 9k)	3,293	3,704
Total Notes payable to international organizations	**350,679**	**359,761**

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15. Matured debt

Matured debt consists of debt that has matured but has not yet been redeemed. Matured debt that has not been redeemed 15 years after the date of maturity or 5 years after the date of the call is recognized as revenue in the statement of operations.

At March 31, the amount outstanding is:

	2008	2007
	($ thousands)	
Retail debt (matured from 1992 to 2008)	76,641	91,321
Marketable bonds (matured from 1992 to 2008)	14,466	17,049
Treasury bills (matured from 1977 to 1996)	591	591
Total Matured debt	**91,698**	**108,961**

16. Unmatured debt and other financial instruments

i. Unmatured debt

The Department of Finance Canada borrows in both domestic and international markets on behalf of the Government of Canada.

Domestic debt consists of Treasury bills, marketable bonds, retail debt, and bonds for the CPP.

Foreign debt consists of marketable bonds issued in US dollars and euros; Canada notes issued in Japanese yen; Canada bills issued in US dollars; and euro medium-term notes issued in euros. Marketable bonds include bonds assumed by the Department of Finance Canada on February 5, 2001, on the dissolution of Petro-Canada Limited.

The Treasury bills balance at March 31, 2008, consists of $9,500 million in odd issue bills, $33,500 million in three-month bills, $25,900 million in six-month bills, and $48,100 million in 364-day bills.

Canada Savings Bonds are redeemable on demand by the holder, with accrued interest calculated to the end of the previous month (no interest is paid if redeemed during the first 3 months following the date of issue).

Bonds for the CPP and notes are interest-bearing certificates of indebtedness issued by the Government of Canada exclusively to the CPP Investment Fund and are redeemable at face value plus accrued interest.

Canada bills are short-term certificates of indebtedness issued by the Government of Canada in the US money market under the government's foreign currency borrowing program. Canada bills provide Canada with an additional source of short-term US funds.

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Canada notes are issued by the Government of Canada under the government's foreign currency borrowing program. Canada notes provide Canada with an additional source of medium-term foreign funds.

Euro medium-term notes are issued by the Government of Canada in the euro markets under the government's foreign currency borrowing program and thus provide Canada with an additional source of medium-term foreign funds.

At March 31, 2008, the amount outstanding is as follows:

	Face value	Unamortized discounts (premiums)	Net book value 2008	Net book value 2007
		($ thousands)		
Domestic debt:				
Treasury bills	117,000,000	1,194,726	115,805,274	132,531,860
Marketable bonds	253,801,723	5,014,100	248,787,623	252,827,834
Retail debt	13,068,208	—	13,068,208	15,175,014
Bonds for Canada Pension Plan	1,042,363	—	1,042,363	1,742,344
	384,912,294	6,208,826	378,703,468	402,277,052
Foreign debt:				
Marketable bonds	6,096,747	258	6,096,489	6,652,076
Canada notes	515,000	(251)	515,251	490,451
Canada bills	1,483,503	5,234	1,478,269	1,836,920
Euro medium-term notes	1,620,500	(800)	1,621,300	1,628,201
	9,715,750	4,441	9,711,309	10,607,648
	394,628,044	6,213,267	388,414,777	412,884,700
Less: Securities held for the retirement of unmatured foreign debt			(218,081)	(245,382)
			388,196,696	412,639,318
Cross-currency revaluation (receivables of $34,141,982; payables of $32,722,130)			(1,419,852)	(1,090,914)
			386,776,844	411,548,404
Market value			432,735,337	449,977,772

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Contractual maturities of unmatured debt by currency over the next five years, at face value, are as follows:

Maturing year	Canadian dollars[1]	US dollars[2]	Japanese yen[3]	Euro[4]	Total
			($ thousands)		
2009	143,373,225	4,049,753	515,000	3,314,194	151,252,172
2010	27,630,186	162,079	—	1,620,500	29,412,765
2011	20,788,219	—	—	—	20,788,219
2012	20,877,334	—	—	—	20,877,334
2013	18,632,689	—	—	—	18,632,689
2014 and beyond	153,610,641	54,224	—	—	153,664,865
	384,912,294	4,266,056	515,000	4,934,694	394,628,044

The effective average annual interest rates are as follows:

	2008	2007
	(in %)	
Treasury bills	3.60	4.20
Marketable bonds—domestic	5.11	5.24
Retail debt	3.50	3.54
Bonds for Canada Pension Plan	10.62	10.37
Marketable bonds—foreign	4.65	5.14
Canada bills	2.59	5.11
Foreign currency notes	3.87	3.92

ii. Derivative financial instruments

a) Swap agreements

Government debt is issued at both fixed and variable interest rates and is denominated in Canadian dollars, US dollars, and other currencies. The government has entered into interest rate and cross-currency swap agreements to facilitate management of its debt structure. In the case of interest rate swap agreements, fixed interest rate funding has been converted to variable rates tied to the Banker's acceptance rates of London Inter-Bank Offered Rates. In the case of cross-currency swap agreements, Canadian-dollar and other foreign-currency debt has been

1. Includes Treasury bills, marketable bonds, retail debt, and bonds for Canada Pension Plan.
2. Includes marketable bonds and euro medium-term notes issued in US dollars, Canada bills.
3. Includes Canada notes.
4. Includes marketable bonds and euro medium-term notes issued in euros.

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converted into US dollars or other foreign currencies with either fixed interest rates or variable interest rates. As a normal practice, the government's swap positions are held to maturity. The government does not enter into swap agreements for speculative purposes.

The interest paid or payable and the interest received or receivable on all swap transactions are recorded as part of public debt charges. Unrealized gains or losses due to fluctuations in the foreign exchange value of the swaps are presented in the cross-currency swap revaluation account.

Swaps with contractual or notional principal amounts outstanding at March 31, are as follows:

	2008		2007	
Maturing year	Interest rate swaps	Cross-currency swaps	Interest rate swaps	Cross-currency swaps
	($ thousands)			
2008	—	—	29,269	5,452,725
2009	1,231,800	2,548,525	1,385,520	2,705,375
2010	—	3,592,238	—	3,577,985
2011	—	2,803,567	—	2,743,881
2012	—	2,236,428	—	2,261,822
2013	—	2,713,258	—	2,844,411
2014 and beyond	—	17,596,314	—	13,469,582
	1,231,800	31,490,330	1,414,789	33,055,781

b) Credit risk to swap agreements

The government manages its exposure to credit risk by dealing principally with financial institutions having credit ratings from at least two recognized rating agencies, one of which must be Moody's or Standard & Poor's. At the time of inception of the agreement, the credit rating of the institution must be at least A–.

The government does not have a significant concentration of credit risk with any individual institution and does not anticipate any credit loss with respect to its swap agreements.

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The following table presents the notional amounts of the swap agreements by ratings assigned by Standard & Poor's:

	2008	2007
	($ thousands)	
AA+	5,212,000	9,649,000
AA	11,982,000	6,170,000
AA–	9,827,130	16,085,570
A+	5,496,000	2,393,000
A	205,000	173,000
	32,722,130	34,470,570

c) Fair value of financial instruments

The following table presents the carrying value and the fair value of financial assets and liabilities. Fair values are government estimates and are generally calculated using market conditions at a specific point in time where a market exists. Fair values of instruments with a short lifespan or of a non-negotiable nature are assumed to approximate carrying values. Fair values may not reflect future market conditions or the actual values obtainable should the instrument be exchanged on the market. The calculations are subjective in nature and involve inherent uncertainties due to unpredictability of future events.

	2008			2007		
	Carrying Value	Fair Value	Difference	Carrying Value	Fair Value	Difference
	($ thousands)					
Foreign Exchange Accounts	42,299,109	42,909,580	610,471	44,178,099	44,058,945	(119,154)
Unmatured Debt	386,776,844	432,735,337	45,958,493	411,548,404	449,977,772	38,429,368

d) Fair value of financial instruments—Derivative financial instruments

The following table presents the fair value of derivative financial instruments with contractual or notional principal amounts outstanding at March 31.

	2008		2007	
	Notional Value	Fair Value	Notional Value	Fair Value
	($ thousands)			
Interest rate and cross-currency swaps	32,722,130	1,924,224	34,470,570	1,734,309

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Fair value of the swap agreements are the estimated amount that the government would receive or pay, based on market factors, if the agreements were terminated on March 31. They are established by discounting the expected cash flows of the swap agreements by using fiscal year-end market interest and exchange rates. A positive (negative) fair value indicates that the government would receive (make) a payment if the agreements were terminated.

iii. Managing foreign currency risk and sensitivity analysis to foreign currency exposures

Interest rate and foreign currency risks are managed using a strategy of matching the duration structure and the currency of the Exchange Fund Account (EFA) assets and the related foreign currency borrowings of the Government of Canada. As at March 31, 2008, the EFA assets and the liabilities funding these assets were effectively matched, which means that most price changes would affect both sides of the Statement of Financial Position equally. Assets related to the IMF are only partially matched because they are denominated in SDRs.

The Government of Canada's foreign currency assets and liabilities are held in mainly three currency portfolios: the US dollar, the euro, and the Japanese yen. At March 31, 2008, a one per cent appreciation of the Canadian dollar versus the US dollar, the euro, and the Japanese yen would have resulted in a foreign exchange gain of $2 million due to the unmatched exposure of the US dollar portfolio and in a foreign exchange loss of $4 million to the unmatched exposure of the euro portfolio. The Japanese yen portfolio was matched in terms of currency exposure at March 31, 2008.

17. Other liabilities

The following table presents details of other liabilities.

	2008	2007
	($ thousands)	
Deposits:		
Canada Hibernia Holding Corporation (Note 17b)	78,478	78,478
Canada Eldor Inc. (Note 17a)	43,500	43,500
	121,978	121,978
Other Liabilities:		
Quebec Youth Allowances Recovery Prepayment (Note 17c)	336,000	—
Common school funds—Ontario and Quebec (Note 17d)	2,678	2,678
Foreign Claims Fund (Note 17e)	179	179
War Claims Fund—World War II (Note 17f)	4	4
Total Other Liabilities	460,839	124,839

The deposits from two wholly owned subsidiaries of the CDIC are non-interest bearing and are repayable.

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a) Canada Eldor Inc.—Holdback—Privatization—CDIC

This account was established pursuant to subsection 129(1) of the *Financial Administration Act.* This special purpose money is to be used to meet costs incurred on the sale of Crown corporations and demand for payment by purchasers pursuant to the acquisition agreement and costs incurred by the CDIC in connection with their sale.

b) Canada Hibernia Holding Corporation—Abandonment reserve fund

This account was established to record funds that will be used to defray the future abandonment costs that will occur at the closure of the Hibernia field.

c) Quebec Youth Allowances Recovery Prepayment

The Department of Finance Canada received $336 million from the Province of Quebec relating to Youth Allowances Recovery for the 2008–09 fiscal year on March 31, 2008.

d) Common school funds—Ontario and Quebec

This account was established under *12 Victoria 1849*, Chapter 200, to record the proceeds from the sale of lands set apart for the support and maintenance of common schools in Upper and Lower Canada, now Ontario and Quebec. Interest of $133,889—apportioned on the basis of population—is paid directly to these provinces on a semi-annual basis, at the rate of 5 per cent per annum, and is charged to interest on the public debt.

e) Foreign claims fund

This account was established by Vote 22a, *Appropriation Act No. 9, 1966*, to record (a) such part of the money received from the Custodian of Enemy Property, proceeds of the sale of property, and the earnings of property and (b) all amounts received from governments of other countries pursuant to agreements entered into after April 1, 1966, relating to the settlement of Canadian claims and also records payment of claims submitted, including payment of the expenses incurred in investigating and reporting on such claims.

f) War claims fund—World War II

This account was established by Vote 696, *Appropriation Act No. 4, 1952*, to record monies received from the Custodian of Enemy Property or from other sources and payments (a) to eligible claimants for compensation in respect of World War II; (b) of a supplementary award amounting to 50 per cent of the original award (PC 1958-1467, October 23, 1958); and (c) of expenses incurred in investigating and reporting on claims. The War Claims Commission was established to enquire into and report on claims made by Canadians arising out of World War II for which compensation may be paid from this or any other fund established for the purpose. The expenses of the Commission are chargeable hereto.

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18. Employee benefits

a) Pension benefits

Employees of the Department of Finance Canada participate in the Public Service Pension Plan, which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of 2 per cent per year of pensionable service times the average of the best five consecutive years of earnings. The benefits are integrated with the Canada and Quebec Pension Plan benefits and they are indexed to inflation.

Employees and the Department contribute to the cost of the Plan. The expense amounted to $8,824 thousand in 2007–08 ($8,668 thousand in 2006–07), which represents approximately 2.1 times (2.2 times in 2006–07) the contributions made by employees.

The responsibility of the Department of Finance Canada with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

b) Severance benefits

The Department of Finance Canada provides severance benefits to its employees based on eligibility, years of service, and final salary. These severance benefits are not pre-funded. Benefits will be paid from future appropriations. Information about the severance benefits, measured as at March 31, is as follows.

	2008	2007
	($ thousands)	
Accrued benefit obligation, beginning of year	13,604	12,995
Expense for the year	841	2,019
Benefits paid during the year	(1,645)	(1,410)
Accrued benefit obligation, end of year	12,800	13,604

19. Contingent liabilities

a) Claims and litigation

In the normal course of its operations, the Department of Finance Canada becomes involved in various claims or legal actions. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded on the financial statements.

As at March 31, 2008, the Department of Finance Canada has contingent liabilities of $202 million ($207 million in 2007) based on the Department's legal assessment of the potential exposure. The existence and amount of the liability depend upon the future outcome of these

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legal actions, which are not currently determinable. No accrual for these contingent liabilities has been made in the financial statements.

b) Callable share capital

The Department of Finance Canada has callable share capital in certain international organizations that could require payments to those organizations. At March 31, 2008, callable share capital is $5,879 million ($6,613 million in 2007).

c) Loan guarantees

The Department of Finance Canada guarantees loans insured by the Genworth Financial Mortgage Insurance Company Canada and AIG United Guaranty. At March 31, 2008, the contingent liability related to the guarantees is $1,534 million ($1,196 million in 2007). Losses on loan guarantees are recorded in the accounts when it is likely that a payment will be made to honour a guarantee and where the amount of the anticipated loss can be reasonably estimated. The amount of the allowance for losses is determined by taking into consideration historical loss experience and current economic conditions.

The Department of Finance Canada manages guarantees to the Canadian Wheat Board for the repayment of the principal and interest of all receivables resulting from sales made under the Credit Grain Sale Program for an amount of $854 million ($1,541 million in 2007) and a portion of credit sales made under the Agri-Food Credit Facility, which amounted to $70 million ($65 million in 2007).

The Department of Finance Canada administers the government's compensation arrangement regarding Export Development Canada's sovereign loans and guarantees. Under this arrangement, the government fully compensates Export Development Canada for the cost of existing debt reduction commitments and shares losses with Export Development Canada on new debt reduction on obligations contracted before March 31, 2001. The government has also agreed to share losses with Export Development Canada in the event of unilateral debt reduction on debts contracted after March 31, 2001. Total funds covered under this agreement amount to $1,286 million ($1,780 million in 2007).

A total liability of $428 million as at March 31, 2008, ($500 million in 2007) was recorded.

20. Contractual obligations

The nature of the Department's activities can result in some large multi-year contracts and obligations whereby the Department of Finance Canada will be obligated to make future payments when the services or goods are received.

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Significant contractual obligations that can be reasonably estimated are summarized as follows:

	2009	2010	2011	2012	2013 and thereafter	Total
			($ thousands)			
Undisbursed Loans and Advances						
International Development Association	384,280	384,280	384,280	—	—	1,152,840
Transfer Payments						
International Development Association	24,840	29,150	35,830	—	—	89,820
African Development Fund	7,840	10,780	12,820	—	—	31,440
Total	**416,960**	**424,210**	**432,930**	—	—	**1,274,100**

21. Related party transactions

The Department of Finance Canada is related as a result of common ownership to all Government of Canada departments, agencies, and Crown corporations. The Department enters into transactions with these entities in the normal course of business and on normal trade terms. In addition, during the year, the Department received services that were obtained without charge from other government departments as presented below.

Services received without charge

During the year, the Department of Finance Canada received without charge from other departments, accommodation, legal fees, and the employer's contribution to employee health and dental insurance plans. These services without charge have been recognized in the Department's statement of operations as follows:

	2008	2007
	($ thousands)	
Accommodation	7,416	9,718
Employer's contribution to employee health and dental insurance plans	4,755	4,898
Legal services	3,850	4,158
Total	16,021	18,774

The Government of Canada has structured some of its administrative activities for efficiency and cost-effectiveness purposes so that one department performs these on behalf of all departments without charge. The cost of these services, which include payroll and cheque issuance services provided by Public Works and Government Services Canada and audit services provided by the Office of the Auditor General, are not included as an expense in the statement of operations.

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22. Restatement of comparative information

In 2007–08, the Department of Finance Canada reviewed the amount presented as transfer payments to provinces and territories for the year ended March 31, 2007, to include an amount of $300 million related to the HPV Immunization program. Consequently, the comparative financial statements for the year ended March 31, 2007, have been restated. The effect of this adjustment is presented in the table below.

($ thousands)	As previously stated	Effect of the adjustment	Revised amount
Statement of Operations			
Expenses—Transfer Payments to Provinces and Territories	41,674,221	300,000	**41,974,221**
Total Expenses	76,266,163	300,000	**76,566,163**
Net Cost of Operations	71,498,035	300,000	**71,798,035**
Statement of Financial Position			
Accounts payable and accrued liabilities	4,056,295	300,000	**4,356,295**
Total Liabilities	430,041,480	300,000	**430,341,480**
Equity of Canada	(373,606,786)	(300,000)	**(373,906,786)**
Statement of Equity of Canada			
Net cost of operations	71,498,035	300,000	**71,798,035**
Equity of Canada	(373,606,786)	(300,000)	**(373,906,786)**
Statement of Cash Flow			
Net cost of operations	71,498,035	300,000	**71,798,035**
Variations in Statement of Financial Position: Decrease in Accounts payable and accrued liabilities	627,243	(300,000)	**327,243**
Note 3a Reconciliation of net cost of operations to current year appropriations used			
Net cost of operations	71,498,035	300,000	**71,798,035**
Transfer payment pursuant to the Budget Implementation Act	3,233,000	300,000	**3,533,000**
Note 3c Reconciliation of net cash provided by government to current year appropriations used			
Variation in assets and liabilities: Accounts payable and accrued liabilities	627,243	(300,000)	**327,243**
Transfer payment pursuant to the Budget Implementation Act	3,233,000	300,000	**3,533,000**
Note 4 Expenses			
Transfer payments:			
Provinces and territories	41,674,221	300,000	**41,974,221**
Total Transfer payments	41,861,827	300,000	**42,161,827**
Total Expenses	76,266,163	300,000	**76,566,163**

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($ thousands)	As previously stated	Effect of the adjustment	Revised amount
Note 4a Transfer payments to provinces and territories			
Bill C-52:			
HPV Immunization	—	300,000	**300,000**
Total transfer payments to provinces and territories	41,674,221	300,000	**41,974,221**
Note 11 Accounts payable and accrued liabilities			
Accounts payable—external	3,266,715	300,000	**3,566,715**
Total Accounts payable and accrued liabilities	4,056,295	300,000	**4,356,295**

23. Comparative information

Comparative figures have been reclassified to conform to the current year's presentation.

Department of Finance Canada
Notes to the Financial Statements (*unaudited*)

List of statutory reports and other departmental reports

Annual Financial Report of the Government of Canada and Fiscal Reference Tables

Annual Report to Parliament on the Operations of the Exchange Fund Account

Canada Investment and Savings Annual Report (http://www.csb.gc.ca)

Canadian Federal Budget

Debt Management Report

Debt Management Strategy

Departmental Performance Report

Economic and Fiscal Update

Economy in Brief—Quarterly

The Fiscal Monitor—Monthly

Government of Canada Securities—Quarterly

Report on Operations under the *Bretton Woods and Related Agreements Act*

Report on Operations under the *European Bank for Reconstruction and Development Agreement Act*

Report on Plans and Priorities

Sustainable Development Strategy

Tax Expenditures and Evaluations

Section IV: Other Items of Interest

Business transformation

As part of a branch-wide business transformation initiative, the Corporate Services Branch (CSB) continued to implement business transformation activities in targeted areas, as part of an effort launched in September 2006. The purpose was to build CSB's capability and capacity to deliver integrated corporate services to its clients.

In the reporting year, a number of core business improvements have been implemented, and specific projects were identified and launched. Projects were identified following a business diagnostic or in response to external pressures such as audits, evaluations, and emerging policy requirements.

For example, in the Financial Management Directorate, changes to the procedure for processing invoices, the development of a new process to increase the timeliness of recording changes to salary expenditures, and the configuration of a new module of SAP to forecast salary costs have eliminated a backlog in payments.

In the Human Resources Division, a refined process for classification in human resources is allowing certain types of classifications to be fast-tracked, resulting in faster processing of these requests and also allowing resources to be better focussed on more complicated requests. The manual process currently in place will be automated in 2008–09 for improved efficiency and data reporting. As well, workflow processes were elaborated, which helped delineate roles and responsibilities among human resources specialists and management.

Contacts for further information and websites

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