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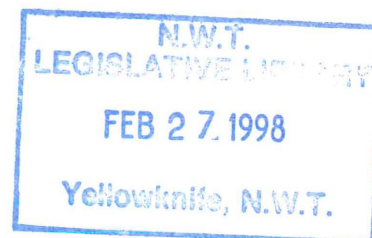
Reflecting the commitment made in *Securing Our Future Together*, legislation was introduced in December 1997 to raise the cash floor to \$12.5 billion beginning in 1997-98. The \$12.5 billion cash floor means:

- in 1999-2000, provinces and territories are scheduled to receive an estimated \$1.5 billion more in CHST cash transfers than they were to receive in the 1997 budget;
- over the period 1997-98 to 2002-03, there will be an additional \$7 billion in CHST cash transfers; and
- CHST entitlements will start to grow in 1998-99. By 1999-2000, the estimated CHST entitlement will have increased more than 5 per cent over the 1997-98 level.

Equalization provides a further transfer in excess of \$8.5 billion in cash to provinces with below-average per capita capacity to raise revenues. This enables these provinces to provide public services that are reasonably comparable to those available elsewhere in the country, without having to resort to above-average levels of taxation.

Between 1993-94 and 1996-97, Equalization payments increased significantly, reflecting the fact that this program was not subject to restraint. Over the fiscal planning horizon, provincial revenue growth, the strength of resource-based revenues in some of the Equalization-receiving provinces and shifts in population among provinces, will have an impact on Equalization payments. Statutory authority for Equalization expires March 31, 1999. For planning purposes, the estimates of Equalization transfers beyond 1998-99 assume a continuation of the current statutory formula.

The federal government also provides transfers to territorial governments, recognizing that these governments are in a unique situation due to the special challenges of providing public services in the north. These transfers are estimated at \$1.1 billion in 1997-98 and 1998-99. In 1999, when Nunavut comes into existence, new arrangements will be required for the three northern territories. The federal government is consulting with northern parties to estimate reasonable incremental costs that will result from the division. For planning purposes, estimates of transfers to the territorial governments in 1999-2000 assume funding at current levels.



The economies of Canada's territories, like other regions, are undergoing significant change. Northern governments are pursuing the diversification of their economies in a variety of ways including the development of traditional economic activities, knowledge-based industries and a new diamond industry. The government is committed to working with territorial governments and other northern partners to develop a modern economic development strategy that recognizes the dynamics of the North and the need to establish more diversified economies.

The Alternative Payments for Standing Programs represent recoveries of federal tax point abatements under contracting-out arrangements. These arrangements allowed provinces to assume the administrative and financial authority for certain federal-provincial programs. In turn, the federal government provided provinces with tax points, the value of which are netted against total entitlements, and accordingly recovered from the cash transfers. Quebec was the only province to choose these arrangements when they were offered in the mid-1960s. The recoveries have no impact on net federal transfers or on Quebec's net receipts.

Direct program spending

Direct program spending consists of total program spending excluding the major transfers to persons and to other levels of government. It includes transfer programs administered by departments, expenditures related to Crown corporations and the operating, maintenance, and capital costs of departments, including defence.

Seven departments account for the majority of transfer payments.

- Transfers within the agriculture department largely consist of the agricultural safety net programs. The spending profile reflects the ongoing phase-out of the dairy subsidy and the reprofiling of funds within the agriculture safety-net envelope.
- Industry and regional development transfers support a wide range of programs, such as advanced research and technology adoption and diffusion and support for small businesses. Transfers will increase over the next two years reflecting the measures in this budget in support of advanced research and the information economy (i.e. funding for the granting councils and for the CANARIE, SchoolNet and Community Access programs) and the Technology Partnerships Canada Program introduced in the 1996 budget.