



Finance Minister Bill Morneau is congratulated by Prime Minister Justin Trudeau on delivering the Liberal government's second budget on March 22. The culmination of a long budgetary process that began the previous summer. Adam Scotti photo

A Marathon, Not a Sprint: How the Federal Budget is Prepared

Geoff Norquay

Many Policy readers have more than a passing knowledge of how the federal budget is prepared because they've covered budgets, helped prepare them, lobbied for asks or voted for or against them. But Earnscliffe principal and former senior political aide Geoff Norquay has provided a primer on the process that contains "aha" moments even for multiple-budget Ottawa veterans.

In the British parliamentary system, the budget is the most important political and economic document a government produces each year. In the Canadian context, the budget contains several essential elements:

- The details of intended government expenditures: how much money will be spent and the purposes and programs to which it will be allocated for the upcoming fiscal year and for several years into the future;

- An estimate of future government revenues and the sources of those revenues, as well as any measures necessary to raise those revenues: changes in taxation or tax expenditures;
- A description of the fiscal health of the government: surplus/deficit, debt, debt-to-GDP ratios, etc., plus estimates for economic growth in the short and longer term.

Budgets can serve many purposes.

In times of crisis or challenge, or following the election of a new government, they can be used to chart distinctly new directions. The Conservative budget of January 2009 was remarkable because the global economic crisis required the government to reverse course on balanced budgets and commit more than \$35 billion on spending to stimulate the economy and to take steps to backstop the financial system. Finance Minister Bill Morneau's first budget last year was seminal because it was brought in by a new government with a strong mandate, a huge set of high-cost commitments and a completely different approach to governing in both style and priorities.

Alternately, because a government has run out of money or ideas, or needs to play for time, a budget can be designed to stand pat and sink like a stone. In putting together Budget 2017, Morneau faced several of these challenges at once, beginning with a fiscal cupboard that was emptied by last year's big spending items (reforms to the child benefit, the middle-class tax cut and spending on infrastructure and Indigenous Canadians), sluggish economic growth and the risks and potential economic threats resulting from the election of Donald Trump.

The annual budget process begins several months before the document is actually presented. The previous June, the House Committee on Finance launches its pre-budget consultation process, setting its focus and priorities and establishing dead-

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lines for written submissions. Following the rise of the House for the summer, there is usually a cabinet retreat, at which an initial economic and fiscal update is presented and broad directions and priorities for next year's budget are reviewed. Over the summer, departments prepare program and spending options for the consideration of cabinet and the minister of finance in September/October. That results in individual letters from ministers to the finance minister setting out their priorities for the budget—usually their top three or four items.

October is budget consultation month, with the standing committee travelling the country to receive submissions from stakeholders. Also in the fall, the initial list of spending pressures is prepared by departments, identifying unexpected pain-points (Fort McMurray wildfire), sun-setting programs, potential lapsed funds (money that cannot/will not be spent as anticipated) and overall spending and revenue trends. In November, the prime minister may give general direction to the minister of finance or to operating ministers about their budget asks, as they and their departments finalize their top priorities for consideration by the minister of finance.

By November, the Department of Finance has a much clearer idea of spending and revenue trends, and the fall economic update is presented to the House by the minister. The update includes the latest estimates of growth and other economic indicators such as inflation and employment rates (provided by private sector economists invited to share their economic assumptions with the gov-

ernment), revenue flows, the deficit and the debt. The update is almost infinitely expandable; it can simply present the latest fiscal situation and economic forecasts, or it can make new spending and tax commitments, as well as foreshadowing measures that will be included in the upcoming budget. In December, the finance committee publishes its report on the pre-budget consultations.

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While the fall update is being prepared, Finance is also preparing a series of “two-pagers”—briefing notes on each of the potential measures that have emerged from departments, as well as any interesting ideas that may have been raised by the finance committee consultations, and submissions from the general public. In the current budget cycle, there were some 2,000 proposals to increase spending received by the federal government. These measures are then mapped against the fiscal room the budget has for new commitments.

In January, Finance solicits updated views of the economy from private sector economists to inform final budget planning.

Budgets are governed by political imperatives—balance the budget, keep the deficit below a certain number, meet a particular debt-to-GDP ratio in the medium to long term. So, if the anticipated surplus is not there, or if the deficit number is too high, or if the debt track is just not defensible, spending may need to be scaled back. In other words, program and policy desires may have to give way to bottom-line realities. These are the calls that will ultimately be made by the prime minister and the minister of finance, but they have some support from several key individuals:

- At Finance Canada, these include the minister, deputy minister and assistant deputy minister for the Economic Development and Corporate Finance Branch, and the minister's chief of staff and policy director.
- Some Privy Council clerks play heavily on the budget, while others do not. Either way, PCO will follow the process closely and exercise a challenge function if they see anything amiss.
- In PMO, the principal secretary will likely be a major player, as well as the prime minister's director and/or deputy director of policy.

On budget day, the government produces two documents—the budget book and the budget speech. The former is written by the Department of Finance, runs to several hundred pages and contains all of the forecasts and details. It is a “biblical” text in government. Getting language into the budget is key to departments obtaining the go-ahead to prepare programs for submission to Treasury Board.

The budget speech is the political document, and its writing is a complex and demanding task—to weave together a seamless narrative that bal-

ances three objectives—political, program and financial: what the government stands for, what it is trying to achieve and how, all within a framework that is fiscally credible and can withstand scrutiny.

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In the final few weeks before the presentation of the budget speech, the principal writer gets to work. He or she may be an experienced writer for hire brought in for the job, or a senior member of the finance minister's staff, such as the director of policy. Either way, the required skill set includes deep knowledge of the government's political and policy agenda, an ability to write in the minister's speaking style, a wonkish appreciation for how governments and programs actually operate, an ability to describe complex subjects in accessible and plain language, a distinct lack of ego, the ability to work under acute pressure through scores of drafts, and infinite patience.

As the final crunch approaches, the deputy minister of finance and senior PMO officials prepare their principals for the final meeting/meetings to sign off on the budget. The prime minister and the minister then meet, and the final calls are made on the surplus/deficit numbers, the deficit/debt tracks and the key spending initiatives, and the budget is put to bed. After the budget, the first budget implementation bill is introduced into the House and debated and passed before the House rises in June. By then, the fed-

eral government is well into planning the next year's budget.

Finally, it's important to note that technology has changed the process of budget preparation in many ways. During the 1970s and 1980s, as today, it was considered essential that the budget be available to all Canadians as soon as it was released. As a result, the writing of the budget and budget speech had to be finished and printing had to begin three weeks before delivery. Printing staff were kept in lockdown conditions to prevent leaks. Following printing, thousands of copies of the budget and speech were dispatched across the country by Hercules aircraft, and then escorted under guard to Bank of Canada offices in each major centre.

Nowadays, the budget and speech are available on your electronic device as soon as the minister rises to speak—as long as the Department of Finance website doesn't crash. **P**

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