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Following the Funding in Strong, Secure, Engaged

by David Perry
January 2018

POLICY UPDATE

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On June 7, 2017, Minister of National Defence Harjit Sajjan unveiled Canada’s new defence policy, *Strong, Secure, Engaged*. On the day of the policy’s release, and since, the Trudeau government has espoused the policy’s unprecedented degree of underlying financial rigour and the 20-year funding model that underpins it. The claim of a long-term, well-costed defence policy, though, is not original. Canada’s last defence policy prior to this Liberal government, the 2008 *Canada First Defence Strategy*, had stated that “with this funding framework, National Defence will be able for the first time to plan for the future on the basis of stable and predictable funding.”¹ As it happened, that policy’s funding proved neither predictable nor stable. *Strong, Secure, Engaged* uses both of those descriptors for its budget plan, while adding that the funding is furthermore “realistic”,² as it is “transparent, rigorously costed and fully funded.”³ As with any defence policy, the budget supporting this one is fundamental to determining whether the Department of National Defence (DND)/Canadian Armed Forces (CAF) will actually be able to do what the policy says it should, or not. With *Strong, Secure, Engaged*, the Trudeau government has gone a step further by explicitly staking the policy’s credibility on the assertion that this policy, unlike many that have preceded it, has gotten the funding right.

It remains to be seen if this is so and if the funding endures over time. As Parliament resumes after the 2017 Christmas break, it is already evident that spending the money made available will be the real short-term financial problem associated with the policy. While *Strong, Secure, Engaged* was predicated on relatively small annual increases in overall spending in its first few years, it called for a dramatic and immediate increase in capital spending. In the first fiscal year of the policy, DND is on track to deliver barely better than half of the intended spending on new equipment and infrastructure.

The Budget Rule Changes

In addition to a funding increase, detailed below, Canada’s new defence policy is predicated on a number of changes to the structure of the defence budget and rules around its use. These changes are important in their own right and if history is any guide, the new rules may last longer than the funding increase itself.

Strong, Secure, Engaged is underpinned by a 20-year funding commitment with a fully accrual-based capital budget for new capital purchases and separate source of funding for in-service support costs. The shift to a full accrual budget is a beneficial improvement over the more complicated funding system it replaces that featured two separate capital budgets governed by different rules (one accrual, the other, modified-cash).⁴ The older system also had two different possible sources of funds for in-service support costs. The old budget construct required that a

¹ Canada, National Defence, *Canada First Defence Strategy* (Ottawa: 2008), 13.

² Canada, National Defence, *Strong, Secure, Engaged* (Ottawa: Minister of National Defence, 2017), 43.

³ *Ibid.*

⁴ The document also spells out in great detail the way these two accounting systems work for anyone interested in learning about the differences.



funding source had to be identified and agreed upon for each new project's acquisition costs and then in-service support. Further, having part of the capital budget operate under cash-based rules that precluded spreading capital project costs over a long period of time limited DND's ability to fund costly projects. The new budget construct is simplified and provides one source of funds for all capital projects and a different, single source of funding for in-service support for new projects. The new policy relies on the accrual space as the sole funding source for capital projects which permits the costs of every new capital project to be spread out over time.

Similarly, the policy provides another significant benefit by locking in DND's yearly budget escalator at an annual rate of increase of three per cent, and dedicating a third of that increase to fund the in-service support of new projects. Previously, that annual defence budget boost had been set to expire a decade from now; now, it has been made permanent. Dedicating one per cent of the three per cent escalator to fund in-service support costs is important because in the past, these aspects of owning and operating new equipment had sometimes gone un- or underfunded. Finally, the policy is unique in being underpinned by a top-to-bottom full life cycle re-costing of all defence projects, supported by outside auditing agencies. This has improved both the costing of the policy's new initiatives and also resulted in a re-baselining of existing project costs. This puts the policy on a more secure financial footing than previous policies which generally were less rigorously costed and paid less attention to the costs of older projects rather than new initiatives. In combination with the commitment to full life cycle costing, this should place the CAF on a more stable budgetary footing.

The Funding Increase

On top of these rule changes, *Strong, Secure, Engaged* provides a modest annual budget increase, which over the life of the 20-year policy injects an additional \$48.9 billion in funding on an accrual basis and facilitates an additional \$62.3 billion in cash terms.⁵ Crucially, the bulk of this funding increase is allocated towards new capital purchases. Prior to the defence policy review, addressing a significant capital funding gap was arguably the most critical imperative of the Trudeau government's review of defence policy.⁶ On an accrual basis, the new policy provides \$33.8 billion in new capital money over the policy's 20-year lifespan to fund 52 projects which previously had no funding at all. This includes the "Key 18", a batch of the most important projects DND has identified as critical to Canada's defence, which were unfunded prior to the review, as well as a number of others. In addition, over that same 20-year period, the policy has reallocated within the pre-existing funding envelope an additional \$5.9 billion (on an accrual basis) to bolster the budgets of a number of projects which did not have enough money assigned previously. The two biggest changes saw the budget for the Canadian Surface Combatant increase from \$26.2 billion

⁵ For capital expenses, cash payments do not count against DND's budget, whereas a capital asset's annual depreciation, does, but only after a capital asset is accepted by the DND/CAF. While the spending forecast presented in *Strong, Secure, Engaged* will see spending on a cash basis increase significantly, because the majority of this intended spending will go towards capital projects, and not all of those capital assets will be accepted over the next 20 years, the annual increase to the defence budget, in accrual terms, will be relatively modest, and gradual.

⁶ David Perry, "The New Defence Policy Needs to Focus on Procurement, Not Prose," *Canada Naval Review*, vol. 12:1 (Spring 2016): 16-21; Commodore (ret'd) Eric Lerhe, "Getting the Capital and Personnel Mix Right," in Ann Griffiths and Eric Lerhe (eds.), *Naval Gazing* (Halifax: Centre for Foreign Policy Studies, 2010): 54-95.



to between \$56 billion and \$60 billion, with the Future Fighter Capability Project’s budget rising from \$9 billion to between \$15 billion to \$19 billion.⁷

If *Strong, Secure, Engaged* is implemented as outlined, it will see a complete paradigm shift in the amount of annual spending on capital. In inflation-adjusted dollars, the policy would see annual spending on capital (both infrastructure and equipment) quadruple over the next seven years on a cash basis. In the last decade, capital spending peaked at \$4.3 billion (in 2010/2011 dollars) annually in 2010/2011, and since then the annual rate of spending has progressively declined. In 2016/2017, the last year for which final year-end spending data are available, DND spent just \$3.1 billion on capital. The plan outlined in the new policy would see that spending jump dramatically to more than \$6 billion in 2017/2018, increase to \$12 billion annually by 2023.⁸ (See Figure 1)



DND Capital Spending: Historical and Projected in Strong, Secure, Engaged (\$17/18B)

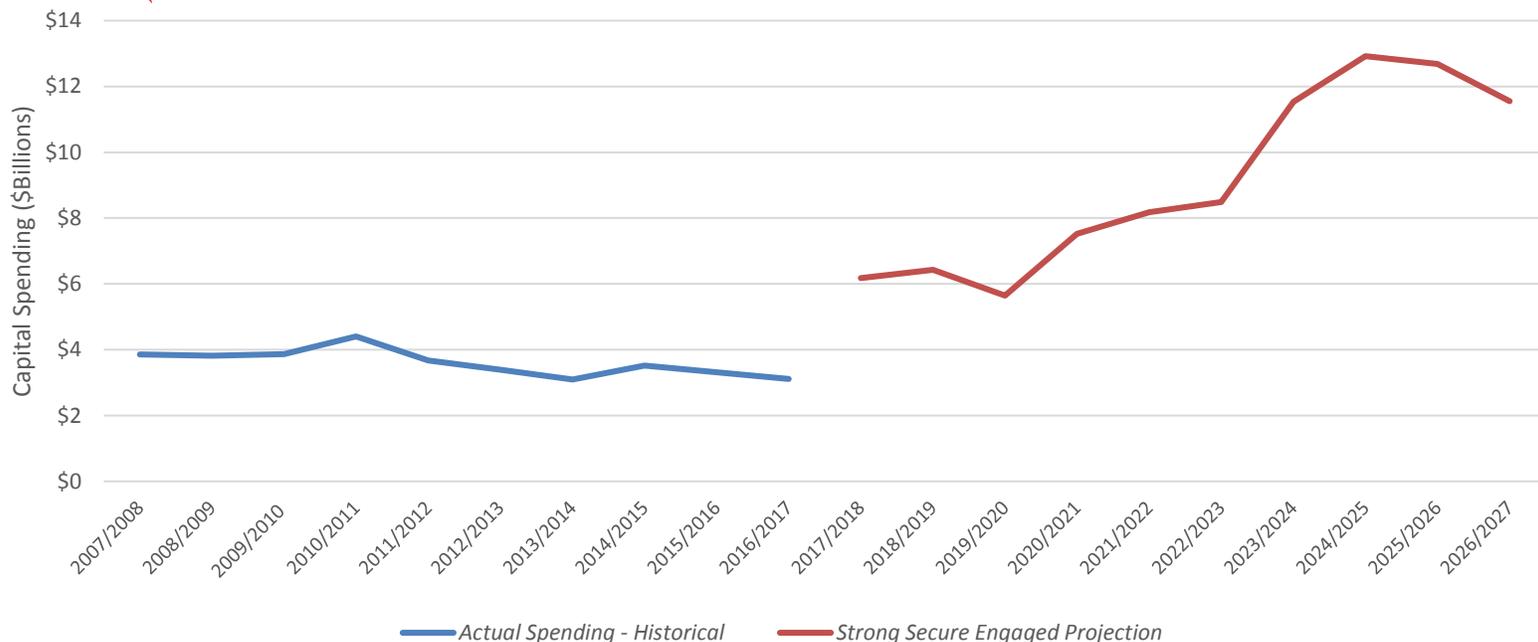


Figure 1.

⁷ Government of Canada, National Defence, “Backgrounder: Investments in the Royal Canadian Navy (RCN),” <http://dgpapp.forces.gc.ca/en/canada-defence-policy/news.asp> . Accessed Jan. 18, 2018; Daniel Leblanc and Steven Chase, “Ottawa Lays Out \$62-billion in New Military Spending over 20 Years,” *Globe and Mail*, June 7, 2017. <https://www.theglobeandmail.com/news/politics/ottawa-lays-out-62-billion-in-new-military-spending-over-20-years/article35231311/> Due to the expected timelines for the project, the increase to the Canadian Surface Combatant budget is relatively modest in the initial 20-year window, as the start of that build program is still at least five years away, and the acceptance of the first ship would not follow for several years after that.

⁸ Nominal actual spending data are sourced from Government of Canada, Receiver General of Canada, Public Accounts of Canada (various years) volume II. (Ottawa: Minister of Public Services and Procurement). Spending projections in budget year dollars were provided to the author. Data were deflated using the defence economic model.



As a percentage of annual expenditures, the new policy would see the share of defence spending allocated to capital rise massively, from 12 per cent to 15 per cent over the last several years, to 30 per cent immediately, and a whopping 43 per cent of all defence spending in just seven years. In historical comparison, the last time as large a share of Canadian defence expenditures were devoted towards kit and infrastructure as *Strong, Secure, Engaged* envisions will happen, was during the Korean War.⁹ (See *Figure 2*) Canada has historically set targets for how much of its defence spending show be allocated to capital, most of which set targets of between 30 and 20 percent, with the latter being the target set out in the Canada First Defence Strategy. This massive increase to these expenditures would see spending on major equipment specifically well surpass the lesser known of NATO's spending targets. The lion's share of discussion about NATO burden sharing focuses on the alliance's commitment to see defence spending reach two per cent of GDP, but a second, arguably more important, commitment is for allies to spend 20 per cent of their defence budgets on new equipment and research and development. Canada's new defence policy would see spending on equipment rise to 32 per cent of defence spending by 2024/2025.¹⁰ In contrast, over the last five years, actual Canadian spending by the NATO measure (which is what the alliance measures, not planned or projected spending) has ranged between eight and 13 per cent.¹¹ If implemented as written, the Trudeau defence policy and associated spending profiles will lead to a hugely significant, positive shift in Canadian defence spending that will see a paradigm shift in the share of defence expenditures devoted to capital. It would facilitate what defence economist John Treddenick termed a "high recapitalization"¹² of the Canadian military. Notably, however, this same plan would see spending fall below the 20 per cent target again after 2031, when the major surge in capital spending is slated to stop.

⁹ Historical data are from Government of Canada, Receiver General of Canada, Public Accounts of Canada (various years) volume II. (Ottawa: Minister of Public Services and Procurement) and Craig Stone (ed.) *The Public Management of Defence in Canada*, Appendix 2. (Toronto: Breakout Education Network, 2009). *Strong, Secure, Engaged* Projections were provided to the author.

¹⁰ *Strong, Secure, Engaged*, 46.

¹¹ North Atlantic Treaty Organization, "Information on Defence Expenditures (Various Years)," https://www.nato.int/cps/ic/natohq/topics_49198.htm Accessed June 19, 2017.

¹² John M. Treddenick, "Distributing the Defence Budget," in Douglas Bland (ed.), *Issues in Defence Management* (Kingston: School of Policy Studies, Queen's University, 1997), 57-82.



Spending by Component: Historical and *Strong, Secure, Engaged*

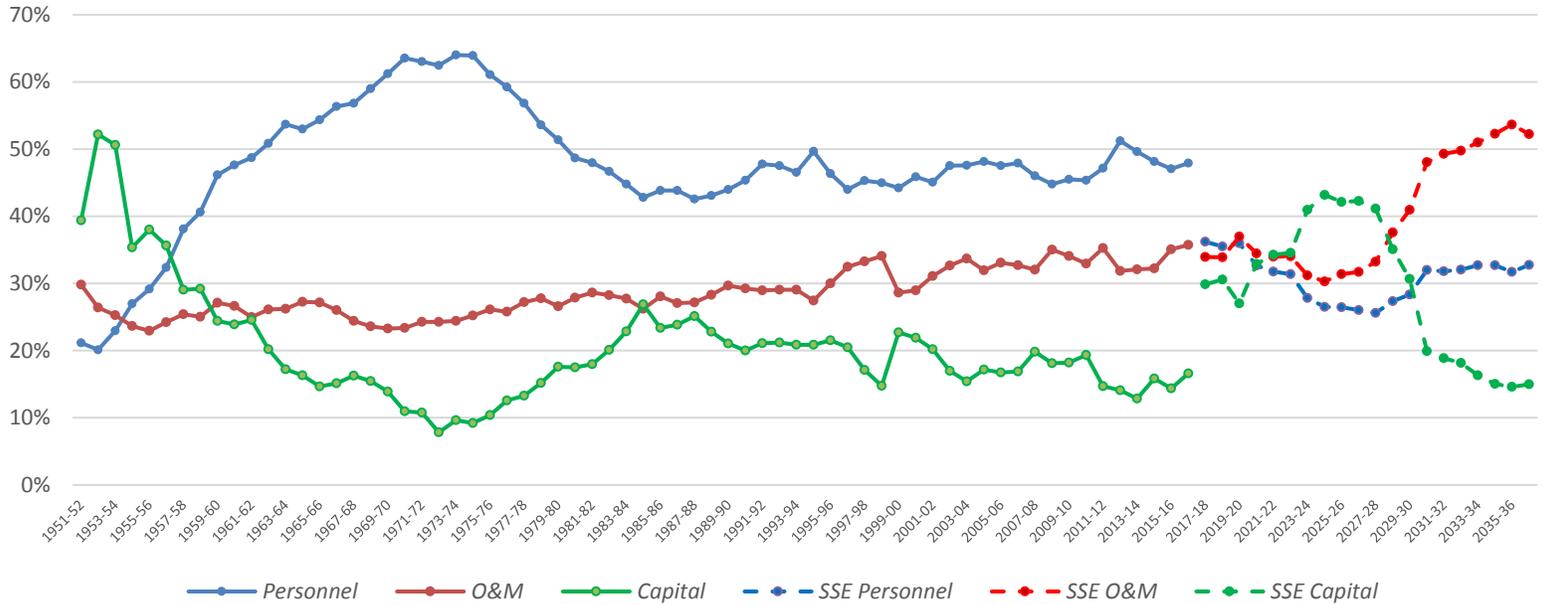


Figure 2.

Burden Sharing

As the new policy also outlines, the net impact of these budget changes would push defence spending (measured on a basis consistent with Canada’s historical method of reporting) to 1.2 per cent of GDP by 2024/2025. Under the new method of calculating Canada’s share of GDP spent on defence (as reported to NATO) a number of items are now associated with defence spending which previously were not. As a result of this change to Canada’s reporting structure, the share of spending will rise to 1.4 per cent of GDP by 2024/2025 – assuming that DND actually spends as much money annually as *Strong, Secure, Engaged* envisions (a matter discussed below) and the economic projections underlying the policy hold true.¹³ Spending on other defence-related departments for such items as payments to veterans, employee pensions and benefits, the budget for the Communication Security Establishment, information technology support provided to DND by Shared Services Canada, and Coast Guard ice breaking in support of naval operations will now be included in Canada’s calculations for NATO.

Even in lieu of the new policy, Canada will fall well short of NATO’s two per cent of GDP target, and the policy indicates that Canada will not produce a plan to commit to meeting that two per cent target over the next 20 years. However, the new policy would see an end to the progressive

¹³ It is actual spending, not planned or projected spending, that NATO measures over time. Although NATO does report data for years that are not yet completed, denoted with an ‘e’ to indicate that it is an estimate only.



decline in the share of Canadian wealth devoted to defence spending and the share of GDP devoted to defence will actually increase by over 20 per cent if the policy’s spending plan unfolds as intended. By returning spending to 1.2 per cent of GDP (according to the historical accounting method) this will restore it to the same share of the economy it occupied between 1999 and 2006. This was the period immediately after Canada’s post-Cold War budget cuts, but before the Martin and Harper governments increased the defence budget meaningfully.¹⁴ In other words, the policy would see the share of GDP devoted to defence rise from a post-Cold War low point but only return to where it was at the end of the Decade of Budget Darkness.¹⁵ (See Figure 3)



Defence Spending as a % of GDP

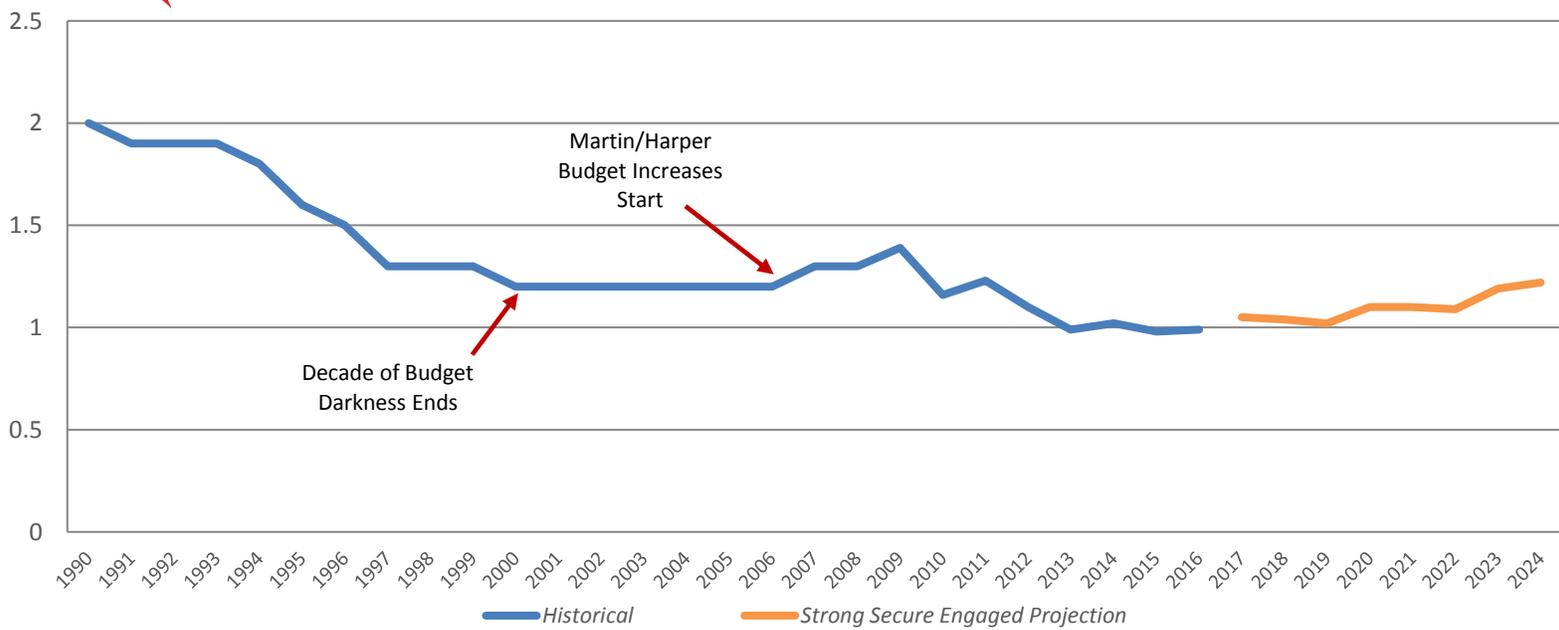


Figure 3.

Interestingly, the Trudeau government – which took great pains to argue in public that the share of GDP devoted to defence was not the metric by which Canada’s alliance contributions should be measured¹⁶ – devoted an entire page of its defence policy to outlining precisely how Canada will measure up in that regard as a result of the new policy. Further, the same government had DND’s finance officials devote their scarce time and resources to investigating how Canada’s allies calculate the share of their GDP that they report to NATO as being spent on defence and then revising Canada’s formula for doing so. On both counts, this provides evidence that however

¹⁴ North Atlantic Treaty Organization, “Information on Defence Expenditures (Various Years),”

https://www.nato.int/cps/ic/natohq/topics_49198.htm Accessed June 19, 2017.

¹⁵ The term Decade of Budget Darkness used here refers to the period of reduced defence spending that started with budget cuts in 1989 and ended a decade later when defence spending started to rise in real terms.

¹⁶ Mike Blanchfield, “Trudeau Says Canada One of NATO’s ‘Strongest Actors’ Without Committing More Money,” *CBC News*, <http://www.cbc.ca/news/politics/justin-trudeau-angela-merkel-germany-1.3987562>, Feb. 17, 2017.



imperfect a measure the share of national wealth devoted to defence is as an indicator of alliance burden sharing, the Trudeau government considered it important to communicate how Canada measures up in this respect. The favourable reception the policy received in Brussels and Washington would similarly seem to indicate that Canada's allies are content with the new policy, even though it means that Canada is not meeting its agreed upon 2 percent of GDP spending commitment, and has no plans to do so in the future.

Fiscal Transparency

The full-page discussion on Canada's defence spending as a percentage of GDP is only one among several examples of fiscal transparency throughout *Strong, Secure, Engaged*. The government should be commended for publishing 20-year spending projections on both an accrual and a cash basis. The *Canada First Defence Strategy* did the former, but not the latter, making any attempt at judging the previous government's progress on their policy's spending plans impossible with public documents. A comparison of the two policies on an accrual basis shows that in its first decade, *Strong, Secure, Engaged* is actually based on a less ambitious defence budget than the one that originally underpinned the *Canada First Defence Strategy*. (See *Figure 4*) By publishing a cash spending forecast, the Trudeau government has laid out a crystal-clear spending plan against which their – and any future government's – track record on defence can be compared.¹⁷ This will become even easier to do if the government follows through on the promise in the new policy to publish the defence investment plan in 2018.

¹⁷ It should be noted that the analysis of the Trudeau government's record to date at achieving its spending plans (on a cash basis), discussed below, is only possible because the government was atypically transparent and provided the plan in the first place. A similar analysis could not have been provided on the *Canada First Defence Strategy*



Canada First Defence Strategy vs. Strong Secure Engaged (Billions -- Accrual Basis)

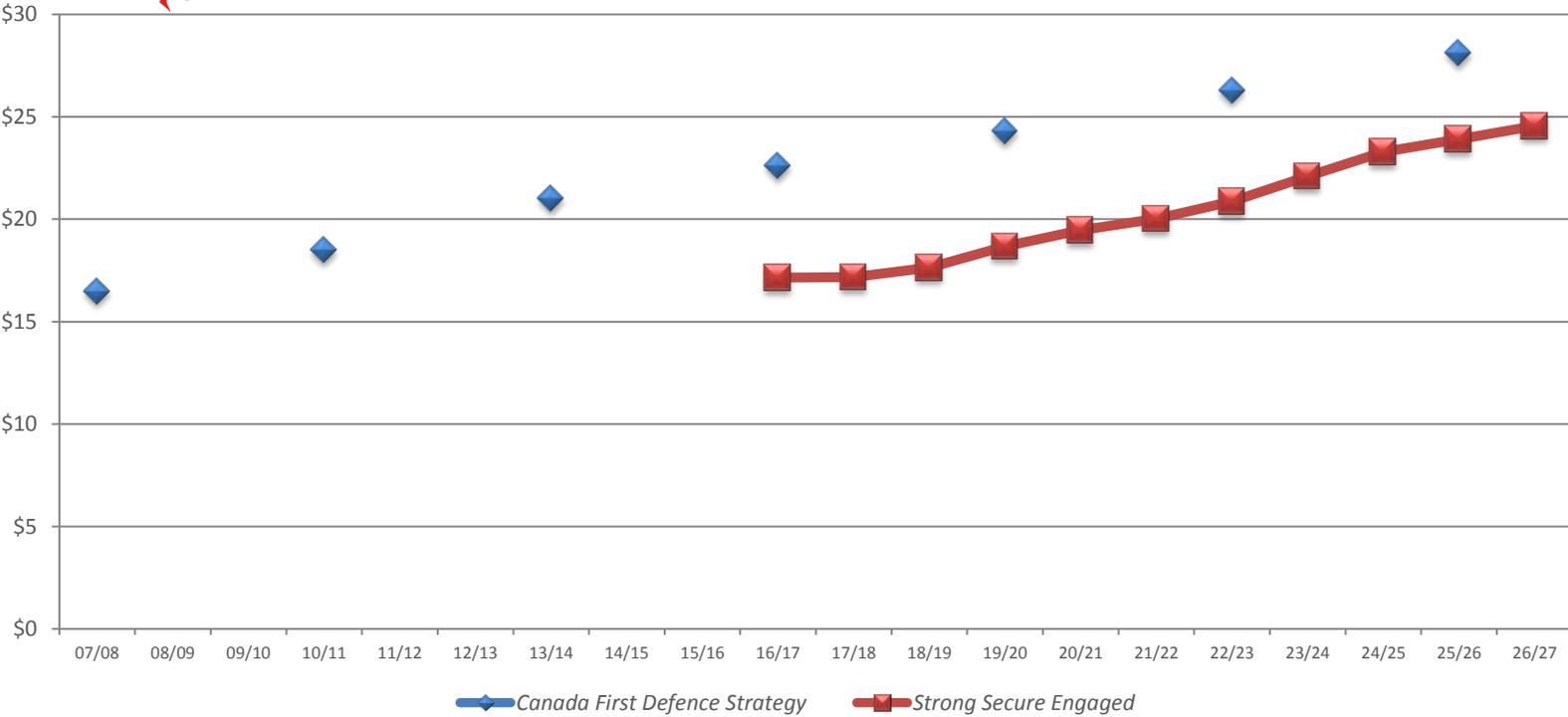


Figure 4.

Another commendable aspect of the document’s fiscal transparency is the extensive discussion of the two accounting methods (cash and accrual) DND employs. This discussion helps illustrate the budgeting benefit afforded to DND by accrual accounting and simultaneously helps explain how what is presented as an enormous increase in defence spending was palatable budgetarily to the Department of Finance. Taking the figures presented in the document at face value, cash spending is stated to increase by 70 per cent over the next decade, while the defence budget, in accrual terms, is set to increase by only just over 40 per cent.

Since only the accrual budget affects the government’s fiscal position, and not cash spending, the much more gradual increase in DND’s accrual budget (roughly in line with projections of nominal Canadian economic growth)¹⁸ helps explain the Department of Finance’s comfort with what is otherwise a very dramatic increase in spending (on a cash basis). The other aspect of the plan that would help make it palatable to Finance is that a significant portion of the spending depicted in the policy, and a significant portion of the annual increases, would have happened anyway if the Trudeau government had simply adhered to the defence spending plans it inherited. The policy presents the 70 per cent increase in cash spending that will occur between 2017 and 2027

¹⁸ Canada, Department of Finance Canada, *Fall Economic Statement 2017* (Ottawa: Her Majesty the Queen in Right of Canada, 2017).



as an outcome of *Strong, Secure, Engaged* alone. In reality, however, that calculation appears to have been predicated on a hypothetical scenario where defence spending on a cash basis would have, absent *Strong, Secure, Engaged*, somehow remained static over the next decade. Over this period of time, though, under previous plans, DND's three per cent escalator on its own would have added a little over \$6 billion in additional annual defence spending by the end of that decade. Any increases to pay and compensation costs for Defence personnel (another prior built-in budget planning assumption) would have also driven nominal spending higher, by hundreds of millions a year more.¹⁹ Although in any given year defence spending fluctuates as a result of initiatives' sunseting and changes to the capital program, it is difficult to see how the extraordinarily pessimistic projection against which *Strong, Secure, Engaged's* 70 per cent increase was based, could have ever come to pass. This arguably augurs well for the fiscal sustainability of the new policy, because its budgetary impacts are much less significant than the document's presentation would suggest. Again, the policy contains meaningful new spending, but significantly less of it is truly a result of *Strong, Secure, Engaged* than is suggested.

Implementing Strong Secure Engaged

Following the publication of the new policy, significant attention has been focused on whether the funding in the new policy is real, and whether it is fiscally viable, long term. The history of Canadian defence budgeting would indicate that *Strong, Secure, Engaged's* funding will not survive any federal deficit reduction exercise, and is therefore intimately tied into Canada's business cycle, federal revenue projections and the Trudeau government's interest in returning to fiscal balance.²⁰ The magnitude of the funding increase associated with the new policy alone has been greatly exaggerated, the annual increase in budgetary terms is roughly in line with economic projections, and the share of GDP devoted to defence even at the peak of the policy's spending will be modest. These are reasons for optimism that the funding beneath *Strong, Secure, Engaged* can survive so long as Canada's fiscal fortunes do. The Liberal Party of Canada's 2015 campaign platform committed only to maintain existing defence funding, the policy's release was delayed by months, and the funding for *Strong, Secure, Engaged* was not announced in the 2017 budget. These are all reasons to be skeptical about the Trudeau government's fiscal commitment to its own policy, as this all suggests that the additional funding is not a Liberal priority.

The more immediate point of concern with the new policy's spending plans, however, is whether they can be achieved as outlined. As noted earlier, over the last decade DND has faced significant difficulty in spending its allocation of annual funding, and spending on capital in particular has been declining in recent years. And yet the allocations for capital spending, representing the bulk of the new funding in *Strong, Secure, Engaged*, are projected to double in its first year, and then quadruple, increasing by an order of magnitude in a short time.

¹⁹ This is especially so given the Trudeau government's support for public sector unions to this point in time. DND employs just under 30,000 public servants and military pay is linked to that of the public service.

²⁰ See comments from Ross Fetterly and Craig Stone at *Un-Packing Strong, Secure Engaged* Oct. 4, and Rob Fonberg, at *Creating a Big Bang*, Oct. 26, Canadian Global Affairs Institute Conferences, Ottawa, ON. <http://www.cgai.ca/conferences>.



The way that this policy was written does not bode well for it being implemented on schedule. A small team of officials, primarily from DND's policy group and the Chief of Force Development, wrote *Strong, Secure, Engaged* under strict provisions of secrecy. The concern for secrecy meant that substantive interaction with other members of the DND, CAF and other government departments that will need to implement the policy, did not occur until after its publication. On its own, separating policy creation from implementation imperils success, and the same is likely to be true with this defence policy.²¹ This limited the ability to realistically validate the hundreds of individual project schedules and their spending forecasts that comprise the capital spending plans of *Strong, Secure, Engaged*. This is important, because a project's schedule dictates when DND will actually spend money. If schedules slip, funds are not spent as intended – a dynamic that has occurred repeatedly over the last 10 years. To reiterate, the collective capital spending plans outlined in *Strong, Secure, Engaged* would see a complete paradigm shift in defence capital spending in Canada.

Yet, despite this planned shift in spending, the procurement changes proposed in the policy to realize such a dramatic change are incremental at best and apply to DND alone. The policy lists a number of initiatives to streamline Canada's procurement system:

- i) reducing project development and approval timelines by at least 50 percent;
- ii) increasing DND's delegated contracting authority to \$5 million by 2018;
- iii) increasing transparency with defence associations;
- iv) providing regular project updates;
- v) growing and professionalizing the procurement workforce;
- vi) incentivizing Canadian research and development; and
- vii) ensuring procurement adheres to environmental standards.²²

All of these are sound initiatives. However, the sixth and seventh are not likely to improve the speed of procurement delivery in the short term. The others, while helpful, are unlikely to create a paradigm shift. The need to grow and professionalize the procurement workforce is real, and has been underway for some time. The number of Full Time Equivalents in the Material Group at DND has increased from 2473 in March 2016 to 2705 by December 2017. Hiring only another 60 additional procurement staff, 50 of which are earmarked for the Material Group is difficult to reconcile with a plan to quadruple spending.²³ The goals of increasing procurement transparency

²¹ Eugene Lang, "The Shelf Life of Defence White Papers," *Policy Options*, June 23, 2017 <http://policyoptions.irpp.org/magazines/june-2017/shelf-life-defence-white-papers/> and Jeffrey L. Pressman, Aaron Wildavsky, *Implementation*, 3rd Ed. Berkely, University of California Press, 1984.

²² *Strong, Secure, Engaged*, 75.

²³ The more pressing personnel requirements are likely elsewhere in the DND/CAF, given the need to advance newly funded projects from the Identification of Options Analysis phase into Definition, which relies on staff from the CAF project sponsors. Public Services and Procurement Canada is working to double the number of staff working on shipbuilding projects as part of a series of changes announced to the National Shipbuilding Strategy in May 2016.



and providing regular updates are laudable, but the results thus far are not encouraging. In May 2016, Judy Foote, then-minister of Public Services and Procurement Canada, promised both annual and quarterly updates on Canada's shipbuilding efforts, but as of Jan. 16, 2018, only one annual report and zero quarterly updates have been published.²⁴ The increase in DND's contracted authority to \$5 million seems wise intuitively, but there are currently no publicly available data to assess the impact of increasing that delegation, and the wording around this initiative leaves both the timeline and likelihood of increasing the delegation to \$5 million unclear. Reducing project approval timelines is an even more commendable goal, but the slow introduction of this initiative thus far is limiting its potential benefit. A subset of the possible projects to which it could apply have been selected (those falling under the Minister of National Defence's approval authority), with the intent of demonstrating the approach and then progressively applying it more broadly. Although a cautious approach is understandable, given the possible reputational risk to DND if this initiative is not handled appropriately, achieving the desired 50 per cent reduction in process time will require fulsome implementation of the streamlining as originally intended. Achieving this in a timeframe that will help DND start spending significantly more money quickly, will require that the initiative would need to be accelerated.²⁵ And finally, none of the first five initiatives is new. The first was launched in 2012, by Vice Admiral Bruce Donaldson, then-vice chief of defence staff, and the second, third, fourth and fifth were launched four years ago at the time of writing as part of the defence procurement strategy. While the procurement changes outlined in *Strong, Secure, Engaged* are all sensible and likely to have some positive impact on procurement, they are unlikely to support the paradigm change required.

Beyond these specifically itemized procurement changes, there are other changes being made at National Defence to the management of the department as a whole that are likely to positively impact procurement as well. The role of some of the key governance boards at DND, particularly the Defence Executive Committee and the Programme Management Board, are being adapted to give them a more hands on role in the policy's implementation. In addition, the implementation of the policy is being underpinned by the use of data analytics which will provide senior decision makers with more data about this policy's implementation than was available for the implementation of past policies. These changes are recent, precluding any definitive assessment of their impact. In the seven months since the release of the policy, though, the department has moved forward to enact several of the 111 specifically enumerated initiatives, most of them personnel related, indicate the merits of these changes.

But the progress on these initiatives, while important, is not reflective of the timely implementation of the policy overall. The first fiscal year of *Strong, Secure, Engaged* is already providing evidence that the policy's spending plans will not be achieved as outlined unless significant changes are made. Although overall defence spending is on track to meet the target outlined in the policy, the intended distribution of that spending is not. DND's cash allocation through Supplementary Estimates B 2017/2018 suggests that unless DND's final period of supply

²⁴ Government of Canada, Public Services and Procurement Canada, "National Shipbuilding Strategy Reports," <https://www.tpsgc-pwgsc.gc.ca/app-acq/amd-dp/mer-sea/sncn-nss/rapport-report-eng.html> Accessed Jan. 18, 2018.

²⁵ Public Services and Procurement Canada is undertaking a similar initiative which is also proceeding with pilot projects.



for 2017/2018 differs radically from all those that preceded it over the last decade, DND will fall well short of spending \$6 billion on capital this fiscal year as intended by *Strong, Secure, Engaged*.²⁶

As of Supplementary Estimates B, DND has only been allocated \$3.8 billion for capital.²⁷ Going back to 2007, DND has never received more than \$55 million in additional capital allocations in Supplementary Estimates C.²⁸ In fact, in all but two years since 2007 DND has actually had capital funding withdrawn from its allocation in Supplementary Estimates C – an average of \$100 million. While past spending patterns do not dictate current spending, unless a decade-long pattern of defence spending is broken, DND will not be allocated more money for capital than the \$3.8 billion allocated as of Supplementary Estimates B.

How much of its allocation DND is likely to spend, is another matter. Here, too, unless this fiscal year breaks a decade-long pattern, the department will likely spend well short of its allocation. Over the last decade, DND has never spent more than 86 per cent of the capital funds allocated to the department at Supplementary Estimates B by the end of the fiscal year.²⁹ Over the last decade, it has spent an average of only 78 per cent of the Vote 5 allocation as of Supplementary Estimates B and as little as 69 per cent. This suggests that unless DND's spending this year breaks the pattern, the department is likely to spend at most \$3.3 billion purchasing capital equipment and infrastructure, and likely less than that. Thus, DND is on track to fall at least \$2 billion short of the capital spending plans outlined in the policy, and more likely, closer to \$3 billion below the policy's plan by the end of this fiscal year. (See *Figure 5*)

²⁶ For an overview of Canada's financial cycle see Parliament of Canada, House of Commons, "Financial Procedures," https://www.ourcommons.ca/About/Compendium/FinancialProcedures/c_d_financialcycle-e.htm, Accessed Jan. 18, 2018.

²⁷ Canada, *Supplementary Estimates (B), 2017–18* (Ottawa: President of the Treasury Board, 2017).

²⁸ Canada, *Supplementary Estimates (C), 2007-2008 to 2016-2017* (Ottawa: President of the Treasury Board).

²⁹ Canada, *Supplementary Estimates (B), 2007-2008 to 2016-2017* (Ottawa: President of the Treasury Board) and Government of Canada, Receiver General of Canada, *Public Accounts of Canada (2007-2008 to 2016-2017)*, vol. II. (Ottawa: Minister of Public Services and Procurement). Recent changes to facilitate transfers of unused amounts between projects may increase the proportion that is actually spent this year, however.



DND Capital Spending (2017/2018B)

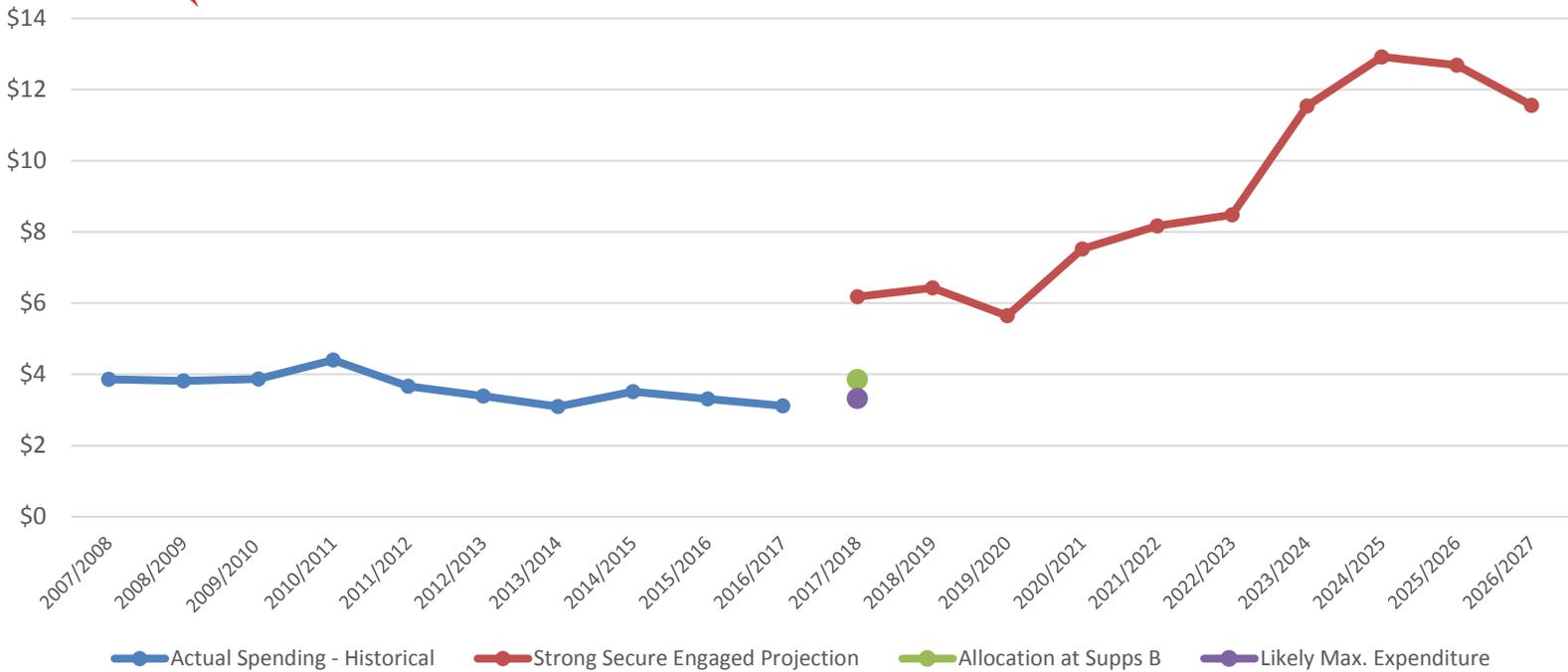


Figure 5.

Although this is only one year’s worth of incomplete data and *Strong, Secure, Engaged* was not released until June of 2017, the results are troubling as they call into question the policy’s overall realism and its spending plans. This is important for several reasons. First, the spending outlined in the policy is needed to deliver upon the policy commitments that are described. To cite one clear example, the policy states that the Royal Canadian Navy will have “A fleet built around an ability to deploy and sustain two naval task groups, each composed of up to four combatants and a joint support ship.” At the time of writing, Canada has no support ships and therefore no ability to deploy or sustain one task group, let alone two, leaving a clear capability gap.³⁰ Second, while the policy is intended to cover a 20-year timeframe, in reality Canadian defence policies have short shelf lives.³¹ The last four all experienced fundamental changes within two years of their launches. There is little reason to think that *Strong, Secure, Engaged* will fare better. Whatever momentum exists behind the policy’s implementation can therefore be expected to attenuate when Parliament rises and the federal Treasury Board session ends in the spring of 2019 ahead of the federal election. Support for policy implementation will only atrophy over time, and in 2019 a new government (even if a Liberal one) will be elected with new priorities which may or may not include implementing *Strong, Secure, Engaged*. Third, this defence policy is both a Canadian

³⁰ A contract for one interim-auxiliary oiler replenishment vessel is slated to start in the winter of 2018, however.

³¹ Eugene Lang, “The Shelf Life of Defence White Papers,” *Policy Options*, June 23, 2017 <http://policyoptions.irpp.org/magazines/june-2017/shelf-life-defence-white-papers/> .



public policy document and an expression of Canada's contributions to its international defence commitments. This is true of all defence policies, but this one arguably more than most, given its extensive discussion of fiscal burden sharing. The inability thus far to spend capital funding on the intended schedule suggests that Canada is unlikely to devote the share of GDP to defence spending that the policy indicates we will. The bulk of the spending increase depicted in *Strong, Secure, Engaged* is comprised of spending on capital projects. Unless DND quickly starts spending as much money as intended on these projects, Canada will fail to reach the 1.4 per cent of GDP mark outlined in the policy, and may not see the share of GDP devoted to defence (when measured on a consistent basis) increase at all. To the extent that the proposed level of burden sharing the Trudeau government communicated to Canada's allies with *Strong, Secure, Engaged* still matters to the government, this will be problematic.

Conclusion

The intent outlined in *Strong, Secure, Engaged* is sound. The policy would see real investment in much-needed areas, allowing both the retention of capabilities that would have otherwise atrophied for lack of funding and the addition of others needed to deliver the commitments made in the policy. The long-term affordability and viability of the policy's funding is a concern, but less so than the ability to actually spend the money needed to bring the policy vision to fruition. If it can be implemented as outlined, *Strong, Secure, Engaged* would bring about a paradigm shift in capital spending. The early indications are already showing, though, that the incremental improvements outlined to make this happen will at best only incrementally increase Canada's ability to spend defence dollars. For *Strong, Secure, Engaged* to be realized, Canada needs a paradigm shift in our approach to defence procurement which would require some combination of major increases in capacity and competency (both at defence and across government), major changes to the institutional arrangements for procuring capital projects and major changes to procurement processes. Without serious change of this sort, *Strong, Secure, Engaged* will not be implemented as intended.

► About the Author

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