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# **Use It or Lose It: SSE and DND's Chronic Underspending Problem**

by Eugene Lang  
May 2018

# POLICY UPDATE

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**O**n June 7 of last year the Trudeau government gifted the Canadian Armed Forces (CAF) and the Department of National Defence (DND) with a new defence policy, titled *Strong, Secure, Engaged* (SSE), and a corresponding commitment to grow the defence budget (on a cash basis) from \$18.9 billion in 2016-2017 to \$32.7 billion in 2026/2027 – a 70 per cent increase.

A financial boost to DND of this magnitude was totally unexpected from this government. It was not an election commitment. Military funding was conspicuously absent from the Liberal platform, which made financial promises in virtually every other federal domain.

The coalition of voters that elected the Trudeau Liberals was not calling for an increase in military spending. (Nor is boosting the defence budget ever identified in opinion polls as a top priority for Canadians). Not surprisingly, there were no strong voices in the Liberal cabinet or caucus for a big financial boost to DND.

Moreover, the government isn't running a fiscal surplus such that it can afford a significant rise in the defence budget. The funding committed in SSE represents the first time in a generation that the Canadian military has received a substantial new financial commitment when the government is in deficit.

A strong argument could in fact be made that the SSE budget increase is the only major area of federal policy where the Trudeau government has exceeded expectations.

Which begs the question, why this generosity toward DND? Perhaps the conventional wisdom is correct; namely, this move was aimed at placating U.S. President Donald Trump in connection with his exhortations for NATO countries to drive their defence spending up to two per cent of GDP (though the Trudeau government's defence spending increases get Canada nowhere near that target). Some have even suggested that it was designed to smooth relations with the Americans in advance of the NAFTA negotiations, admittedly a rather far-fetched linkage.

Whatever the reason, the bottom line is that National Defence got lucky in 2017 and it is now time for DND's senior leadership to capitalize before their luck runs out. Simply put, this means DND needs to figure out how to spend the capital funds authorized to it by Parliament.

As David Perry has documented, over the past decade National Defence has shown a chronic inability to spend anywhere near its approved capital vote. According to Perry, since 2007-2008 DND has underspent its vote 5 capital by \$9.92 billion (in 2014-2015 dollars) in total. By way of comparison, 15 years ago, National Defence was underspending about two per cent of its vote 5 capital, whereas between 2009-2010 and 2013-2014 that number had ballooned to 20- to 30 per cent.<sup>1</sup> The problem persists to this day, such that in the run-up to the release of SSE, the Chief of

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<sup>1</sup> David Perry, "Putting the Armed Back into the Canadian Armed Forces," Vimy Paper, CDA Institute, January 2015, 6.



Defence Staff, General Jonathan Vance, told the media “there is no point giving us billions when we can’t spend it.”<sup>2</sup> He got the billions nonetheless.

The chief reason for this underspending relates to a dysfunctional defence procurement system. The government acknowledged this to some degree in SSE:

“Cumbersome decision-making and approval processes have introduced undue delays. Accountability among departments has been diffuse and at times unclear. Procurement professionals would benefit from greater education, training and tools. Capability requirements have not always been communicated clearly to industry and Canadians ... And perhaps most challenging, 70 percent of all projects have not been delivered on time.”<sup>3</sup>



*Figure 1: A CH-148 Cyclone helicopter moves into position over the flight deck of Her Majesty's Canadian Ship (HMCS) Montreal for refueling on April 20, 2016, off the coast of Nova Scotia. As the author notes, many capital acquisition projects, such as the CH-148 procurement, have been plagued with multi-year delivery delays. (Source: Canadian Forces Imagery Gallery)*

These admissions are based on the pre-SSE volume of procurement, a level of output about one-quarter of what DND envisages in the medium term. Which means the underspending is poised to get a lot worse absent some significant reforms to the way defence procurement is conducted.

<sup>2</sup> Lee Berthiaume, “Canada’s Top General Says Military Not Hurting for Money, Defends Spending Delay,” Canadian Press, March 30, 2017.

<sup>3</sup> National Defence, *Strong, Secure, Engaged: Canada’s Defence Policy*, 2017, 74.



In fairness, SSE does contain some streamlining initiatives to address these systemic problems. However, most are holdovers from the 2014 Defence Procurement Strategy of the previous government. Notable among them is a hoped-for increase to DND's contracting delegation to \$5 million, as well as an aim to reduce project approval times within the department by 50 per cent for low-risk and low-complexity projects. Why procurement reform initiatives are focused on low-risk and low-cost projects when SSE identifies "a small segment of complex, high-value equipment projects" as the main culprit for the procurement dysfunction, is anybody's guess.

The fact DND offers up these old and rather underwhelming reforms suggests it sees the responsibility for defence procurement problems lying largely outside its domain and inside the realms of the other departments involved in the process – Public Services and Procurement Canada (PSPC), Innovation, Science and Economic Development Canada (ISED), Treasury Board Secretariat (TBS) and the Privy Council Office (PCO). This viewpoint would of course be consistent with the refrain that has emanated for years from National Defence with officials, ministers and their staffs blaming officials, ministers and their staffs in other departments for defence procurement dysfunctionality, and vice versa. Senior officials have also taken to blaming industry for the department's inability to spend its authorized capital funds.

All of which is part and parcel of the blame game that has afflicted defence procurement for a decade or more in Ottawa. It serves no one's interest to continue this game, least of all DND and the Canadian Armed Forces, especially in the context of the gift they have been given through SSE and its associated funding.

The hard reality, however, is that the other departments involved in defence procurement have no incentive to end the game. They face no pressure to improve or streamline their part of the process to help DND spend its capital. In fact, those other departments couldn't care less about DND's capital spending performance.

Those running National Defence are dreaming in a colour we've never seen before if they think the Treasury Board is going to put in place more meetings solely to deal with DND's increased procurement output, or reduce the rigour with which TB officials and ministers analyze and challenge DND's Treasury Board submissions. Likewise, if they think that ISED will lessen the requirement for industrial and technological benefits requirements to speed up the process, that PSPC will weaken its role in contracting and procurement governance to improve efficiency, or that the Privy Council Office will exempt DND from producing cabinet submissions on major Crown projects to ensure ministerial oversight and decision-making.

During the Harper government's term in office, a conspiracy theory took root among some in the defence establishment to the effect that Finance Canada and the Treasury Board had a deliberate strategy to reduce the federal deficit by frustrating DND procurements, and that this was the source of the department's underspending. Anyone who has ever worked in the central agencies would know they are not sophisticated, co-ordinated or co-operative enough with one another to design and pull off something like that. Nevertheless, it's a safe bet that no one at Finance or TBS



cares a whit if DND spends its capital appropriation, nor will they lift a hand to help fix that problem.

And no one should expect the political level of this government to care very much about whether DND manages to spend its capital. The dominant political view is likely that the National Defence box was more than ticked with SSE, and it's now up to DND to figure out how to spend the money it has been pledged.

In other words, for National Defence, procurement streamlining and reform must begin at home, with a concentration on those aspects of the system over which it has control. Chief among these is getting real on project priority setting; streamlining the byzantine approvals processes within the department and developing better two-way dialogue and transparency with industry. It must also establish more genuine co-operation with other departments involved in the process, and design better governance within DND itself. In short, clean up your own house first, even if you think your neighbour is the source of the mess.

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Years ago, some senior military officers were known to have regarded the Harper government's funding commitments contained in its 2008 defence policy statement, *Canada First*, as a contract that the government would not breach. That, of course, was naïve nonsense. Two years after *Canada First* was published, planned funding increases to DND were reduced significantly in the effort to wrestle the recession-induced federal deficit to the ground.

Today, we hear similar optimism from some officials, secure in a belief that SSE is a kind of 20-year plan that cannot be altered. These people would do well to consider the business cycle and recent economic history. Recessions hit Canada about every nine or 10 years on average (the last having occurred in 2008-2009), so we are now getting due for another economic downturn. And recessions usually lead to departmental spending cuts in Ottawa, chief among them National Defence by virtue of its sheer size in the federal departmental universe. In short, in times of fiscal austerity, cuts to the Defence Department are inevitable because they are driven by math.

A cursory look at the history of defence white papers over the past 30 years should also tell us that the policy and funding commitments made in such well-intentioned documents rarely survive half a decade.<sup>4</sup> Defence funding pledges can be and have been easily undone in an afternoon's work at the Department of Finance, or in a 30-minute meeting in the Prime Minister's Office, regardless of what is written down in a government white paper. This is one of the few areas of federal policy where there has been consistent bipartisan behaviour over many years.

In the final analysis, the message is straightforward. DND got a big gift in 2017, but it has a narrow window of opportunity to seize upon it. This requires an admission that the department needs to take procurement reform much more seriously than it has to date. Which means DND getting its own house in order so it can spend the largesse gifted by a government that two years ago showed

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<sup>4</sup> See Eugene Lang, "The Shelf Life of Defence White Papers", *Policy Options*, June 23, 2017



no interest in national defence and to this day is neither philosophically nor politically invested in the file.

## ► **About the Author**

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