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Strong, Secure, Engaged So Far

by David Perry
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POLICY UPDATE

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S*trong, Secure, Engaged* (*SSE*) is an ambitious defence policy predicated on a significant increase in defence spending and an especially ambitious planned increase in spending on capital procurement (equipment and infrastructure purchases – Vote 5 in the Estimates). Overall, the new funding framework outlined in the policy would see nominal spending increase by 70 per cent from 2016/2017 to 2026/2027[1] – a sizeable increase after years of budget reductions. The bulk of this increase will go towards funding a massive slate of equipment procurement to recapitalize the Canadian Armed Forces (CAF). This spending increase, and the dozens of major projects directed that require the funding, are part of a wider defence policy with a plethora of additional difficult-to-implement initiatives. As *SSE* approaches its first anniversary, overall funding allocations on defence are tracking close to the projected levels outlined in the policy, but capital allocations are lagging significantly behind the projection published in June 2017.

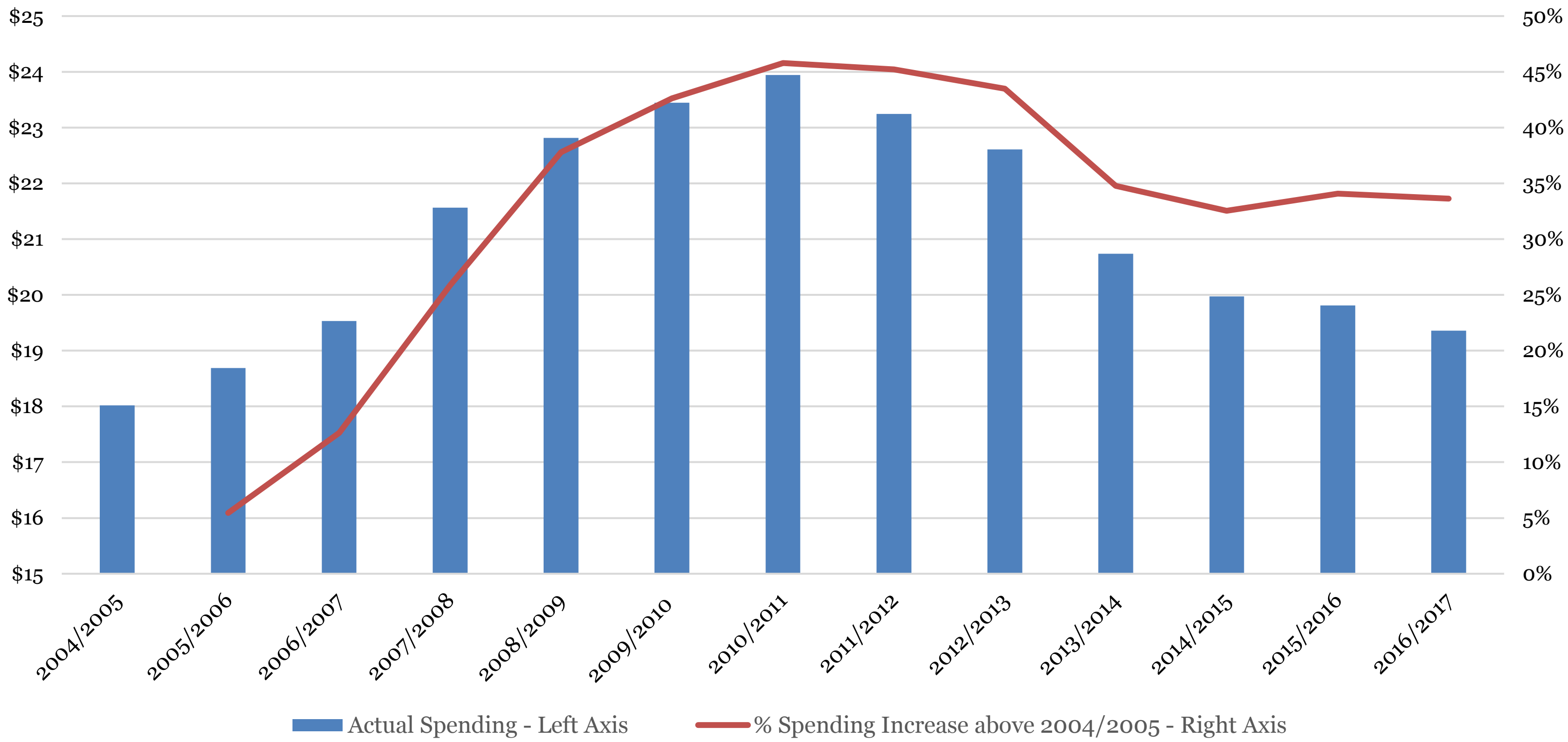
To situate why overall funding allocations are increasing more or less on pace with the projection outlined in June 2017, but capital allocations are not, it is useful to compare the magnitude of the spending increases in *SSE* to the last period of major increases in defence expenditures, which occurred between 2005/2006 and 2010/2011. This analysis shows that while the planned total spending increases envisioned under the current policy are ambitious and ultimately exceed what was achieved a decade ago, they are roughly on the same scale. In contrast, planned spending increases on capital procurement under *SSE* are an order of magnitude larger than those achieved a decade ago.

In 2005, Paul Martin's government published the *Defence Policy Statement* and injected an infusion of new funding into the Department of National Defence (DND) after a decade of budget cuts that started in 1989, with only modest increases through 2004. Martin's government was short-lived, but when Stephen Harper became prime minister in 2006 he effectively left Martin's spending plans intact, and added billions more in additional funding in his first budget that year. Two years later, Harper's government published the *Canada First Defence Strategy* which added still further funding covered by a 20-year spending plan. As a result of these successive spending increases and in the context of Canada's war effort in Afghanistan – its largest and most costly military operation since Korea – Canada significantly increased defence spending until 2010/2011. As Figure 1 shows (the blue bar graph using the left axis), from a start point of $18.0 billion in 2004/2005, the year prior to these increases taking effect, spending rose gradually, peaking at $23.9 billion in 2010/2011, before reducing thereafter as deficit reduction measures were enacted. (All figures in this article are expressed in 2018/2019 dollars, deflated using the DND Economic Model). In percentage terms (the red line, using the right axis), spending increased gradually at first, rising five per cent in the first year and 13 per cent the next, culminating in an overall increase of 46 per cent in real terms by 2010/2011, relative to 2004/2005. Spending has declined since 2010/2011, but in the last year for which final year-end

[1] All dates shown in this format are Canadian federal fiscal years which run from April 1 to March 31.

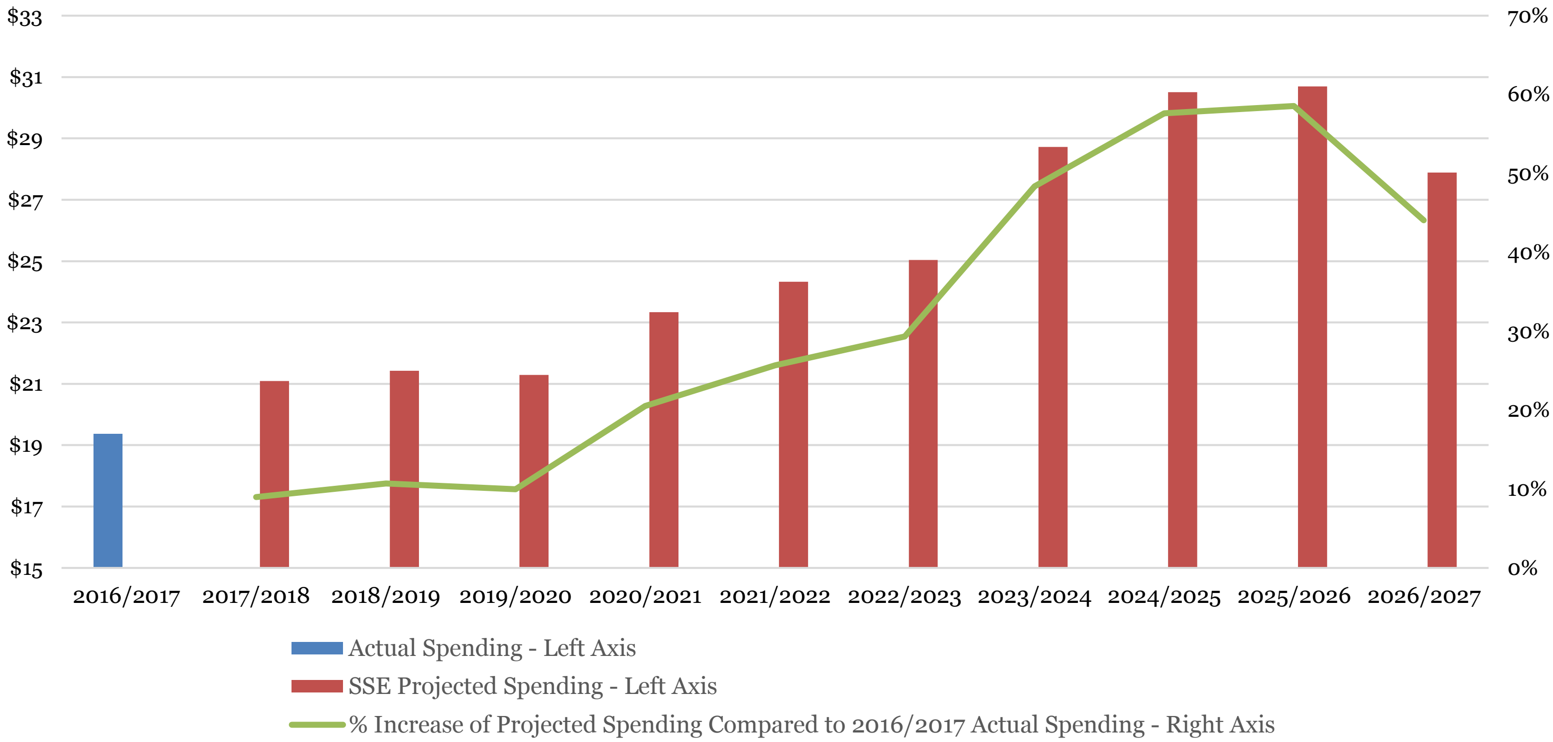
spending data are available – 2016/2017 – it remains almost eight per cent higher than it was in 2004/2005.

Figure 1: Total Defence Spending and Percentage Increase Compared to 2004/2005



As Figure 2 shows, the spending increase projected in *SSE* is more gradual, but spread out over a longer period of time. From a start point of $19.4 billion in actual spending in 2016/2017 (the blue bar in Figure 2, using the left axis) spending under *SSE* is projected to increase for the next nine years, peaking at $30.7 billion in 2025/2026 before declining (the red bars in Figure 2, using the left axis). Over the first three years of the policy, overall spending would increase by between nine and 11 per cent (the green line in Figure 2, using the right axis), rising by 29 per cent after six years (2022/2023), for a maximum increase of 59 per cent by 2025/2026; with all comparison to 2016/2017. Relative to the 2005/2006 to 2010/2011 time period, the total spending increase in *SSE* would proceed more gradually, but ultimately increase slightly more overall producing a 59 per cent increase compared to a 46 per cent increase a decade ago.

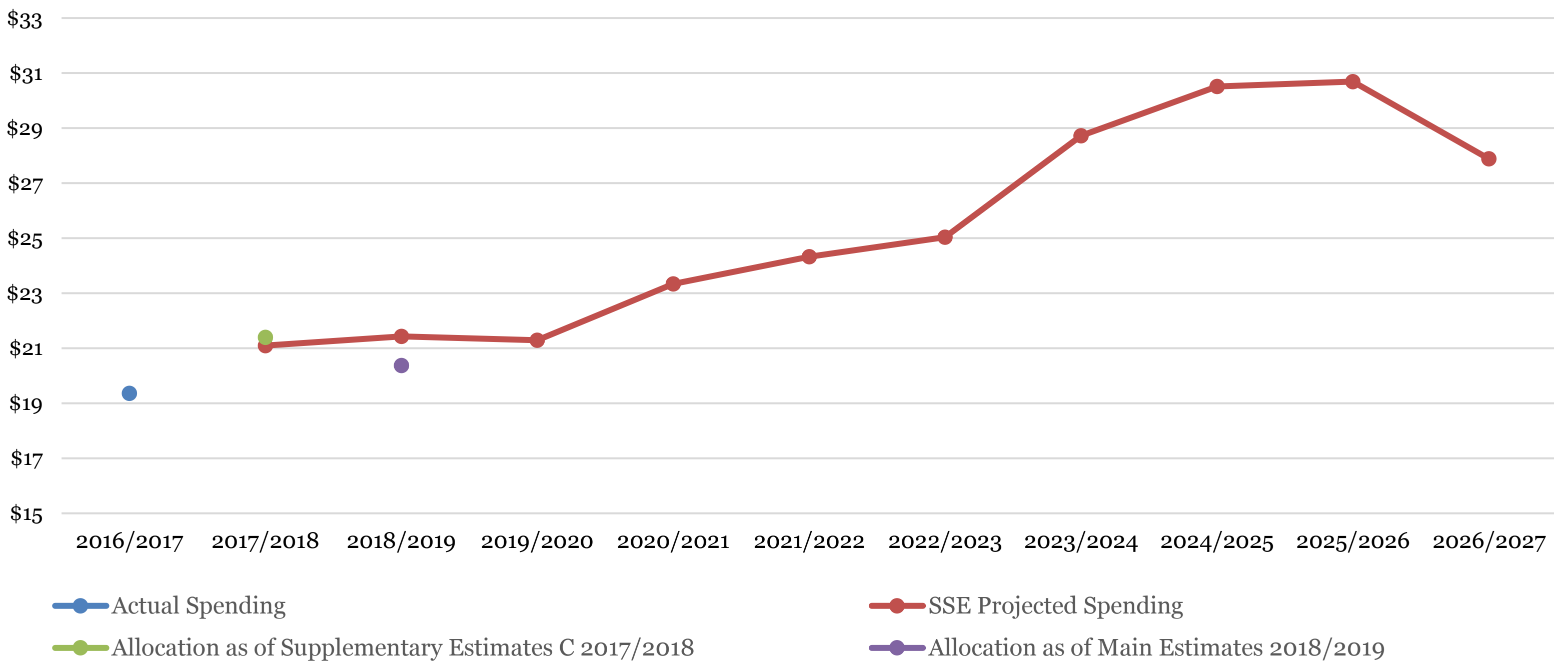
Figure 2: Projected Total Defence Spending and Percentage Increase in *Strong, Secure, Engaged* Compared to Actual Spending in 2016/2017



To date, the total defence allocations[2] since *SSE*'s release closely follow the projection outlined in the policy. The allocation of funding in Supplementary Estimates C 2017/2018 was $21.4 billion (the green dot in Figure 3), compared to projected spending of $21.0 billion (part of the red line in Figure 3). The allocation in the Main Estimates 2018/2019 is $20.4 billion (the purple dot in Figure 3), compared to projected spending of $21.4 billion. In short, as *SSE*'s first anniversary approaches, the overall funding allocations thus far are in line with the policy's projections.

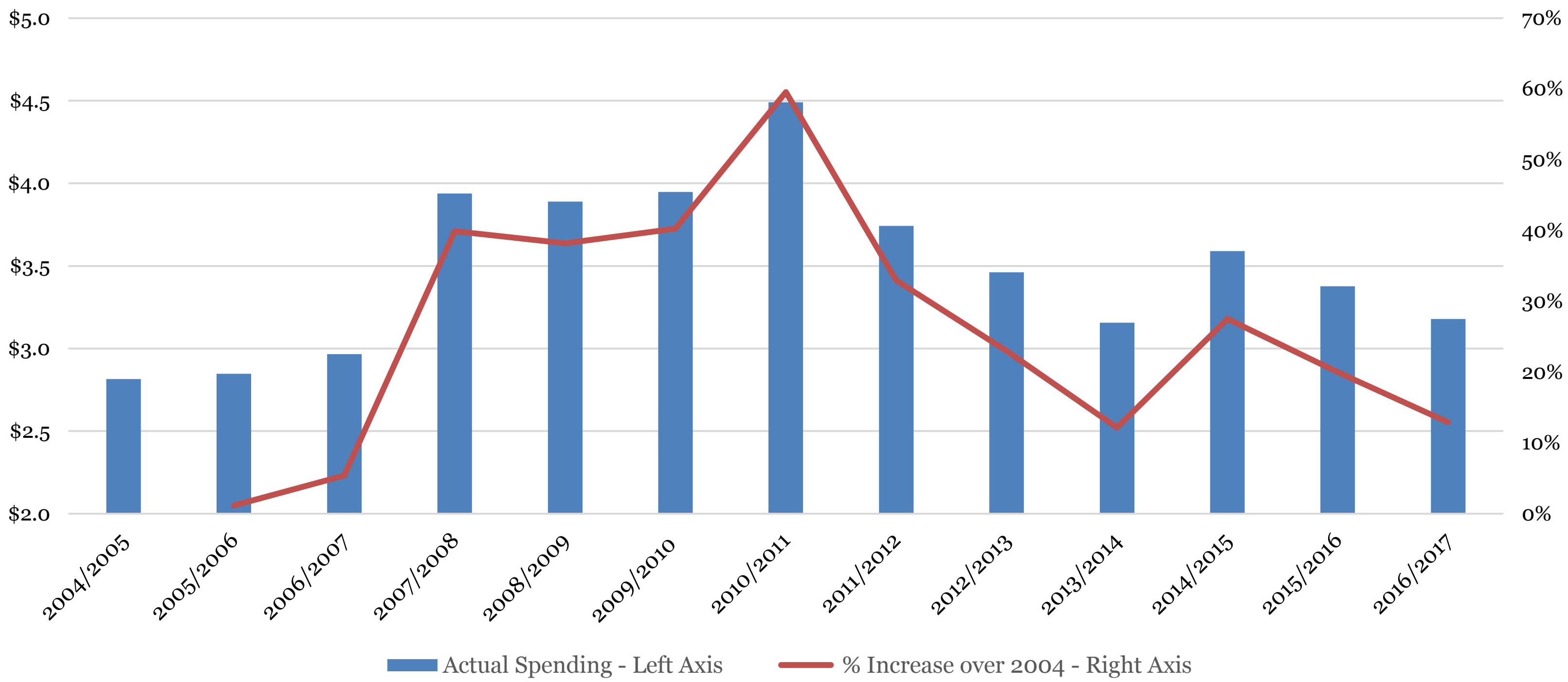
[2] With *Strong, Secure, Engaged*, funding was put into the fiscal framework for DND to fund the policy. This funding must still be **allocated** to DND on an annual basis through the Estimates process, and then actually **spent** to translate the funding made available to DND as part of *SSE* into actual policy outcomes.

Figure 3: Total *Strong, Secure, Engaged* Allocations to Date



The story with capital spending, however, is different and it is again useful to compare the projected spending increase in *SSE* for this component of the defence budget with recent history. As with overall defence spending, spending on capital (infrastructure and equipment) increased significantly between 2005/2006 and 2010/2011. After a decade and a half of post-Cold War downsizing and under-investment in new capital spending, Paul Martin's 2005 budget contained significant new funding for major purchases to which the Harper government added. This spending increase delivered billions of dollars in purchases of urgent operational equipment for Afghanistan and the procurement of C17, C-130J and CH-147 air platforms (as well as many other procurements). Much of this occurred using non-competitive procurement strategies facilitated by an atypically supportive attitude towards defence procurement during Canada's first wartime experience in a half-century. During this exceptional period, Canadian capital spending increased from $2.8 billion in 2004/2005 to $4.5 billion 2010/2011 (the blue bar graphs using the left axis in Figure 4). As a percentage increase relative to spending in 2004/2005 (the red line in Figure 4 using the right axis) spending increased by one per cent and then five per cent in 2005/2006 and 2006/2007 respectively, rising a total of 60 per cent by 2010/2011. Afterwards, as with overall defence spending, capital expenditures experienced an overall general reduction. In 2016/2017, spending on capital was just 13 per cent higher, in real terms, than it was in 2004/2005.

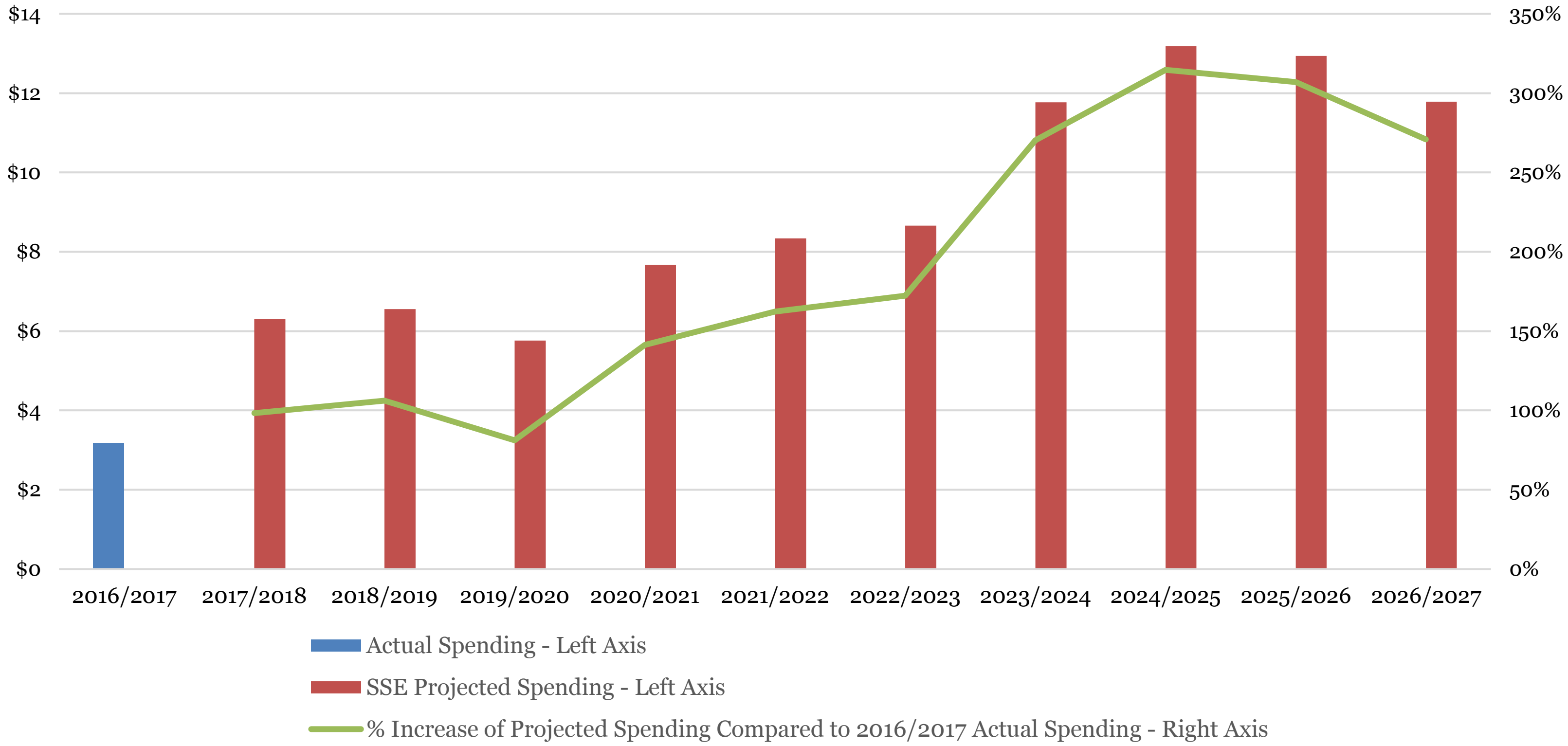
Figure 4: Capital Spending 2004/2005 - 2016/2017 and Percentage Increase Compared to 2004/2005



The capital spending plans in *SSE* would see spending increase from $3.2 billion in 2016/2017 (the blue bar in Figure 5), the last year before the policy took effect, to $6.3 billion in 2017/2018 and then rise progressively over eight years to a maximum of $13.2 billion in 2024/2025 (the red bars in Figure 5 using the left axis). As a percentage increase relative to 2016/2017, the capital projections in *SSE* would see spending increase by 98 per cent in the policy's first year, 106 per cent in its second, 172 per cent in its sixth and by 315 per cent by 2024/2025 (the green line in Figure 5 using the right axis). In short, neither the scale of the capital spending increase in *SSE*, nor the pace with which it was projected to take effect are at all comparable to what was actually achieved between 2005/2006 and 2010/2011. Spending under the new policy is envisioned to rise far faster and the envisioned increase is projected to be far greater than what was actually achieved a decade ago. Notably, this much more significant increase is slated to occur in a peacetime environment and without any major changes to the capacity, processes or institutional structures underpinning Canada's defence procurement system.[3]

[3] Initiatives 94 through 100 in *SSE* are, however, all oriented around streamlining defence procurement to "better meet the needs of the military, and deliver projects in a more timely manner." (p. 75) In the author's estimation, these are all very worthwhile initiatives but do not constitute major changes.

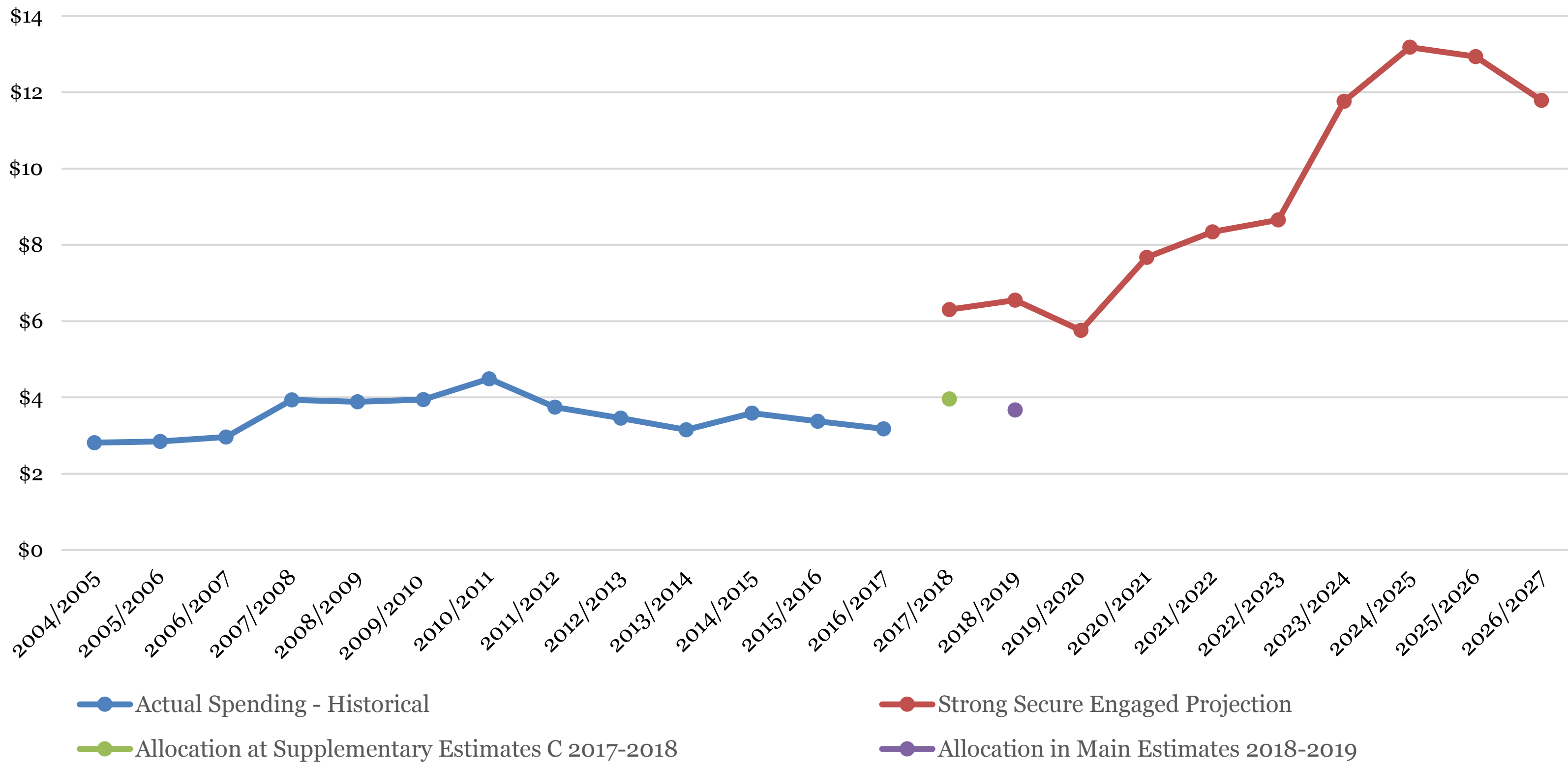
Figure 5: Strong, Secure, Engaged Capital Projection and % Increase



Unlike the total funding allocations for DND, the capital allocations to date are falling well short of the projections contained in *SSE*. The DND's capital allocation for 2017/2018 as of Supplementary Estimates C for 2017/2018 was $4 billion (the green dot in Figure 6). This final year-end allocation represents the maximum DND can spend on capital in 2017/2018.[4] This is well short of the $6.3 billion in capital spending projected for 2017/2018 in *SSE* (the red line in Figure 6). Similarly, DND's capital allocation in the 2018/2019 Main Estimates (the purple dot in Figure 6), at $3.7 billion is well short of the $6.6 billion in spending the policy had projected would occur in 2018/2019. This is concerning because while the 2018/2019 fiscal year has only just started, over the last nine years DND has never actually spent more on capital by year's end than it was allocated in the Main Estimates.

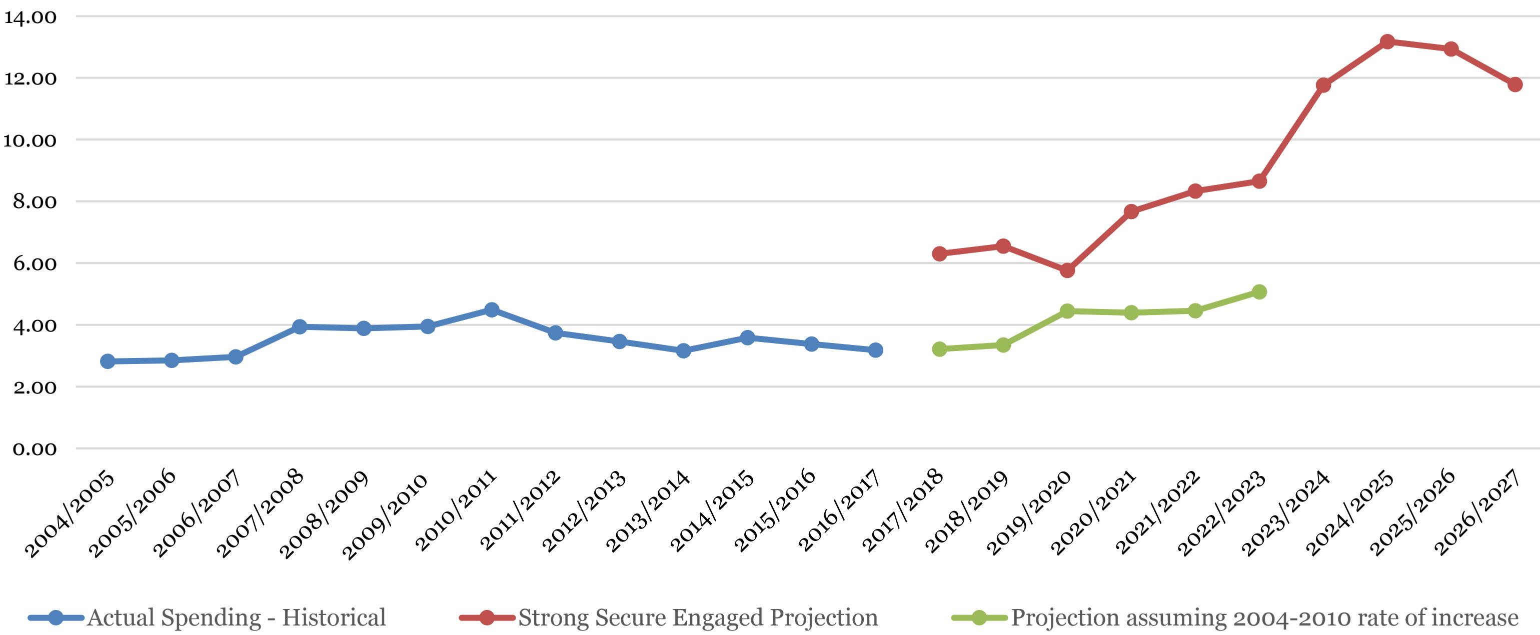
[4] Over the last decade, DND has never spent by year's end more than 93 per cent of its capital allocation as of Supplementary Estimates C and has spent on average only 80 per cent of its capital allocation. Actual spending for 2017/2018 will not be known until the *Public Accounts of Canada* is published in the fall of 2018.

***Figure 6: Strong, Secure, Engaged* Capital Allocations to Date**



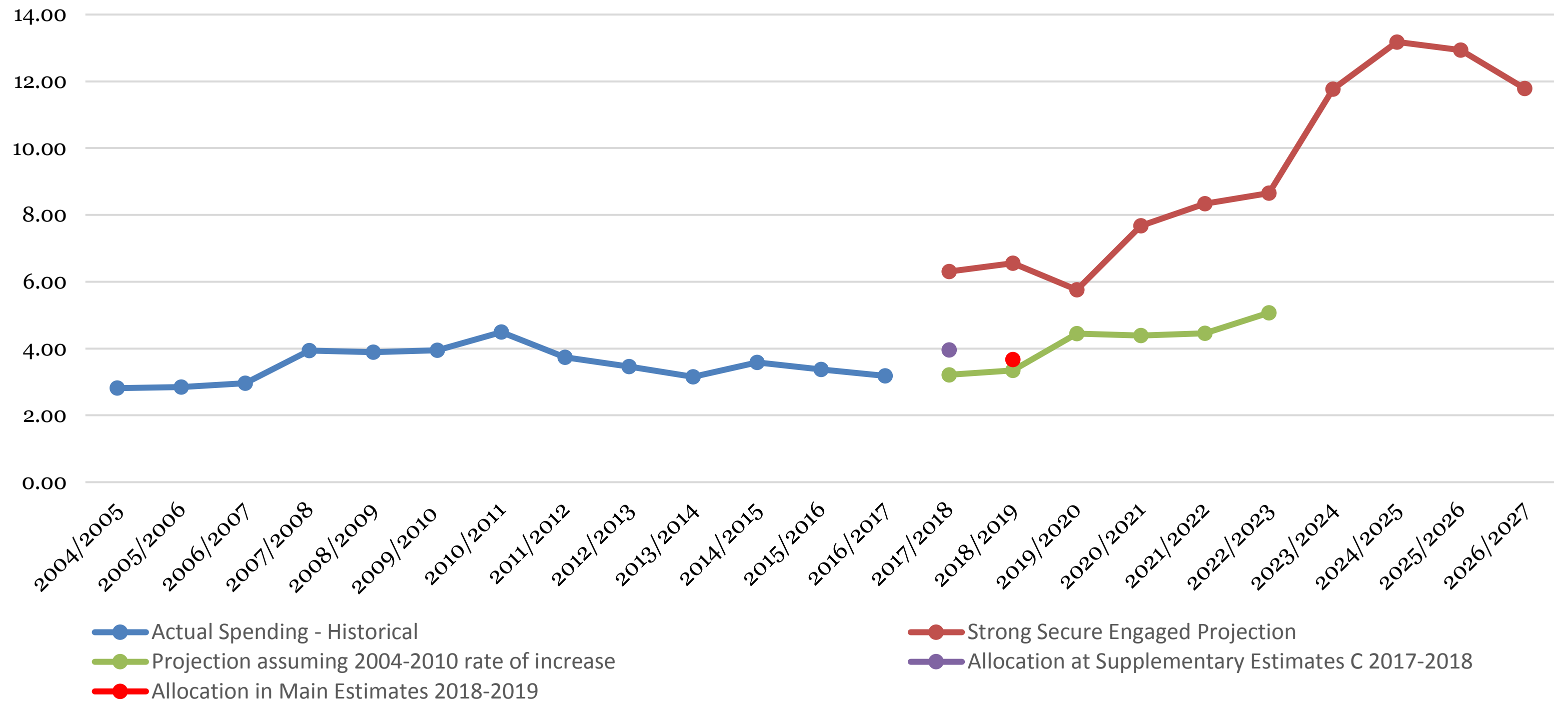
As the allocations to date suggest that actual capital spending will fall short of the projection in *SSE* in the short term, Figure 7 depicts an estimated capital expenditure projection that assumes DND can achieve the same rate of spending increase it previously achieved between 2005/2006 and 2010/2011. Using 2016/2017 as the base year, the green line in Figure 7 is a projection made by assuming DND is able to increase spending annually from 2017/2018 through 2022/2023 at the same rate that spending actually rose between 2005/2006 and 2010/2011 (the red line in Figure 4). This therefore assumes that capital spending can be increased by a total of 60 per cent by 2022/2023. As Figure 7 shows, if DND can achieve in peacetime the same rate of spending increase reached a decade ago while the country was at war, it will spend significantly less than projected on capital under *SSE*.

Figure 7: Projected Capital Spending under _Strong, Secure Engaged_ Compared to a Projection Assuming Spending Increases at the Same Rate it did Between 2005/2006 and 2010/2011



As Figure 8 shows, the capital allocations to date (those as of Supplementary Estimates C 2017/2018 (the purple dot in Figure 8) and the Main Estimates 2018/2019 (the red dot in Figure 8) are far closer to a projection which assumes DND is able to replicate the same rate of capital spending increase achieved from 2005/2006 to 2010/2011 than the projection outlined in *Strong, Secure, Engaged*.

Figure 8: **Capital Allocations to Date Compared to *SSE* and Projection Assuming Past Rate of Increase**



The foregoing analysis was only possible because of the exceptional level of transparency contained in the fiscal projections in *SSE*; a comparable analysis of previous policies would simply not have been possible. The comparative analysis shows that the increase in overall spending projected in the current defence policy is roughly comparable to what has been recently achieved. In contrast, the projected increase in capital funding under *SSE* is vastly more ambitious than what was actually achieved in the 2000s.

To date, DND's allocations of overall funding are closely tracking the projections outlined in *SSE*. Overall defence spending in the early years of this policy is therefore likely to closely resemble the projection outlined in the policy. The capital allocations to date, however, are not tracking closely to the projections outlined in the policy. While enough funding has been allocated for capital purchases that an increase in spending is likely under the early years of *SSE* (depending upon how much of that money is actually spent) the indications thus far are that the spending increase will fall billions short of the projection made in the policy. Put differently, capital spending is probably increasing, just much slower than *SSE* had intended.

In sum, the data available on *SSE* so far suggests that the policy's projections for overall spending will be achieved in the short term, but that those for capital expenditures will not. A comparison with recent history suggests that this record so far is the result of overall spending projections in *SSE* that were ambitious, but achievable, while the capital spending projections were too ambitious for Canada's existing defence procurement system. If Prime Minister Trudeau wants to see his defence policy implemented as outlined, he needs to change Canada's defence procurement system to enable it to spend procurement money at the rate projected in *SSE*.

About the Author

Dr. David Perry *is Vice President, Senior Analyst and a Fellow with the Canadian Global Affairs Institute. He is the author of multiple publications related to defence budgeting, transformation and procurement, published with the Canadian Global Affairs Institute, Conference of Defence Associations Institute, Defence Studies, Comparative Strategy, International Journal, and Journal of Military and Strategic Studies and is a columnist for the Canadian Naval Review. He received his PhD in political science from Carleton University where his dissertation examined the link between defence budgeting and defence procurement. He is an adjunct professor at the Centre for Military and Strategic Studies at the University of Calgary and a research fellow of the Centre for the Study of Security and Development at Dalhousie University. He was previously the Senior Security and Defence Analyst of the Conference of Defence Associations Institute and Deputy Director of Dalhousie University's Centre for Foreign Policy Studies. Embassy Magazine and The Hill Times named him to their "Top 100 Influencing Canadian Foreign Policy" in 2014.*

Canadian Global Affairs Institute

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