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Strong, Secure, Engaged: A Two-Year Review

by David Perry
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POLICY PERSPECTIVE

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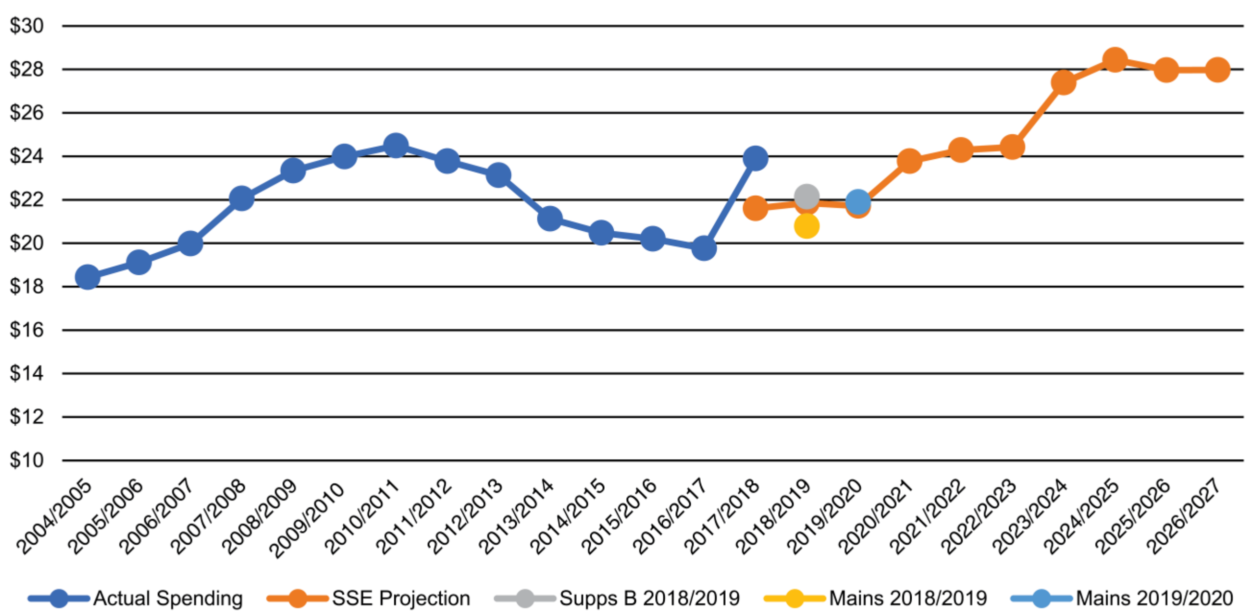
The Trudeau government released its defence policy, *Strong, Secure, Engaged*, in June 2017 with considerable fanfare around the publication's fiscal underpinnings. It was stated that the policy review that led to the document was the most rigorously costed Canadian defence policy exercise ever. The policy was supported by external auditors and accompanied by several fiscal transparency initiatives. The document included a 20-year projection of the underpinning budget – in the accrual accounting format used in federal budgets – as well as a projection of cash spending, which is the accounting format used in the Estimates and reports to Parliament. The policy also included a projection of how Canada would measure up to the NATO spending targets to which it had committed as a member of the alliance, spending two per cent of gross domestic product (GDP) on defence and spending 20 per cent of that money on equipment purchase and related research and development. These spending projections are all a novel feature of Canadian defence policy under *Strong, Secure, Engaged* and they allow progress on the policy to be measured. While funding never tells the full story on any public policy file, it is a critical indicator of policy implementation.

Two years after the publication of *Strong, Secure Engaged*, the Trudeau government's record of spending the money to implement its policy is a largely positive one. The government is struggling to spend as much on capital (equipment and infrastructure) as it hoped, and spending on equipment and related research and development as a share of the defence budget is falling short of expectations. However, spending on those procurement projects is rising in inflation-adjusted dollars for the first time in years. Meanwhile, total defence spending is meeting, or exceeding, the expectations set with the policy's publication.

Figure 1:
Total Canadian Defence Funding ($2019/2020B)

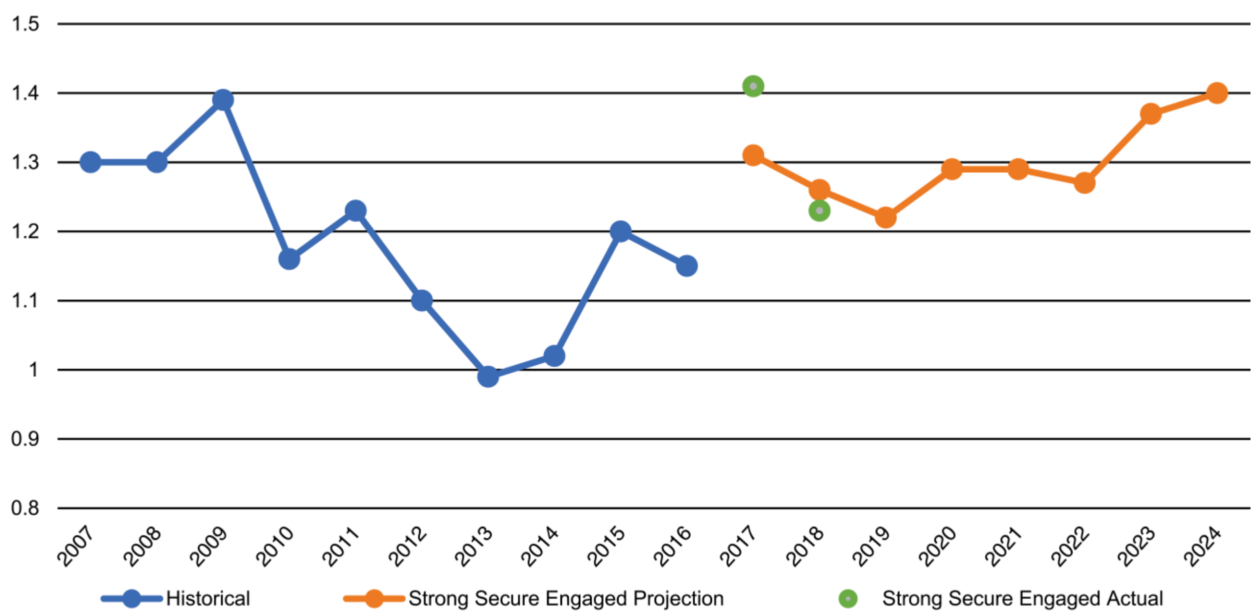


In the first year of *Strong, Secure, Engaged*, (2017/2018), overall defence spending actually exceeded the level of spending projected by roughly $2 billion, reaching almost $23 billion (nominally – nearly $24 billion in 2019/2020 dollars – see Figure 1).[1] As a share of GDP, the latest NATO statistics show that $23 billion in spending translated into 1.4 per cent of GDP, again surpassing the projection of 1.3 per cent outlined in the policy (See Figure 2).[2] The higher-than-anticipated spending came on the back of a nearly $2-billion, one-time pension adjustment. But if that pension funding is factored out of the analysis, defence spending would have ended up at almost exactly the level projected in the policy.

For the policy's second year, the funds allocated in the Supplementary Estimates B for 2018/2019 (the last allocation of funding for the fiscal year – Supps B 2018/2019 in Figure 1) show the Department of National Defence (DND) again meeting the overall spending projection outlined in the policy, while falling just short of projected spending as a share of GDP. Because of the one-time infusion of pension funding in 2017/2018, defence spending in real dollars and spending as a share of GDP are both projected to drop for 2018/2019.[3] The total funding allocated to DND for the policy's second year was just over $22 billion, which represents 1.23 per cent of GDP, very close to the 1.25 per cent projected in *Strong, Secure, Engaged*.

For 2019/2020, the amount allocated to DND in the Main Estimates (the first substantive allocation of funding in the fiscal year – Mains 2019/2020 in Figure 1) is just slightly less than the total allocation from the year previous, at a little less than $22 billion. This puts DND roughly on

Figure 2:
Canadian Defence Spending as a % of GDP

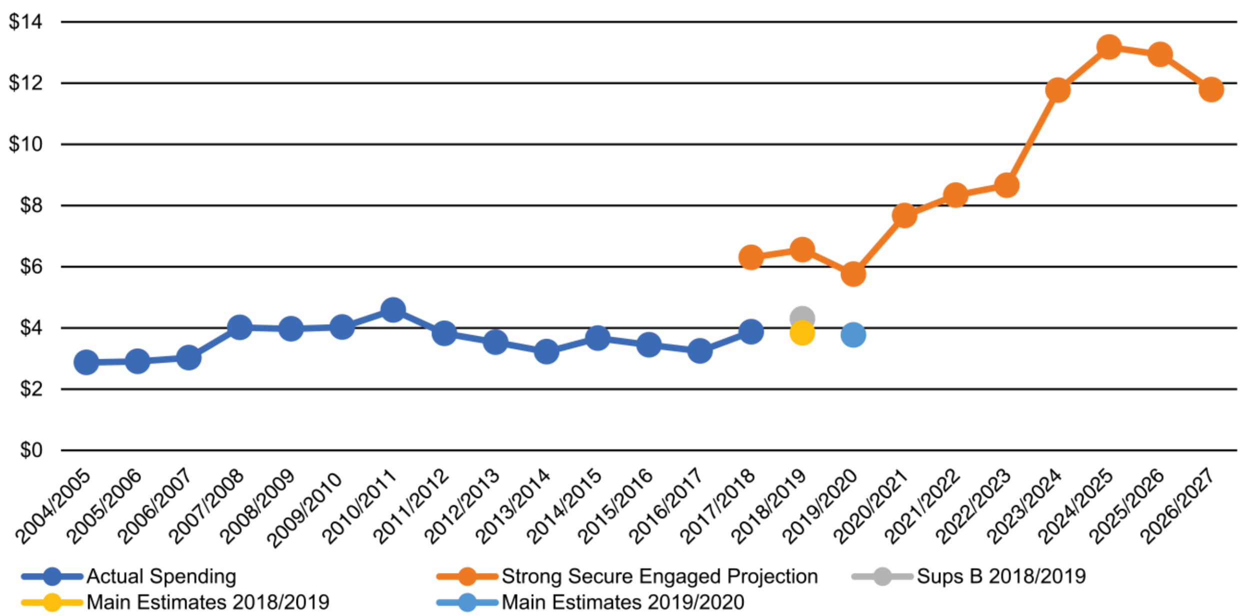


[1] Inflation adjustments use the defence economic model. The spending forecast in *Strong, Secure, Engaged* is shown as SSE Projection.
[2] As part of the defence policy review that led to *Strong, Secure, Engaged*, Canada revised the way it reports defence spending to NATO, and now includes greater amounts of other government departments' spending than it did previously. This new calculation means Canadian data for 2015 and beyond are not directly comparable to those from earlier years.
[3] Final year-end spending will not be known until the release of the Public Accounts of Canada in the fall of 2019.

the same spending trajectory projected in *Strong, Secure, Engaged*, without factoring in any additional funding which may be supplied during the remainder of the year. As Figure 1 shows, after the Main Estimates 2018/2019, more than $1 billion was added to DND's funding line by the Supplementary Estimates B 2018/2019. In sum, with respect to overall defence spending, the Trudeau government is doing what it said it would with *Strong, Secure, Engaged*.

Below the topline spending data, the Trudeau record when it comes to capital spending is more complicated. Three distinct trends have emerged regarding spending on equipment and infrastructure under *Strong, Secure, Engaged*. First, spending on capital – the money that is actually expended to acquire equipment or infrastructure – in the policy's first year is significantly less than projected in the policy. The allocation of capital funding – the money that Parliament gives DND each year, through the Estimates, based on the department's spending plan – in its second year and so far in its third, is also significantly less than projected. In the first year, $2.5 billion less than projected was spent. In the second, $2.3 billion less than projected was allocated for the year, and as of the Main Estimates 2019/2020, the allocation is $2.1 billion short of what was outlined in the policy, although the fiscal year is not complete (See Figure 3).

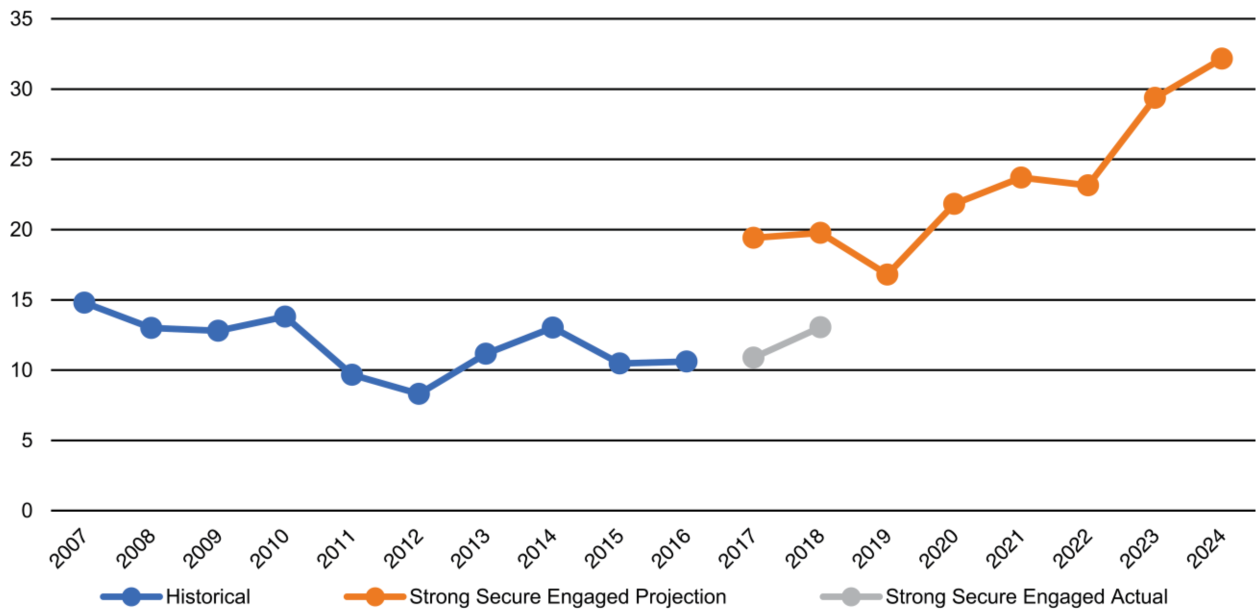
Figure 3:
Canadian Defence Capital Funding ($2019/2020B)



Defence officials have indicated that four factors explain the discrepancy between actual spending and the policy – contingencies not being used, project efficiencies, industry not delivering on schedule and project delays internal to government. The latter two reasons for spending shortfalls are problematic as they result in the military not getting its equipment on time. The first two reasons, on the other hand, do not reflect actual problems with procurement; rather, they mean that projects required less money than budgeted. However, regardless of the cause, capital expenditures falling short of what had been projected do leave Canada short of its NATO spending commitment. While under *Strong, Secure, Engaged* Canada indicated clearly it would never meet

the NATO target of spending two per cent of GDP on defence, the document does show Canada quickly reaching, and then exceeding, the 20-per-cent target for equipment spending. While the policy had predicted DND would meet the 20-per-cent target in the first two years of *Strong, Secure, Engaged*, in reality only 11 per cent and 13 per cent were spent on equipment in the first two years (See Figure 4). Not spending as much as *Strong, Secure, Engaged* suggested would happen, even for "good" reasons, leaves Canada short of the mark on the only NATO spending target it had intended to meet.

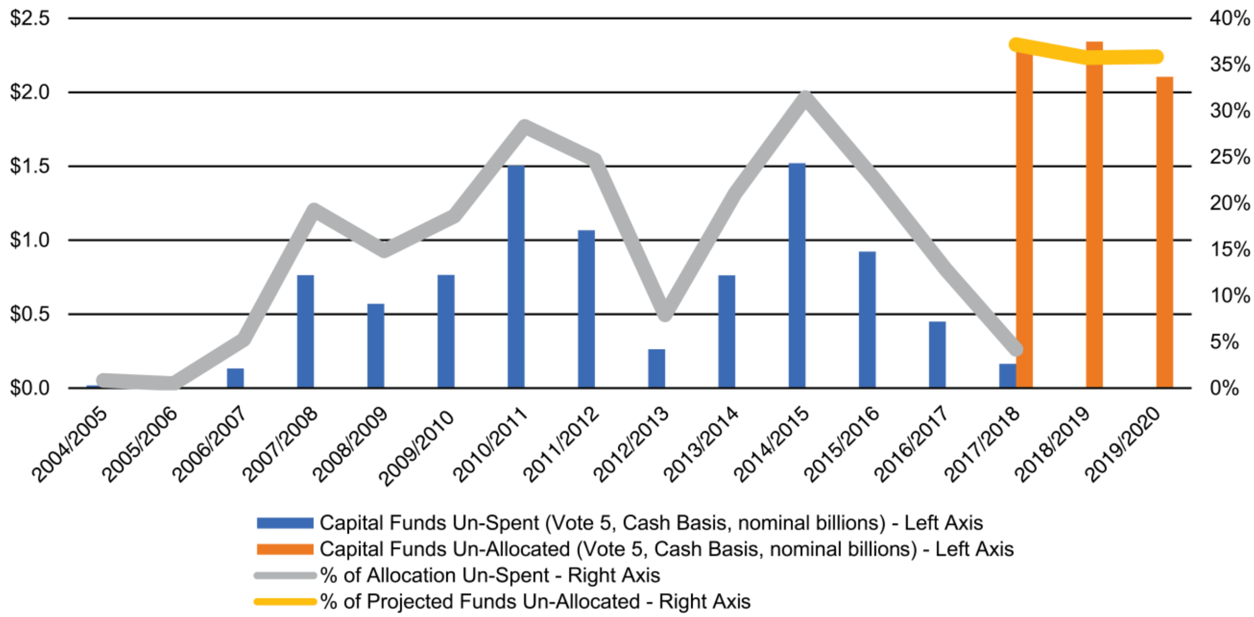
Figure 4:
Spending on Equipment as a Share of the Total Spending



On a positive note, capital spending is increasing in inflation-adjusted dollars, and as a share of overall spending. For 2017/2018, final spending was $3.9 billion, an increase of more than $600 million over the year before (figures are $2017/2018). Similarly, the final capital allocation for 2018/2019 has provided DND with $4.2 billion to spend on infrastructure and equipment. This means that when DND's books are closed off for 2018/2019, capital spending will likely have risen by more than 25 per cent in inflation-adjusted dollars, compared to 2016/2017 – the year before *Strong, Secure, Engaged* was introduced. This is the case because a second positive development is that DND is back to spending most of its money. For roughly a decade prior to *Strong, Secure, Engaged*, DND had been under-spending its annual allocation of capital funds by several hundred million annually. This historically unprecedented divergence between the funds allocated by Parliament and actual defence spending meant that while it was occurring, as much as 30 per cent of planned spending would not actually happen. Happily, DND has returned to a situation where its planned and actual spending are more or less in line with each other again, as Figure 5 shows. To be clear, however, this is a different metric than assessing how closely spending is following the policy's projection, as discussed above. Prior to *Strong, Secure, Engaged*, no such spending forecast was published, so such comparisons were not possible. Figure 5 includes the difference

between the projection, allocations and actual spending for the first three years of the Trudeau policy.

Figure 5:
DND Capital Procurement Funds Un-Spent



The Trudeau government is mostly delivering the money needed for *Strong, Secure, Engaged*. Overall, defence spending has exceeded or kept pace with the policy, with the share of GDP having already reached the maximum share projected of 1.4 per cent of GDP (albeit due to a one-time spending measure). Spending on equipment and infrastructure has lagged behind projections, but the trend lines are positive, with real capital spending increasing and the share of spending going to equipment also rising. Absent the overly optimistic projections in the policy, the Trudeau record on procurement spending would look even better. The last time this much money was spent buying new equipment, the Canadian Armed Forces were at war in Afghanistan. Set against a too ambitious projected pace of procurement increase, however, capital spending thus far is falling short of expectations.

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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