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The 2015 Budget has provided the Department of National Defence (DND) with a combination of short-term fiscal relief for budget pressures related to expeditionary operations and the promise of modest budget increases in the future. The Budget immediately provides the military incremental funding to cover the costs of operations in Iraq and Syria, as well as the training mission in Ukraine. It also contains a small increase to support improvements to the physical security of Canadian military installations. Over the long term, it pledges to progressively increase the defence budget by increasing its rate of escalation from two per cent a year to three per cent annually starting in 2017/2018.

The short-term operational funding is much needed, given the cuts to the defence budget in recent years which have targeted DND's operating funds. The long-term increase would eventually reverse the impact of deficit reduction at DND, if left intact long enough, but the likelihood of that occurring is low.

SHORT-TERM FUNDING

Budget 2015 provides DND with \$360.3 million for 2015/2016 to offset the costs of military operations against ISIS in Iraq and Syria. It further supplies an additional \$7.1 million to cover expenses incurred training Ukrainian forces.¹ The former funding will provide most of the additional funds needed to offset the costs of an operation pegged at \$406 million.² This funding is much needed as DND's Vote 1 operating funds have borne the brunt of the deficit reduction measures since 2010. Providing funding for operations abroad represents a return to the practice of topping up DND's baseline budget to compensate for additional operational expenses. This was historically the normal procedure for funding major expeditionary operations, but DND has not received such funding in a Budget since 2004.³ National Defence will also receive \$23 million over four years to upgrade the physical security of Canada's military bases to enhance the security of Canadian military personnel. As the Canadian Armed Forces operate out of twenty-six major military installations alone, this represents a very small funding allocation for each installation.⁴

A LONG-TERM FUNDING INCREASE?

The most significant defence funding initiative for DND in Budget 2015 is an increase to the annual, automatic funding increase for DND, known as the defence "escalator."⁵ Beginning in 2017/2018 the escalator will grow from its current two per cent annual increases to see the defence budget rise every year by three per cent. According to the Budget Plan, over the first ten years of this change, it will give DND \$11.8 billion more cumulative funding.⁶ If this funding

¹ Canada. Department of Finance Canada, *Economic Action Plan 2015* (Ottawa: 2015).

² Amy Minsky, "Cost of Anti-ISIS Mission Climbs to \$528M, Jason Kenney Says," Global News, <http://globalnews.ca/news/1916633/cost-of-anti-isis-mission-climbs-to-528m-jason-kenney-says/> (accessed April 26, 2015).

³ Canada. Department of Finance Canada, *The Budget Plan 2004* (Ottawa: 2004).

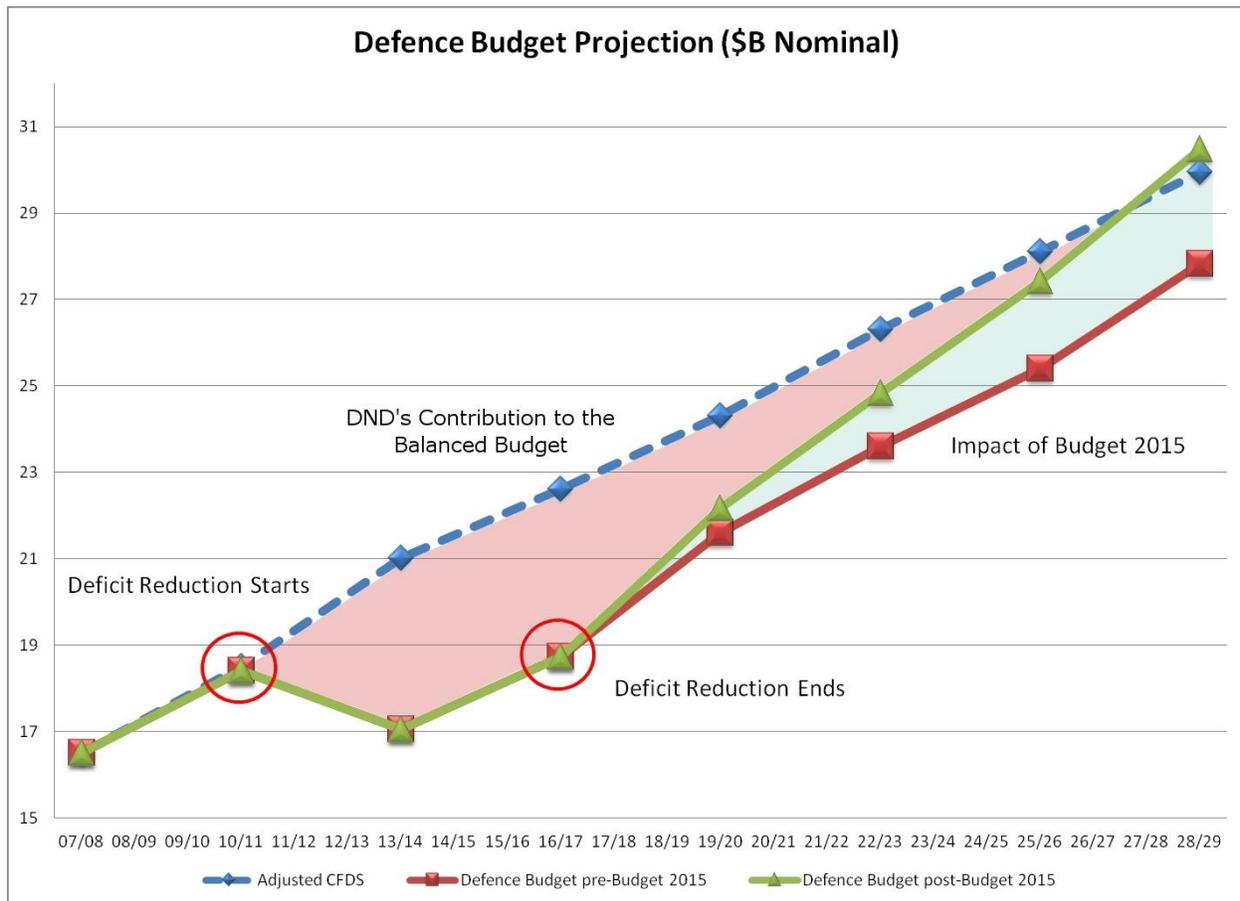
⁴ Canada. Department of National Defence, *Making Sense Out of Dollars: 2012-13 Edition* (Ottawa: 2014).

⁵ Canada. Department of Finance Canada, *Economic Action Plan 2015*, 322.

⁶ Ibid.



plan is left intact, it will provide meaningful year over year real budget increases, assuming National Defence also receives increase from the central agencies to offset rising compensation costs. This would represent long-term, predictable increases of the type desired by defence planners. As Figure 1 shows, it will also close the gap that has emerged since 2010 between the current defence budget and the original CFDS funding plan sometime towards the end of the next decade. On both of those fronts, this budget could be good news for the military. Three concerns arise from this spending plan, however.



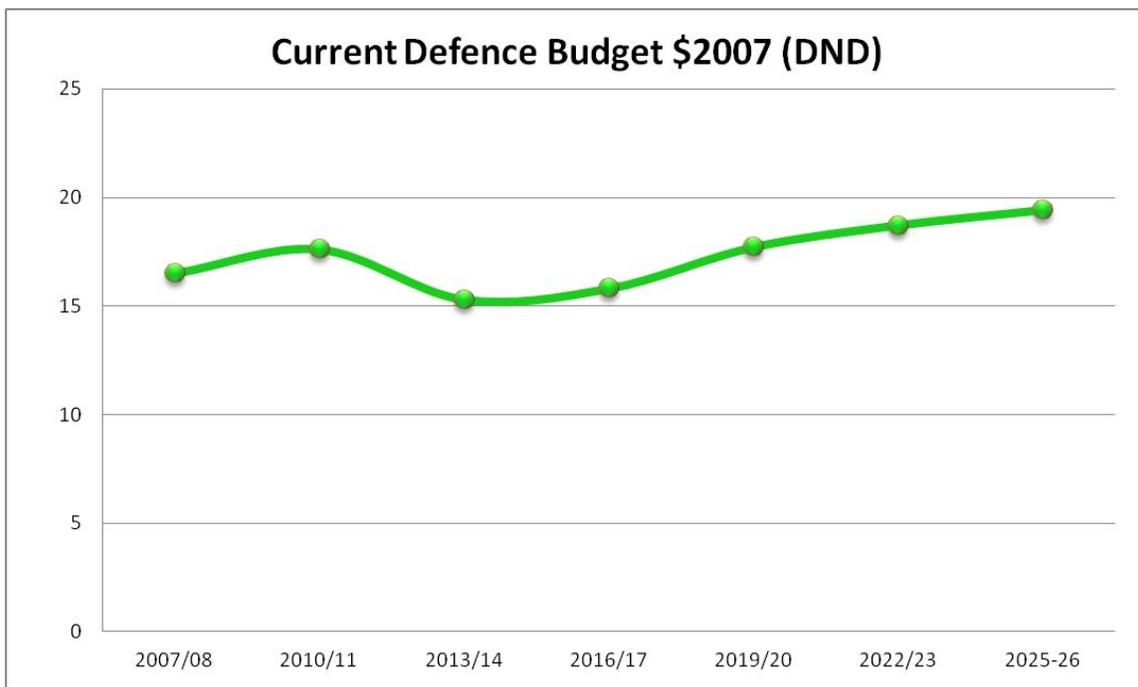
This graph shows the change in time to the original CFDS funding, before and after Budget 2015. The dotted blue line “Adjusted CFDS” is the original CFDS funding plan, adjusted downward to account for the creation of Shared Services Canada and the Communications Security Establishment as independent agencies. The red line “Defence Budget pre-Budget 2015” shows the impact of all of the budget cuts, operating budget freezes, and capital re-profiling that occurred since 2010. The green line “Defence Budget post-Budget 2015” indicates the impact of Budget 2015 to defence. The area shaded in grey represents that additional \$11.8 billion in cumulative funding provided to DND. The area shaded pink represents the portion of the CFDS funding that DND appears to have permanently lost and represents DND’s contribution to the balanced budget.

First, it is far from certain that the promised long-term increase will actually be realized. The *Canada First Defence Strategy* (CFDS) released in the spring of 2008 pledged twenty years of long-term, predictable funding growth. It did so by providing the first increase of the defence



escalator under the Harper Government, whereby the CFDS committed to an increase in the escalator from 1.5 to two per cent starting in 2011/2012.⁷

That funding commitment was undermined as soon as the Great Recession began a few months later. The first austerity measure at DND, a three year operating budget freeze, was announced in the 2010 Budget. While the Government did increase the escalator as promised in 2011/2012, this did not prevent the government from subsequently cutting billions in annual defence funding as it combatted the deficit.⁸ DND's Strategic Review cut \$1 billion a year, and a further \$1.1 billion annually was removed under the Deficit Reduction Action Plan. The 2012 and 2014 Budgets subsequently removed a combined \$6.7 billion of DND's fiscal room set aside for capital projects. And in 2014 another operating budget freeze was initiated, pushing the combined annual impact from both budget freezes to almost \$600 million annually.⁹ In sum, while the CFDS pledge of an increase to two per cent in the defence escalator was kept, the long-term, real increases to the defence budget outlined in the CFDS did not happen. Because of this bizarre approach to budgeting, DND's funding was simultaneously increased at the same time that it was being cut. As a result, in inflation adjusted dollars the defence budget today is smaller than it was before the CFDS was launched in 2008.¹⁰



This graph shows the post-Budget 2015 defence budget, on an accrual basis, adjusted for inflation using the DND Economic Model.

⁷ Canada. Department of National Defence, *Canada First Defence Strategy* (Ottawa: 2008).

⁸ Canada. Minister of Public Works and Government Services Canada, *2011-12 Estimates* (Ottawa: 2011).

⁹ David Perry, *The Growing Gap between Defence Ends and Means* (Ottawa: Conference of Defence Associations Institute, 2014).

¹⁰ The calculation uses the DND Economic Model.



The 2015 Budget pledge to increase defence funding by \$11.8 billion would only be realized twelve years from now. As other analysts have noted, because much of the promised spending in Budget 2015 will not take effect for years, it “*may never happen*, no matter who wins the election.”¹¹ The promised increase to the defence budget is an even more unlikely prospect since it stretches at least three election cycles into the future. The 2008 economic downturn made it impossible for the Harper Government to stick to its defence strategy released the same year. There is little reason to expect that this budget commitment, which stretches more than a decade, will fare any better.

A second problem with the increase pledged in Budget 2015, is that even if DND sees every penny of the promised increase and experiences no future budget cuts, freezes or re-profiling in the next twelve years, it still has to deal with a massive hole in its finances for years to come. The pledged \$11.8 billion will only restore about one quarter of the money that was removed from National Defence during deficit reduction. The combined impact of the operating budget freezes, recurring budget cuts and capital shifts outlined above, left DND roughly \$4 billion short of what it would have had this year alone under CFDS. Cumulatively, the measures stripped away roughly \$45 billion in defence funds through 2026/2027. Most of these cuts came out of DND’s operating budget. The consequences of this missing funding includes significantly lower training budgets, the elimination of thousands of civil servant positions, and a decision to park half of some Army vehicles. Even more significant were double digit cuts to the National Procurement budgets of most Royal Canadian Air Force fleets. These funds are used to pay for contracted maintenance, repair and overhaul, and to purchase spare parts. The loss of these funds has huge negative implications for the readiness of Canada’s air forces. Even if these budgets are returned to full health, it will take years to undo the impact of these budget cuts given the long lead times to procure some parts and deal with maintenance backlogs.¹²

As a result, despite Budget 2015, the next government faces a defence plan that is unaffordable in the short and medium term. A new defence strategy is needed to provide either an immediate infusion of funds to address DND’s current affordability issues or alternatively, indicate what parts of the 2008 CFDS plan will be cancelled to make the defence program achievable. Either option could put the military on a sound fiscal footing, which the annual funding increase outlined in Budget 2015 could make sustainable over the long term. Until that step is taken, however, DND will be without sufficient operating funds to support its existing force and enough fiscal room to accommodate its acquisition plans.

A third problem with the Budget 2015 increase is that it appears to indicate that the recapitalization of the CAF will remain permanently behind schedule. The budget indicated that the increase to the defence escalator was intended to “provide ongoing support for the

¹¹ Scott Clark and Peter DeVries, "A Budget Too Clever by Half — and an Opening for the Opposition," [ipolitics.ca, http://www.ipolitics.ca/2015/04/27/a-budget-too-clever-by-half-and-an-opening-for-the-opposition/](http://www.ipolitics.ca/2015/04/27/a-budget-too-clever-by-half-and-an-opening-for-the-opposition/) (accessed April 28, 2015).

¹² Canada, Department of National Defence. Access to Information Requests A-2014-1250, A-2014-1251, and A-2014-1252. Ottawa: 2014.



significant operating and *capital* requirements of National Defence.”¹³ As outlined earlier, DND has twice seen its capital program re-profiled to future years because of delays in acquiring the intended military equipment. That combined \$6.68 billion was supposed to be used over a six year period between 2011/2012 and 2016/2017. The modest annual increases afforded by increasing the escalator by one per cent, beginning in two years, appear to be the only potential source of fiscal relief on offer for the defence capital program. According to Department of Finance officials, DND has the flexibility to apportion its escalator increase as it sees fit, but has historically opted to use its extra funding to bolster its operating funds. Given the lack of other options, DND may have to use the bulk of the additional funding supplied by Budget 2015 to restore its capital funds. Those incremental monies will only accrue slowly, however, even if used exclusively to provide DND with additional accrual “white space”¹⁴ for its capital program. While this could give DND more flexibility to accommodate its capital plans in the long term, this will not provide much short-term flexibility if the capital program finally starts to move as intended. If DND is able to finally make meaningful improvements to the timelines for delivering military equipment, as is intended under the 2014 Defence Procurement Strategy, finding adequate white space to account for purchases in the short term could be a problem. The fact that capital needs must compete against National Procurement budget pressures for the same scarce dollars will exacerbate this problem.

Finally, one additional aspect of Budget 2015 contains potentially positive news. The Budget anticipates a decline in the forecasted departmental spending lapse (the amount of money unspent at year’s end) over the next five years. This would be welcome news for DND. In addition to the cuts, freezes and re-profiling of its budget since 2010, it has witnessed significant and historically unprecedented lapses of the funds supplied by Parliament.¹⁵ Since the CFDS was launched in 2008, a cumulative \$8.1 billion of the funding provided by Parliament could not be used as intended, the bulk of it funding earmarked for capital procurement. This has left an average of six per cent of all funds provided to the department going unused by year’s end, more than triple the share of funding that went unused over the previous two decades.¹⁶ Expenditure data for 2014/2015 indicates that at least another \$1.5 billion overall went unspent in the fiscal year that ended March 31, 2015.¹⁷ Reducing the size of these lapses would allow DND to make better use of its existing funding base.

CONCLUSION

Budget 2015 has provided the military with modest short-term increases to fund operations and enhance base security. The former in particular is much needed. It also holds out hope that the

¹³ Canada. Department of Finance Canada, *Economic Action Plan 2015* Emphasis added.

¹⁴ This is the term used to refer to the available space in DND’s accrual budget reserved specifically for capital.

¹⁵ Ibid. While the budget cuts, freezes and re-profiles discussed earlier represent the removal of funding from DND’s accrual budget only, some of the lapses discussed here are lapses on a cash accounting basis.

¹⁶ Canada. Minister of Public Works and Government Services Canada, *Public Accounts of Canada* (Ottawa: 1970-2014).

¹⁷ Canada. Department of National Defence, “Quarterly Financial Report for the Quarter Ended December 31, 2014,” <http://www.forces.gc.ca/en/about-reports-pubs-quarterly-financial/december-31-2014.page> (accessed February 28, 2015).



defence budget can grow over the long term, by increasing the defence budget's annual escalation to three per cent. If realized, this change would be a welcome measure that could eventually undo the annual impact of the defence cuts enacted since 2010. It will, however, leave DND with a sizeable fiscal hole that requires an adjustment to the current defence plan. As a result, the next government will need to revise the current defence plan, either by increasing funding in the short term or downgrading its expectations for the military.

Once that adjustment is made, the increase to the escalator promised in Budget 2015 could ensure the long-term fiscal sustainability of the defence program if its promised increases are realized. The record, however, shows that the defence budget is inexorably targeted for deficit reduction whenever a federal government runs into financial difficulty, regardless of its other intentions. The last pledge of long term, predictable defence funding was supposed to span twenty years and lasted only two. There is little reason to think this new commitment will be any easier to keep.

► About the Author

David Perry is the Senior Analyst with the Canadian Defence & Foreign Affairs Institute. He was previously the Senior Security and Defence Analyst of the Conference of Defence Associations Institute, where he authored multiple publications related to defence budgeting, transformation and procurement, including *Putting the 'Armed' Back Into the Canadian Armed Forces* and *The Growing Gap Between Defence Ends and Means*. He is currently a doctoral candidate in political science at Carleton University where his research examines the link between defence budgeting and defence procurement. Prior to beginning doctoral studies, he was the Deputy Director of Dalhousie University's Centre for Foreign Policy Studies. His research has been published in *Defence Studies*, *Comparative Strategy*, *International Journal*, and *Journal of Military and Strategic Studies* and he is a regular columnist for the *Canadian Naval Review*. He often provides comment for Canadian and international media on defence and security issues.



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