The Conference of Defence Associations

CDA Commentary 5-2006

Budget 2006: Some Light at the End of the Tunnel!

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The First Shoe Drops

May 2, 2006 brought the first evidence of what the actual Conservative Defence Policy looks like. Interestingly, it actually looks a lot like the Conservative election campaign platform! (see: http://www.fin.gc.ca/budtoce/2006/budliste.htm)

The cynics amongst us will, of course, argue that the Conservatives have taken a page out of the Liberal Budget 2005, and simply backloaded the big items to future never-never years, while only providing a crumb in the near years.

For the optimists (which includes the Conference of Defence Associations), however, the initial vibrations are positive, particularly since CF and Departmental representatives in the "Budget Lockup" confirmed that the Conservative defence budget increases were to be applied on top of the Liberal increases promised in Budget 2005. If all the promises come true, we will see the largest increase to the defence budget for many, many years.

In the near term (the next two years—FY 2006/7 and 2007/8) the Tories promise to add $1.1 billion dollars to the $1.4 billion promised by the previous Liberal government.

But the really big increment comes in the three "out" years (FY2008/9—FY2010/11) of the five year planning cycle. The Liberals had promised an additional $10.9 billion for this timeframe, with almost all of it earmarked for capital renewal. The new Tory government proposes to add an additional $4.2 billion on top of that.

The following table summarizes the promised increases to the defence budget:

Year	Base-line $ Bn	Liberal Increase $ bn	Tory Increase $ bn	Total Increase $ bn	Total Budget $ bn
Baseline Year 2005/6	14.6	-	-	-	14.6
FY 2006/7	14.6	0.2	0.4	0.6	15.2
FY 2007/8	14.6	1.2	0.7	1.9	16.5
FY 2008/11 (3 years)	43.8	10.9	4.2	15.1	58.9
Total (5 years)	73.0	12.3	5.3	17.6	90.6

This table does not include any of the assorted variances resulting from such as the underfunding of Operations and Maintenance (O&M) costs, efficiency reductions charges, and the like.

The views expressed are those of the author and do not necessarily represent the views of the Conference or its members.

Waiting For the Other Shoe to Drop

While we have been provided with the "Nominal Supply" for the Defence Budget, we are not provided with the specifics as to what the planned increases to the Defence Budget are intended to be spent on, apart from such general and broad statements in the Budget Speech as the intended "acceleration" of the plans to increase the Forces by 13,000 Regulars and 10,000 Reserves, investments in base infrastructure, improvements in our capability to preserve and protect our Arctic Sovereignty, and the like.

Nor are any statements made as to specific equipment selections, such as whether there will be an acquisition of strategic airlifters, (buy C-17s vs rent Russian or Ukrainian AN-124s).

Nor are there any details provided of "disinvestment" objectives such as the expressed intent to "decrease rank structure overheads," review "civilian and military headquarters functions," and increase "front line personnel," all of which may seem to imply a conversion of a number of officer Person Years (PYs) into Non-Commissioned Members (NCM) PYs, which could then be used to backfill vacancies in the army battalions and regiments who are bearing the peacemaking tempos.

For those questions to be answered we will have to wait for the appearance of the new Defence Capabilities Plan (DCP), a replacement for the former Strategic Capabilities Investment Plan (SCIP) which is expected in early summer, and which will list capabilities objectives in terms of capital, person years (PYs), Operations & Maintenance, and Infrastructure. The DCP will give us the first good look at where the CF is going in terms of the capabilities deemed to be necessary, and an initial look at the force structure needed to achieve those objectives.

Then will follow Part III of the Estimates in late Summer or early Fall which will draw the Defence Capabilities Plan and the Defence Budget to-gether.

And a Note from the Beancounters!

A footnote in the Budget Plan 2006 mentions that the Department is changing its accounting methodology from "cash based" to "accrual based" accounting. The footnote explains "The cost of major capital equipment is spread over its life, so the annual budgetary amounts include only a portion of the full capital cost."

The Conference of Defence Associations Institute (CDAI) had recommended precisely this reform in *Understanding the Crisis in Canadian Security and Defence* (2005). (Available at http://www.cda-cdai.ca/pdf/Crisis_Cdn_Sec_Def.pdf).

What this means is that the annual Defence budget will only be charged with the depreciation booked for the year, rather than for 100% of the capital cost of the purchase price of the equipment in the year of purchase. Equipment with a purchase price of $1 billion, with a 20 year life expectancy, would see only $50 million charged to the Defence Budget in the year of purchase, rather than the full $1 billion—which would effectively enlarge the capital budget in the early years of the re-capitalization build-up.

And the Caveat

It seems that the promises made in Budget 2005 and Budget 2006—provided that they are implemented—may have largely solved the financial problems of the Defence Department.

What remains, however, is the problem of the glacial slowness of the equipment acquisition process. It doesn't do much good to have the money to spend, if you can't spend it quickly enough to replace the critical capabilities before they expire.

The Acquisition Cycle is now the critical barrier which must be breached in order to restore the health of the CF, an issue which CDAI has addressed in length in *Creating an Acquisition Model that Delivers* (2006). (available at: http://www.cda-cdai.ca/pdf/vimy_paper1.pdf)

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