



Waiting for Budget 2007: A Blinding Flash of Light At the End of the Tunnel?

By Brian MacDonald
Senor Defence Analyst
The Conference of Defence Associations

The 2007-2008 Main Estimates

On February 27, 2007, Treasury Board President Vic Toews tabled the *Main Estimates* for 2007-2008.

On the face of it, they promise an increase in defence spending that hasn't been seen, in percentage terms, since the Mulroney Budget of 1984.

On a year over year comparison, the defence budget increases from \$14.8 billion dollars to \$16.9 billion dollars, an increase of 14.1 %.

For Defence Capital Budget watchers, like the nasty critics in the *Conference of Defence Associations*, the increase in the Capital Budget looks even more staggering—a \$1.3 billion increase from \$2.3 billion to a lofty \$3.6 billion, an increase of 58.4%.

As those of us who remember the 1950s might say—"Somebody has to be dreaming in Technicolour! This can't possibly be true. Surely there is a mistake!"

So—on with the reality check!

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

A Temporary Change in the Normal Estimates Process?

Normally, we would expect the Estimates process to begin with the announcement of the *Budget*, which would be followed with the release of the *Main Estimates*, and after that the publication of the *Reports on Plans and Priorities*, and followed eventually in stately fashion in September by the production of the *Departmental Performance Reports*—all of which is explained in concise detail on the Treasury Board website at http://www.tbs-sct.gc.ca/media/nr-cp/2007/0227_e.asp.

This year, however, the normal sequence of "First, the Budget, then Second, the Estimates," was reversed for the second time in the short history of the current government.

In explanation of this departure from bureaucratic custom the 2007-2008 Treasury Board press release contained the following statement about the previous *Main Estimates*:

"Since Budget 2006 was tabled May 2nd and after the Main Estimates on April 25th, the 2006-2007 Main Estimates did



not reflect a number of the new Government's priorities. Funding for these priorities, such as the Universal Child Care Benefit, strengthening the Canadian Forces, and support to agriculture and public security programs was done through the 2006-2007 *Supplementary Estimates*.'

And then the Press Release continued with the following comment relating to the 2007-2008 *Main Estimates*:

"Given both production and secrecy constraints and the fact that the Budget will be tabled after the *Main Estimates*, not all new spending plans can be reflected in the *Main Estimates*. Therefore, while these *Main Estimates* represent the major part of the Government's spending plans, additional changes to the amounts will be dealt with in *Supplementary Estimates* later during the fiscal year."

This difference between the *Main Estimates* and the *Total Estimates* for 2006-2007 was substantial.

The *Main Estimates* forecast total government spending of \$198.595 billion. The additions contained in *Supplementary Estimates (A)* and *(B)* produced a 2006-2007 *Total Estimates* of

\$207.986 billion, an increase of \$9.391 billion or 4.7%.

No indication has been given, however, of the size of any *Supplementary Estimates* planned for 2007-2008.

Defence Estimates 2006-2007

This pattern of a sizeable upwards move from the original *Main Estimates* to the enlarged *Total Estimates* was particularly visible in the Defence Budget.

The original *Main Estimates* forecast Defence spending of \$14.8 billion. Additions in *Supplementary Estimates (A)* and *(B)* added \$1.1 billion, or 7.3%, to this figure to produce Defence *Total Estimates* of \$15.9 billion.

The Defence *Total Estimates* for 2006-2007 thus represented an increase of \$1.3 billion, or 8.9% over the Defence *Main Estimates* of 2005-2006, with \$200 million of that increase having been planned by the previous Liberal government, and \$1.1 billion added by the new Conservative government.

Capital Budget 2006-2007

The Conference of Defence Associations has pointed out the need to increase the Capital portion of the defence budget for many years.

Accordingly, we were also pleased to note that the *Supplementary Estimates* increased the capital portion of the Defence



budget slightly, from 15.3% in the *Main Estimates*, to 15.9 % in the *Total Estimates*.

On to The 2007-2008 Estimates

Here, however, we urge a cautionary.

The format of the *Main Estimates* 2007-2008 contains a trap for the unwary, in that the *Main Estimates* for 2007-2008 are compared to the *Main Estimates* for the previous year, rather than to the *Final Estimates* of the previous year.

It's the old "Oranges and Chunks of Coal" comparison thing again. Given the size of the 2006-2007 increase in the *Supplementary Estimates*, there is a considerable difference between the year over year change calculated in relation to the *Main Estimates*, as opposed to that using the *Total Estimates*.

"Keep your eye on the pea, that man, instead of watching the merry dance of the walnut shells!!!"

The *Main Estimates* for 2007-2008 forecast defence spending at \$16.9 billion, an increase of \$2.1 billion, or 14.1%, over the previous year's *Main Estimates*. If the comparison were made to the previous year's *Total Estimates*, the year over year change would have been \$1.0 billion, or 7.3%.

However, in any event, the total increases provided in the 2006-07 *Supplementary Estimates* and the 2007-2008 *Main Estimates* still represent the biggest increase in defence spending since the 1984

Budget of the Mulroney Ministry.

"So there, Virginia, I told you there was a Santa Claus!"

The Capital Estimates Increase

The 2007-2008 *Main Estimates* provide for \$11.8 billion to be allocated for Operating Expenditures (Vote 1), an increase of \$0.7 billion or 6.2% over the previous year's *Main Estimates*.

The real story of the 2007-2008 *Main Estimates*, however, is the massive increase planned for Capital Expenditures (Vote 5).

These will rise by \$1.3 billion, or 58.4%, over the previous year's *Main Estimates*, to a total of \$3.6 billion.

And this will increase the capital share of defence spending from the 15.3% of the previous *Main Estimates* to 21.3% of the current year's *Main Estimates*.

If this increase in the capital share of the defence budget can be maintained and, perhaps, increased a bit more, than serious steps can be taken to deal with the chronic rustout condition of the Canadian Forces (the extent of which can be seen in the Major Equipment aging tables which are attached to this Commentary.

And Now On to Budget 2007

Budget 2007, if it follows the traditional format, will also provide us with the five year forecast of planned government spending.

In *Budget 2006* that forecast of future defence spending was



projected to be as shown in the following table:

Year	Defence Budget (\$ bn)
2006-07	15.2
2007-08	16.5
2008/11 (3 years)	58.9

The table implies an average defence budget of about \$19.6 billion for each of the final three years of the period, which might take the form of something like \$18.1, \$19.6, and \$21.2 for each of the three years remaining.

That table might also imply a defence capital budget of about \$4 billion annually.

This increase desperately needs to be sustained.

The Re-Capitalization Need

The Conference of Defence Association continues to emphasize the critical re-capitalization needs of the Canadian Forces in such simple, visual pictures as the attached Major Platform Aging Tables.

The colour coding of these table indicates the "Service Life" remaining of these major platforms, measured against the Treasury Board life expectancies for such platforms.

Green indicates that more than half the service life of the platform is

left. Yellow indicates less than half the service life is left. Red shows that the service life has expired.

Blue indicates that a replacement project has been approved and has reached at least the "Pre-Definition" stage in the procurement process.

This is the need. It is a need that must be met

Conclusion

The Conference of Defence Associations is very much encouraged by the increases shown in the 2007-2008 *Defence Main Estimates*, particularly in the defence capital budget.

We look forward to seeing, in the *2007 Budget*, that these striking improvements in the funding of our Department of National Defence and our Canadian Forces, will continue, such that our nation will be able to guarantee to our citizens that their national security is assured.

The CDA Commentaries may be freely reproduced in their entirety for academic research or instructional or journalistic purposes provided that the author's and the CDA's copyright is acknowledged.

The Conference of Defence Associations
222 Somerset St. West, Suite 400B
Ottawa, Ontario, Canada K2P 2G3
Telephone : (613) 236-1252
Facsimile : (613) 236-8191
E-mail : cda@cda-cdai.ca



Major Platform Aging Tables

Navy

Platform	Number	Service Life TB ¹	Age 2007	Age 2012	Age 2017	Age 2022
AOR	2	25	38	43	48	53
Destroyers	4/3	25	35	40	45	50
Submarines	4	25	18	23	28	33
Frigates	12	25	15	20	25	30
MCDV	12	25	12	17	22	27

Army

Platform	Number	Service Life TB ¹	Age 2007	Age 2012	Age 2017	Age 2022
M109s ³	76	20	36	41	46	51
MBTs	114	20	29	34	39	44
MLVW	2769	20	25	30	35	40
HLVW	1212	20	15	20	25	30
LSVW	2879	20	14	19	24	29
COYOTE	203	20	11	16	21	26
ADATS	?	20	11	16	21	26
LAV 3	651	20	9	14	19	24
M113A3 ²	289	15	5	10	15	20
AVGP ²	401/301	15	4	9	14	19
BISON	199	15	4	9	14	19

¹ TB is Treasury Board Canada life expectancies.

² AVGP, BISON, M113A3 were rebuilt; accordingly their life expectancy is reduced to 75% of new builds.

³ Six M-777 towed howitzers were purchased for use in Afghanistan and have proved their worth. An additional buy of six has been approved as we understand it.



Air Force

Platform	Number	Service Life TB¹	Age 2007	Age 2012	Age 2017	Age 2022
Mar Hel	29	20	44	49	54	59
CC130E	19	20	44	49	54	59
CC115	6	20	41	46	51	56
CC130H	13	20	32	37	42	47
LRPA	16	20	28	32	37	42
CF18	80	20	26	31	36	41
A310	5	20	21	26	31	36
Tac Hcls	78	20	14	19	24	28
CC17	4	20	0	5	10	15

Glossary of Military Acronyms

AOR – Auxiliary Oiler and Replenishment Vessel

MCDV – Maritime Coastal Defence Vessel

M-109 – Self-propelled 155mm howitzer

MBT – Main Battle Tank

MLVW – Medium Logistics Vehicle Wheeled

HLVW – Heavy Logistics Vehicle Wheeled

LSVW – Light Support Vehicle Wheeled

ADATS – Air Defence Anti-Tank System

LAV – Light Armoured Vehicle

AVGP – Armoured Vehicle General Purpose

LRPA – Long Range Patrol Aircraft