



## Waiting for Defence Budget 2008: Another Pleasant Surprise?

By Brian MacDonald  
Senor Defence Analyst  
The Conference of Defence Associations

### Introduction

Making sense of Defence Budget 2007/8 was a bit difficult because the normal sequence of first the *Budget*, then the *Main Estimates*, then the *Report on Plans and Priorities*, then the *Supplementary Estimates (A)*, then the *Supplementary Estimates (B)*, and finally the *Departmental Performance Report* wasn't followed.

Moreover, the government made a major addition to the defence budget in the *Supplementary Estimates (A)*, as it had done in the previous year.

Fiscal Year 2007/8 was already planned to be a year of significant growth (\$1.3 billion, or 8.6%) in the *Canada First Defence Plan* budget, according to the "Main Estimates Planned Spending."

However, the actual defence budget turned out to be even larger as the government added \$960 million (another 5.8%) via the "Supplementary Estimates (A)."

This brought the actual defence

budget, or the "Total Planned Spending" budget—to use the terminology of the *Report on Plans and Priorities*—to \$17.84 billion, a real increase of 12.1% over the previous year. This, in turn brought the total increase over the two years to 22.2%—a staggering sum to those of us who remember the joys of the Mulroney period when we were delighted to get the promise of 3% real growth.

Not all the credit for this increase can be taken by the Conservatives, of course, for the short-lived Paul Martin government had begun the process.

Thus the dual Martin/Harper promise to significantly increase the defence budget as a means of restoring the CF has certainly been on track for the first two years of the five year plan.

Indeed, a quick visit to the *NATO-Russia compendium of Financial and Economic Data relating to Defence* reveals that Canadian defence spending in 2007/8 moved up from 1.2% of GDP to 1.3% of GDP.

No longer are we subject to the catcalls that we are ahead of only Iceland (which has no defence budget) and the Grand Duchy of Luxembourg (at

Fiscal Year	Canada First Defence Plan Budget (billions)	Actual Defence Budget (Billions)	Change Year over Year
2005/6	\$14.6	\$14.6	
2006/7	\$15.2	\$15.91	9.0%
2007/8	\$16.5	\$17.84	12.1%

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



0.9% of GDP.

Now we've also moved ahead of Belgium (1.1%), Spain (1.2%), and are drawing even with Denmark (1.3%) and Germany (1.3%).

Germany at 1.3%?? Honest, that's what NATO actually reports.

### Looking Forward

The original *Canada First Defence Plan* was a five year plan, and, as is the case with most government documents, became less precise in the years which were farther away. The *Plan* lumped the final three years together, promising a total of \$58.9 billion for those three years.

Fortunately, we can get some idea of the original intent from the 2007/8 *Report on Plans and Priorities*. This document, which normally appears later than the Budget and the *Main Estimates*, makes use of a four year framework: previous year, current year, and the forward two years.

Watchful readers will have noticed the change in terminology in the table headings of the second table and will, no doubt, be curious as to what the difference between the two columns is.

The difference reflects a series of "Adjustments" which have been made to the "Main Estimates" during the year. Some are relatively minor, such as the reinvestment of sums received from the sale of real property, some are much larger sums added through the Supplementary Estimates of the

year, and some are specific adjustments made by specific *Budgets*, but not intended to be permanently rolled into the *Main Estimates* base line.

For example, in FY 2008/9 there is included in the Adjustments a sum of \$604 million which was allocated by Budget 2005 for "Strategic Capital Investments" and another \$17 million allocated by Budget 2006 for the same purpose.

It is entirely possible, of course, that there will be additional funding provided by *Supplementary Estimates (A)* during the course of FY2008/9.

In any event, it seems that the Defence Department is likely to enjoy another good year, with a year/year increase in the *Main Estimates* of \$1.3 billion, or 7.7%, plus an additional \$700 million in planned "Adjustments," bringing the "Total Planned Spending up to \$18.9 billion.

### Now the Bad News

Once again watchful readers will have noticed that the *Main Estimates* for FY2009/10 have stalled at \$18.2 billion, and planned "Adjustments" have only risen by \$100 million, so that the "Total Planned Spending for FY2009/10 shows only nominal growth, though *Supplementary Estimates (A) 2008* may intervene again.

The *Canada First Defence Plan* had projected a total of \$58.9 billion in increases for the three years FY2008/11,

Fiscal Year	Main Estimates Spending (billions)	Total Planned Spending (Billions)	Change Year over Year
2007/8	\$16.9	\$17.84	12.1%
2008/9	\$18.2	\$18.9	5.9%
2009/10	\$18.2	\$19.0	0.5%



or \$19.6 billion on average, so there may be a little more in the offing than is shown in *RPP 2007/8*.

### **A Fairy Godmother in the Wings?**

The potential Fairy Godmother is called "Accrual Accounting and Budgeting." While LGen Andy Leslie likes to refer to it as "Cruel" accounting, it is simply the application of standard civilian accounting practices to the public sector.

The Government of Canada made the decision to shift over to standard accounting practices about 1995, and all government departments have been involved in working out the transition since that time.

It has been anticipated that the cutover to the new accounting system would be almost complete by FY2008/9. Whether that plan will be achieved, of course, remains to be seen.

The big effect will be felt in defence capital budgeting. Up to now, when a piece of equipment was purchased the cash cost paid would be "expensed" entirely in the year of purchase. Under the accrual accounting system the total cash cost will instead be shown as an asset on the Department's Balance Sheet and will be amortized over the actual service life of the equipment in the form of an annual "depreciation" charge.

The effect is to make a limited capital budget go a lot further since we are "expensing" only a small percentage of the capital cost of the equipment each year. Eventually it will stabilize as the total annual capital amortization charges approach and equal the annual capital budget, but in the intervening time frame it can allow us to recapitalize the CF a lot faster than would be the case under the previous "cash-based"

accounting system.

Since the *Canada First Defence Plan* is currently looking at a capital acquisition programme of about \$57 billion to cover the big items already announced, the ability to spread those capital dollars further becomes potentially a very valuable development.

### **So What Should We Be Looking for in Budget 2008?**

We're probably not going to see any dramatic announcements of massive increases to the defence budget in *Budget 2008*, even though there will be a pretty massive billion dollar real increase.

In an election year, with continuing division over the Afghanistan mission, large increases in the defence budget are not usually viewed as politically advantageous in Canada.

Thus, that increase will likely be viewed in *Budget 2008* as having already been announced in *Budget 2006*, and therefore as old news, not needing to be re-announced in *Budget 2008*, a *Budget* whose political purpose will be to communicate an image of prudent and "steady as she goes" financial leadership on the part of the Government in a world in which Canada stands out as a stable and rational country running useful Budget surpluses, paying down debt, and running a surplus in the balance of trade.

It would be interesting to see *Budget 2008* look beyond the 2011 end of the current five years of the *Canada First Defence Plan*, but that seems unlikely on the eve of a possible election.

If no election comes along, we should really be looking for the tabling of the *Main Estimates 2008* to see if they match the forward looking numbers in *Report on Plans and Priorities 2007*.

And we should be watching for the



appearance of the *Supplementary Estimates (A)* which so far has provided the basis for driving through stealth additions to the actual defence budget, without anyone paying any attention.

And finally we should be looking for the appearance of *Report on Plans and Priorities 2008* as our final data source for predicting the defence budget for an additional year in advance.

### Sources

There are six key documents which DND Budget analysts have to pore through in order to figure out the Canadian Defence Budget.

The first is the *Budget*, which details in broad terms the intention of the Government spending plan over a five year timeframe, with greater detail for the nearer years. It normally appears with great political fanfare around the beginning or middle of March.

The second is the *Main Estimates*, which has a one-year timeframe, covering the following Fiscal Year (FY). It will normally include the current year figures for comparative purposes. In previous years the *Main Estimates* usually appeared following the Budget speech, in many cases quite closely. In 2006, and again in 2007, however, the *Main Estimates* appeared before the Budget Speech. These can be found on the Treasury Board website.

The third document is the *Report on Plans and Priorities (RPP)* which breaks out the planned spending in much finer detail and uses a four year framework—previous year current year, next year, and the year following that. It normally appears after the publication of the *Budget* and the *Main Estimates*. This document can be found on the DND

website in the Reports and Publications portion of the VCDS section.

The fourth and fifth documents are the *Supplementary Estimates (A)* and *(B)* which provide spending authorities to deal with items which were not included in the *Main Estimates*. It uses the same one-year timeframe as the *Main Estimates*, which it, in effect, amends.

*Supplementary Estimates* will normally appear later than the *RPP*. *Supplementary Estimates (A)* usually appears in December, and *Supplementary Estimates (B)*—which is usually a “housekeeping” or “cleanup” document shifting relatively minor amounts around, appears in the February timeframe. As with the *Main Estimates*, the *Supplementary Estimates* can be found in the Treasury Board website.

The last document is the *Departmental Performance Report*, which is the final accounting in detail of where the money was spent and the actual total spent. It is the definitive historical document. It comes even later, usually around November of the following year. It too can be found in the Reports and Publications area of the VCDS Executive section of the DND website

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](mailto:cda@cda-cdai.ca)