



Budget 2008

By Brian MacDonald
Senior Defence Analyst
The Conference of Defence Associations

Introduction

Making sense of Defence Budget 2008/9 seemed, at first glance, a bit easier than was the case in previous *Canada First* Defence Budgets of the current administration, 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*, was actually followed this year.

Purists will object, however, that there were in fact two exceptions to the process. The first was the pre-Budget statement by the Prime Minister at the Annual Seminar of the CDA Institute on 21 February that the annual increase in the Defence Budget to provide partial compensation for inflation would be increased to 2% (from 1.5%) starting in FY2011/2.

The second was a statement in the footnotes in the *Report on Plans and Priorities 2008/09* that additional spending authorities would be sought by means of the *Supplementary Estimates (A)*.

Budget 2008/9

Budget 2008, as expected, didn't have much new to say about Defence apart from re-affirming that "The foundation for building the Canadian Forces of tomorrow was laid with the

\$5.3 billion, five year *Canada First* defence plan announced in *Budget 2006*." It went on to say that "Building on this foundation, the Government is developing a long term Canada First Defence Strategy."

It then repeated the announcement made by the Prime Minister to the CDA Institute that the "automatic annual increase on defence spending" would be increased from 1.5% to 2% beginning in 2011-12, and stated that "Over the next 20 years, this is expected to provide the Canadian Forces with an additional \$12 billion."

Ho-Hum so far.

The Main Estimates 2008/9

The release of the Main Estimates for 2008-09 (which includes *Part III—the Report on Plans and Priorities* or *RPP* for each Department) followed relatively quickly on February 28, 2008 with the details missing from the Budget Speech.

The apparent Defence Budget bottom line came early on in the *RPP*, in the table titled "Voted and Statutory Items Displayed in the Main Estimates," which indicated that that the Main Estimates for 2008/9 would increase from \$16.9 billion in FY2007/08 to \$18.3 billion in FY2008/09—an increase of \$1.4 billion, or an increase in percentage terms of 8.4%.

Good stuff!

Vote 1 (Operating Expenditures) would increase from \$11.849 billion to



\$13.520 billion—an increase of \$1.67 billion, or 14.1%.

Vote 5 (Capital expenditures) would, however, *decrease* from \$3.593 billion to \$3.357 billion—a *decrease* of \$0.235 billion, or 6.6%.

The capital share of the total defence budget would, therefore, decline from 21.3% to 18.3%.

While such a seemingly small share of the Defence Budget allocated to Vote 5 will strike some casual readers as dangerously heretical, the clever readers who have been keeping up with their accounting homework will realize this drop in the capital share of the Defence Budget simply reflects the impact of Accrual Accounting/Budgeting, which books the cash cost of equipment to the DND "Balance Sheet" and only books the annual depreciation to the Defence Budget.

Tucked away in the footnotes was the statement that the actual cash value of the 1.5% "automatic annual increase in defence spending" would amount to \$190 million in FY2008/9. "to partially offset the loss of purchasing power due to price increases."

Presumably, then, the "automatic increase" enlargement to 2% would have added \$63 million to the defence budget had it been applied in FY2008 rather than in FY2011. Not a princely sum, but useful and it will grow as the defence budget grows.

The real "sleeper," however, was found in another footnote titled "Expected approval of items in the adjustments to Planned Spending Levels," which went on to say that "Spending authorities will be sought through 2008--2009 Supplementary Estimates (A)" for a number of items.

Supplementary Estimates (A) 2008/9

Normally *Supplementary Estimates (A)* are tabled in the fall, so it was a bit of a surprise to see them appear on May 13, 2008—so close to the release of the *Main Estimates* and the *RPP*.

The *Supplementary Estimates (A)* added some flesh to the footnote in the *RPP* that "additional authorities" would be sought by means of the *Supplementary Estimates (A)*.

Those "additional authorities" turned out to be an addition of \$541 million to the 2008/09 defence budget: \$125 million to Vote 1 (Operating) and \$417 million to Vote 5 (Capital). The Vote 5 addition was to provide additional funding to the tactical airlift project.

Supplementary Estimates (B) 2008/9

Supplementary Estimates (B) are usually tabled in the closing months of the Fiscal Year in February or March and usually include only minor "housekeeping" adjustments.

As was the case with the *Supplementary Estimates (A)* we were surprised to find that the *Supplementary Estimates (B)* for FY 2008/9 had been quietly placed on the Treasury Board website on or about November 24, 2008—about four months earlier than we were expecting.

As events unfolded it became apparent that the early tabling of the *Supplementary Estimates (B)* for FY 2008/9 was driven by the new government's decision to deliver a Fiscal Update on November 28, 2008 to be followed by an early (January 27, 2009) FY2009/10 Budget.

We were also pleasantly surprised to find that the *Supplementary*



Estimates (B) for 2008/9 contained an increase of \$441 million, bringing the total 2008/9 Defence Budget to \$19.489 billion. The new money included \$331 million for additional funding for the Afghan Mission, \$90 million for pay increases, and a variety of smaller items.

Main plus Supplementary Estimates (A) and (B) FY 2008/9

The “additional authorities,” added to the Main Estimates in the *Supplementary Estimates (A) and (B)*, thus brought the real Defence Budget 2008/9 up to \$19.489 billion—an actual increase of \$1.051 billion or 5.7% over the real Defence Budget of 2007/8, with that year’s Supplementary Estimates included.

Fiscal Year	Main Estimates \$ bn	Supplementary (A) \$bn	Supplementary (B) \$bn	Total \$bn	Change from Previous
2004/5	13.288	0.641	0.188	14.129	
2005/6	13.435	1.321	0	14.756	4.4%
2006/7	14.790	1.071	-0.542	15.859	7.5%
2007/8	16.881	1.559	0.406	18.436	16.2%
2008/9	18.295	0.542	0.442	19.489	5.7%

This is a pattern which is consistent with previous years, with the Supplementary (A) figures usually being greater than the Supplementary (B) figures as the table above shows

Similarly, the Real Capital Budget 2008/9 rose to \$3.840 billion.

Promises, Promises, Promises!

Political promises have a potentially transitory nature, and it is frequently interesting to track them over time.

In the case of the Canadian Defence Budget we have an unusual example of a bi-partisan Liberal/Conservative promise. Then-Prime Minister Paul Martin and his Defence Minister Bill Graham concluded, as part of their foreign and defence policy review, that the cuts to the defence department — which were made following the end of the Cold War and which funded much if not most of the budget cutbacks which balanced the Canadian finance budget — had been taken too far and that significant infusions of new funding had to be

allocated to the Defence Department if it were to survive.

The Conservative Party in turn, under the leadership of Prime Minister Harper and Defence Minister Gordon O’Connor, heartily agreed and added to the funding promises of the Martin administration, and followed-up by



actually delivering more than they had promised, as the following table indicates. Figures for 2009/10 and 2010/11 come from RPP 2008/9.

Good for all of them!

A Caveat: The Investment Plan

The *Canada First Defence Strategy* contains the statement that it

“provides an affordable roadmap that encompasses initiatives in all four pillars of military capability. To ensure that the investments outlined in this document are brought forward in a coherent way, National Defence is developing a comprehensive, multi-year Strategic Investment Plan.

This Plan will assist National Defence in implementing the Strategy by helping to manage the complexity involved in balancing resources across

the four pillars, including the sequencing of key projects so that equipment is not delivered without the necessary personnel to operate it and the infrastructure required to support it. It will integrate funding demands from across National Defence into a single, coherent plan, and ensure that the timing of major investments corresponds to the availability of funds. This will not only minimize the risk of capability gaps, but will also ensure affordability over the next 20 years.

The first version of the Plan will be submitted to the Treasury Board Secretariat in November 2008 as part of a pilot project associated with that agency’s new Policy on Investment Planning, which aims to “contribute to the achievement of value for money and sound stewardship in government program delivery through effective

Year	Base-line \$ Bn	Liberal Increase Promise \$ bn	Tory Increase Promise \$ bn	Total Promised Increase \$ bn	Total Actual Increase \$ bn	Total Defence Budget
Baseline Year 2005/6	14.6	-	-	-	0.2	14.8
FY 2006/7	14.6	0.2	0.4	0.6	1.3	15.9
FY 2007/8	14.6	1.2	0.7	1.9	3.8	18.4
FY 2008/9	14.6	3.6 3	1.4	5.1	4.8	19.4
FY 2009/10	14.6	3.63	1.4	5.1	5.5	20.1
FY 2010/11	14.6	3.63	1.4	5.1	5.3	19.9
Total FY06/11	73	12.3	5.3	17.8	20.7	93.7



investment planning.”

It is reasonable to understand that we are passing through “interesting times,” to use that old, but still apt, turn of phrase.

It is also reasonable to understand that the wild swings that we have seen in terms of strategic commodity prices, exchange rates, housing “Bubbles,” a massive de-leveraging of the derivatives market, the cratering of stock market valuations, and a myriad of other financial crises have been occupying the attention of policy-makers.

But it is also reasonable to remember that the *Canada First Defence Strategy* represents a covenant between the nation and its soldiers, sailors, and air crews, and their supporting staffs, both uniformed and civilian.

The Investment Plan is a critical part of the Canadian defence covenant because it determines whether the Future Force will be adequately equipped. And that is why it is so critical that it meet the government's timelines.

Unfortunately, as this Commentary is finalized at the beginning of December, we have yet to see that Investment Plan.

John McCrae had something to say about covenants: “if ye break faith”

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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 / Web: www.cda-cdai.ca