



Waiting for Defence Budget 2009: First of the Canada First Defence Strategy Budgets?

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Introduction

Tracking the Canadian Defence Budget was somewhat less difficult in FY 2008/9 than it had been in previous years.

One thing making the process easier this year was that the normal procedure—of first the *Budget*, then the *Main Estimates*, then the *Report on Plans and Priorities (RPP)*, then the *Supplementary Estimates (A)*, then the *Supplementary Estimates (B)*, and finally the *Departmental Performance Report*—was actually followed this year.

However, the timing of the release of the two *Supplementary Estimates* was unusually advanced.

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—very close to the date of the release of the *Main Estimates* and the *RPP*. One would have expected the items dealt with in the *Supplementary Estimates (A)* would have been in the *Main Estimates* given that the total of the defence *Supplementary Estimates (A)* was a bit over \$500 million.

On the other hand, an increase in the *Main Estimates* of that magnitude would really have been expected to

have been noted in the Budget Speech, which may not have been the preference of a government looking forward to a looming election and a political desire to keep defence from becoming a major election issue.

Similarly, the *Supplementary Estimates (B)* were quietly placed on the Treasury Board website on or about November 24, 2008—about four months earlier than their normal tabling in late February or early March.

And we notice from the Treasury Board website that we are to have a *Supplementary Estimates (C)* for FY2008/9, which will be tabled during the week of February 9, 2009. While this should be a primarily housekeeping document focusing primarily on the re-profiling of money within the defence budget, it is entirely possible that a significant addition to the defence budget might be included.

The Canada First Defence Strategy Budget

2008 also saw the tabling of the *Canada First Defence Strategy (CFDS)*. An unusual aspect of the CFDS was the inclusion of a long-range funding formula which had three key elements.

First, was a promise of 2.7% “Nominal” growth, which includes an expected inflation factor of 2.1%, and therefore 0.6% “Real” growth in the defence budget.

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Second, was a promise that future expeditionary, or "major", operations would be provided with supplementary funding to cover the incremental costs of those operations.

Third, was the shift from "Cash Based" to "Accrual Based" accounting.

"Total Main Estimates" figure they produce the "Total Planned Spending" figure, which is what the government plans to spend on defence for the following year.

This "Total Planned Spending" figure will adjust upward (or occasionally downward) as a result of additions and subtractions made in the two

Fiscal Year	Main Estimates Spending (billions)	Planned Adjustments (billions)	Total Planned Spending (billions)	Further Adjustments	Total Actual-Spending	Change Year over Year
2005/6	\$13.4	\$1.3	\$14.7		\$14.7	
2006/7	\$14.8	\$1.1	\$15.9		\$15.9	8.2%
2007/8	\$16.9	\$1.1	\$18.0		\$18.0	12.1%
2008/9	\$18.3	\$0.6	\$18.9	\$0.6	\$19.5	8.3%
2009/10	\$18.8	\$0.6	\$19.4			
2010/11	\$18.8	\$0.6	\$19.4			

The Budget Context

Each year's *Report on Plans and Priorities (RPP)* provides a rolling three-year forecast of future defence spending.

Those forecasts are composed of a Budgetary Main Estimates (Gross) figure, which is then adjusted downward to include re-spendable revenues to arrive at a Total Main Estimates figure. This is the planned baseline figure for the Department of National Defence (DND).

However, there will be adjustments made to this figure to incorporate a variety of "Adjustments", which have been made in past budgets as well as the current one. When added to the

Supplementary Estimates (or three, in the case of FY2008/9).

The table shows the evolution of the defence budget over the Martin/Harper administrations, from a Main Estimates 2005/6 figure of \$13.4 billions to a Main Estimates 2008/9 figure of \$18.3 billions, an increase of 36.3% or 11.1% annually.

Additional funds which were added as "adjustments" increased the real size of the defence budgets even more during the period, but these sums do not become part of the "baseline" defence budget reflected in the evolving "Total Main Estimates figure.

Defence Budget 2009/10

Defence Budget 2009/10 is the first



of the annual CFDS budgets.

The increase in the Main Estimates from \$18.3 billion in FY 2008/9 to \$18.8 billion in FY 2009/10 represents an increase of \$500 million or 2.7%, which is consistent with the CFDS "Nominal growth" figure.

Planned Adjustments already included in previous *Reports on Plans and Priorities* amount to about \$600 million. Total Actual Adjustments have run about \$1.1-1.3 billion over the previous years. Given that our actual strength figure in Afghanistan has risen over the past year it is likely that this figure will be increased.

Consequently, since governments like to appear to be consistent with their previous statements we can probably expect a Total Main Estimates figure of \$18.8 billion, plus Planned Adjustments of \$600 million and Further Adjustments of between \$600 million and \$1.2 billion for a Total Planned Spending figure of \$20.0 to \$20.6 billion for FY2009/10.

And we can probably expect to see that figure adjusted upward in the *Supplementary Estimates (A)* and *Supplementary Estimates (B)* in 2009.

Impact of the Financial Crisis

Many defence watchers have expressed fears that the measures taken to deal with the financial crisis would result in reductions to the defence budget. This fear is probably unwarranted since the bulk of the defence budget is spent in Canada and a withdrawal of that spending would reduce economic activity.

The Chairman of the Conference of Defence Associations has delivered a statement to the Finance Minister recommending that funds allocated to

the solution of the financial crisis be made available in part to the rehabilitation and new construction of DND infrastructure, as well as to the re-start of the Joint Support Ship project, projects that could have a major short-term economic multiplier effect coupled with crucial long term strategic benefits to Canadian defence.

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 February.

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's 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, in effect, it 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. The *Supplementary Estimates* can be found on 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 section of the DND website

Technical Note: Accrual Accounting and Budgeting

The Government of Canada made the decision to shift over to standard accounting practices in 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; in the intervening time frame it can allow us to recapitalize the Canadian Forces a lot faster than would be the case under the previous “cash-based” accounting system.

Since the *Canada First Defence Strategy* 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 is potentially a very valuable development.

For a more cautious view of the impact of Accrual Accounting and Budgeting, see Brian MacDonald, *The Canada First Defence Strategy of 2008 And The 20 Year Defence Budget*, at www.cda-cdai.ca

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