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PLANNED CAPITAL SPENDING UNDER STRONG, SECURE, ENGAGED – CANADA'S DEFENCE POLICY: 2022 UPDATE



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
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The Parliamentary Budget Officer (PBO) supports Parliament by providing economic and financial analysis for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

This report analyses Department of National Defence planned capital spending under Strong, Secure, Engaged, announced in 2017, as of 2022.

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Executive Summary

In June 2017, the Government of Canada announced Strong, Secure, Engaged – Canada's Defence Policy (SSE). Starting in the 2017-18 fiscal year, total spending on a cash basis would be an estimated \$553 billion for total expenditures over a 20-year period ending in 2036-37. Of this amount, \$164 billion was earmarked for capital acquisitions.

The Parliamentary Budget Officer (PBO) has been tracking the planned and actual capital expenditures on procurement projects under SSE since 2018. This report presents findings from an updated accounting of all SSE capital projects provided to the PBO by the Department of National Defence (DND). While previous updates from DND lacked detail on a subset of SSE projects and spending, this most recent update now allows PBO to fully reconcile the projected \$164 billion in capital spending over the 20-year SSE planning horizon.

Having underspent on capital in the first four years of SSE, the updated spending profile reveals a significant shift of expenditures to subsequent fiscal years. Compared to initial SSE projections, the new profile shows greater capital expenditures beginning in 2025-26 through to the end of the 20-year horizon in 2036-37. Capital expenditure is expected to peak in 2027-28 with a total of \$16.3 billion, which represents a 30 per cent increase over the initial projection of \$12.6 billion for that fiscal year.

Increased spending in later years is subject to greater discounting from inflation and further compounded by expected increases in defence procurement inflation as found by previous PBO reports.¹

1. How this all started

In June 2017, the Government of Canada announced Strong, Secure, Engaged – Canada's Defence Policy.² Starting in the 2017-18 fiscal year, total expenditures on a cash basis would be an estimated \$553 billion over the next 20 years, ending in fiscal year 2036-37. Of this amount, \$164 billion was earmarked for capital acquisitions.

At the behest of parliamentarians, the PBO submitted an information request to DND in January 2018 seeking detail on capital expenditures under SSE.³ In particular, the request sought project level data that comprised the \$164 billion SSE capital acquisition envelope. DND provided a comprehensive response to the PBO request in March 2018 that identified 329 specific capital projects. DND subsequently provided PBO with updates on roughly 10 per cent of these projects in July 2019 and June 2020.^{4,5}

The PBO's October 2020 publication highlighted three key findings.⁶ First, between 2017-18 and 2019-20 there was a cumulative shortfall of almost \$5 billion between what DND spent on capital and what was originally planned under SSE. Second, the planned spending profile for SSE had shifted to later years, meaning that more money would be spent toward the later years of the 20-year plan. Finally, DND was still unable to provide a comprehensive reconciliation between the \$164 billion envelope and the specific capital projects (totalling \$150 billion), and thus remained an estimated \$13 billion gap.

2. What do the updated numbers tell us?

2.1. There is now a full reconciliation of the SSE capital envelope

In December 2021, DND provided the PBO with another comprehensive update of the SSE capital acquisition envelope. As noted in Table 2-1 (below), the recent update identifies 348 projects and provides a near complete reconciliation of the \$164 billion spending envelope identified in SSE. As such, this report allows for a more complete reconciliation against the Public Accounts, Main Estimates, and Supplementary Estimates.

Table 2-1 SSE Project and Cash Flow Updates

	Number of Projects	20 Year Cash Flow (\$ billions)
Total, 2018 Snapshot (Initial SSE Profile)	329	145
Total, 2018 Snapshot + 2019 Update	330	148
Total, 2018 Snapshot + 2019 + 2020 Updates	330	150
Total, 2022 Update (Most recent)	348	163

Sources: PBO, DND

Note: Spending as originally announced in SSE was approximately \$164 billion.

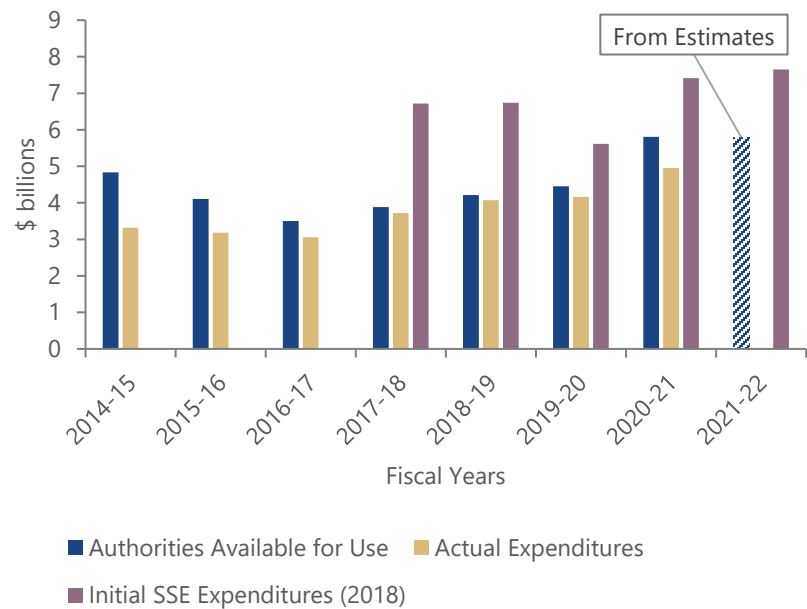
2.2. DND continues to underspend compared to SSE projections

All DND capital expenditures are approved under Vote 5 of the Estimates.⁷ Spending less than requested in the Estimates, commonly known as “lapsed” spending, is a regular occurrence for DND and other departments. Lapses in spending do not necessarily result in a decrease in planned long-term spending; rather, the SSE policy itself acknowledged the potential need to occasionally adjust, or re-profile, accrual funding because of inevitable changes in project scope, delays in project schedules, and changes to cost estimates.⁸

Figure 2-1 expresses the gap between DND capital spending approved in the Estimates and actual expenditures. The initial SSE spending profile is also provided for context. Lapsing of defence appropriations is seen from the consistently higher authorities available for use when compared to actual expenditures. However, both expenditure measures are lower than the initial SSE spending profile from 2018, suggesting significant delays in military procurements. From 2017-18 to 2020-21, there was a cumulative shortfall of almost \$10 billion between what DND spent on capital and what was originally planned under SSE.

Figure 2-1

DND Capital Expenditures: Approved, Actual, and Planned under SSE



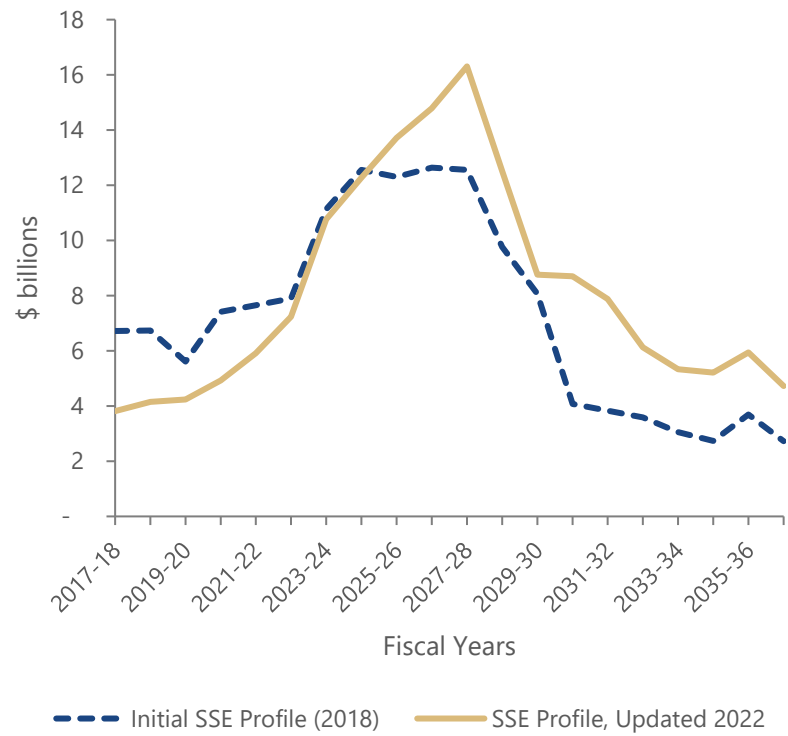
Sources: DND, Public Accounts of Canada, Main Estimates, Supplementary Estimates

Note: The 2020-21 "Authorities available for use" are from Supplementary Estimates (C), 2021-22.

2.3. Delays are pushing planned SSE spending further into the future

Figure 2-2 shows annual cash spending for the initial SSE profile as compared to the updated projections received from DND. The updated profile presents two trends of note: a pronounced increase in capital expenditure in the fiscal years leading up to and including 2027-28, and the shifting of spending from the first four years of SSE to future years. While the initial SSE profile increased spending leading to 2023-24 and maintained a similar level until 2027-28, spending now continues increasing past the 2023-24 fiscal year until reaching the peak of \$16.3 billion at 2027-28.

Figure 2-2 SSE 20-year Planned Cash Flow

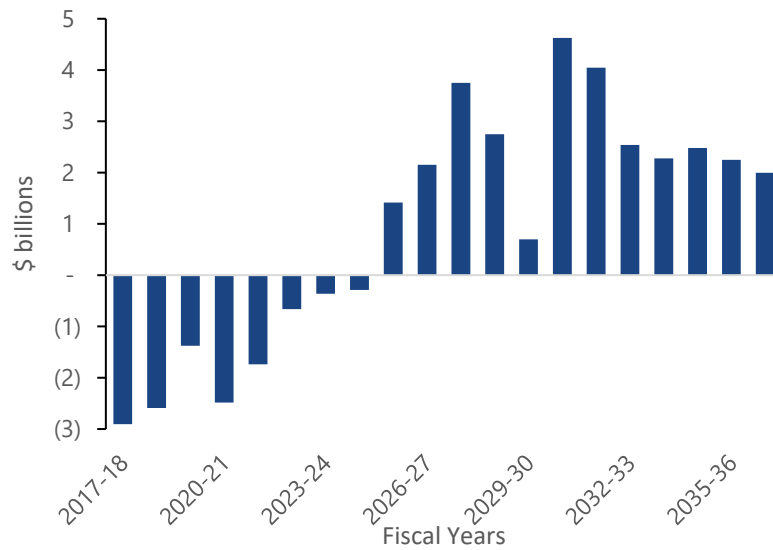


Sources: PBO, DND

This gap is shown separately in Figure 2-3, where a negative amount represents lower expected spending from the updated spending profile relative to the initial SSE profile and vice versa.

Figure 2-3

Changes to Planned Spending between Initial SSE Profile (2018) and the 2022 Update



Sources: PBO, DND

The substantial acceleration in capital spending from 2023-24 to 2027-28 potentially raises questions regarding the ability of the Government to manage increased procurement activity. PBO notes that planned spending in 2027-28 is at least three times higher than capital expenditure in any given fiscal year over the past two decades.

From an economic standpoint, it also could present challenges for sustainable operations for the domestic defence industry. The rapid increase in planned capital expenditures represents increased expected procurement activity in future years and may be cause for further interest on the sustainability of spending.

2.4. More money may be required

Increased spending in later years is subject to greater discounting from inflation and further compounded by greater expected increases in defense procurement inflation as found by previous PBO reports.⁹

The combined effects of consumer and defence-specific inflation may require additional appropriation to cover reduced spending power, as well as further uncertainty on the timing of SSE spending if delays occur.

Notes

1. See: Parliamentary Budget Officer, December 2021. The Polar Icebreaker Project: A Fiscal Analysis. <https://www.pbo-dpb.gc.ca/en/blog/news/RP-2122-024-S--polar-icebreaker-project-fiscal-analysis--projet-brise-glace-polaire-analyse-financiere>
2. Strong, Secure and Engaged. June 2017. <https://www.canada.ca/en/department-national-defence/corporate/reports-publications/canada-defence-policy.html>
3. Parliamentary Budget Officer Information Request 0351. January 2018. <https://pbo-dpb.gc.ca/en/information-requests--demandes-information?ir=IR0351>
4. Parliamentary Budget Officer Information Request 0427. June 2019. <https://pbo-dpb.gc.ca/en/information-requests--demandes-information?ir=IR0427>
5. Parliamentary Budget Officer Information Request 0446. January 2020. <https://pbo-dpb.gc.ca/en/information-requests--demandes-information?ir=IR0446>
6. Planned Capital Spending Under Strong, Secure and Engaged: a 2020 Update. October 2020. <https://www.pbo-dpb.gc.ca/en/blog/news/BLOG-2021-002--planned-capital-spending-under-strong-secure-engaged-2020-update--depenses-en-capital-prevues-au-titre-politique-protection-securite-engagement-mise-jour-2020>
7. See the Library of Parliament's Parliamentary Financial Cycle research paper for an explanation of the process.
8. See Strong, Secure, Engaged pages 98-100 for discussion on reasons for, and examples of, project reprofiling.
9. See: Parliamentary Budget Officer, December 2021. The Polar Icebreaker Project: A Fiscal Analysis. <https://www.pbo-dpb.gc.ca/en/blog/news/RP-2122-024-S--polar-icebreaker-project-fiscal-analysis--projet-brise-glace-polaire-analyse-financiere>