



## Defence Budget 2010/11

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### Budget 2010/11

*Budget 2010/11*, sub-titled “Leading the Way on Jobs and Growth,” was focused upon the steps to be taken by the Government to sustain and stimulate the economic recovery, and the steps necessary “to bring Canada’s finances back to balance over the medium term.”

The Budget emphasized the Government’s commitment to the *Canada First Defence Strategy* and to the ongoing recapitalization of the major fleets and equipments of the Canadian Forces.

However, the Budget stated that:

*... as part of measures to restrain the growth in overall government spending and return to budget balance in the medium term, the Government will slow the rate of previously planned growth in the National Defence budget. Budget 2010-11 reduces growth in National Defence’s budget by \$525 million in 2012-13 and \$1 billion annually beginning in 2013-14. Defence spending will continue to grow but more slowly than previously planned.*

As it happens, the announced cuts in 2012-13 and 2013-14 are about the same size as the sums that will be saved by not having to supply “incremental funding for deployed operations in Afghanistan.” We had thought that this

would be the case since the incremental funding was going to disappear anyway, and its deletion could allow the Government to claim that the Department of National Defence was doing its share in deficit reduction.

However, there were no numbers supplied in the Budget to explain what “the Government will slow the rate of previously planned growth in the National Defence Budget” actually meant.

### **The Main Estimates 2010/11: Another Substantial (9.7% year over year) Increase**

The *Main Estimates*, which detail the planned spending for each Department for the following year, were quietly tabled in the House on March 3, the day before the Budget Speech was delivered. Given that March 3 was also the date of the Speech from the Throne, it is understandable that the media were caught seemingly unaware that the Estimates had been tabled—but they never pay much, if any, attention to the Main Estimates.

Cynics may be influenced to refer to the *Stealth Main Estimates* of 2010-11, but we shall be gentler in our criticism.

The key “Good News” development is a year over year increase of \$1.862 billion in the DND Main Estimates, bringing the Main Estimates to a total of \$21.1 billion from last year’s budget of \$19.239 billion.

Of that \$1.862 billion increase, \$1.3 billion was provided for operating (Vote 1) purposes, bringing Vote 1 to a total of



\$14.648 billion, and \$0.582 billion was added to Vote 5 for capital costs, bringing Vote 5 to \$4.855 billion from \$4.273.

This brings Vote 1 to 69.4% of the total budget and Vote 5 to 23% of the total budget, with the remainder being Statutory items. The capital budget thus has moved up slightly from 22.2% to 23% of the total budget

The table provides an overview of the growth of the Defence Budget since FY2004-05, including the sums added

### Vote 1: Operations and Maintenance

The major components contributing to the Vote 1 increase are the following:

- \$822mn for the Afghan Mission;
- \$196mn for partial inflation protection;
- \$167mn for CF pay and allowances;
- \$123mn for civilian pay and allowance; and
- \$44mn for anti-terrorism initiatives.

Fiscal Year	Main Estimates \$ bn	Change Y/Y	Supp (A) \$bn	Supp (B) \$bn	Supp (C) \$bn	Total Planned Spending \$bn	Change Y/Y Total Planned Spending
2004/5	13.288		0.641	0.188	NA	14.129	
2005/6	13.435	1.1%	1.321	0	NA	14.756	4.4%
2006/7	14.789	10.1%	1.070	-0.001	NA	15.859	7.8%
2007/8	16.882	14.2%	1.556	0.001	NA	18.438	16.3%
2008/9	18.294	8.4%	0.541	0.441	0.003	19.517	5.9%
2009/10	19.239	5.2%	1.330	0.002	0.004	20.787	6.5%
2010/11	21.102	9.7%					

by the Supplementary Estimates in years up to the present.

Clever readers will have noted that the horizontals do not add up accurately. The cynical old phrase, "Close enough for government work" may be operating here.

Those trying to track the "Real Defence Budget" should look at the Total Planned Spending number, since it includes the Main Estimates plus all the Supplementary Estimates additions.

Votes 1 and 5 additions are further broken down as follows.

### Vote 5: Capital

The major components contributing to the Vote 5 increase are:

- \$297mn for the CH-47 project;
- \$247mn for the C-130J project;
- \$200mn for the maritime helicopter project;
- \$128mn for the Tank Replacement project;
- \$125mn for the Family of Land Combat Vehicles project;



- \$66mn for the CSE upgrade project; and
- \$36mn for facility construction in Newfoundland.

Some readers will have noticed that the sum of these individual increases is larger than the \$1.862 total increase in the Main Estimates. The difference comes from previously approved sums of other Departmental requirements which are no longer needed and were re-programmed into the projects listed here. Those sums amounted to \$623 million.

**The Report on Plans and Priorities (RPP)**

The RPP is, in effect, the annual detailed financial Business Plan of the Department. Unfortunately, there is even less media attention paid to the release of the RPP than to that of the Estimates.

Government will slow the rate of previously planned growth in the National Defence Budget” actually meant. As we can see the *Main Estimates* for Defence will drop from \$21.102 billion in FY2010-11 to \$19.337 billion in FY2012-13.

However, there remains the question of the “Adjustments” in the Supplementary Estimates, many of which have not made it through the Treasury Board and Cabinet approval process yet.

For example, one of the “Adjustments” forecast in *RPP 2010/11* relates to the Arctic Offshore/Patrol Ships, which are a central feature of the *Canada First Defence Strategy*.

Spending on this project is expected to start to ramp up in 2010/11, with an initial allocation of \$164.5 million. However, Treasury Board and Cabinet spending authority approval had not advanced far enough for it to be included in the *Main Estimates* and a note in the RPP states that this funding

Year	Forecast 2009-10	Planned 2010-11	Planned 2011-12	Planned 2012-13
Main Estimates	\$19.239	\$21.102	\$19.836	\$19.337
Adjustments	\$1.499	\$0.726	\$0.599	\$1.756
Total Planned Spending	\$20.738	\$21.827	\$20.435	\$21.093

will be

This is a pity, since one of the great values of the RPP for Defence Budget analysts is that it provides a glimpse into the future two years farther out, as well as breaking out the Defence Budget in terms of the “Total Main Estimates,” and various “Adjustments,” which will be picked up later in the year in the Supplementary Estimates.

The figures contained in the above table, for example, give a better sense of what the Budget phrase “the

applied for in *Supplementary Estimates (B) 2010-11*.

And this reminds us that the real “Bottom Line” is the “Total Planned Spending” line, which includes both Main and Supplementary Estimates. Using that measure, the phrase “the Government will slow the rate of previously planned growth in the National Defence Budget” seems a little less threatening than before as the Adjustments recover some of the ground lost in the Main Estimates.



Other large sums in the 2012/13 planned Adjustments include \$907 million for the Family of Land Combat Vehicles Project, another \$413 million for the Arctic Patrol Ships, and \$346 million for the initial payment of the 2.0% that DND will receive in funding to compensate for loss in purchasing power due to price increases, as announced in the *Canada First Defence Strategy* and *Budget 2008*.

### **RPP Programme Activity Architecture**

*RPP 2010-11* also includes a substantial set of changes in the way that the Programme Activity Architecture is broken out. We now have five Strategic Outcomes which this Commentary will describe as: Resources, Force Generation (or Readiness), Operations, the CF and Society, and Internal Operations. Overall funding levels for each are:

Resources:	\$4.1bn
Force Generation:	\$10.0bn
Operations:	\$4.3bn
CF and Society:	\$1.3bn
Internal Operations:	\$1.0bn

“Resources” includes Equipment (\$2.485bn), Recruit Training (\$0.590bn), Property (\$0.644bn), and Science (\$0.375bn).

“Force Generation” includes Maritime Readiness (\$2.101bn), Land Readiness (\$3.783bn), Aerospace Readiness (\$2.109bn), and Joint Readiness (\$2.024bn).

“Operations” includes “International” (\$3.121bn), “Continental” (\$0.183bn), “Canada” (\$0.344bn), and “Situational Awareness” (\$0.659bn).

“CF and Society includes” CF Personnel support (\$0.748bn),

Canadian Identity (\$0.345bn), Environment (\$0.164bn), and Non-Security Support (\$0.018bn).

“Internal Services” (\$1.046bn) is not broken down further.

And there is considerable additional information in the *RPP* which had not been broken out in detail for some number of years—which makes this one of the most useful RPPs for analytical purposes.

### **References**

*The Budget* is found on the Ministry of Finance website at: [www.fin.gc.ca/access/budinfo-eng.asp](http://www.fin.gc.ca/access/budinfo-eng.asp).

The remaining documents, however, are located on the Treasury Board website at: [www.tbs-sct.gc.ca/est-pre/estime.asp](http://www.tbs-sct.gc.ca/est-pre/estime.asp)

We remind our readers that those wishing to gain an understanding of the Canadian Defence Budget must dig through a total of seven documents which appear in stately sequence over the course of the budget year.

These are the *Budget*, the *Main Estimates*, the *Report on Plans and Priorities (RPP)*, the *Supplementary Estimates (A)*, the *Supplementary Estimates (B)*, the *Supplementary Estimates (C)*, and the *Departmental Performance Report*.

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