

# Dollars and Sense: The Budget Knife Returns to Defence

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Credit: Corporal Marc-André Leclerc, Valcartier Imaging Section, Canadian Armed Forces

Illustrating the travel-intensive nature of the CAF, members of the 3<sup>rd</sup> Battalion, Royal 22<sup>e</sup> Régiment, unload luggage from a chartered aircraft upon their return from Operation Nanook-Nunakput at Jean-Lesage International Airport, Quebec City, 10 September 2023.

On 15 August 2023 *The Globe and Mail* reported that members of the federal Cabinet had received a letter from newly appointed President of the Treasury Board Anita Anand informing them that they had until 2 October to identify a total of \$15 billion in spending cuts.<sup>1</sup> This notification is implementing the Budget 2023 pledge to reduce roughly \$7B in spending on travel and consultants, a further \$7B in spending by reducing departmental operations budgets by 3%, as well as a \$1.3B reduction in the cost of operations at Crown Corporations. All told, these initiatives present what the 2023 Budget euphemistically called the “opportunity to refocus existing spending, following the pandemic, on priorities that matter most to Canadians.”<sup>2</sup>

The specific impacts of the cuts on the Department of National Defence (DND) of this exercise are unknown at this point, but they are bound to be significant for at least three reasons. First, as itemized in Table 1, DND/Canadian Armed Forces (CAF) represent about 25% of total federal government expenditures in each of the major budget categories identified for reductions. Because of this, despite some language in Budget 2023 indicating that it might be partially exempted from spending reductions, DND will have to play a consequential role in the spending restraint if the government is serious about achieving its savings. As has been the case in previous budget-cutting exercises, Canada’s federal fiscal arithmetic means DND is always a key part of any spending reduction exercise for the simple reason that its spending represents the largest share of the budget categories generally considered for reductions.

Second, these cuts will also be significant for DND because of departmental spending patterns. As discussed

in more detail below, as an organization dispersed across Canada and involved in operations around the world, DND has a much larger requirement for travel than many other government organizations. Similarly, the department spends a significant amount of money on service contracts, but those contracts contribute to core organizational outcomes, including providing for health care of CAF members, delivery of its capital equipment program and in-service support and maintenance of the department’s fleets of ships, vehicles and aircraft.

Third, these cuts will be consequential because of the underlying fiscal pressures at DND. While *Strong, Secure, Engaged* devoted more effort to costing Canadian defence policy and the specific initiatives approved in it than prior defence policies, the exercise was not perfect from the outset. As well, since March 2020 a series of major economic impacts related to the COVID-19 pandemic and Russia’s (further) invasion of Ukraine has put major stress on the defence budget. The disruption to Canadian and international labour forces and supply chains, as well as significant fluctuations in energy and commodity prices, interest rates higher than they have been in a generation, and major pressure on the Western defence industrial base have all had a severe impact on the affordability of DND/CAF plans. Prior to Budget 2023, and as part of the discussion of the Defence Policy Update, the results of which have not been announced at the time of writing, concerns about ‘Program Integrity’ at DND were high. The cuts announced in Budget 2023 will further put stress on the affordability of Canada’s defence plans.

The announcements from Budget 2023 of consequence to the department are as follows:

- Budget 2023 proposes to reduce spending on consulting, professional services, and travel by roughly 15 per cent of planned 2023-24 discretionary spending in these areas. This will result in savings of \$7.1 billion over five years, starting in 2023-24, and \$1.7 billion ongoing. The government will focus on targeting these reductions on professional services, particularly management consulting.
- Budget 2023 proposes to phase in a roughly 3 per cent reduction of eligible spending by departments and agencies by 2026-27. This will reduce government spending by \$7.0 billion over four years, starting in 2024-25, and \$2.4 billion ongoing. Reductions will not impact direct benefits and service delivery to Canadians; direct transfers to other orders of government and Indigenous communities; and the Canadian Armed Forces.<sup>3</sup>

Taken together, these two initiatives are intended to reduce spending by \$4.1B on an annual basis once fully implemented. The key areas targeted for reduction are spending on the full range of professional and special services (which is Standard Object 4 in the government of Canada’s spending categories) and departmental travel (transportation and communications spending are included together under spending on Standard Object 2 in the government’s accounting framework) with an objective of saving roughly 15% of the total expenditures planned in the 2023/2024 Main Estimates. This is being combined with a saving of approximately 3% of departmental spending on operating expenditures and grants and contributions, with some exceptions as outlined in the quoted passage, which included mention of the CAF.<sup>4</sup>

The language mentioning an exemption for the CAF leads to some speculation that DND/CAF would be largely spared from these cuts, but that is not the case. A quick analysis of federal spending helps illustrate why this prospect was never likely. Table 1 itemizes all federal spending, and that for DND specifically, as outlined in the Main Estimates 2023/2024, by Standard Object. In every one of the key categories identified for spending cuts, overall Vote 1 spending, Transportation and Communications, and Professional and Special Services, DND spends the

most of any federal department. In each category, it also represents between 23% of the total federal spending (for overall Vote 1 spending) and 26% (for Professional and Special Services).

Achieving the intended savings without imposing proportionate reduction targets on defence would require significantly larger reductions from other parts of the federal government. While the specifics of the reductions have not been announced, given that DND represents roughly 25% of most of the spending under review, it should be expected to contribute roughly 25% of the desired \$4.1B in savings, or about \$1B annually once fully implemented. As Table 1 shows, given that DND was intending to spend roughly \$5B on contracted services spending, it is reasonable to expect that DND will face pressure to reduce spending in this area by around \$750 million (M).<sup>5</sup>

Of the different categories of funds subject to review and cuts, those to Professional and Special Services will likely have the most consequential impacts. Table 2 itemizes DND/CAF’s spending on this basket of expenditures for 2021/2022 as reported in the Public Accounts of Canada.<sup>6</sup> The language in Budget 2023 discussing this budget measure indicated that the cuts would focus particularly on management consulting, perhaps in part a response to media reporting and subsequent parliamentary enquiry into contracts awarded to McKinsey and Company.<sup>7</sup>

As Table 2 shows, though, DND spent only \$72M on management consulting in 2021/2022, about 1.6% of its total spending on Professional and Special Services. Other sizeable spending lines include Health and Welfare Services, at \$247M, which provide for the health care of military members, and Protection Services, at \$107M, the vast majority of which (\$99M) is devoted to the Canadian Corps of Commissionaires, the organization that provides facility security to DND installations and bases. As the table also shows, the majority of DND’s spending on Professional and Special Services is devoted to Engineering and Architectural Services, a total of \$2.322B in 2021/2022, that supports DND’s capital programs. This spending covers a range of activities including fleet maintenance

**Table 1. Total Government of Canada (GOC) and DND Spending by Standard Objects (SO) (\$Billions)**

	SO 1-7 (all Vote 1 spending)	SO 2 (Transportation and Communications)	SO 4 (Professional and Special Services)
<b>Total GOC</b>	\$91.39	\$3.03	\$19.52
<b>DND</b>	\$20.85	\$0.73	\$5.01
<b>DND’s % of Total</b>	23%	24%	26%

Source: Government of Canada, 2023–24 Budgetary Expenditures by Standard Object, 15 February 2023.

Credit: provided by author



Bill Blair, Minister of National Defence, observes Ukrainian military members conducting trench warfare training during a visit to *Operation Uniflier's* UK Training Element in England on 17 September 2023.

and in-service support, engineering support to capital equipment project delivery and architectural services that support delivery of the capital infrastructure program. Moreover, much of those funds are committed over multi-year contracts, many of which have minimum spending thresholds committed to contractors. The composition of DND's spending on Professional and Special Services means it will be difficult to eliminate 15% or \$750M worth

of spending affecting delivery of core services like health care or the support of the capital program.

Budget cuts at DND are not a novel occurrence, they happen inevitably each time there is an effort to reduce overall government spending. What makes this round of cuts different is that they are occurring against different strategic circumstances than the last rounds in the early 2010s, 1990s and late 1980s. This effort is occurring against a backdrop of rising great power tensions, the largest war in Europe since the Second World War, amidst a now significantly delayed update to Canada's defence policy, and coming shortly after Canada, along with other NATO allies, agreed to spend a minimum of 2% of GDP on defence. Cutting even a relatively modest total amount in the circumstances sends an unhelpful message to allies and adversaries alike about Canada's commitment to defence at an important moment of strategic inflection. 🇺🇳

**Table 2. DND SO4 Spending in 2022 Public Accounts**

Sub Category	Value (\$M)	% of Total
Business Services	582	12.7%
Engineering and Architectural	2,322	50.5%
Health and Welfare	247	5.4%
Informatics	314	6.8%
Interpretation and Translation	22	0.5%
Legal	26	0.6%
Management Consulting	72	1.6%
Protection Services	107	2.3%
Scientific	12.5	0.3%
Special Fees	4.9	0.1%
Temporary Help	49	1.1%
Training and Education	141	3.1%
Other Services	699	15.2%
<b>Total</b>	<b>4,598</b>	<b>100%</b>

Credit: provided by author

**Notes**

1. Bill Curry, "Cabinet Ministers Given Oct. 2 Deadline to Cut \$15-billion from Spending Plans," *The Globe and Mail*, 15 August 2023.
2. Canada, Department of Finance, Budget 2023, Ottawa, March 2023, p. 19.
3. *Ibid.*, p. 183.
4. Confidential discussion with DND official, July 2023.
5. Estimating savings in other areas is more difficult. Transportation and Communications spending is conflated in Standard Object 2, making it impossible to estimate a travel reduction specifically, and with both the remainder of Vote 1 and Vote 10 spending, it is unclear what exemptions DND may have received.
6. Canada, Receiver General of Canada, "Public Accounts of Canada, Vol III, Professional and Special Services," Ottawa, 2022.
7. Bill Curry and Mahima Singh, "Ottawa Turns to Consulting Firm McKinsey to Fix Phoenix Pay System, Doubling Spending on Outsourcing," *The Globe and Mail*, 18 January 2022.

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