

Dollars and Sense: Canadian Defence Spending is Finally Increasing

Dave Perry



Credit: Boeing

In 2023, Canada signed the Foreign Military Sales agreement with the United States to acquire up to 16 P-8A Poseidon aircraft to replace the CP-140 Auroras.

Dating back to the release of *Strong, Secure Engaged* in 2017, followed by the NORAD modernization plan and now *Our North, Strong and Free*, along with a smattering of smaller budget announcements, the government of Justin Trudeau has made progressively larger funding commitments to the Department of National Defence (DND). Based on the nature of how the government of Canada now operates, all of these commitments have had varying degrees of back-end loading to that spending. Presently, when the government announces a new policy like *Our North, Strong and Free* that only represents the firing of the starter's pistol when it comes to the race of converting the policy decision underpinning the policy into actual expenditures. In some circumstances, funding decisions to provide the money to enact the policy have to be secured after the policy is released. Similarly, even once funding is secured, expenditure authority – the actual ability to access and use the funds for their intended purpose – has to be obtained from the relevant authority. That comes from either the Treasury Board of Canada or the Minister of National Defence, although for smaller value items, sometimes the Deputy Minister can provide that approval.

In a unique feature of the last several years, DND has often needed to secure expenditure authority to access funds that have been provided as what is essentially seed money. This means that DND has to secure authority for funding to conduct option analysis activity that helps move projects to the point when they are ready to enter the definition or implementation phases when they require expenditure authority. Securing that seed funding is often

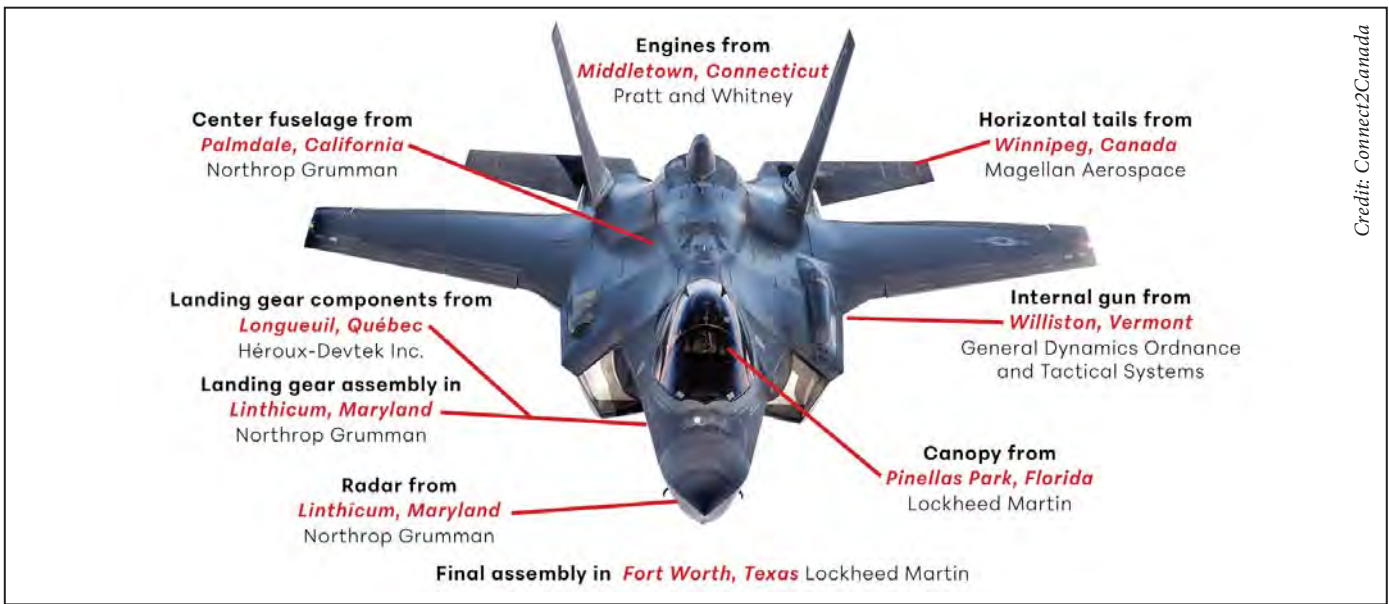
a multi-month process. The process of securing expenditure authority for projects is roughly six months from the Minister of National Defence and upwards of a year when required from the Treasury Board.¹ All of this means that for many of the initiatives that might be announced in a new defence policy, if everything goes perfectly from the day a new policy is released, much of the spending is multiple years away from happening. Perhaps these dynamics will change once the results of the government's procurement review are enacted, but at the time of writing, no public results from that process have been released.

These dynamics, along with wider implementation delays and the impacts of the pandemic, have created a situation



Credit: Mona Chiu, MARLANT Public Affairs

Minister of National Defence Bill Blair and Commander of the RCN Vice-Admiral Angus Topshee unveil the name of the Canadian Surface Combatant, the River-class destroyers, at Irving Shipbuilding on 28 June 2024. A build contract is expected for 2025, marking a major increase in capital spending.



Credit: Connect2Canada

In 2023, Canada also finalized the Foreign Military Sales agreement with the United States to acquire 88 CF-35A fighters. As this and other major capital projects move into their implementation phase, Canada's actual defence spending will increase dramatically.

in which for several years now, Canadian defence has perennially been on the cusp of a significant spending increase. In 2017, for instance, in nominal dollars the plan was for spending to increase from roughly \$20 billion in 2017/2018 to about \$30 billion by 2023/2024. That magnitude of overall defence spending increase has finally arrived. The total Estimates for 2023/2024 ended up at \$30.3 billion, although we don't yet know how much of that allocated funding was actually spent. So far, in 2024/2025 defence spending is tracking to a significant increase over the previous year, with the allocated funds as of the publication of Supplementary Estimates B for 2024/2025 on 18 November 2024 standing at \$34.6 billion.

A significant reason for this increase is that DND is now finally starting to ramp up spending on capital expenditures. As of Supplementary Estimates B, the allocation of capital funds was just under \$9 billion. In 2022/2023, two fiscal years ago, the total allocation of funds was \$5.9 billion, of which \$4.9 billion was actually spent at year's end. On a nominal basis, that's a roughly 50% increase in allocated funding in just two years.

And the current, funded plans – i.e., without considering what might happen if the government does actually follow through with the funding to support spending 2% of Gross Domestic Product (GDP) on defence by 2032 – show that spending is planned to increase dramatically next year. Budget 2024 provided a spending forecast that shows spending increasing from a little under \$34 billion to roughly \$44 billion by next fiscal year. That would represent a nominal spending increase of 31%. For context, that would exceed by a considerable margin the largest year-over-year nominal spending increase at DND over the last two decades. Looking back at actual spending results, the largest annual increase achieved was 23%. In fact, including that year, there were only four years in total when the defence budget increased by double digits year over year.

If the plan outlined in Budget 2024 comes to fruition, it will provide the largest year-over-year spending increase in a generation. The fact that allocations of capital funding have risen so significantly gives some credence to spending increasing as planned next year. Since the 2017 release of *Strong, Secure, Engaged* capital investments have always been on the verge of increasing dramatically, but have never quite managed to arrive at the predicted actual increase. Thanks largely to the majority of the Royal Canadian Air Force's major 2017 projects moving into contract and assuming actual construction of the *River-class* destroyers starts in 2025, the capital investment announced in 2017 is finally getting underway.

There is a key lesson to take away from this journey when thinking about Canada increasing defence spending to 2% of GDP by 2032. It takes years to move files through all the bureaucratic procedural gates needed to get to the point of making actual expenditures. It has taken seven years for the real money from *Strong, Secure, Engaged* to start to flow. Until and unless the government comes forward with a transformational package of procurement reforms, we can expect it to take about as much time for the investment promised in *Our North, Strong and Free* to get moving. If we consider that there are eight years to 2032, that leaves less than a year to produce a concrete plan (and the money) beyond the high-level direction to 'explore' new capabilities to reach 2% of GDP spending on defence by 2032. Time is ticking. 🇨🇦

Notes

1. Royal Canadian Navy (RCN) Canadian Association of Defence and Security Industries (CADSI) Industry Engagement, Held under Chatham House Rule, Ottawa, 15 November 2024.

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