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# Planned Capital Spending under Canada's Defence Policy: 2024 Update



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER  
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

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 2024.

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**Parliamentary Budget Officer**

# Table of Contents

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- Highlights ..... 1
- Summary ..... 2
- Background ..... 4
- Results ..... 5
  - Appropriation concerns ..... 8
  - NORAD ..... 10
  - Future concerns ..... 11
- Notes ..... 12

# Highlights

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The total 20-year capital spending envelope has increased by \$51.5 billion since the last PBO report in 2022, from \$163.3 to \$214.8 billion.

New NORAD modernization projects contributed to this increase over the 20-year period studied.

Some preexisting projects within the SSE envelope experienced delays and the re-profiling of near-term expenditures into later years.

A majority of the total expenditures, 62%, are planned for the latter half of the 20-year period of study. The previous report showed a near 50/50 split of total expenditures between the first and second 10-year halves.

From 2017-18 to 2022-23, there was a cumulative shortfall nearing \$12 billion between what DND spent on capital and what was originally planned under SSE.

As in the previous report, increasing annual expenditures to levels never seen before in the latter part of the period increases concerns regarding the effect of inflation discounting the purchasing power of the SSE capital envelope.

# Summary

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In June 2017, the Government of Canada announced Strong, Secure, Engaged – Canada's Defence Policy (SSE)<sup>1</sup>. Starting in the 2017-18 fiscal year, total spending on a cash basis would be an estimated \$553 billion 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 planned and actual capital expenditures 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) as of August 2023. All figures quoted in this report refer to expenditures within the 20-year window beginning with the implementation of SSE in the 2017-18 fiscal year and ending in 2036-37.

The total capital envelope has increased by \$51.5 billion since the last PBO report in 2022, rising from \$163.3 to \$214.8 billion. The new spending is attributable to the Government's announced modernization of facilities and capabilities associated with NORAD, the net impact of some new procurement projects (excluding NORAD), changes to existing projects under SSE, and DND accounting reclassifications related to vote transfers<sup>2,3</sup>.

Compared to the spending profile presented in the 2022 PBO report, expenditures have shifted towards the latter half of the 20-year funding period (2017-18 to 2036-37), with 62% of the expenditures now expected to occur in the last 10 years. Previously, there was nearly a 50-50 split between spending in the two 10-year segments. Annual capital expenditures are expected to reach a peak in the 2027-28 fiscal year, attaining a total of \$18 billion, an increase of \$1.7 billion as compared to the previous forecast. The combined effect of the introduction of the new NORAD capital projects and the delays and reprofiling of certain preexisting projects results in a high and sustained level of capital

spending, with planned capital expenditures for each fiscal year after 2022-2023 reaching at least \$10 billion annually.

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<sup>4</sup>.

# Background

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In June 2017, the Government of Canada announced Strong, Secure, Engaged – Canada's Defence Policy<sup>5</sup>. Starting in the 2017-18 fiscal year, total spending on a cash basis was projected to reach an estimated \$553 billion for over a 20-year period ending in 2036-37. Of this amount, \$164 billion was earmarked for capital acquisitions.

The PBO submitted an information request (IR) to DND in January 2018 seeking detail on capital acquisitions under SSE<sup>6</sup>. In particular, the request sought project level data pertaining to 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 through requests in July 2019, June 2020, and December 2021<sup>7,8</sup>.

The 2022 PBO Report on SSE highlighted three key findings<sup>9</sup>. First, it comprised 348 projects and provided a near-complete reconciliation of the \$164 billion spending envelope originally identified in SSE. Second, it identified a cumulative shortfall of almost \$10 billion between what DND spent on capital and what was originally planned under SSE for the first four years of the policy (2017-18 through 2020-21). Finally, it found that delays and the reprofiling of capital projects pushed planned SSE spending further into the future. In particular, the shortfall experienced in the first four years of the policy had the effect of raising projected capital expenditure in subsequent years, with spending increasing significantly in the years leading up to the 2027-28 fiscal year, where capital expenditure would peak at \$16.3 billion.

# Results

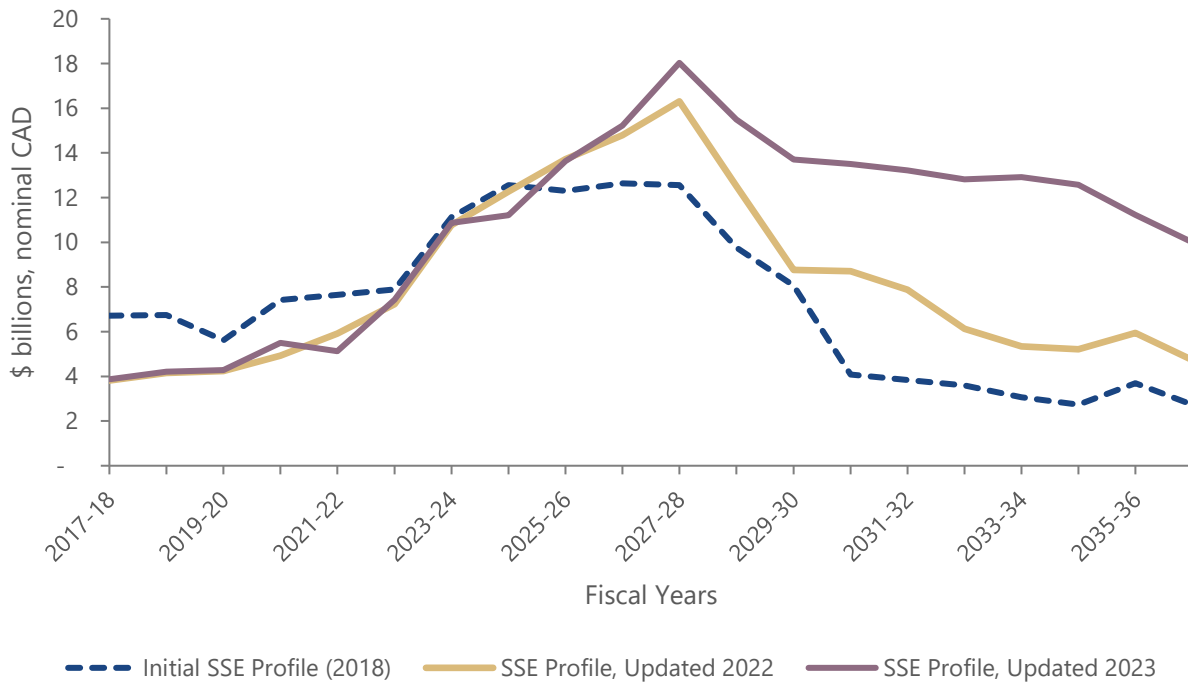
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In August 2023, DND provided the PBO with an update of the SSE capital envelope in response to an IR<sup>10</sup>. Similar to the trend found in the 2022 Report, there is increased spending in future years relative to the initial SSE profile.

Figure 2-1 presents the latest projections of annual cash spending under SSE as compared to the projection in the 2022 PBO Report and the initial SSE profile. The total capital envelope has increased by \$51.5 billion since the last PBO report in 2022, rising from \$163.3 to \$214.8 billion. The new spending is attributable to the Government's announced modernization of facilities and capabilities associated with the North American Aerospace Defence Command (NORAD), the net impact of new procurement projects (excluding NORAD), changes to existing projects under SSE, and DND accounting reclassifications related to vote transfers<sup>11, 12</sup>.



**Figure 2-1**  
SSE 20-year Planned Cash Flow



Textual description:

Each line represents the spending profile under SSE as of a certain year.

Source:

Office of the Parliamentary Budget Officer.  
Department of National Defence.

The combined effect of the introduction of the new NORAD capital projects and the delays and reprofiling of certain preexisting projects results in a high and sustained level of capital spending, with planned capital expenditures for each fiscal year after 2022-2023 reaching at least \$10 billion annually.

Compared to the spending profile presented in the 2022 PBO report, expenditures have shifted more towards the latter half of the 20-year funding period (2017-18 to 2036-37), with 62% of the expenditures now expected to occur in the last 10 years. Previously, there was nearly a 50-50 split between spending in the two 10-year segments. Annual capital

expenditures are expected to reach a peak in the 2027-28 fiscal year, attaining a total of \$18 billion, an increase of \$1.7 billion as compared to the previous forecast.

Figure 2-2 displays the differences in the spending profiles of the current Report and the 2022 Report, with negative amounts representing a decrease in the spending profile as compared to 2022.

### Figure 2-2

Differences in Spending Profiles of the Current Report and the 2022 Report



Textual description:

Each vertical bar represents the difference between the spending profile as of the current report and the 2022 PBO report. A positive gap represents an increased annual expenditure compared to the 2022 report, and a negative gap represents a decreased annual expenditure compared to the 2022 report.

Source:

Office of the Parliamentary Budget Officer.  
Department of National Defence.

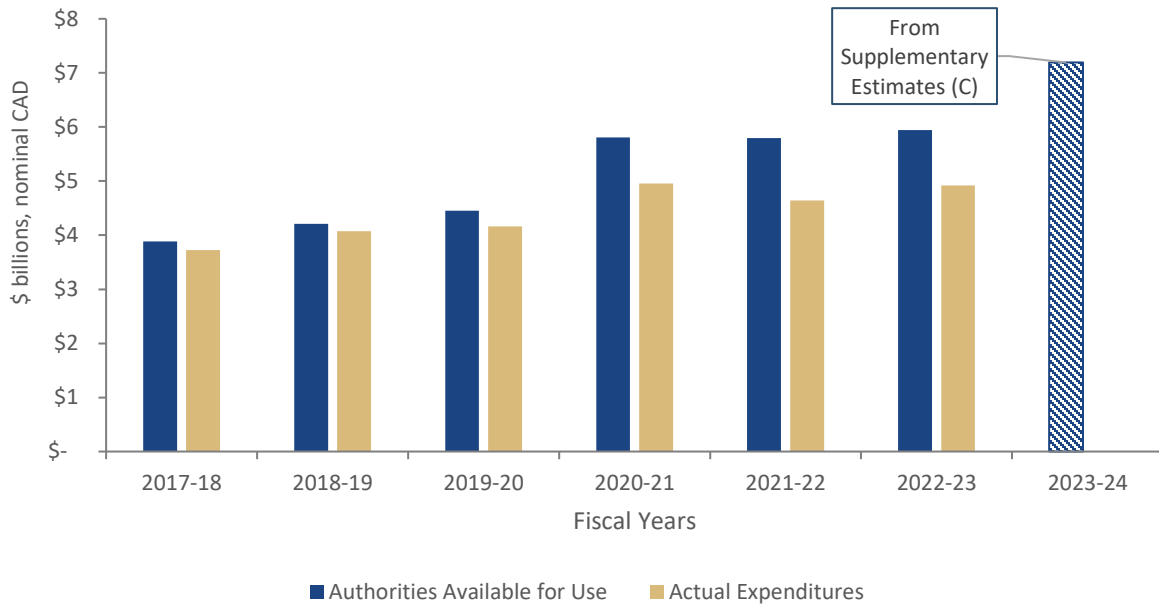
## Appropriation concerns

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All DND capital expenditures need to be approved annually by Parliament under Vote 5 of the Estimates<sup>13</sup>. 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<sup>14</sup>.

Figure 2-3 displays the gap between DND's total approved authorities under Vote 5 of the Estimates and actual expenditures. 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 for all years since 2017-2018, suggesting delays in military procurements<sup>15</sup>. From 2017-18 to 2022-23, there was a cumulative shortfall nearing \$12 billion between what DND spent on capital and what was originally planned under SSE. Figure 2-4 displays the gap between the initial SSE spending profile and the updated spending profile.

**Figure 2-3**  
DND Vote 5 Authorities: Estimates versus Actuals



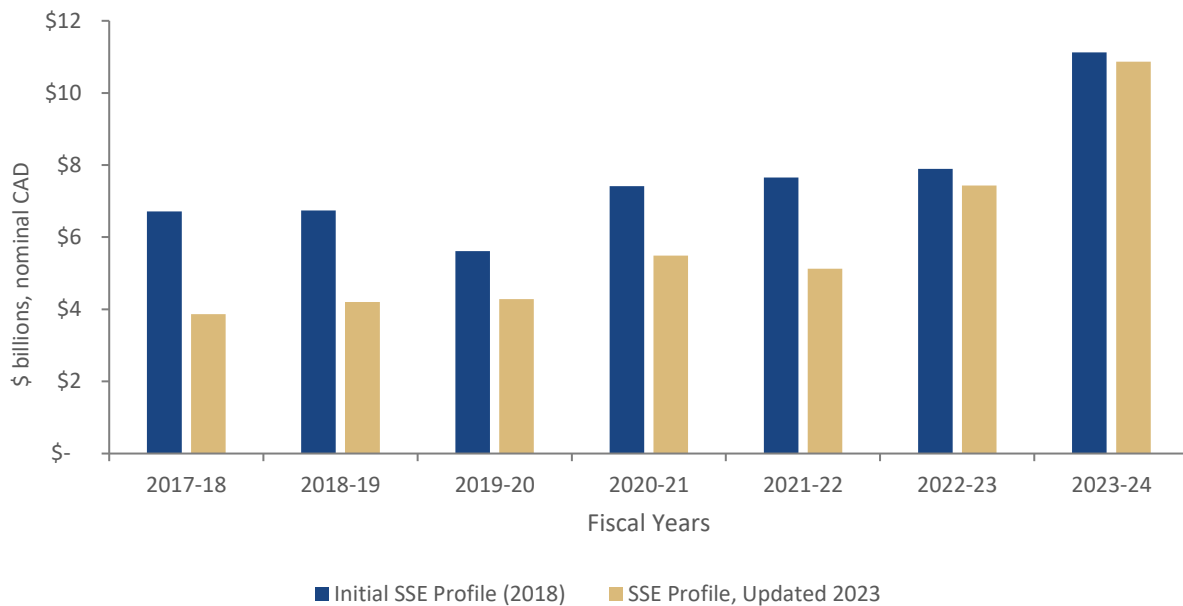
Textual description:

The series of bars on the left side within each fiscal year represents Vote 5 Authorities made available for use to DND in the Estimates in the corresponding fiscal year. The series of bars on the right side within each fiscal year represents actual expenditures under Vote 5 made by DND. By definition, actual expenditures must be less than or equal to Authorities. The textured bar representing Vote 5 Authorities for Fiscal Year 2023-24 represents the estimated amount from Supplementary Estimates (C).

Source:

Office of the Parliamentary Budget Officer.  
Department of National Defence.  
Public Accounts of Canada.  
Supplementary Estimates.

**Figure 2-4**  
DND Capital Expenditures: Planned and Updated



Textual description:

The series of bars on the left side within each fiscal year represents the planned annual spending profile under the initial SSE profile of 2018. The series of bars on the right side within each fiscal year represents the SSE profile updated in this report.

Source:

Office of the Parliamentary Budget Officer.  
Department of National Defence.

## NORAD

In June 2022, the Minister of National Defence announced additional long-term funding to modernize Canada's NORAD infrastructure and capabilities. This new funding was added to the SSE capital envelope either through additional funding to existing projects or entirely new projects<sup>16</sup>. Most of the new NORAD capital expenditures are planned for the 2030s and beyond, with only a small proportion of expenditures planned over the next several years.

## Future concerns

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The substantial acceleration in capital spending from the 2023-2024 to 2027-2028 fiscal years potentially raises questions regarding the ability of the Government to manage increased procurement activity. There may also be further uncertainty on the timing of SSE spending should delays continue to occur, especially so for larger procurement projects.

From an economic standpoint, it could present challenges for the domestic defence industry, in particular its capacity to ramp up production and sustain it for several years. The rapid increase in planned capital expenditures may also put additional pressure on operational spending, especially in the later part of the 20-year period.

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<sup>17</sup>. Thus, the combined effects of consumer and defence-specific inflation may require additional appropriations to maintain the original spending power.

# Notes

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<sup>1</sup> Department of National Defence (2017). [Strong, Secure, Engaged: Canada's Defence Policy](#).

<sup>2</sup> Department of National Defence (2022). [Fact sheet: Funding for Continental Defence and NORAD Modernization](#).

<sup>3</sup> Department of National Defence (2023). [NORAD modernization project timelines](#).

<sup>4</sup> Parliamentary Budget Officer (2021). [The Polar Icebreaker Project: A Fiscal Analysis](#).

<sup>5</sup> Department of National Defence (2017). [Strong, Secure, Engaged: Canada's Defence Policy](#).

<sup>6</sup> Parliamentary Budget Officer (2018). [Information Request 0351](#).

<sup>7</sup> Parliamentary Budget Officer (2019). [Information Request 0427](#).

<sup>8</sup> Parliamentary Budget Officer (2020). [Information Request 0446](#).

<sup>9</sup> Parliamentary Budget Officer (2022). [Planned Capital Spending Under Strong, Secure, Engaged – Canada's Defence Policy: 2022 Update](#).

<sup>10</sup> Parliamentary Budget Officer (2023). [Information Request 0699](#).

<sup>11</sup> Department of National Defence (2022). [Fact sheet: Funding for Continental Defence and NORAD Modernization](#).

<sup>12</sup> Department of National Defence (2023). [NORAD modernization project timelines](#).

<sup>13</sup> See the Library of Parliament's Parliamentary Financial Cycle research paper for an explanation of the process.

<sup>14</sup> See Strong, Secure, Engaged pages 98-100 for discussion on reasons for, and examples of, project re-profilings.

<sup>15</sup> Capital acquisitions are primarily funded through authorities provided under Vote 5. However, there may be small amounts under authorities outside of Vote 5 if those amounts are attributable to capital acquisition activities. A common example of this is the funding for personnel involved with the management of a capital acquisition, which would typically come from authorities under Vote 1. Therefore, the total capital expenditures for a given fiscal year indicated in this report may exceed that same year's total Vote 5 authorities in the Public Accounts.

<sup>16</sup> In June 2022, the Minister of National Defence announced an additional \$4.9B on a cash basis for the first six years and \$38.6B over twenty years on an accrual basis from fiscal year 2022-2023 to 2041-2042.

<sup>17</sup> Parliamentary Budget Officer (2021). [The Polar Icebreaker Project: A Fiscal Analysis](#).



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