

NSPS post Budget 2014 and CFDS®

David Perry

Senior Security and Defence Analyst, CDA Institute

Dalhousie University, Halifax

June 6, 2014

Ending a Decade of Budgetary Darkness

- Budget 2005
 - \$12.8B over 5 years
- Budget 2006
 - \$5.3B over 5 years
- CFDS
 - increased DND's escalator from 1.5% to 2% a year



CANADA FIRST DEFENCE STRATEGY

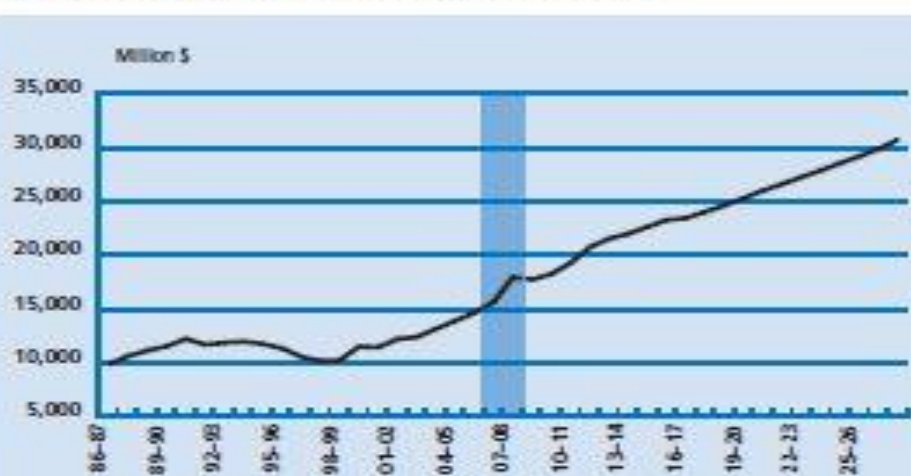


CFDS: 2008/2009– 2027/2028

Pillar	Amount
Personnel	\$250B
Equipment	\$60B
Infrastructure	\$40B
Readiness	\$140B
Total	\$490B

Chart 1:

Defence program FYs 1986–87 to 2027–28



CFDS: the 3, 6

Roles	Missions
1. Defending Canada	1. Daily domestic and continental operations 2. Support for major events in Canada
2. Defending North America	3. Respond to a major terrorist attack 4. Support civilian authorities during a crisis in Canada
3. Contributing to International Peace and Security	5. Lead/and/or conduct a major international operation for an extended period 6. Deploy forces elsewhere abroad for shorter periods

Equipment			
– Previous Announcements	\$15B ¹	3%	Previously announced equipment purchases, including: <ul style="list-style-type: none"> • C-17 Globemasters • C-130J Hercules • Arctic/Offshore Patrol Ships • CH-47F Chinook Helicopters • Trucks
– New Major Fleet Replacements	\$20B ²	4%	<ul style="list-style-type: none"> • Fixed-wing Search and Rescue Aircraft • Destroyers and Frigates • Maritime Patrol Aircraft • Fighter Aircraft • Land Combat Vehicles and Systems

But....

- CFDS underfunded from day 1.
 - Short \$1 billion annually for capital
 - A program needing 4% escalation got 2%
 - Much of the shortfall in the naval program
 - CSC:
 - \$26B vs \$40B...

(Major) Changes to the CFDS Plan

- Budget 2010:
 - Operating Budget Freeze
- Budget 2011:
 - Strategic Review
- Budget 2012:
 - DRAP, Capital Re-profile
- Budget 2014:
 - Operating Budget Freeze, Capital Re-profile

Slowing Defence Budgetary Growth

Impact of Two Operating Budget Freezes (\$M)

	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	Total	
Budget Freeze 2010 ¹	(101)	(234)	(355)	(355)	(355)	(355)	(355)	(355)	(355)	(355)	(355)	(355)	(355)	(355)	(355)	(355)	(355)	(355)		
Budget Freeze 2014 ²					(118)	(236)	(236)	(236)	(236)	(236)	(236)	(236)	(236)	(236)	(236)	(236)	(236)	(236)	(236)	(9,201)
Total	(101)	(234)	(355)	(355)	(473)	(591)	(591)	(591)	(591)	(591)	(591)	(591)	(591)	(591)	(591)	(591)	(591)	(591)		

\$9.2B less Readiness money than planned

Delay in the Capital Plan

Vote 5 (Capital - \$1,000)

Year	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Authorities (Estimates)	3960	3776	4563	5297	4664	4104
Transfers	4	65	(455)	15	(341)	(781)
Lapsed	(764)	(570)	(765)	(1504)	(1067)	(263)
Total "Un-Spent"	(760)	(505)	(1220)	(1489)	(1408)	(1044)
Used	3,200	3,271	3,343	3,807	3,255	3,059
% Un-Spent	-19%	-13%	-27%	-28%	-30%	-25%

CFDS: Deferred Funding (\$B)

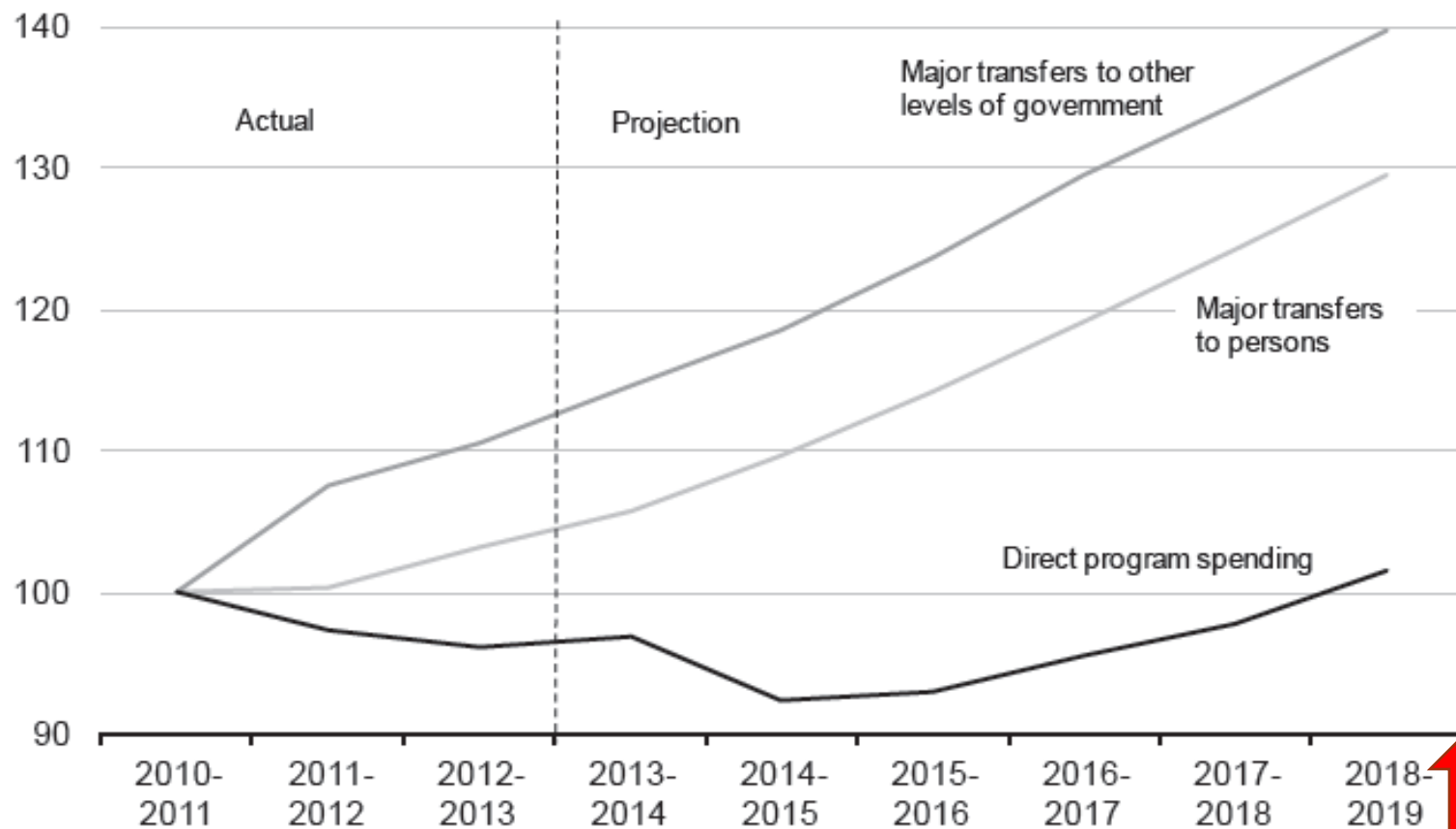
	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	
Original CFDS	16.5			18.5			21.7			23.3			25.0		Total
Afghan Costs to be Reimbursed after FY2019/2010			(.375)	(.346)	(.561)	(.208)	(.275)								??
Budget 2012 Capital Reprofile					(.40)	(.50)	(1.30)	(.70)	(.30)	(.10)	??				
Budget 2014 Capital Reprofile						(.592)	(.575)	(.900)	(1.08)					??	
Total			(.38)	(.35)	(.96)	(.71)	(2.17)	(1.28)	(1.20)	(1.18)					(8.21)

Spending reduction measures have been focused on controlling direct program spending

Chart 4.1.4

Components of Program Spending

index, 2010-11 = 100



Sources: *Public Accounts of Canada*; Department of Finance.

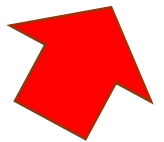
CFDS After Cuts (\$B)

	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	Total	
CFDS		21.7			23.3			25.0			27.0			28.8				
Budget 2011	(.525)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)		
Budget 2012	(.327)	(.706)	(1.12)	(1.12)	(1.12)	(1.12)	(1.12)	(1.12)	(1.12)	(1.12)	(1.12)	(1.12)	(1.12)	(1.12)	(1.12)	(1.12)		
Total Cuts	(.852)	(1.71)	(2.12)	(2.12)	(2.12)	(2.12)	(2.12)	(2.12)	(2.12)	(2.12)	(2.12)	(2.12)	(2.12)	(2.12)	(2.12)	(2.12)	(32)	

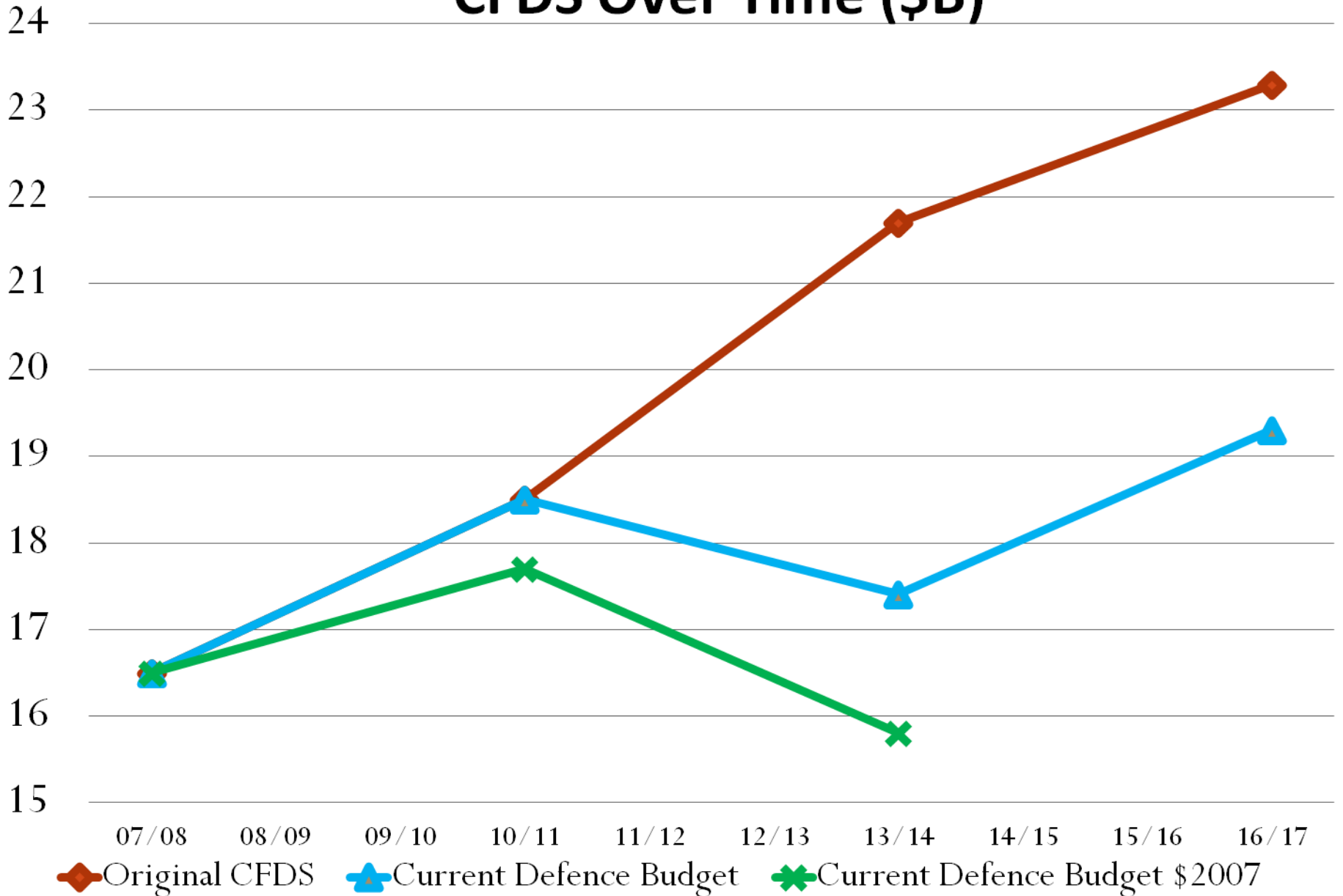
Original CFDS: \$490B

(\$32B in cuts)
+ (\$5B accrual shift)

= Current CFDS: \$453B



CFDS Over Time (\$B)



The CFDS Outlook

- There is significantly less money overall
- There are huge pressures on Readiness (O&M)
- The capital plan is years behind schedule
 - 6 years after CFDS, much of the capital plan remains to be implemented, with less money and buying power

The NSPS Outlook in 2014

- “Canada may not get the military ships it needs if budgets are not subject to change” OAG, Fall 2013

Defence – Renewal?

- A plan to improve the situation
 - \$528-\$845M a year
 - 2362-3741 FTEs
- But:
 - 5 years to implement
 - Needs \$500M to launch

Even if implemented fully, it won't fix the \$ shortfall in CFDS that existed BEFORE the cuts

CFDS 2014 – what’s likely to change?

CFDS: the 3, 6

Roles	Missions
1. Defending Canada	1. Daily domestic and continental operations 2. Support for major events in Canada
2. Defending North America	3. Respond to a major terrorist attack 4. Support civilian authorities during a crisis in Canada
3. Contributing to International Peace and Security	5. Lead/and/or conduct a major international operation for an extended period 6. Deploy forces elsewhere abroad for shorter periods

68,000?

Recapitalization?

CFDS:

- Force Structure:
 - Re-balance the CAF “in a way that ensures emerging threats are addressed properly, and within the current budget”
 - Space; Cyber; SOF?
- Policy:
 - Increased domestic/north American focus:
 - BMD, Surveillance
 - Little change in geographic focus:
 - re-affirmed commitment to NATO
- **Internally generated and Incremental**

Conclusion – NSPS?

- An unaffordable plan, now less so
- Defence ‘policy’ isn’t going to change much
- NSPS will remain as launched
 - Increased competition with delayed projects and new priorities
 - Purchasing power is eroding

% Workforce Change

	2000/2004 - 2009/2010	2009/2010 - 2014/2015
Total Federal Gov't	16%	
Federal Gov't in NCR	22%	
Total Full Time DND/CAF	18%	-5%
DND Reg Force	11%	2%
DND Civilians (full time)	44%	-15%
ADM MAT	4%	-9%

Figure 2: DND Capital Funds (\$M nominal)*

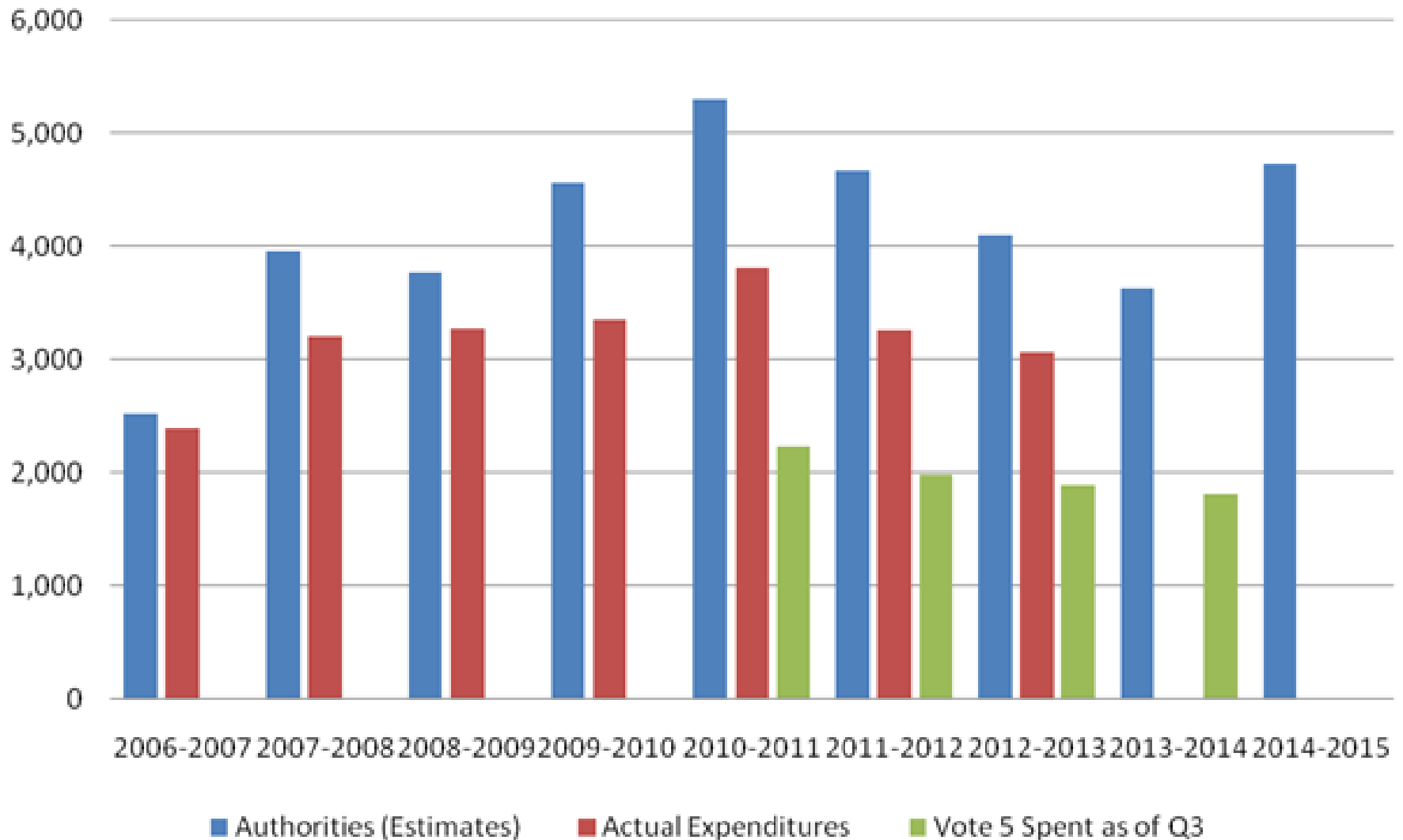


Figure 3. Capital Spending % - 1972-2012

