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The Growing Gap Between Defence Ends and Means: The Disconnect between the Canada First Defence Strategy and the Current Defence Budget

David Perry

June / juin 2014

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Executive Summary

The 2014 federal budget marked the fourth time in five years that the Department of National Defence (DND) has been subjected to budget cuts. Although the 2008 Canada First Defence Strategy (CFDS) pledged long-term, sustained budgetary growth and a stable funding level to facilitate planning for major capital programs acquired over decades, reductions since that policy pronouncement have erased – in real terms – the promised budget increases.

- Adjusting for inflation, the defence budget is now smaller than it was in 2007.
- The CFDS plan to spend $490 billion over 20 years has been reduced to $453 billion.
- DND provided one-quarter of the reduction in government spending in Budget 2014.

At the same time, DND remains unable to spend all of the Vote 5 capital funds provided by Parliament. Consequently, billions in DND capital funding has been deferred until it can be spent - at an unknown point in the future. And, because DND does not have an approved Investment Plan, over the last 12 months, Treasury Board has imposed financial restrictions that essentially guarantees DND cannot spend its full budget.

- Capital spending (for major new equipment) has declined four years in a row, and remains on a downward, seemingly irreversible trend.
- DND has not spent 25% of the amount allocated to replacing major equipment, for four straight years
- As a share of the defence budget, capital spending has dropped to the lowest level since 1977/1978.

Budget restraint at DND has provided the government of Canada with a fiscal windfall, making a major contribution to erasing the deficit. But this has come at the cost of reducing the military options available to the government, both today and tomorrow. The funding for training, routine operations and maintenance has been cut, significantly reducing operational readiness. At the same time, a sizeable proportion of the funding to acquire the military of the future is going unused. This means the re-capitalization plans for the Canadian military will need major modifications to reflect a significant loss of purchasing power.

The Growing Gap Between Defence Ends, and Means: The Disconnect between the Canada First Defence Strategy and the Current Defence Budget

By David Perry

Introduction

On 11 February 2014, the Honourable Jim Flaherty, then-Minister of Finance rose in Parliament to table the 2014 federal budget. For the Department of National Defence (DND), this budget marked the fourth budget adjustment in five years that has reduced DND's financial resources. Two measures in particular are significant for National Defence. The first is a two-year Operating Budget Freeze. The second is a re-profiling of $3.14 billion in capital funds.[1] Each of these measures reduces defence resources significantly. The Operating Budget Freeze is creating a multibillion-dollar pressure on DND's Operating and Maintenance (O&M) budget, which is the budget category most affected by the federal government's austerity to date.[2] The movement of budgeted capital funds is notable, as it has effectively eliminated the budgetary increases DND experienced under the 2008 Canada First Defence Strategy (CFDS), in accrual terms. Although CFDS pledged long-term, after-inflation budgetary growth for defence, the budget adjustments announced since 2010 have erased all the budgetary growth experienced under the policy, in real terms. Adjusted for inflation, the defence budget is now smaller than it was in 2007. Stated otherwise, the defence budget has shrunk, not grown, since CFDS was launched.

Two impacts to National Defence are notable. First, because of the overall pressures on O&M, the National Procurement budget, one of the most significant components of this spending, has been substantially reduced.[3] Second, DND continues to be unable to spend all of the Vote 5 Capital funds provided by parliament, a trend dating back to 2007/2008. For 2013/2014, this was in part due to the fact that DND has not been able to secure Treasury Board approval of its Investment Plan as of the date of publication.

The 2014 Operating Budget Freeze

Budget 2014 announced, "the Government has reintroduced a freeze on departmental operating budgets. This freeze will apply for two years beginning in 2014–15."[4] The Budget's reference to "reintroducing" a departmental operating budget freeze refers to the three-year operating budget freeze announced in 2010. According to DND, that budget measure forced National Defence to redirect $355 million a year from O&M, to fund compensation increases for its personnel (See Table 1).[5]

The author estimated the impact of the 2014 measure by assuming its effect is comparable to the 2010 freeze. If this is the case, it would siphon off $236 million in O&M funding, annually.[6] Over the life of CFDS, these two operating budget freezes will remove roughly $9.2 billion of the funds that provide for training, maintenance and repair and overhaul through 2027/2028. (See Table 1.)

Table 1. Operating Budget Freeze 2010 and 2014 ($ million)

Fiscal Year	2010/11	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)	
Total	**(101)**	**(234)**	**(355)**	**(355)**	**(473)**	**(591)**	**(591)**	**(591)**	**(591)**	**(591)**	**(591)**	**(591)**	**(591)**	**(591)**	**(591)**	**(591)**	**(591)**	**(591)**	**(9,201)**

1. Budget 2010 announced a three-year operating budget freeze. This meant DND did not receive budget increases to offset increases in employee and CAF compensation. This represents a recurring shift of O&M funds that would otherwise be spent on other activities, to increase spending on Personnel. (Canada, Access to Information Request A-2013-00797. Ottawa: Department of National Defence, 2013.)
2. Budget 2014 announced a two-year operating budget freeze, which once again means that DND does not receive budget increases to offset increases in employee and CAF compensation. This represents a recurring shift of O&M funds that would otherwise be spent on other activities, to increase spending on Personnel. An official estimate of the impact of this measure was requested from DND Public Affairs, but was not provided. The impact is estimated by using the average annual impact of the 2010 budget freeze.

Re-Profiling Capital Funding

Budget 2014 also announced that some of the budgetary funds set aside for capital equipment have been removed from DND's short-term fiscal framework, and deferred into the future, stating that, "[t]o ensure that funding is available when needed for planned procurements, the Government is moving $3.14 billion in National Defence funding for major capital procurements from the 2013-14 to 2016-17 period to future years in which key purchases will be made."[7] This announcement follows a similar adjustment made in Budget 2012 that re-profiled $3.54 billion in funding for major capital procurements. These funds can only be used after 2016/2017. Table 2 outlines these shifts by year, and indicates with an "X" the first year that these funds could be made available to DND.

Table 2: Canada First Defence Strategy: Capital Re-Profiling ($ billion)

	2011/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	Total
Budget 2012*	(0.40)	(0.50)	(1.30)	(0.70)	(0.30)	(0.10)	X			(3.54)
Budget 2014**			(0.592)	(0.575)	(0.900)	(1.075)			X	(3.14)
Total	(0.40)	(0.50)	(1.892)	(1.275)	(1.20)	(1.175)				(6.68)

*A total impact of $3.54 billion was announced in Budget 2012 - Canada, Economic Action Plan 2012. Ottawa: Public Works and Government Services Canada, 2012, p. 223. The annual reductions depicted are those shown in Budget 2012, Table 6.3, p. 236, and do not sum to $3.54 billion.
** Canada, The Road to Balance (Budget 2014). Ottawa: Department of Finance Canada, 2014, Table 4.1.1, p. 260.
X represents the first year funding can be re-introduced.

These shifts represent adjustments to DND's capital accrual space, which is the basis of accounting used by the Finance Department.[8] This is therefore the basis upon which the defence budget is established, including the CFDS 20 year plan, and it is distinct from the modified cash basis of the Estimates appropriated by Parliament for DND (discussed below). This re-profiling means that $6.68 billion in DND's fiscal space has been removed in the near term, and deferred until some point in the future. It is impossible to discern when this money will reappear in DND's budget, as it is outside of the Department of Finance's five-year planning horizon, and therefore does not appear in any of the forecasts found in the official budget documents. DND documents released through Access to Information indicate, however, that as of June 2013, $5 billion worth of accrual space for major capital equipment projects had been pushed beyond 2027/2028. In other words, $5 billion in budgeted capital purchases have been delayed to the point that they will not happen within the CFDS' 20-year timeframe.[9]

These funds have been re-profiled because DND has not been able to use all of the Vote 5 Investment Cash appropriated by Parliament, which is discussed below. As a result, not all of the accrual space set aside in the fiscal framework for DND has been needed, and the capital re-profiling is aligning DND's budgetary allotment with the government of Canada's ability to procure military equipment and build defence infrastructure each year. For the government, the fiscal impact of this procurement delay has been highly advantageous. The focus of Budget 2014 was to return to fiscal balance by 2015. The re-profiling of DND's capital funds provided one-quarter of the fiscal restraint enacted by the government to do so. The failure to acquire military equipment and build infrastructure on schedule has provided a fiscal windfall for the Government of Canada. Not implementing the CFDS plan as intended has made a significant contribution to erasing Canada's deficit.

CFDS Over Time

In addition to the $5 billion in accrual space now deferred until after 2027/2028, since 2008 the Strategic Review and the Deficit Reduction Action Plan (DRAP) (DND's budget reduction exercises)[10] have removed $32 billion from DND's budget over the CFDS planning period (See Table 3). As a result, the total 20-year CFDS budget of $490 billion has been reduced to $453 billion..

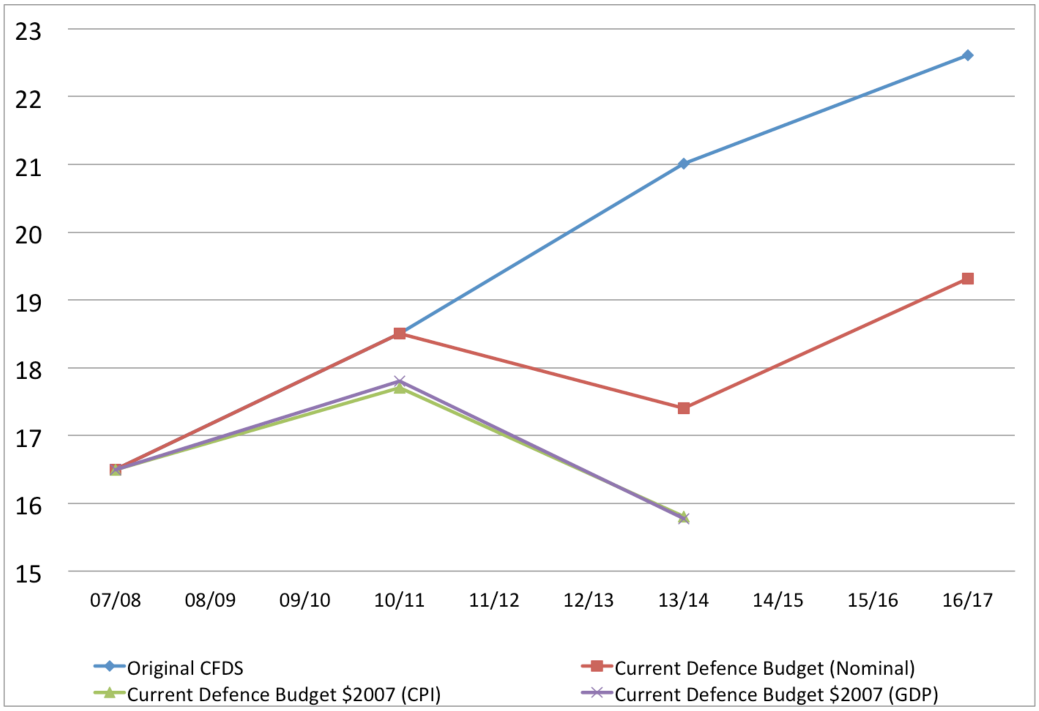
Table 3: CFDS – Budget Cuts ($1 billion)

Fiscal Year	**2012/13**	**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 2011*	(0.525)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	**(15.5)**
Budget 2012**	(0.327)	(0.706)	(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)	**(16.7)**
Total	**(0.852)**	**(1.706)**	**(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)**	**(32.2)**

* The results of DND's Strategic Review were announced in Budget 2011, and presented as a deficit reduction measure. This measure is recurring. Canada, *The Next Phase of Canada's Economic Action Plan (Budget 2011)*, Ottawa: Public Works and Government Services Canada, 2011, Table A.1.1, p. 218.
** The Government's Strategic and Operating Review (SOR) (also known as the Deficit Reduction Action Plan - DRAP) was announced in Budget 2012. This measure is recurring. Canada, *Economic Action Plan 2012*. Ottawa: Public Works and Government Services Canada, 2012, Table 5.1, p. 213.

Compared to the original CFDS plan, the capital re-profiling and cuts have reduced DND's budget, adjusted for inflation, below 2007 levels (see Figure 1).[11] Under CFDS, DND's budget was expected to grow by an average of 0.6 percent a year, after inflation. In reality, DND's grew briefly, and then shrank below 2007 levels.

Figure 1: CFDS over time ($ billion)

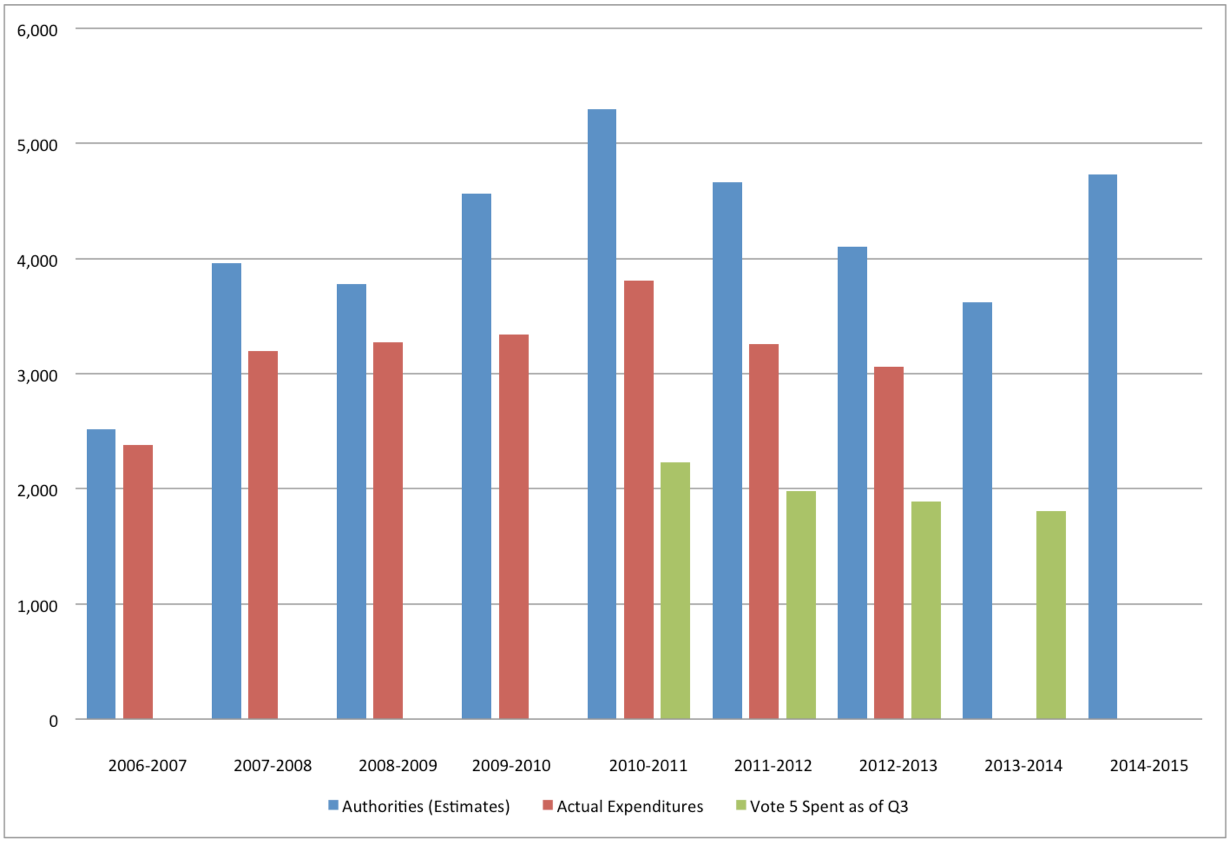


* See Footnote 11 for further explanation of figures and concepts used in this graph.

Un-Spent Capital Funds

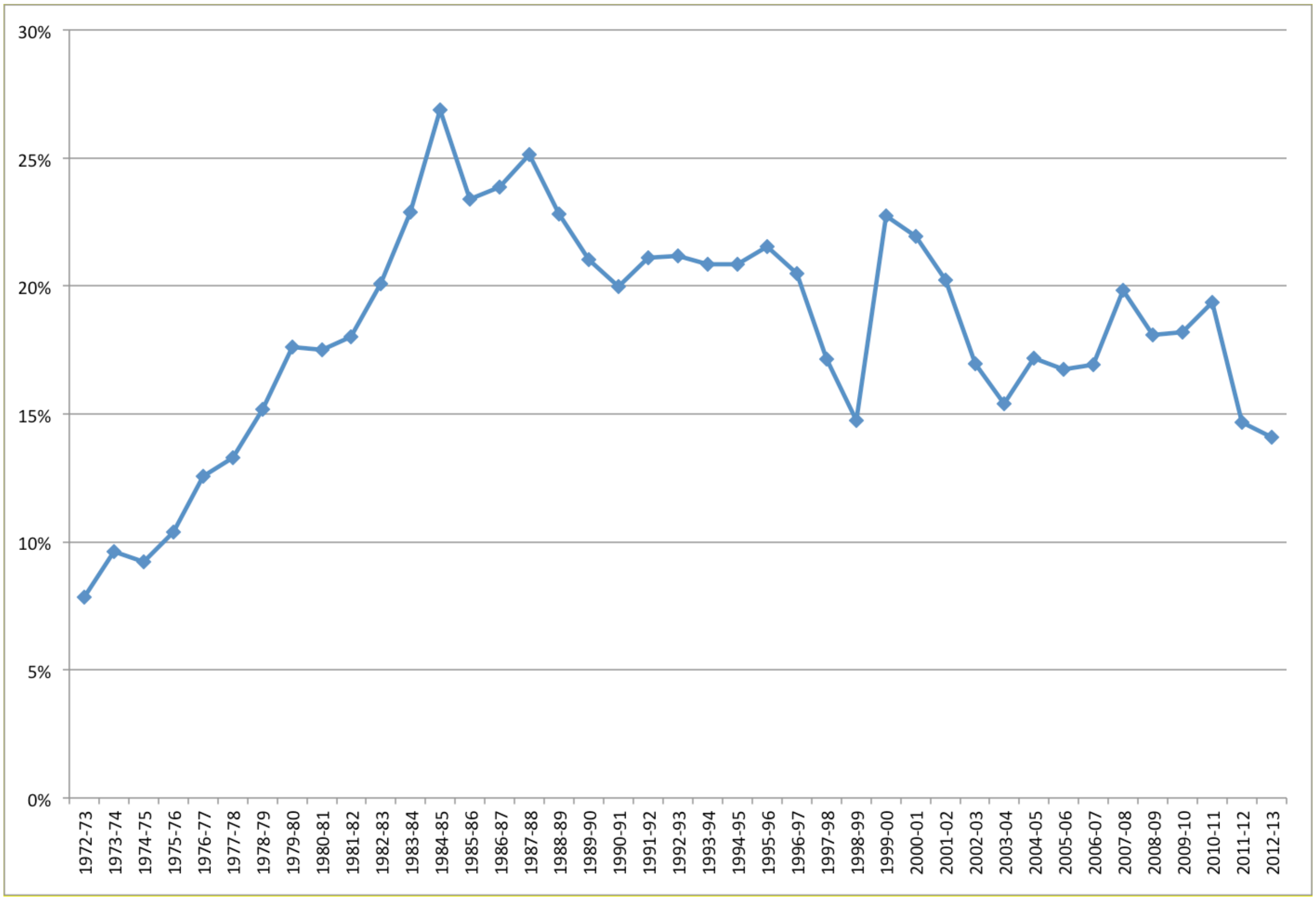
The re-profiling of Vote 5 accrual space has been made possible by the persistent, significant gap between the Vote 5 funds provided to DND through the Estimates and the funds actually spent (see Figure 2).[12] Between 2009/2010 and 2012/2013, DND did not spend at least $1 billion in available Vote 5 capital funding annually as intended (see Figure 2).[13] Year-end data is not yet available for 2013/2014, so it is not possible to conclude definitively that this trend continued into last fiscal year. Data on Vote 5 expenditures as of the Third Quarter (Q3) of the fiscal year, however, suggests that in 2013/2014, DND could once again not spend several hundred million dollars of Vote 5, as the Q3 figures were even less than those in the previous year. This suggests that actual Vote 5 expenditure in 2013/2014 will be lower than the previous year as well.[14]

Figure 2: DND Capital Funds ($ million - nominal)



Beginning with the Martin Government's 2005 Budget, Canada embarked on an ambitious re-capitalization plan, which the Harper government subsequently expanded significantly. Consequently, spending on capital increased annually until 2010/2011. Since then, spending on capital has steadily declined. As a result, the share of departmental expenditures devoted to capital dropped to 14.1 percent of the defence program in 2012/2013. This is the lowest share of DND spending devoted to capital since 1977/1978 (see Figure 3). [15]

Figure 3: Capital Spending as % of DND Budget (1972-2012)



The Need for an Approved Investment Plan

The persistent delays in the capital equipment program have been attributed to numerous factors. These include industry's inability to deliver projects on schedule, most notably in the case of the Maritime Helicopter Project. In addition, the increasing complexity of both the inter-departmental and intra-departmental approval process has been cited as a cause of this delay.[16] Lately, however, the persistence of this under-spending over multiple years has caused some to argue that it is the result of the Government of Canada intentionally under-spending the authorities available, as a means of eliminating the deficit.[17] An additional cause of this delay is a persistent human resources capacity issue within the acquisition workforce across government. During the 1990s, this capacity was downsized significantly, leaving behind far fewer and far less experienced personnel. The Government of Canada never recovered from this experience and deficit reduction measures worsened it. The ADM Materiel organization at DND, for instance, grew only 4 percent between 2003/2004 and 2009/2010, despite a 68 percent increase in expenditures.[18] Following this period of limited growth, ADM Materiel is now being cut 9 percent because of deficit reduction measures by the end of 2014/2015.[19] In comparison, the other components of the DND/CAF will remain significantly larger, even after recent reductions, than they were in 2003/2004 (see Table 4). The recently launched Defence

Procurement Strategy has as its first objective "deliver[ing] the right equipment to the Canadian Armed Forces … and the Canadian Coast Guard in a timely manner."[20] At this point in time, however, the procurement reform is still in its infancy, so it is too early to tell what impact it will have.

Table 4: Increases and Decreases in CAF / DND Workforce

	2003/04 - 2009/10	2009/10 - 2014/15
Total Full-Time DND + CAF	18%	-5%
CAF Regular Force	11%	2%
DND Civilians (Full Time)	44%	-15%
ADM Materiel	**4%**	**-9%**

- Data for 2003/04 to 2009/10 is from Lieutenant-General Andrew Leslie's *Report on Transformation 2011*, Ottawa: Department of National Defence, 2011, Annex F.
- Data for 2009/10 to 2014/15 is from Canada, *Departmental Performance Report 2009-10*. Ottawa: Department of National Defence, 2010, Canada, *2014-15 Report on Plans and Priorities* Ottawa: Department of National Defence, 2014, and Dan Ross, *Ottawa Conference on Defence and Security 2013* Ottawa: CDA Institute, February 21-22, 2013.

In 2013/2014, the lack of Treasury Board (TB) approval for DND's Investment Plan, and the subsequent financial restrictions imposed on National Defence as a result, contributed significantly to this phenomenon. All government departments are required to submit an Investment Plan outlining the allocations of resources for assets and acquired services on a three-year basis.[21] It should be noted that this document is distinct from the Defence Acquisition Guide that DND will publish in June 2014, which is intended to provide information on possible procurements to the defence industry.[22]

National Defence secured approval of its first Investment Plan in 2009. The document was revised in 2012, but Investment Plan 2012 was not approved. DND was similarly unable to secure approval for its Investment Plan in 2013. As of 12 June 2014, Investment Plan 2014 had not been granted TB approval. Throughout this period, the leading explanation for DND's inability to secure approval has related to DND's desire to "over-program" and a rejection of this approach by the Treasury Board. For National Defence, over-programming – planning for expenditures that would exceed its Parliamentary appropriation, knowing that not all projects will proceed as intended – has historically been viewed as the best means of making full use of the resources appropriated for the department. In the absence of over-programming, it is extremely difficult (some would say impossible) for DND to make full use of the authorities provided by Parliament. This approach has been contested, however, by the central agencies who view over programming as a fiscal risk.[23]

In June 2013, because DND's Investment Plan was not approved, the Treasury Board Secretariat imposed strict limits on National Defence, which prevented it from using all of the accrual space made available to it in the fiscal framework. This limited National Defence to using only the accrual space for which TB had already granted expenditure authority and prevented DND from accessing the accrual 'white space' (the portion of the accrual space that is available, but exceeds the amount authorized by TB) needed to move capital projects into definition or implementation.

This restriction had three significant impacts. First, it made it essentially impossible for DND to spend all of the funds appropriated by Parliament, since this requires exceeding the TB approved expenditure level. In 2012/2013, the first year of budget reduction under Strategic Review and DRAP, DND was able to transfer $795 million in Vote 5 funds to offset Vote 1 (operating) financial pressures.[24] This attenuated the impact of the first year of budget cuts, which disproportionately reduced Vote 1 funds. This transfer also significantly reduced the amount of Vote 5 funds that lapsed at the end of the fiscal year, compared to previous years. However, the imposed restriction has precluded DND from making a similar transfer of unused Vote 5 funds to Vote 1, limiting DND's financial flexibility.[25]

Second, the TB restriction led to the cancellation or significant delay in several capital equipment projects. Under the terms of the imposed restriction, DND could seek TB approval to move from the options analysis phase of a capital project into the definition or implementation phase only if doing so did not exceed the TB approved expenditure restrictions. In effect, this means that so long as the restriction is in effect, DND must provide a financial offset each time it requests expenditure approval for capital projects. For instance, in March 2014, DND announced an increase in the scope of the Aurora Structural Life Extension and Incremental Modernization Projects, and announced that four additional aircraft would have their lives extended.[26] To advance these projects, several others that had previously been granted expenditure authority were cancelled outright, and others were returned to the options analysis stage.[27] This process significantly delays the projects that are returned to the options analysis phase, as they will once again need to receive TB approval to enter the project definition phase – a time consuming process. In sum, for essentially all of 2013/2014 and until the Investment Plan is approved, making progress on new capital projects has come at the direct expense of cancelling or significantly delaying others.

Third, the imposed restriction, introduced after the start of the 2013/2014 fiscal year, created significant financial pressures for National Defence after the start of the fiscal year, or 'in-year.' The Main Estimates for 2013/2014 were $832 million less than the year previous in part because of "the expiry of budgetary spending authorities"[28] for the Canada First Defence Strategy. These funds expired because DND's Investment Plan was not approved. While at the outset of 2013/2014 DND planned to request this $832 million through the Supplementary Estimates, once its Investment Plan was approved,[29] the approval was not granted. As a result, DND only received $400 million of the needed funds in Supplementary Estimates B.[30]

It is believed that this situation contributed to a significant in-year reduction in DND's National Procurement budget, the Vote 1 corporate account that provides for equipment maintenance and repair and overhaul. Much of the maintenance, repair and overhaul, and ammunition funded by the National Procurement budget is provided by Canadian industry under contract. DND began 2013/2014 "13% below the notional NP allocation ... a result of DRAP related reductions and departmental budgetary limitations for FY 2013/14."[31] To compensate, DND examined options for reducing the National Procurement budget by 4, 6 and 8 percent. In an October 2013 assessment, defence officials stated that the impact to the defence industry would be, "relatively modest; however, in localized cases the economic effects may be exacerbated."[32] Defence industry officials have indicated that this assessment significantly understates the impact of these reductions to their operations, which have been cut between 20-35 percent, as the reduction to National Procurement spending was extended into 2014/2015.[33] The direct negative impact on Canadian Armed Forces operational readiness has been dramatic, as ships have been tied up, vehicles parked and aircraft flying hours cut.

DND's Fiscal Outlook for 2014/2015

Despite the overall reduction to the defence budget, DND's *Main Estimates* for 2014/2015 (which are presented on a modified cash basis of accounting that is distinct that the accrual basis used for DND's budget) increased 4 percent over the previous year. This is almost entirely attributable to a significant increase in the Vote 5 Investment Cash requested for the Family of Land Combat Vehicles, the Arctic Offshore Patrol Ship, and other capital projects. In total, $4.7 billion in Vote 5 funds was requested this fiscal year. This suggests that there may be a significant increase in capital expenditures this fiscal year.

Some caution is warranted in this regard, however, since DND's annual Vote 5 expenditure has never exceeded $3.8 billion nominally (see Figure 2). Although there are no publicly documented limits on the amount of Vote 5 DND is able to spend, this appears to represent an effective upper limit on the volume of defence capital projects the Government of Canada is willing, or able, to execute in a given year. Since DND has still not received approval for its Investment Plan as of 12 June 2014 – more than two months into the 2014/2015 fiscal year – it is difficult to believe that the department will be able to spend its full Vote 5 allotment, as doing so would exceed the previous maximum annual capital expenditure (in 2010/2011) by 24 percent.

Conclusion

According to existing plans, 2014/2015 will be the last year of actual budget cuts at DND, but the first year of a two-year operating budget freeze. These measures have significantly reduced O&M funding, including substantial cuts to the National Procurement budget. At the same time, DND continues to be unable to spend, by a significant margin, its capital budget. This situation is unlikely to change until DND's Investment Plan is approved. As a result, the share of the defence budget devoted to capital investment has dropped to its lowest level since 1977/1978, and $5 billion worth of CFDS capital projects will not be bought or built until after 2028.

The funding to operate the military today has been cut, while much of the funding to acquire the military of tomorrow is going unused. Operational readiness has dropped significantly, and the re-capitalization plans for the Canadian military will need to be adjusted to reflect a significant loss of purchasing power.

The Canada First Defence Strategy launched in 2008 anticipated that by 2014 the defence budget would have grown steadily for six years. Instead, the defence budget is now lower, adjusting for inflation, than it was before CFDS was launched. As a result, there is less money overall and significantly less money available to keep existing fleets operating. At the same time, the demand on operating funds continues to rise because old equipment fleets are not being replaced on schedule, compounding the decline in current operational readiness. This delay, in turn, is steadily eroding the purchasing power of National Defence's recapitalization budget, reducing the military's future capability.

NOTES

[1] Re-profiling is a budgeting term used to describe a shift in accrual space.
[2] David Perry, *Doing Less with Less*. Ottawa: Conference of Defence Associations Institute, 2014.
[3] This is the Vote 1 corporate account that provides for equipment maintenance, repair and overhaul, and ammunition. See Ross Fetterly and Naceur Essaddam, **"**National Procurement," *Review of Business Research*, Vol. 8:2 (2008): 59-70.
[4] Canada, *Economic Action Plan 2014 (Budget 2014)*. Ottawa: Department of Finance Canada, 2014, p. 250
[5] Perry, *Doing Less with Less*.
[6] Information on the fiscal impact of the 2014 Operating Budget Freeze was requested several times from DND. At the time of publication, they had not responded.
[7] Canada, *Economic Action Plan 2014*. Ottawa: Department of Finance Canada, 2014, p. 255.
[8] DND used to exclusively employ "cash accounting" principles. Under this system, DND was provide both Vote 1 and Vote 5 "A Base" funding as a cash appropriation through the Estimates. Under this system, all expenses (Personnel, Operations and Maintenance and Capital) were charged in full against DND's budget in the year expenditures were made. Accrual practices, however, fundamentally changed the management of capital funds. Under accrual, Personnel and Operations and Maintenance costs are still charged against DND's budget in full in the year costs are incurred. The process is different for capital expenditures, however. When DND buys capital equipment, it is provided with "Investment Cash" from Parliament in the year required, to execute the purchase. This Investment Cash is not charged in full against DND's budget in the year it is used, however. Rather, the capital costs of procurements are amortized over the equipment's life-cycle and charged against DND's budget as an annual amortization expense. See Lieutenant-Colonel Ross Fetterly and Major Richard Groves, *Accrual Accounting and Budgeting in Defence*. Kingston: School of Policy Studies, 2008.
[9] Canada. Access to Information Request A-2013-00797. Ottawa: Department of National Defence, 2013.
[10] For further detail see Perry, *Doing Less with Less.*
[11] Original CFDS: this is the original CFDS plan, available at http://www.forces.gc.ca/en/about/canada-first-defence-strategy.page?. The data as originally presented outlined DND spending every three fiscal years. To provide for an accurate comparison, the original CFDS budget plan was adjusted to account for the creation of Shared Services Canada and the Communications Security Establishment Canada as independent agencies. In 2011, Shared Services Canada was created to consolidate several government-wide IT functions. Government departments, including DND, now effectively pay SSC for services formerly performed in-house. DND's 2012/2013 estimates were reduced by $305.7 million because of this change. In 2011 CSEC, previously included in DND's budget, was established as a stand-alone agency. DND's 2012/2013 Main Estimates were reduced by $388.6 million because of this change. Combined, these two measures account for a $694.4 million annual variation from the original CFDS plan. Since these changes were made after the CFDS plan was established, the author adjusted the CFDS fiscal plan by this amount on a recurring basis. Canada. *2012-13 Estimates*. Ottawa: Minister of Public Works and Government Services, 2012, p. 245. http://www.tbs-sct.gc.ca/est-pre/20122013/me-bpd/me-bpd-eng.pdf
Current Defence Budget (Nominal): This shows the impact of the budget cuts and capital re-profiling on the CFDS budget plan, without accounting for inflation.
Current Defence Budget $2007 (CPI): This adjusts the Current Defence Budget into constant $2007 using the Consumer Price Index, Available at http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/econ46a-eng.htm
Current Defence Budget $2007 (GDP): This adjusts the Current Defence Budget into constant $2007 using the Statistics Canada GDP deflator. Available at http://www5.statcan.gc.ca/cansim/a26
[12] Up to 5% of these funds can be carried forward to future fiscal years. Projects established on an accrual basis can have their funding re-profiled to future years. Finally, it is also possible for DND to transfer Vote 5 capital funds to Vote 1 (Operations). Canada, *Evidence*. Standing Senate Committee on National Finance. First Session, 41st Parliament, Issue 32. February 12, 2013, p. 32:58.
[13] Data in Figure 2 is taken from: Canada. *Public Accounts of Canada*, *Vol. II* Ottawa: Public Works and Government Services Canada (various years); Canada, *Supplementary Estimates (C),2013–14* . Ottawa: Public Works and Government Services Canada, 2014; Canada, *2014-2015 Estimates.* Ottawa: Public Works and Government Services Canada, 2014; and Canada. *Quarterly Financial Report for the Quarter Ended December 31*. Ottawa: Department of National Defence, various years. Available at http://www.forces.gc.ca/en/about-reports-pubs/index.page?

[14] Canada. *Quarterly Financial Report for the Quarter Ended December 31*. Ottawa: Department of National Defence, various years. http://www.forces.gc.ca/en/about-reports-pubs/index.page?

[15] This presents expenditures on Standard Object 08 and 09 in the Public Accounts of Canada, as a share of gross ministerial expenditures. Canada. *Public Accounts of Canada Vol. II*. Ottawa: Public Works and Government Services Canada, (various years), Table 3: Ministerial Expenditures by Standard Object.

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