

**OFFICE OF  
THE PARLIAMENTARY BUDGET OFFICER**



**BUREAU DU  
DIRECTEUR PARLEMENTAIRE DU BUDGET**

# **Cost Estimating and Budget Sufficiency- Fiscal Sustainability of Canada's National Defence Program**

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**Peter Weltman  
Sr. Director, Costing and Program Analysis**

# Agenda

- The Canadian federal context and the role of the PBO
- Purpose of the study
- Data, Models and Methodology
- Results and dependencies
- Next Steps

# Management of Public funds

## Canada

- Executive Branch proposes expenditure plans (the Estimates)
- Parliament authorizes the raising of revenue
- Parliament appropriates the expenditure of funds

## USA

- Executive Branch proposes expenditure plans (the President's Budget)
- Congress authorizes the raising of revenue
- Congress appropriates the expenditure of public funds

# Management of Public funds

## Canada

- Government members are members of Parliament
- Government drafts all material legislation
- Parliamentarians supported by skeleton staff
- PBO created in 2008 to support Parliament on cost estimates and economic forecasts, staff of 16

## USA

- Congress is independent of the Executive Branch
- Congress drafts all legislation
- Congress supported by significant staff
- CBO created in 1974 to support Congress on cost estimates and economic forecasts, staff of 220



# Context for the Study

- Government is composed of members of the majority party of Parliament
- Parliament appropriates funds for the National Defence program but must rely for the most part on the government's affordability analysis
- No incentive for government to provide Parliament with independent analysis
- PBO was asked to undertake this analysis to better inform Parliamentary decision-making

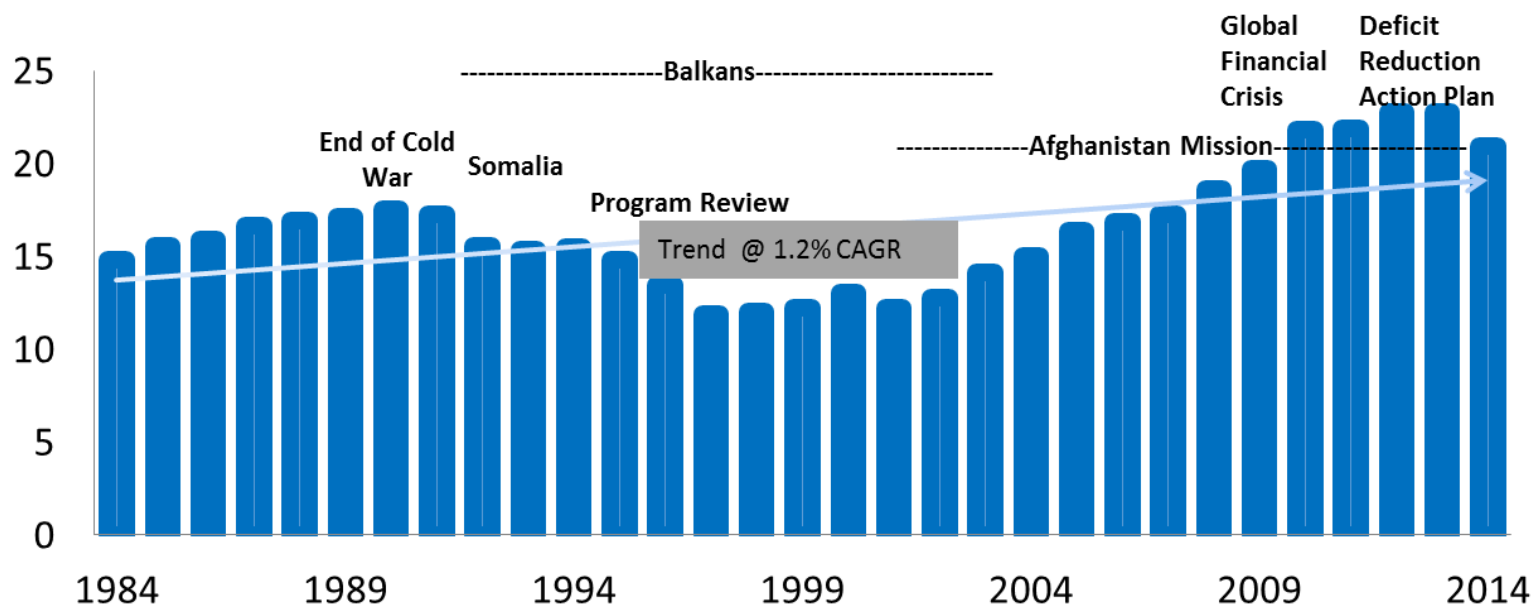
# Purpose of the study

- National Defence program= 20% of total direct expenditure
  - 7% of the total federal budget
- Parliament does not have insight into longer term affordability of the program
- Current government publications provide a 3-year projection that is highly variable and subject to Executive Branch discretion

# Comparable Studies

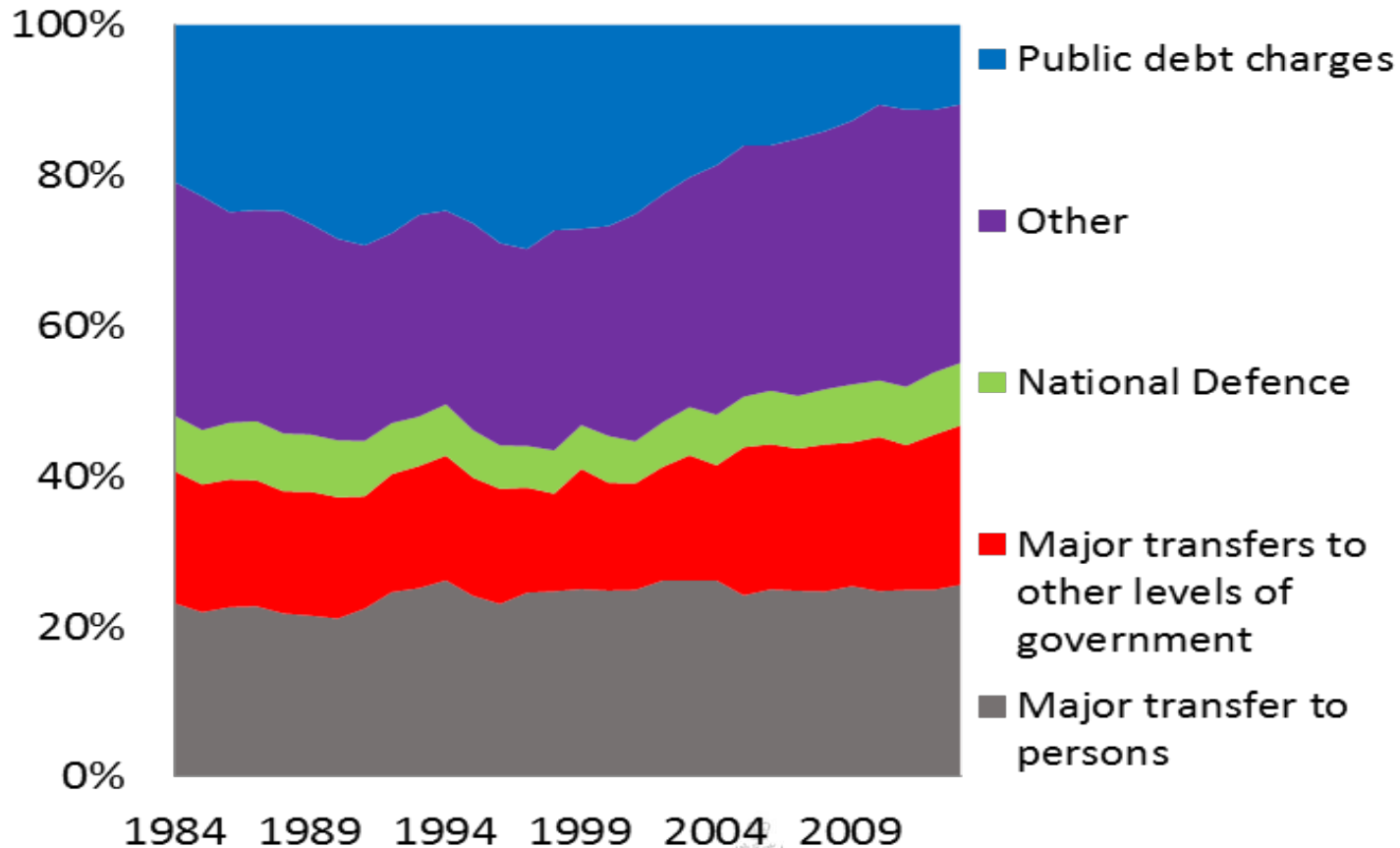
- CBO: Assessment of the Future Years Defense Program
- MOD: Statement of Affordability
- ASPI: Annual Defence Brief

# Historical Defence Expenditure (\$B 2012)

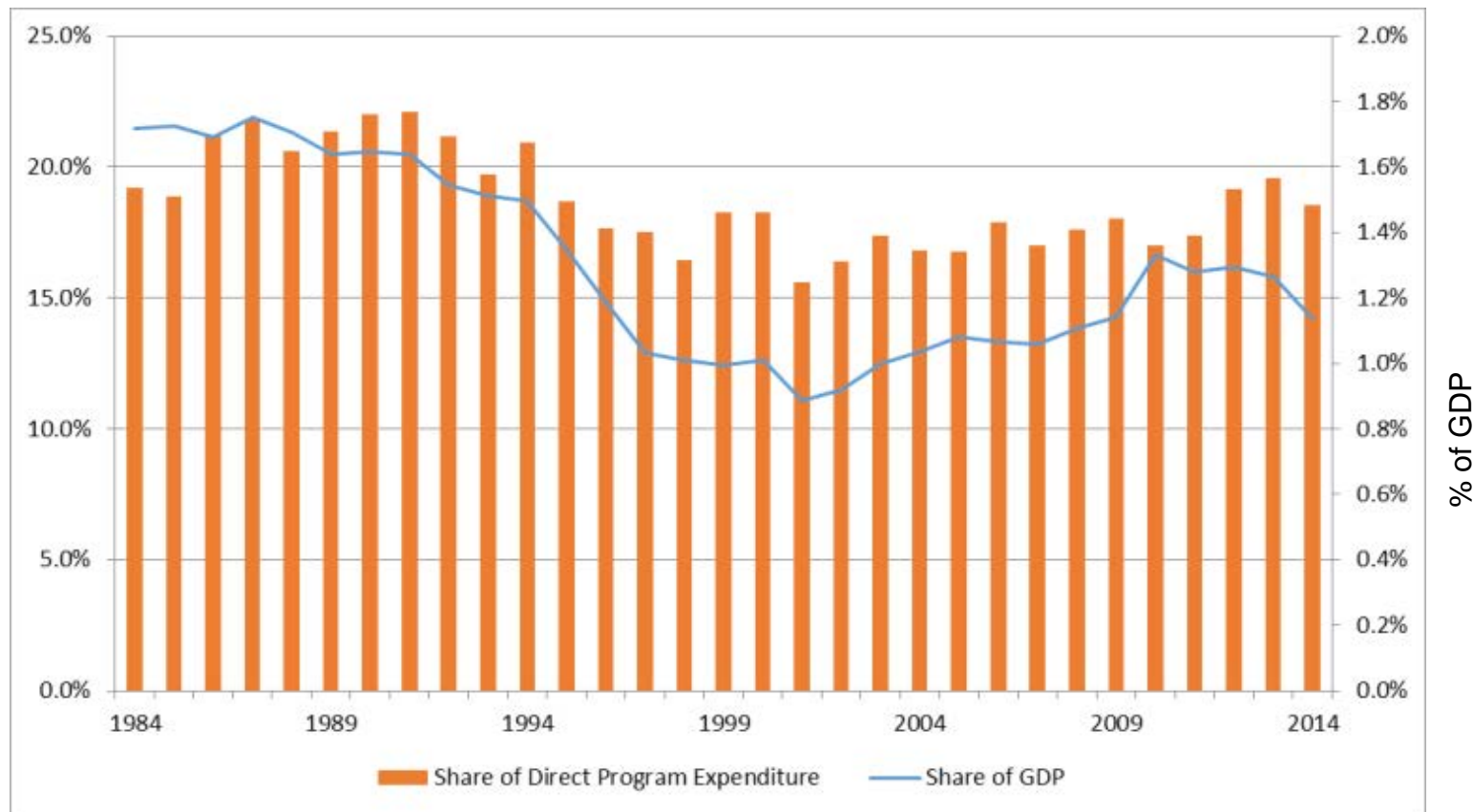




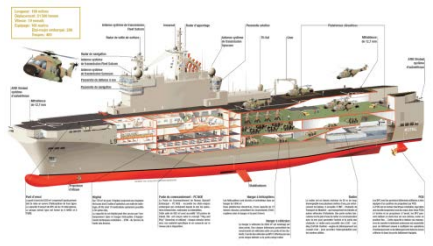
# Canadian Federal Govt Expenditures



# Defence as a share of DPE and GDP



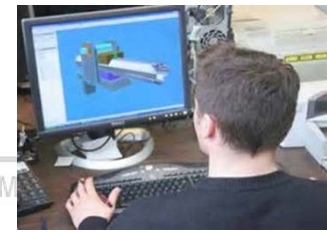
# Force Structure Cost Drivers



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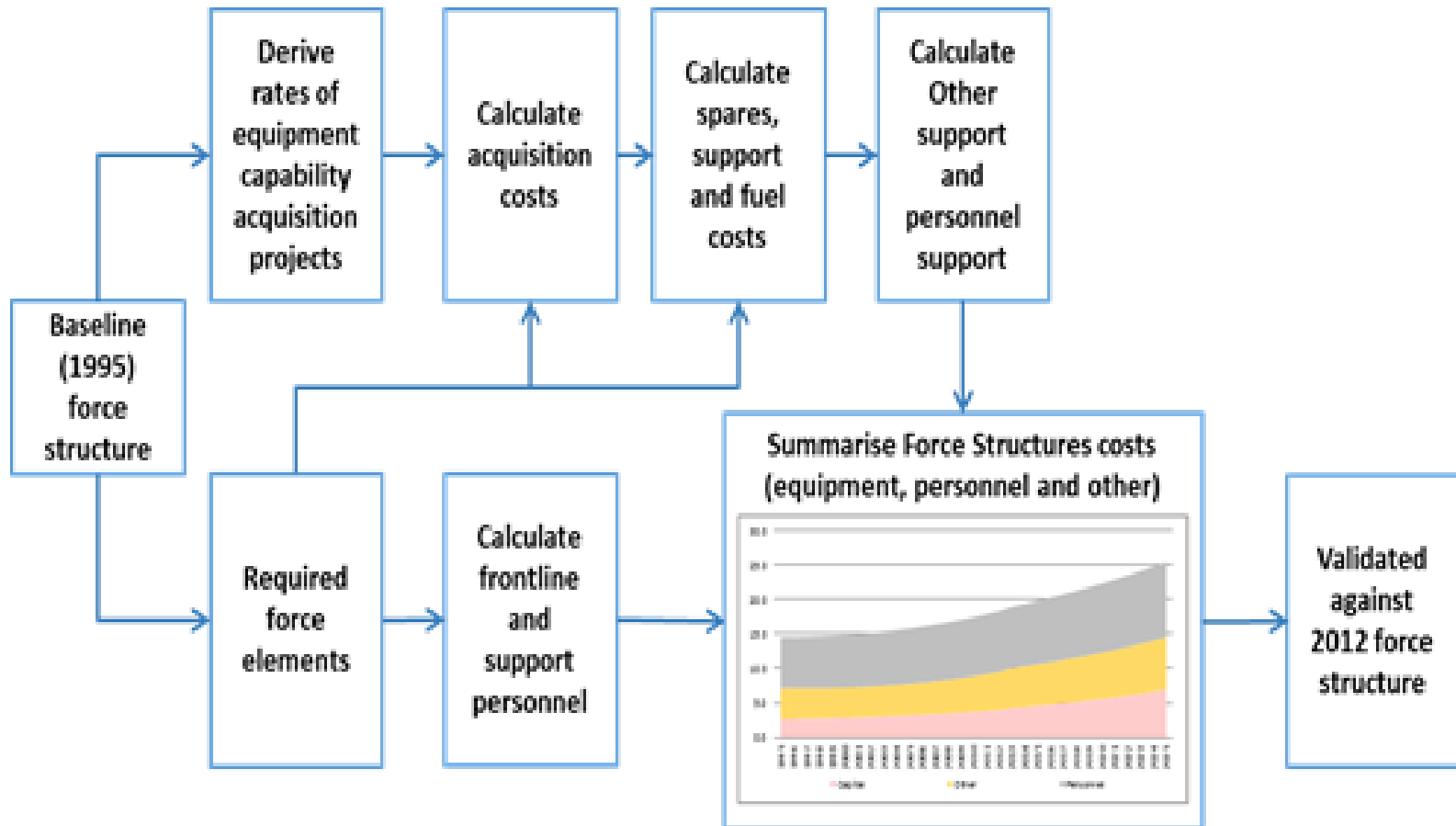


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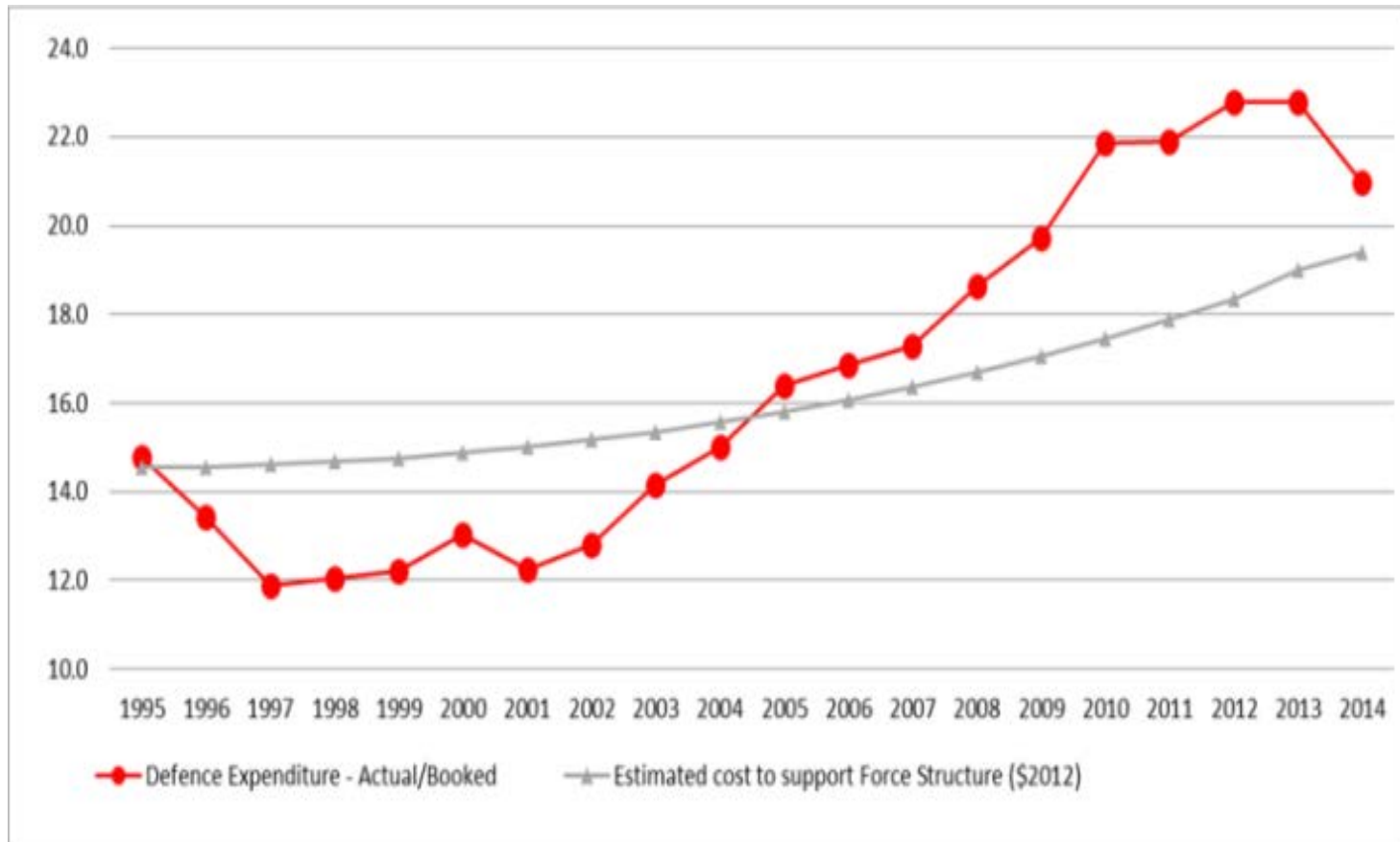


# Force structures model overview

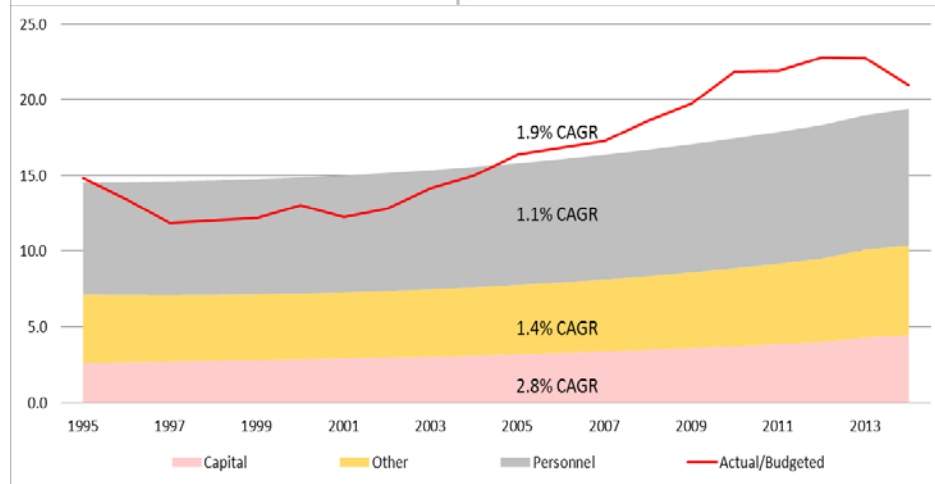
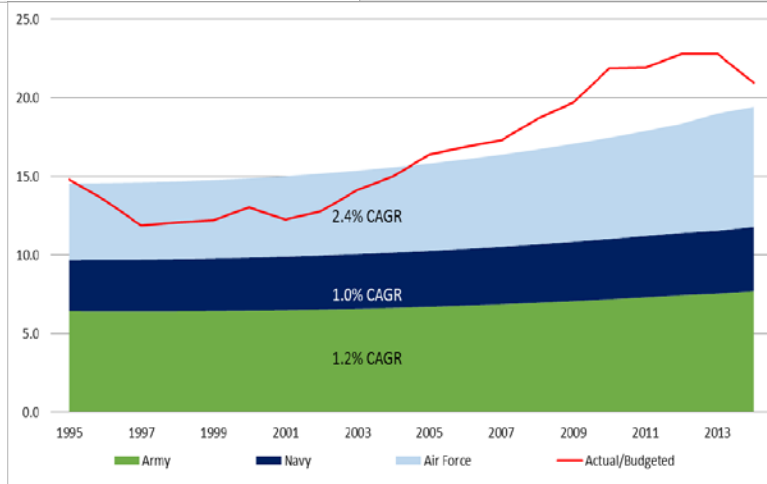
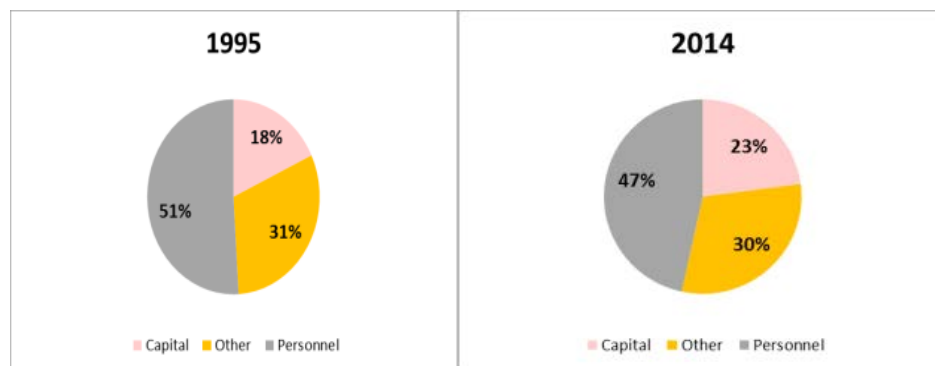
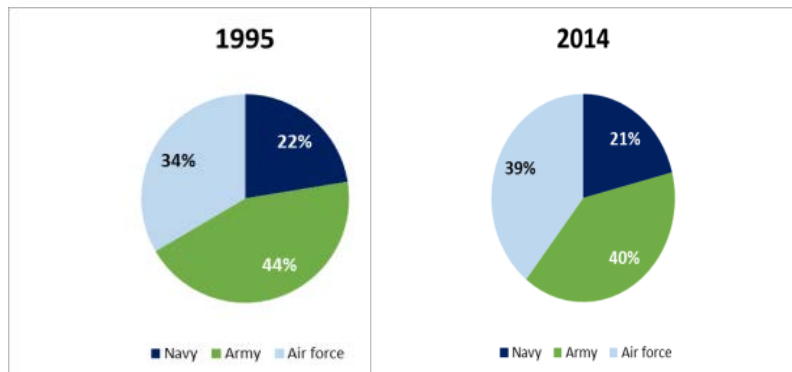




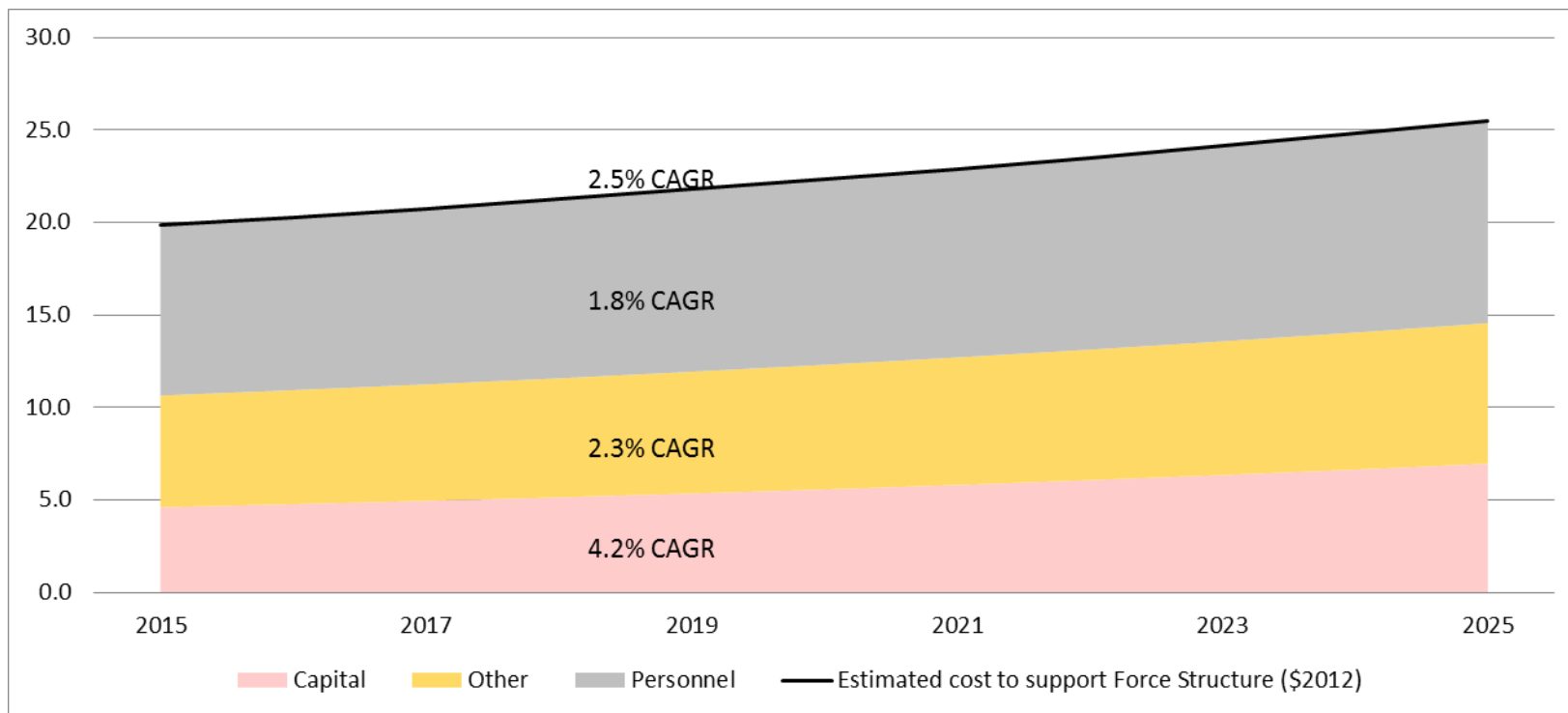
# Estimated cost to support the force structure against actual expenditure (\$B2012)



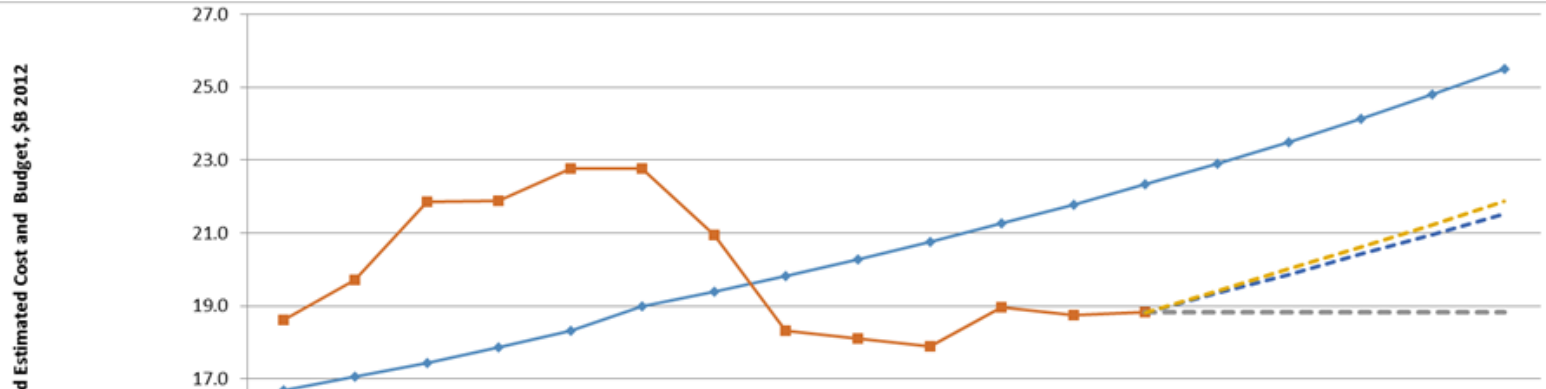
# Historical defence budgets and share



# Projected defence expenditure and share



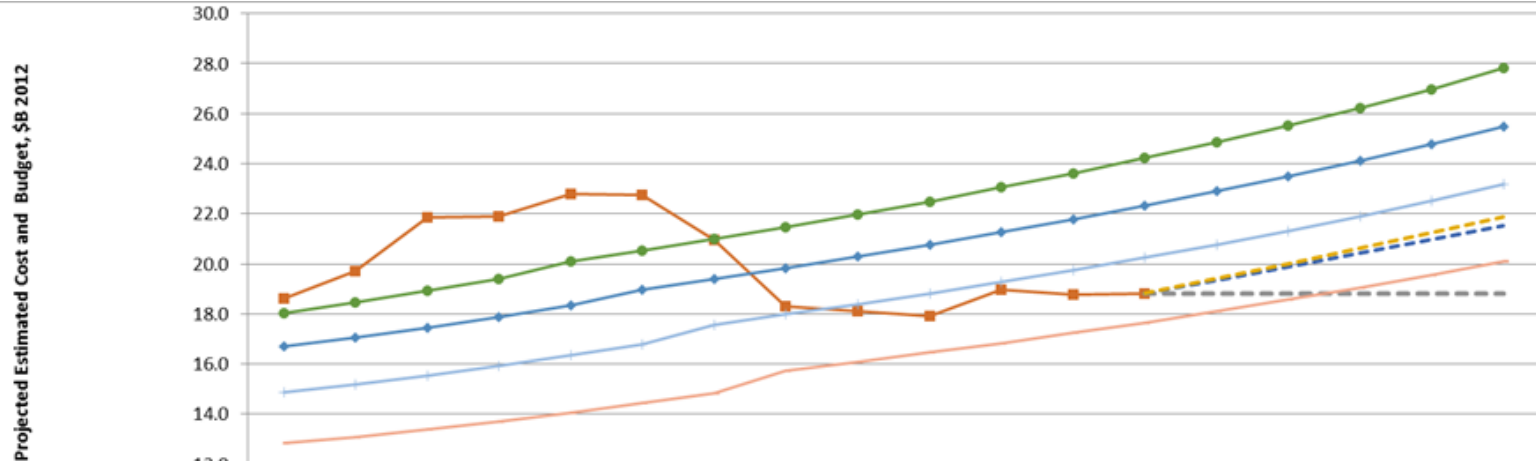
# Historical and forecast defence budget scenarios against force structure cost (2008-2025)



|  | Past Spend |      |      |      |      |      |      | Budgeted Spend |      |      |      |      |      | Projected Scenarios |      |      |      |      |
|--|------------|------|------|------|------|------|------|----------------|------|------|------|------|------|---------------------|------|------|------|------|
|  | 2008       | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015           | 2016 | 2017 | 2018 | 2019 | 2020 | 2021                | 2022 | 2023 | 2024 | 2025 |
| — Estimated Cost of Force Structure 1995 calibration | 16.7       | 17.1 | 17.5 | 17.9 | 18.3 | 19.0 | 19.4 | 19.8           | 20.3 | 20.8 | 21.3 | 21.8 | 22.3 | 22.9                | 23.5 | 24.1 | 24.8 | 25.5 |
| — Past Spend / Current Budget                        | 18.6       | 19.7 | 21.9 | 21.9 | 22.8 | 22.8 | 21.0 | 18.3           | 18.1 | 17.9 | 19.0 | 18.8 | 18.8 |                     |      |      |      |      |
| --- 0% real growth                                   |            |      |      |      |      |      |      |                |      |      |      |      | 18.8 | 18.8                | 18.8 | 18.8 | 18.8 | 18.8 |
| --- 1.1% historical GDP share                        |            |      |      |      |      |      |      |                |      |      |      |      | 18.8 | 19.3                | 19.9 | 20.4 | 21.0 | 21.5 |
| --- 1.9% real growth rate since 1995                 |            |      |      |      |      |      |      |                |      |      |      |      | 18.8 | 19.4                | 20.0 | 20.6 | 21.2 | 21.9 |
| Gap- CFDS 2008 Plan                                  | 1.1        | 2.0  | 1.5  | 1.7  | 1.3  | 1.1  | 1.3  | 0.8            | 0.4  | -0.2 | -0.6 | -1.4 | -1.9 |                     |      |      |      |      |
| Gap at Past Spend / Current Budget                   | 1.9        | 2.7  | 4.4  | 4.0  | 4.4  | 3.8  | 1.6  | -1.5           | -2.2 | -2.9 | -2.3 | -3.0 | -3.5 |                     |      |      |      |      |
| Gap at 0% real growth                                |            |      |      |      |      |      |      |                |      |      |      |      |      | -4.1                | -4.7 | -5.3 | -6.0 | -6.7 |
| Gap at growth rate since 1995                        |            |      |      |      |      |      |      |                |      |      |      |      |      | -3.5                | -3.5 | -3.5 | -3.6 | -3.6 |
| Gap at historical share of GDP                       |            |      |      |      |      |      |      |                |      |      |      |      |      | -3.6                | -3.6 | -3.7 | -3.8 | -4.0 |



# Sensitivity of estimated force structure costs using different calibration years



|  | Past Spend |      |      |      |      |      |      | Budgeted Spend |      |      |      |      | Projected Scenarios |      |      |      |      |      |
|--|------------|------|------|------|------|------|------|----------------|------|------|------|------|---------------------|------|------|------|------|------|
|  | 2008       | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015           | 2016 | 2017 | 2018 | 2019 | 2020                | 2021 | 2022 | 2023 | 2024 | 2025 |
| — Past Spend / Current Budget                        | 18.6       | 19.7 | 21.9 | 21.9 | 22.8 | 22.8 | 21.0 | 18.3           | 18.1 | 17.9 | 19.0 | 18.8 | 18.8                | 18.8 | 18.8 | 18.8 | 18.8 | 18.8 |
| — 0% real growth                                     |            |      |      |      |      |      |      |                |      |      |      |      | 18.8                | 18.8 | 18.8 | 18.8 | 18.8 | 18.8 |
| — 1.1% historical GDP share                          |            |      |      |      |      |      |      |                |      |      |      |      | 18.8                | 19.3 | 19.9 | 20.4 | 21.0 | 21.5 |
| — 1.9% real growth rate since 1995                   |            |      |      |      |      |      |      |                |      |      |      |      | 18.8                | 19.4 | 20.0 | 20.6 | 21.2 | 21.9 |
| — Estimated cost of Force Structure 1994 calibration | 18.1       | 18.5 | 18.9 | 19.4 | 20.1 | 20.5 | 21.0 | 21.5           | 22.0 | 22.5 | 23.1 | 23.6 | 24.2                | 24.9 | 25.5 | 26.2 | 27.0 | 27.8 |
| — Estimated Cost of Force Structure 1995 calibration | 16.7       | 17.1 | 17.5 | 17.9 | 18.3 | 19.0 | 19.4 | 19.8           | 20.3 | 20.8 | 21.3 | 21.8 | 22.3                | 22.9 | 23.5 | 24.1 | 24.8 | 25.5 |
| — Estimated cost of Force Structure 1996 calibration | 14.9       | 15.2 | 15.5 | 15.9 | 16.3 | 16.8 | 17.6 | 18.0           | 18.4 | 18.8 | 19.3 | 19.7 | 20.2                | 20.8 | 21.3 | 21.9 | 22.5 | 23.2 |
| — Estimated cost of Force Structure 1997 calibration | 12.8       | 13.1 | 13.4 | 13.7 | 14.1 | 14.4 | 14.9 | 15.7           | 16.1 | 16.5 | 16.8 | 17.2 | 17.7                | 18.1 | 18.6 | 19.1 | 19.6 | 20.1 |



# Summary

- The cost of Canada's National Defence program is expected to outgrow its budget allocation
- Parliament and Canadians are entitled to understand the projected costs and key drivers of the program
- PBO report provides a high level overview with sensitivities

# Questions?

**Peter Weltman**

Office of the Parliamentary Budget Officer

Ottawa Canada

**[Peter.weltman@parl.gc.ca](mailto:Peter.weltman@parl.gc.ca)**

**(613) 992-8044**