OFFICE OF THE PARLIAMENTARY BUDGET OFFICER

CANADA

BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

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

ICEAA Professional Development and Training Workshop
June 2016

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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

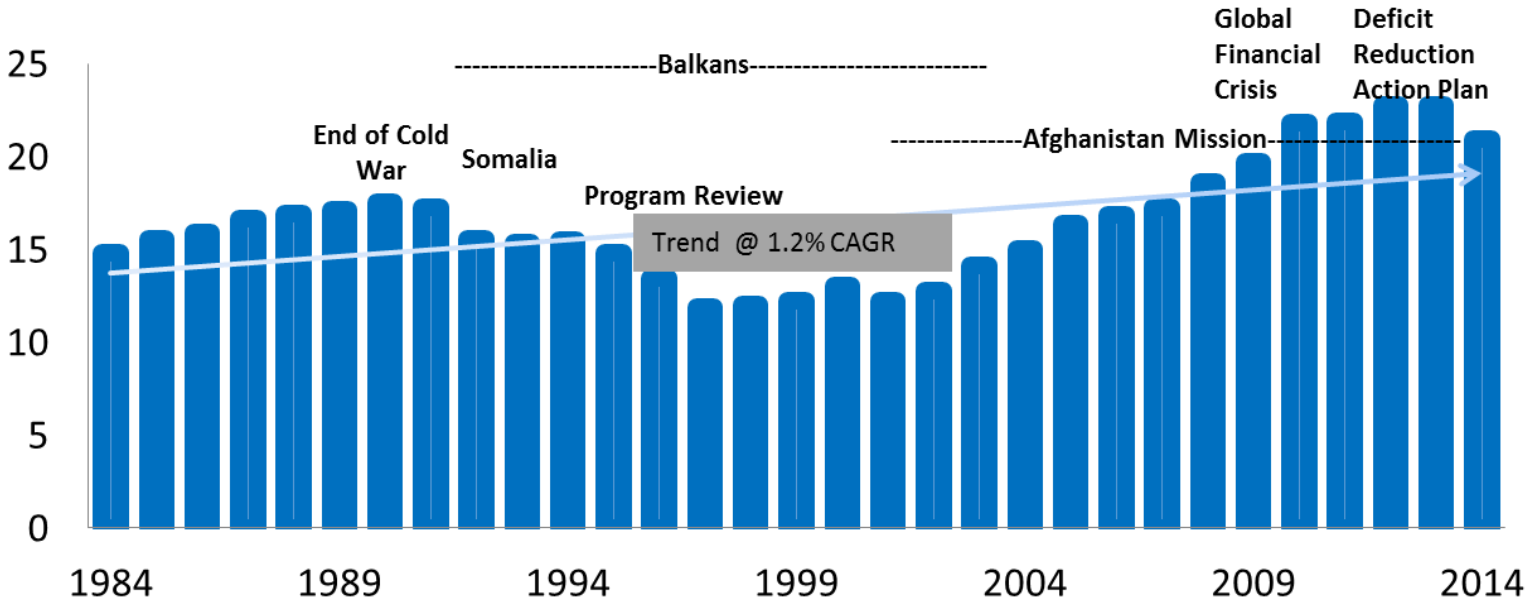
Purpose of the study

- 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

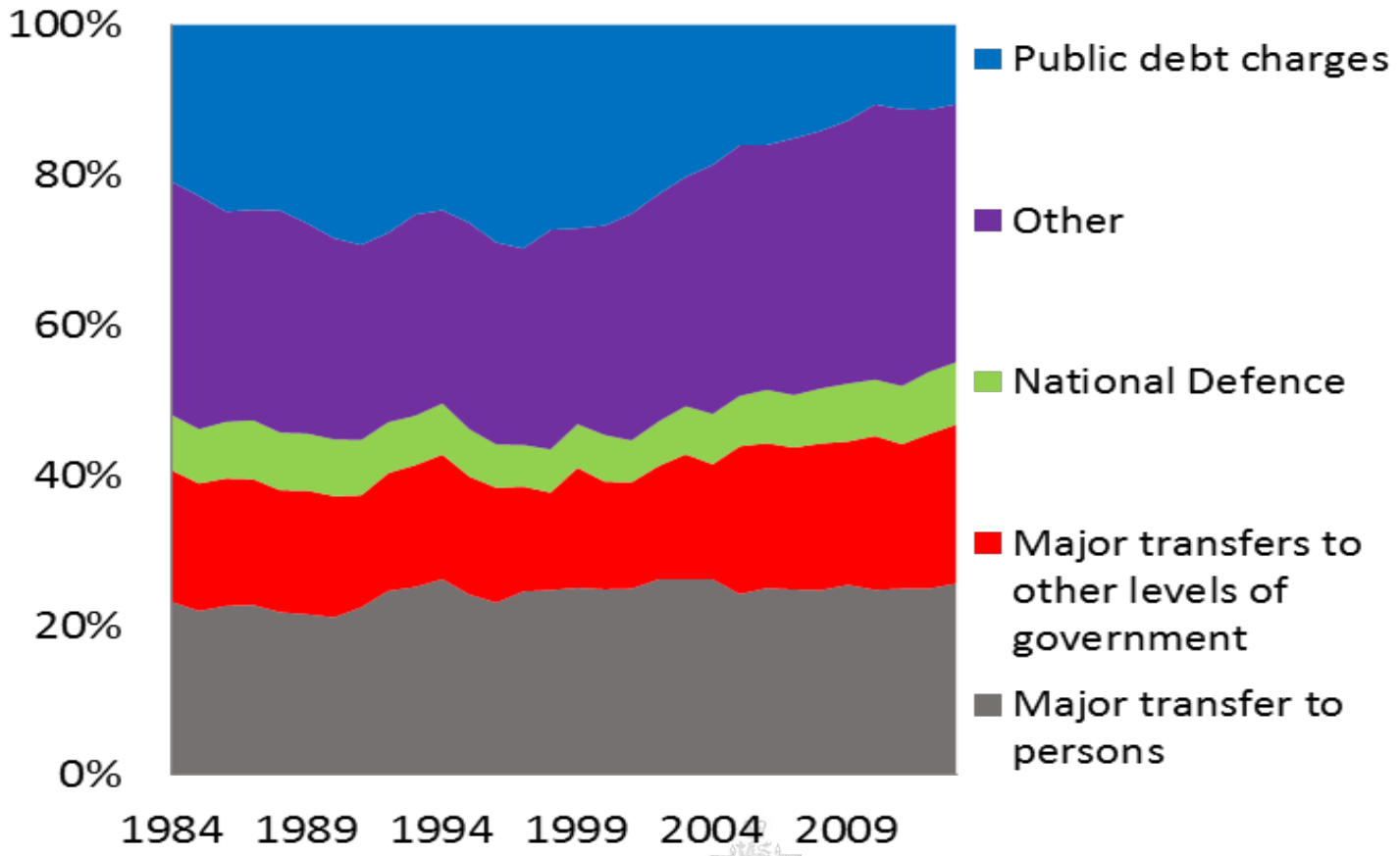
Comparable Studies

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

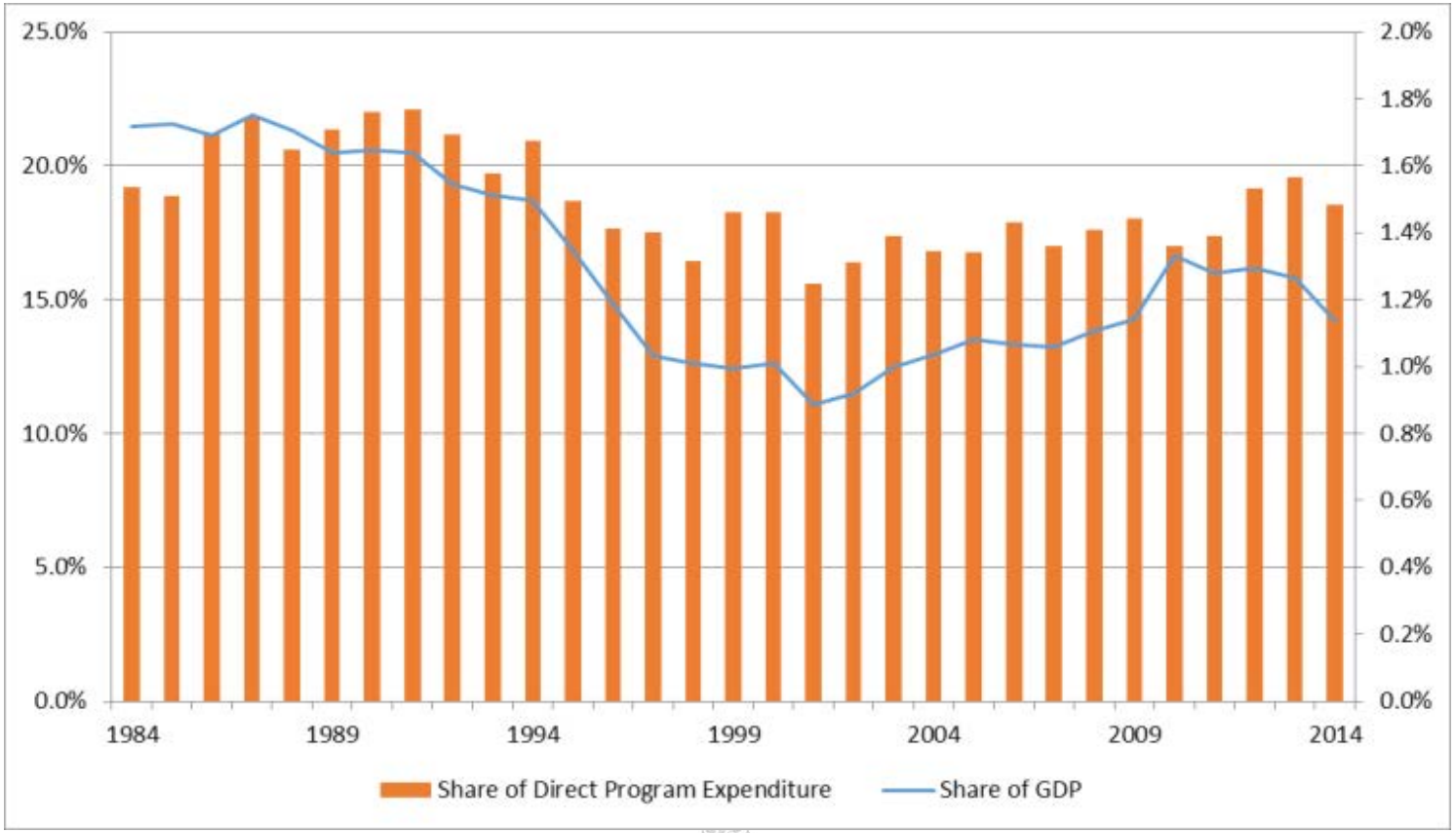
Historical Defence Expenditure ($B 2012)



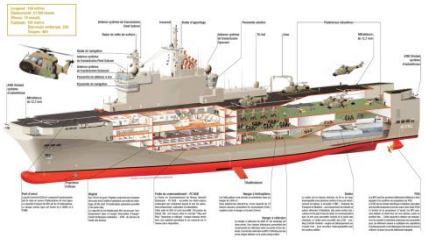
Canadian Federal Govt Expenditures

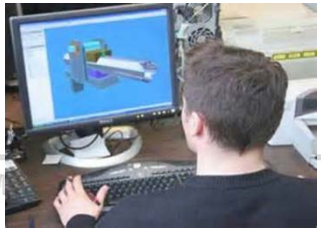


Defence as a share of DPE and GDP

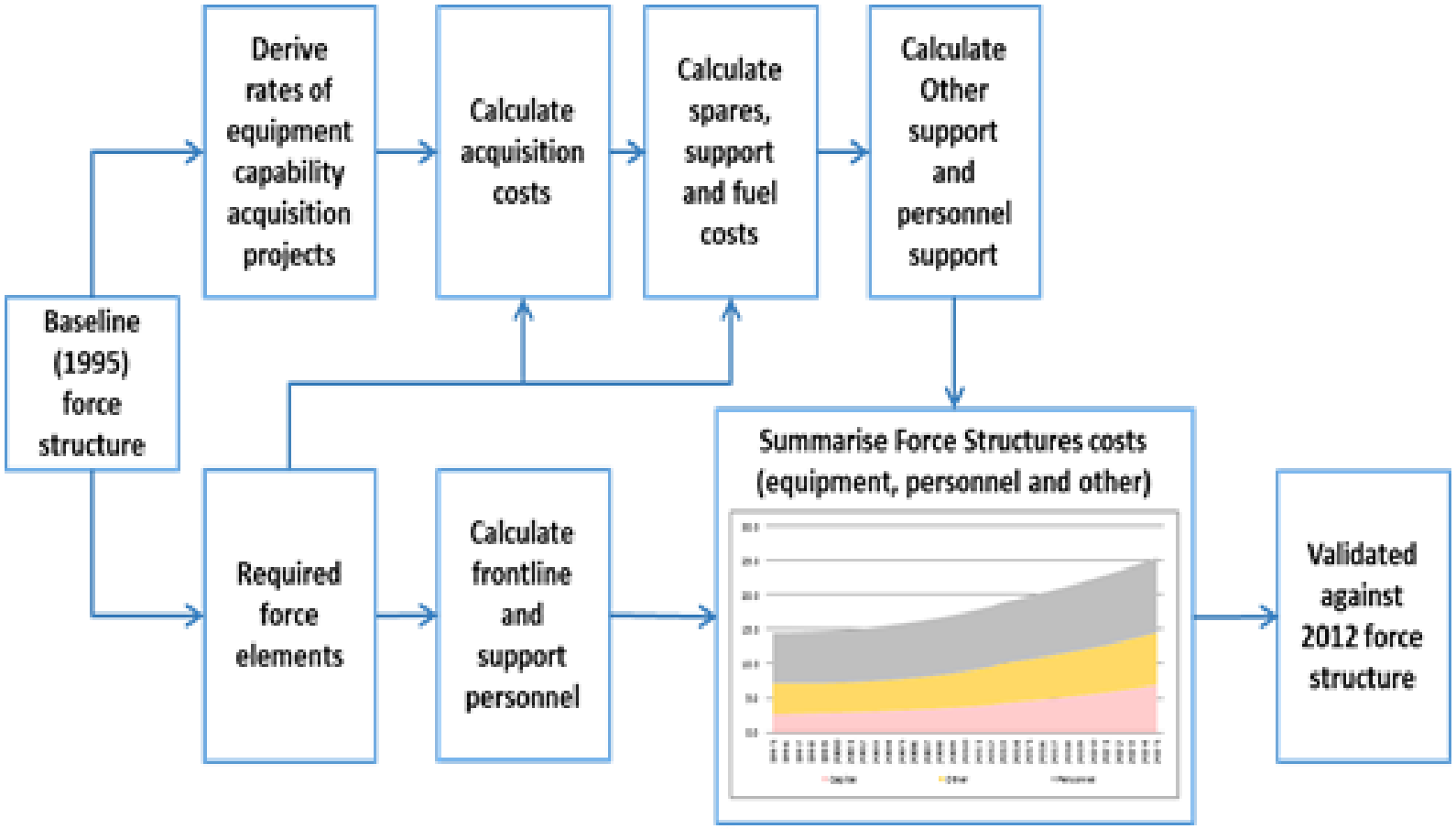


Force Structure Cost Drivers

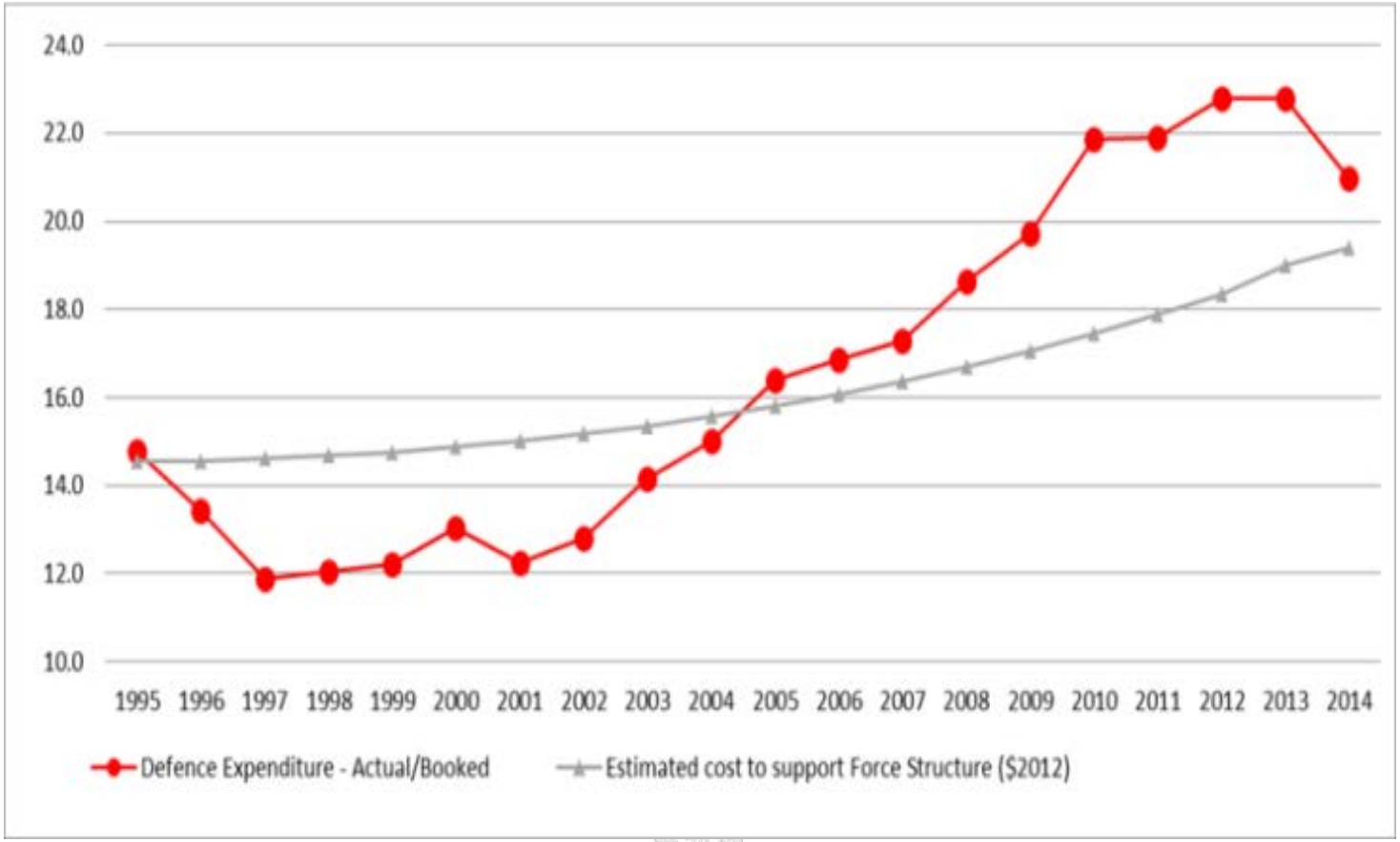




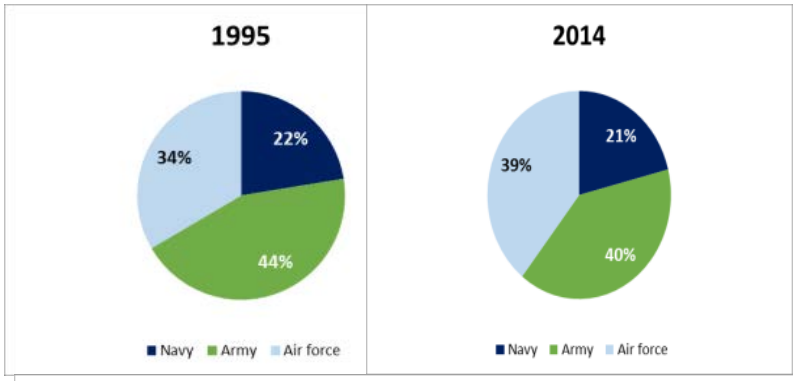
Force structures model overview

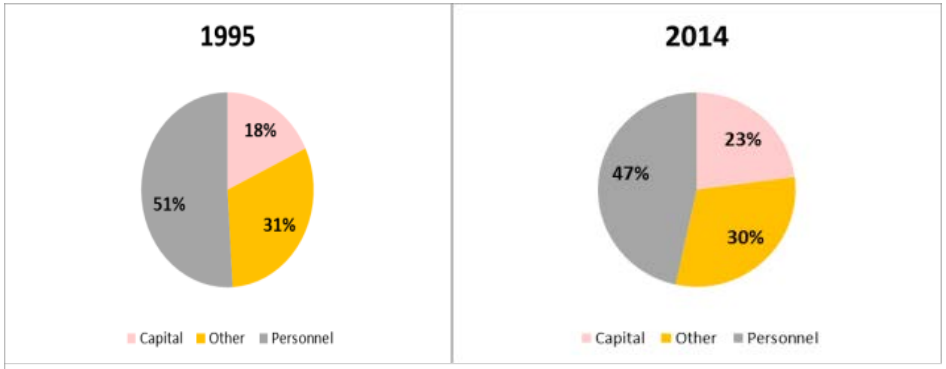


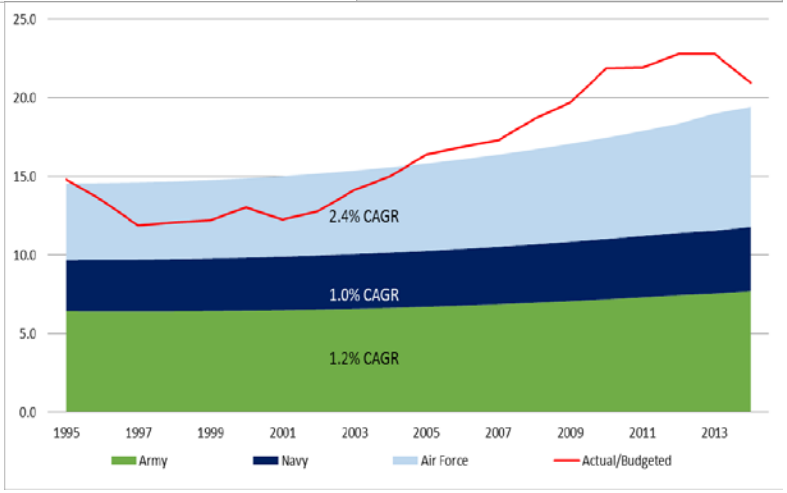
Estimated cost to support the force structure against actual expenditure ($B2012)

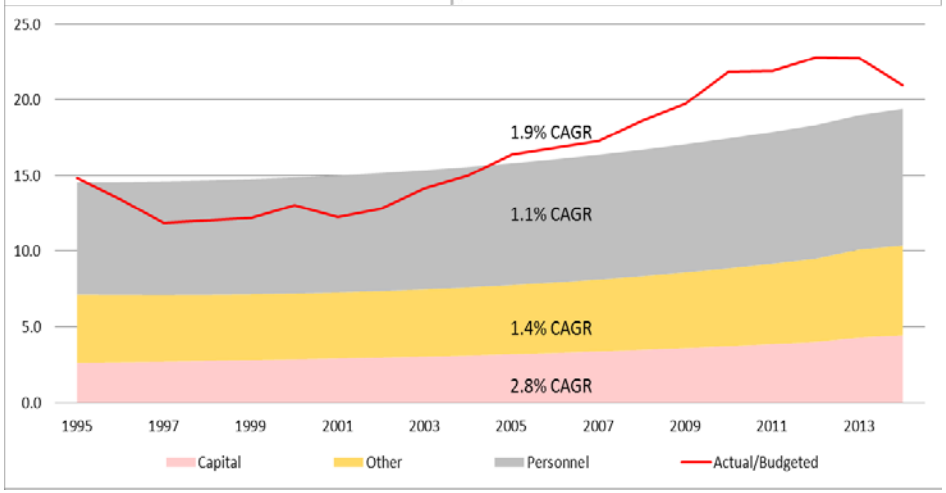


Historical defence budgets and share

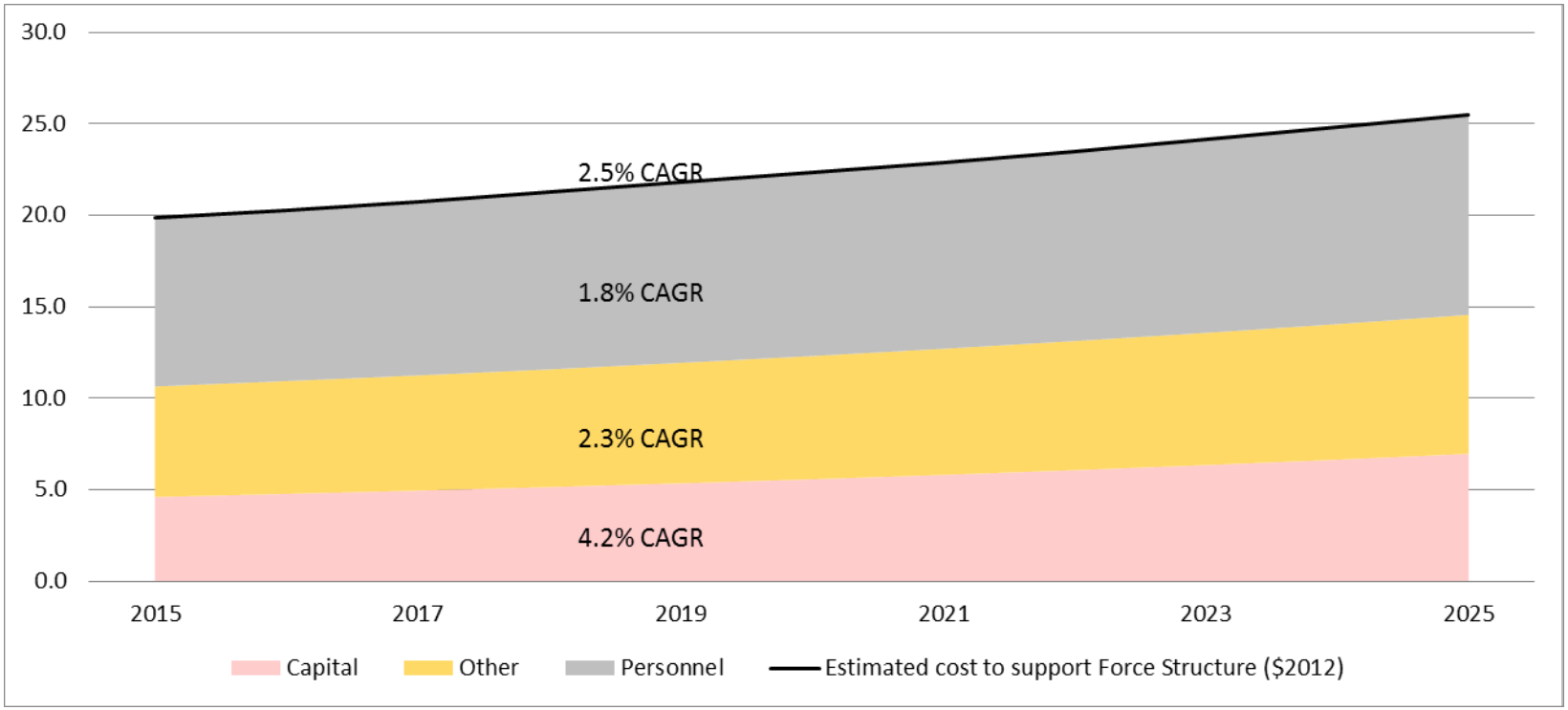




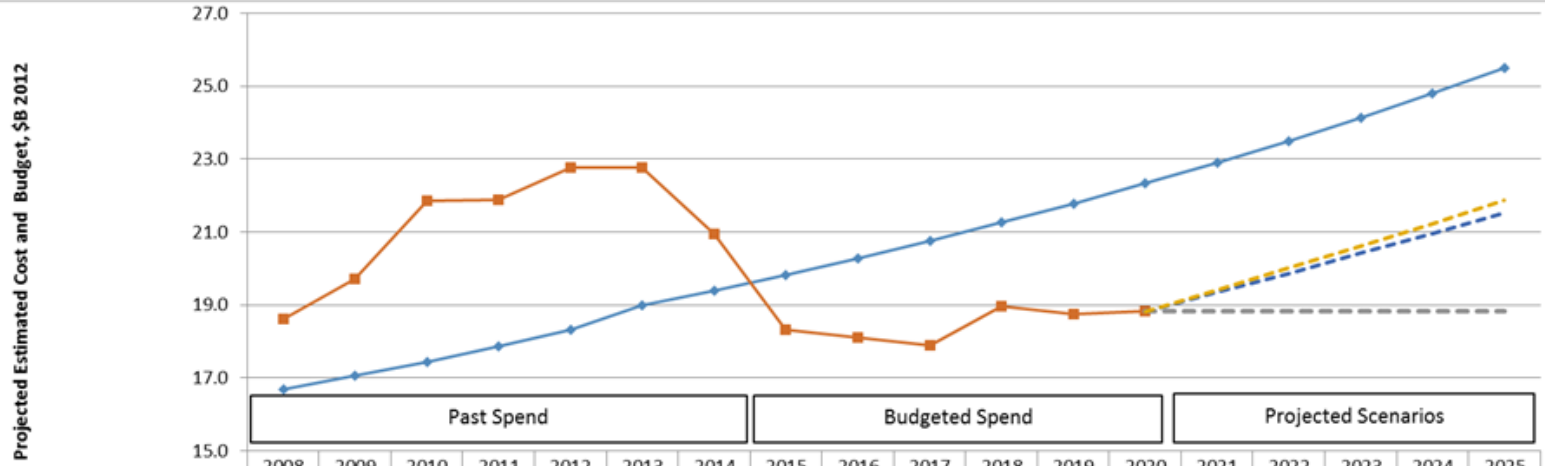




Projected defence expenditure and share

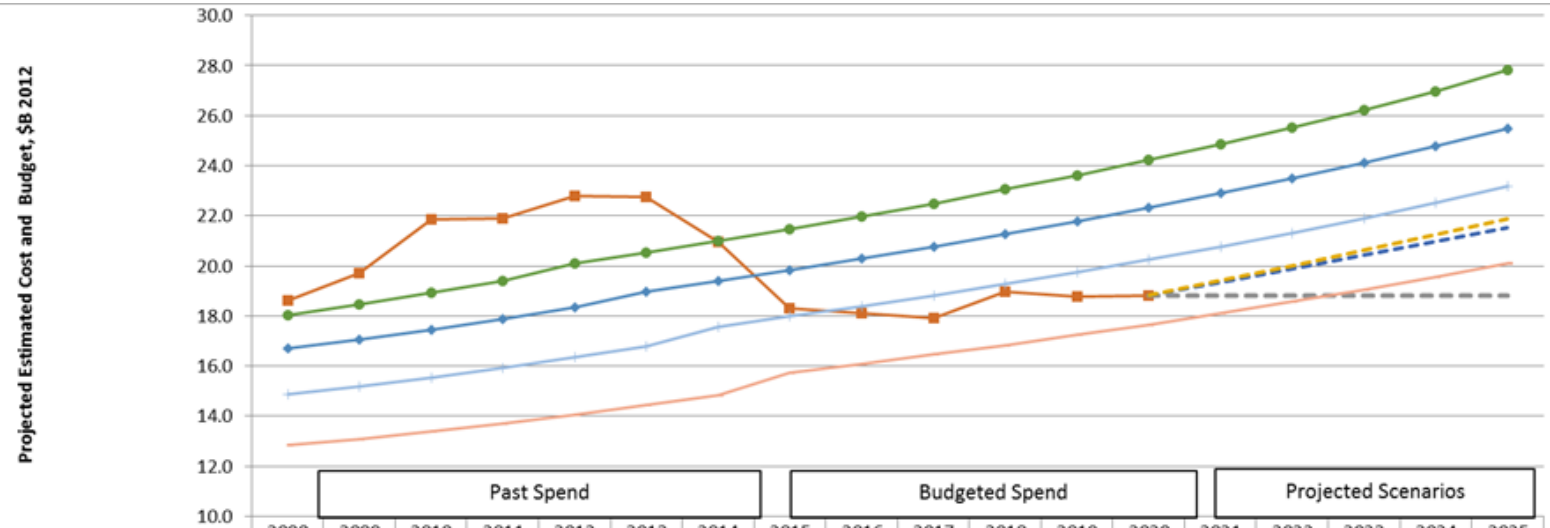


Historical and forecast defence budget scenarios against force structure cost (2008-2025)



	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



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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?

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