



Navigating the Future: Strategic Insights into the Government of Canada's ICT Spending

Introduction

In an era of accelerating digitalization and increasing innovation around information and communication technology (ICT), the Canadian federal government is the biggest and most active procurement player nationwide. With over 150 separate business units all with diverse but prevalent needs for ICT products and services, the opportunity cost of not engaging with the Government of Canada as an ICT provider is quite high.

Various internal and external factors continue to apply upwards pressure on ICT spending. From calls by NATO members for Canada to accelerate its spending to reach the two per cent target to foreign interference and cyber security concerns necessitating more resilient service platforms and IT systems to reduce vulnerabilities, ICT spending is unlikely to be capped at any point in the next several years.

Given the large scale of spending, it is fundamental to understand the government ICT procurement landscape, including the different players buying ICT products and services. Each federal department and agency has ICT needs. However, the Department of National Defence (DND) and Shared Services Canada (SSC) are two major entities with

mandates and budgets to continue accelerating ICT procurement. Ongoing efforts to reform processes and to create “a more agile defence procurement system” (National Defence, 2024, p. 15) may alter ICT providers’ tactics to secure contracts, but it does not change the underlying needs and current issues related to ICT within the Government of Canada.

Leveraging Opportunities

As we step into a transformative era for public sector operations in Canada, the strategic use of information and communication technology stands at the forefront of governmental agendas. This paper explores the trajectory of ICT spending by the Government of Canada by 2030, offering a comprehensive outlook that aims to empower stakeholders within the ICT industry. With Canada’s technology sector hosting approximately 43,000 vibrant companies (International Trade Administration, 2023), understanding the nuances of governmental ICT expenditure becomes crucial. This analysis will not only provide stakeholders with critical data to refine strategies but also pinpoint sub-sector areas ripe for focus and development.

Breakdown of Government of Canada's Major ICT Spending Categories

The Government of Canada is the largest single purchaser of imported ICT goods in the country, spending approximately \$5 billion annually (International Trade Administration, 2023), a figure that is on the rise. The overall ICT expenditures of the federal government can be categorized into three main areas:

Shared Services Canada

SSC is tasked with transforming how the government manages and secures its ICT infrastructure and delivers digital services to other federal departments. SSC had an annual budget of \$2.59 billion in 2023/2024. Data shows SSC procured more than \$2.5 billion in goods and services in 2021/2022 on behalf of the federal government (Government of Canada, 2023).

Department of National Defence and the Communications Security Establishment Canada (CSE)

According to the federal government 2024-2025 estimates, DND earmarked an operating and capital budget of over \$4.5 billion for the "Sustainable Bases, Information Technology Systems and Infrastructure" category (Government of Canada, 2024a). In the 2022-2023 fiscal year, out of the total \$4.8 billion spend on external contracts, over \$364 million was allocated to ICT and telecommunication consulting services (Koca, 2024).

CSE's total budget for 2024-2025 is a little over \$1 billion (Government of Canada, 2024a). CSE hosts the Canadian Centre for Cyber Security.

Other Government of Canada Departments

These departments are focused on delivering programs and applications that meet the needs of Canadians both domestically and internationally. The annual spend by departments on ICT products and services is very difficult to consolidate and quantify. However, a 2023 report from the Auditor General of Canada stresses that progress on moving enterprise applications to SSC has been very slow. Additionally, two thirds of department applications are considered in "poor health" (Office of the Auditor General of Canada, 2023).

Drivers of Increased ICT Spending by the Government of Canada

Modernization Initiatives

Canadians increasingly rely on digital solutions and expect the government to provide services that are accessible both at home and on the move.

SSC continues to spearhead digital transformation initiatives, centralizing enterprise-wide security, hosting, communications, and applications from various government departments. This centralization aims to provide standardized enterprise services across the board. Government departments will then be able to concentrate on developing specific program applications tailored to delivering services directly to Canadians.

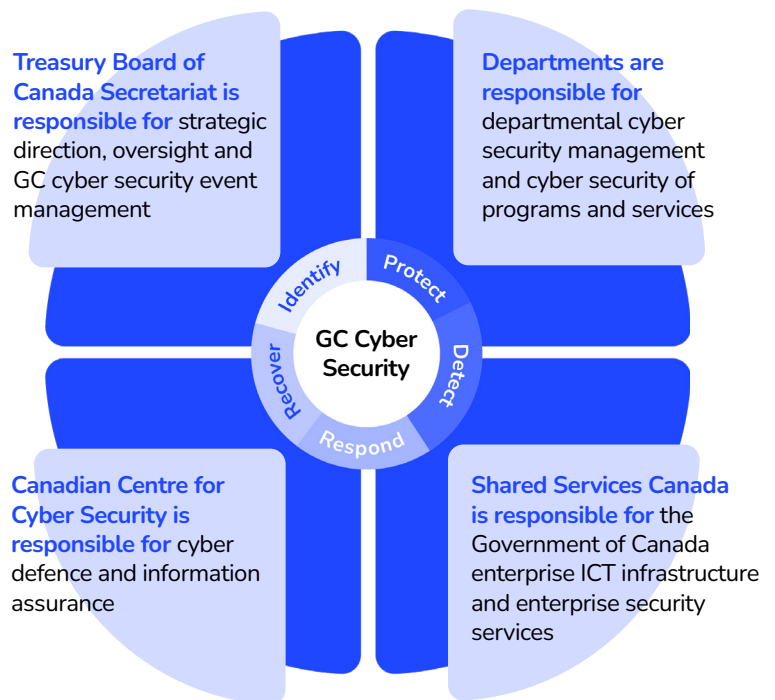
The urgency for the federal government to expedite the modernization of ICT systems and applications is more critical than ever:

- The Auditor General of Canada found that progress on modernizing applications and ICT systems from 2019 and 2023 has been “very slow”, noting that, for instance, the percentage of computer applications deemed to be “healthy” increased by only one per cent per year during that period (Office of the Auditor General of Canada, 2023).
- To meet the Treasury Board’s 2030 target of 60 per cent of “healthy” applications, the annual rate of increase must accelerate to more than three per cent each successive year (Office of the Auditor General of Canada, 2023). This will require SSC to significantly enhance its efforts to modernize applications and ICT systems.
- As of March 2023, modernization work had yet to begin on 65 per cent of the approximately 4,500 applications designated for updates across the federal government. Additionally, over 35 per cent of legacy data centres identified for closure remained operational (Office of the Auditor General of Canada, 2023).
- As a direct consequence of the pandemic, the federal government worked to transition to digital services while maintaining legacy systems. The sustainment and operation of legacy ICT systems, alongside the costs of transforming, retraining, and redeploying of resources, present significant costs for the government.

Cyber Security

As SSC accelerates the modernization of applications and ICT systems, it is also tasked with ensuring enhanced cyber security protection. This includes managing the identities and access permissions of Government of Canada network users, continuously monitoring for cyber security events and threats, and managing enterprise assets to ensure they are updated for security and compliance (Government of Canada, 2023).

In response to increasing cyber security threats and the need to protect government information and assets, TBS launched the Enterprise Cyber Security Strategy in May 2024. This initiative is backed by an \$11.1 million investment allocated in the 2024 federal budget (Government of Canada, 2024b), underscoring the government’s commitment to strengthening its cyber security infrastructure.



Source: Government of Canada, 2024c.

Navigating Defence Spending

In a June 2024 interview, outgoing Canadian Chief of Defence Staff, General Wayne Eyre, provided a frank assessment of the country's defence capabilities. General Eyre expressed concerns that the Canadian military is currently unprepared and lacks the deterrent capacity needed to counter emerging threats, particularly as new technologies increasingly shrink global distances. He criticized the government's slow pace in increasing national defence spending and its failure to implement a comprehensive plan to meet the two per cent NATO spending target (Van Dyke, 2024).

On the world stage, Canada remains under pressure to fulfill its NATO commitment to spend two per cent of its gross domestic product (GDP) on defence. The new NATO Secretary General Mark Rutte oversaw a substantial increase in military expenditure during his tenure as Dutch Prime Minister (from \$8.67 billion in 2015 to \$15.61 billion in 2022 in current USD (World Bank Group, 2024a)). He indicated his focus on NATO members increasing their spending in a press conference, reiterating that NATO needs "significantly more defence spending" and that members "must each pay [their] fair share" (NATO, 2024). The return of Donald Trump in the White House will further increase pressure on Canada to boost its defence spending.

Progress in Defence Spending

Canada has long contested the method to measure defence spending used by NATO. Canada's defence spending amounted to \$29.9 billion in 2023-2024. In real dollars, Canada's spending ranks in the top 10 among NATO allies (Malone, 2024). Over the past decade, Canada has made significant strides in harmonizing what is counted as defence spending with its allies, such as including veterans' pensions and Coast Guard spending/expenditures.

Canada has progressively increased its military expenditure from one per cent of GDP in 2014 to up to 1.4 per cent in 2020 (World Bank Group, 2024b). Despite this growth, the recently released *Our North, Strong and Free: A Renewed Vision for Canada's Defence* document sets a modest target, committing Canada to a gradual increase in defence spending to reach 1.76 per cent of GDP by 2030 (National Defence, 2024a).

In July 2024, the Minister of National Defence Bill Blair recommitted Canada to reaching the two per cent NATO target by 2032, fueled by ramped up spending and procurement efforts (National Defence, 2024b). A portion of the spending will relate to the procurement of a new submarine fleet, likely in collaboration with Norway and Germany as they pitch Canada on joining their submarine program (Brewster, 2024a).

To fulfill the two per cent NATO target mandate, Minister Blair previously indicated that Canada would need to spend an additional \$6 to \$7 billion beyond what has already been committed through 2030 (Brewster, 2024b).

Obstacles

There are several obstacles hindering increases in defence spending within the Canadian Armed Forces (CAF). Historically, there has been limited political value and interest from the Canadian electorate on defence spending and military preparedness.

Canada's geographic position, bordered by three oceans and neighbouring the world's strongest military ally, has contributed to a long-standing political and institutional apathy towards defence spending. Historically free from large-scale conflict on its soil for two centuries, Canada has not prioritized defence as a central campaign issue.

However, advancements in military technology such as cyberwarfare and intercontinental ballistic missiles, along with strategic shifts like the struggle for control of the Arctic and increased military tensions in the Pacific and Europe, have influenced Canadian voters' priorities. Recent geopolitical developments have highlighted the need for a reevaluation of national defence strategies.

According to a March 2024 Angus Reid poll, 53 per cent of Canadians now support increasing defence spending to meet or exceed NATO commitments, a notable rise from 43 per cent five years earlier (Angus Reid Institute, 2024). Additionally, 29 per cent of Canadians now prioritize military preparedness and Canada's presence on the global stage as the top foreign affairs priority, a significant increase from only 12 per cent in 2015 (Angus Reid Institute, 2024). This shift in public sentiment reflects a growing recognition of the importance of robust defence capabilities in a complex global landscape.

As we head towards a federal election within the next year, government spending will remain an important topic. With the Conservative party maintaining a consistent 20-point lead over the incumbent Liberals in polls, a government led by Pierre Poilievre is likely to accelerate defence spending. Mister Poilievre has also been vocal about his plan to significantly reduce foreign aid, reallocating those funds to enhance and advance procurement for the Canadian Armed Forces.

ICT Spending Projections by 2030

Technology transformation is poised to significantly enhance the Government of Canada's capabilities in citizen services, security, productivity, and economic growth. Analyzing historical trends and the direction of the digital transformation currently underway, we can anticipate substantial growth in the demand of ICT products, solutions, and expertise.

By the Numbers

\$1-\$3B Over the 2024-2030 period, as departments transition and migrate services to the modernizing SSC, an additional expenditure of \$1 to \$3 billion is anticipated. SSC is expected to expand its ICT offerings and procurement.

\$5-\$7B DND and the Communications Security Establishment are expected to see a \$5 to \$7 billion increase in spending, accounting for approximately 10 per cent of the total upward trend in ICT products and services expenditures.

Key Opportunities

The Government of Canada is the largest spender on ICT services and products, disbursing approximately \$10 billion annually, primarily through SSC and DND. With increasing needs for ICT system and application modernization, heightened cyber security threats, and geopolitical pressures, the demand for ICT products and services is expected to grow significantly.

This scenario presents a major opportunity for strategic engagement with the federal government to address these critical issues and secure a trusted partner status. Significant opportunities stem from government priorities and needs.

Consolidation, Integration, and Transformation Expertise

There is a substantial need for integrators and managed service providers to support modernization initiatives as departments implement enterprise applications across the government.

Cyber Security and Infrastructure

Trusted technology partners in cyber security, data centre consolidation, cloud services, and artificial intelligence will find extensive opportunities to expand through flexible and scalable government procurement vehicles.

Alignment with Defence and Security Needs

Focused efforts by both the U.S. Department of Defense and Canada’s DND to streamline defence procurement are expected to lead to quicker adoption of new solutions and services.

Trusted technology partners that align with DND and CSE, especially those with established, approved contracts with close allies like the U.S. Department of Defense, will increasingly find quick adoption opportunities. Alignment not only synchronizes technology platforms, but accelerates the adoption of trusted technology across NATO allies.

Priority Sub-Sectors

The following sub-sectors significant opportunities for sustained revenue streams within the Government of Canada’s ICT strategy and should be prioritized:

Sub-Sectors	Government ICT Needs
Network Infrastructure	Enhancing connectivity and network capabilities.
Cloud and Data Centre Services	Focusing on consolidation and modernization efforts.
Cyber Security	Security platform consolidation, threat exposure management, identity management and protection, and security operations.
Artificial Intelligence	Developing and integrating AI technologies across governmental functions.
Automation Technology and Robotics	Streamlining processes and increasing efficiency in public sector operations.
Augmented/Virtual Reality Technology	Targeted use in education, training, and remote work environments
Defence-Specific Technology	Advancing technological capabilities within National Defence.
Application Modernization Operation, and Development	Updating and maintaining government applications to enhance service delivery.

How Companies Can Help the Government Advance its ICT Priorities

Breaking through the glass barrier of procurement and gaining visibility as a viable partner of the Government of Canada is often just as difficult as ensuring alignment with its ICT priorities.

Successful procurement partners of the federal government offer costed and efficient services and products often for extended periods of time. This helps reduce costs associated with platform and provider transitions in addition to supporting employee familiarity and proficiency.

With procurement processes becoming more agile, modern and proactive, particularly for defence, companies eager to support the advancement of Canada's ICT priorities should be guided by the following recommendations:

Engage Early and Learn about the Ecosystem and Procurement Processes

- Follow SSC and Public Services and Procurement Canada (PSPC) press releases, activity, and social media.
- Join SSC and PSPC information sessions.
- Attend events and presentations from leaders and/or expert speakers.
- Join industry associations and get to know the key players. Information is often shared during collaboration at industry meetings.
- Become well versed in the procurement process and rules. Learn about the various entities that administer the process and assess applications.

Seek out Partners and Alliances

- Seek out and build relationships when opportunities and projects arise. Many Government of Canada projects are done with prime and sub-contractors collaborating.
- Greater engagement will correspond to a greater understanding of the procurement process, certifications, and regulatory requirements to prepare your company to do business with the Government of Canada.
- Seek out alliances and partnerships with companies and organizations that have been through the procurement process can bolster your service and product offering.

Seek out Experts for Advice and to Open Doors

- These experts have relationships and inside information on the trends, current thinking of the Government of Canada, and intel about future developments.
- These experts should have relationships with decision makers to inform and collaborate.
- These experts come with experience and battle scars that give them the knowledge to help, give advice and warnings.

Conclusion

The strategic alignment and enhanced spending on ICT by the Government of Canada from 2024 to 2030 signify a pivotal shift towards more efficient, secure, and innovative public services. This paper outlined key areas of spending and the opportunities these create within the ICT sector. As stakeholders look to leverage these insights, the importance of adapting to the evolving technological landscape and aligning with governmental goals is essential. The coming years promise substantial advancements in how public services are delivered, making this an opportune time for strategic engagements and partnerships that will shape the future of government ICT infrastructure.

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