l'institut de la cad
cahier vimy

vimy paper
cda institute

January / janvier 2014

DOING LESS WITH LESS

Canadian Defence Transformation and Renewal

FAIRE MOINS AVEC MOINS

Transformation et Renouveau à la Défense canadienne

David Perry | Senior Defence Analyst

CDA Institute l'Institut CAD 1987 ~ 2014

Institut de la Conférence des associations de la défense

L'Institut de la Conférence des associations de la défense est un organisme caritatif et non partisan qui a pour mandat de promouvoir un débat public éclairé sur les enjeux notre sécurité et de la défense nationale.

Institut de la Conférence des associations
de la défense
151 rue Slater, bureau 412A
Ottawa (Ontario)
K1P 5H3

613 236 9903
www.cdainstitute.ca
cda@cda-cdai.ca

Conference of Defence Associations Institute

The Conference of Defence Associations Institute is a charitable and non-partisan organisation whose mandate is to promote informed public debate on national security and defence issues.

Conference of Defence Associations Institute

151 Slater Street, suite 412A
Ottawa, Ontario
K1P 5H3

613 236 9903
www.cdainstitute.ca
cda@cda-cdai.ca

DOING LESS WITH LESS
Canadian Defence Transformation and Renewal

FAIRE MOINS AVEC MOINS
Transformation et Renouveau à la Défense canadienne

Author:

David Perry

Senior Defence Analyst
CDA Institute

The author would like to thank all of the members of the CDA Institute editorial board and staff for their assistance in producing this publication as well as Paul Hillier, George Petrolekas, Andrew Leslie, Sam Michaud and Kelly Williams for their helpful comments. All errors or omissions are the author's.

CDA Institute l'Institut CAD 1987 ~ 2014

Executive Summary

This report acts as a guide to the recent transformation and renewal process undertaken by the Department of National Defence and the Canadian Armed Forces. Though there have been many attempts to implement a transformative defence agenda since 2010, little progress has been made in terms of increasing departmental efficiency and effectiveness. It is important to understand the causes of this disconnect, to help ensure that current and future renewal attempts are more effective in producing the desired results.

The study begins by examining the wider economic and fiscal context that has led to the current budgetary predicament, beginning with the Mulroney and Chrétien governments' budget austerity measures that led to the "decade of darkness"; and proceeding to the promises of the Harper government to achieve fiscal balance by 2014-2015. The impact of Canada's Economic Action Plan, the operating budget freezes of 2010 and 2014, the 2010 Strategic Review and the Deficit Reduction Action Program have reduced military readiness and resulted in the elimination of some army capabilities and a reduction in Canada's participation in NATO.

The *Report on Transformation 2011* warned that unless a strategic approach was used to contribute to deficit reduction and reorient Canada's defences, budget cuts would result in the reduction of front line military capability. To prevent this, it proposed a sweeping reorganization of the military's command and control and support arrangements across the country. Its proposals were largely ignored, and as a result, budget cuts since 2010 have reduced military readiness. The Defence Renewal Team is now attempting a significantly less ambitious effort to make Defence more efficient and to allow for reinvestment in new priorities, but the likelihood of its success appears to be low. This failure to advance a transformative agenda recently contrasts with the 2005 round of Transformation when National Defence successfully implemented a new operationally focused headquarters. That round of Transformation succeeded because it was driven by the need to support operations in Afghanistan, was led by an officer who went on to lead the new organization he helped create, and was supported by the military, civilian and political leadership at National Defence. Subsequent efforts at transforming have so far failed because they lack the necessary coordination and continuity of leadership.

The 2013 Speech from the Throne announced further budget reductions at National Defence, but also the desperately needed renewal of the Canada First Defence Strategy. The renewed Strategy must clearly articulate how DND should adjust to its new fiscal reality and direct any necessary rebalancing between the personnel, equipment, infrastructure and readiness pillars of the defence organization. Crucially, it must outline the Government's priorities to direct a reorientation of the military to face new strategic demands with significantly fewer resources, in order to make the best of doing less with less.

Sommaire

Le présent rapport sert de guide au récent processus de transformation et de renouveau entrepris par le ministère de la Défense nationale et les Forces armées canadiennes. En dépit des nombreuses tentatives d'implantation d'un programme transformateur de la défense depuis 2010, on a réalisé peu de progrès en termes d'augmentation d'efficacité et d'efficience. Il est important de comprendre les causes de ce décalage, ce qui nous aidera à nous assurer que les tentatives actuelles et futures de renouvèlement soient plus efficaces et produisent les résultats désirés.

L'étude commence par un examen du contexte économique et fiscal plus large qui a mené à la fâcheuse situation budgétaire actuelle qui, à partir des mesures d'austérité des gouvernements Mulroney et Chrétien, nous a conduit à la « décennie de noirceur » pour se poursuivre jusqu'aux promesses du gouvernement Harper d'atteindre un équilibre fiscal d'ici 2014-2015. L'impact du Plan d'action économique du Canada, les gels de budgets de fonctionnement de 2010 et 2014, l'Examen stratégique de 2010 et le Programme d'action pour la réduction du déficit ont réduit l'état de préparation militaire et ont eu pour résultat l'élimination de certaines capacités de l'armée et une réduction de la participation du Canada à l'OTAN.

Le *Rapport de 2011 sur la transformation* nous avertissait que, à moins d'utiliser une approche stratégique pour contribuer à la réduction du déficit et pour réorienter les défenses du Canada, les compressions budgétaires produiraient une réduction de la capacité de première ligne. Pour prévenir cette éventualité, il proposait une réorganisation radicale des arrangements de commandement et contrôle et du soutien des forces militaires dans l'ensemble du pays. Ses propositions ont été largement ignorées et, en conséquence, les compressions budgétaires depuis 2010 ont réduit l'état de préparation militaire. L'Équipe de renouvellement de la Défense tente présentement un effort beaucoup moins ambitieux pour rendre la Défense plus efficace, dans le but de faire place au réinvestissement dans de nouvelles priorités, mais la probabilité de son succès semble faible. Cet échec de la mise de l'avant d'un programme transformateur, qu'on a connu récemment, contraste avec la ronde de transformation de 2005 lorsque la Défense nationale a réussi avec succès à implanter de nouveaux quartiers généraux focalisés sur les opérations. Cette ronde de transformation a réussi parce qu'elle était mue par le besoin de soutenir les opérations en Afghanistan, qu'elle était dirigée par un officier qui a poursuivi son chemin en dirigeant la nouvelle organisation qu'il avait contribué à créer, et qu'elle avait l'appui des militaires, des civils et des dirigeants politiques de la Défense nationale. Les efforts subséquents de transformation ont connu des échecs jusqu'à maintenant parce qu'ils manquent de la continuité, de la cohérence et le leadership nécessaires.

Le discours du Trône de 2013 annonçait de nouvelles réductions budgétaires à la Défense nationale, mais également le renouveau de la Stratégie de défense *Le Canada d'abord*, qui fait cruellement défaut. Le renouvellement de la Stratégie doit clairement articuler comment le MDN devrait s'ajuster à sa nouvelle réalité fiscale et diriger le rééquilibrage nécessaire entre les piliers de l'organisation de la défense que sont le personnel, l'équipement, l'infrastructure et l'état de préparation. Point crucial, elle doit exposer les priorités du gouvernement, de diriger une réorientation de la chose militaire dans le but de faire face à des nouvelles demandes stratégiques avec des ressources considérablement réduites, de façon à tirer le meilleur parti de la nécessité de faire moins avec moins.

Doing Less, with Less:
Canadian Defence Transformation and Renewal

Introduction

In the wake of the 2008 global economic crisis, states around the world were forced to reassess their fiscal situation. In an effort to balance their books, many chose to make deep cuts in government spending, military spending cuts becoming a significant component of these efforts. Consequently, a majority of NATO nations are in the midst of major defence reforms that have resulted in the most significant period of defence spending retrenchment since the end of the Cold War. The Canadian Armed Forces (CAF) and the Department of National Defence (DND) have faced and continue to face similar prospects. Beginning in 2010, defence resources were constrained by successive budget reductions totalling more than 10 percent, and by forced reallocations of 3 percent. For the first time in more than a decade, the Canadian military is no longer working in an environment of sustained budgetary growth. A concerted effort across government in support of operations in Afghanistan placed the Canadian military in the forefront of the government of Canada's policy agenda and firmly in the public eye. Having for a good while benefited from nominal budgetary growth, DND must now make the significant adjustment to budget reductions and reallocations in support of the Federal Government's deficit reduction efforts.

Contributing to deficit reduction is not the only defence challenge, however. DND is also trying to find money within its budget to compensate for the fact that some components of the 2008 *Canada First Defence Strategy* (CFDS) are under-resourced. At the same time, the CAF is attempting to identify personnel to staff new departmental priorities that have emerged since the CFDS was drafted. To address these pressures for change, DND has undertaken successive efforts to manage its resource reductions by increasing its efficiency and effectiveness. The most recent effort towards this goal is the Defence Renewal process, designed to "create a lean and efficient organization that can generate savings to be reinvested in military capabilities and readiness."[1]

As of January 2014, and despite these efforts, very little progress has been made to implement a transformative defence agenda of increased efficiency and effectiveness that would allow for reinvestment. Instead, the military services have indicated that they face double-digit reductions in their Operating Budgets. In addition, a number of other measures have been announced that have further diminished operational capability. While the 2013 Defence Renewal process offers the prospect of reinvestment, its proposals are considerably less ambitious than the military requirements articulated in the *Report on Transformation 2011*, and will not be realized for several years.

To better understand the reasons behind this disconnect, this paper examines Canadian Defence Renewal by first describing the wider economic and fiscal context that led to the defence reductions in Canada and looks at recent transformational defence reorganizations. In doing so, it does not assess the operational effects of these reductions and reorganizations, nor does it articulate a specific set of departmental reduction and reorganizational targets. It does however examine in detail the proposed reorganization and reinvestment targets outlined by the CAF/DND in the *Report on Transformation*

2011, which outlined specific transformation goals derived from an assessment of required operational outputs. The changes actually undertaken and proposed are then compared to the CAF/DND published benchmarks.

This analysis shows that while the original defence transformation mantra was 'doing more with less', the focus has now switched to a renewal process aimed at preserving capabilities and readiness. Clearly, then, the military will be doing 'less with less'. These budget cutting measures result in $2.12 billion less funding and a loss of $591 million in Operations and Maintenance (O&M) spending which, together, equate to $2.7 billion, or 14 percent of the defence budget. Because it has been forced to redirect O&M money to personnel, less money and fewer *useable* resources than were promised in the CFDS are available to the department. These cuts have disproportionately affected military readiness, the available funding for which has been cut by roughly one-fifth.

The Economic Context

In the wake of the 2008 global recession, the loss of government revenue and the cost of economic stimulus measures have severely constrained federal fiscal room for manoeuvre. Canada's Economic Action Plan cost the federal treasury $47 billion and, in combination with the aforementioned stimulus measures and declining revenues, drove the federal deficit to roughly $50 billion in 2009/2010.[2] Consequently, Canada's federal deficit as a share of Gross Domestic Product (GDP) rose from 22 percent in 2007 to 28 percent in 2009, reversing a decade of steady improvement.

To put this in perspective, in 1993, prior to the budget austerity measures of the Chretien government, Canada's debt stood at 63 percent of GDP.[3] That level of indebtedness prompted a reduction of 23 percent in nominal defence spending between 1993/1994 and 1998/1999. These cuts greatly exacerbated reductions the Mulroney government instituted in 1989 when it abandoned the 1987 White Paper spending plan and ushered in the so-called "decade of darkness." In relative terms, the federal government entered this current period of austerity from a better fiscal position than it did during the 1990s. Consequently, the resulting spending restraint measures have been less severe than those imposed between 1989 and 1999. Despite this, the government of Canada has consistently expressed a clear desire to return to fiscal balance by 2014/2015, ahead of the other members of the G7.[4]

To achieve this goal, the Harper government has had to face a fundamental budget reality with respect to DND. Because it is a department with one of the largest budgets, it is extremely difficult to reduce overall federal spending without cutting the defence budget.[5] The department accounts for roughly one-fifth of discretionary spending, and since 1972/1973 has consistently consumed between 6 and 8 percent of overall federal expenditures.[6] The combined increases to defence funding from both the Martin and Harper governments increased the resources available to DND to approximately $20 billion in annual expenditures by 2009/2010, or 7.6 percent of all federal outlays. This is the same share of government expenditure as in 1989/1990, the first year of a decade-long period of budget cuts. The Harper government therefore faces the same fiscal dilemma as its predecessors: Absent an ability to raise substantial new revenues, balancing the budget requires spending cuts, including at defence. This fact was made abundantly clear during the speech Prime Minister Harper made at the change of command ceremony when General Tom Lawson was appointed Chief of the Defence Staff (CDS) when he said that Canada needs a modern, general-purpose military capability, but "within very real budgetary restraints."[7]

The Budgetary and Organizational Change Context

Budget 2010: Wage Freeze

Three successive budgets reduced DND's funding from 2010-2012, beginning with a three-year departmental Operating Budget freeze announced in Budget 2010. This had a significant impact on National Defence, since the freeze meant that DND had to absorb the increased cost of employee compensation arising from contractually negotiated wage increases. Under CFDS, DND was to be compensated by the central agencies for the increasing costs of its personnel. Budget 2010 put a stop to this process for three years. This required DND to reallocate resources internally, away from other operational activities, in order to offset increases to employee compensation. This move was very significant for DND, since personnel expenditures represent roughly half of its budget.[8] While not a direct cut, this created the equivalent of a cumulative $355 million recurring hole in DND's Operations and Maintenance budget (see Table 1).

Table 1. Impact of Operating Budget Freezes
Figures in $ million

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Base Budget[1]	20,000	20,000	20,000	20,000	20,000	20,000
Budget 2010 Operating Budget Freeze	-101	-234	-355	-355	-355	-355
2013 Economic and Fiscal Update[2]					-118	-236
Total					**-473**	**-591**
% of Base Budget	**-0.5%**	**-1.2%**	**-1.8%**	**-1.8%**	**-2.4%**	**-3.0%**

1. The Strategic Review base budget level of $20 billion is used as the base budget level for all calculations.
2. The impact of the Operating Budget freeze announced in 2013 was estimated using the average annual impact of the 2010 freeze.

Budget 2011: Strategic Review

The second significant budgetary reduction to defence came as a consequence of the 2010 Strategic Review, the results of which were announced in Budget 2011. This process cut the least operationally relevant 5 percent, or $1 billion, of the department's activities over two years (detailed in Table 2). The Strategic Review was planned well before the current round of budget austerity, as part of the government's new Expenditure Management System (EMS) introduced in 2007. This EMS, not unique to defence, mandated a review of 100 percent of all departments' operations in order to "better focus programs and services, streamline internal operations and transform the way they (the departments) do business and achieve better results for Canadians."[9] The results of the review, as expressed in terms of spending reductions, were to fall across three categories: increasing efficiencies and effectiveness; focusing on core roles; and meeting the priorities of Canadians. DND's 2010 Strategic Review reductions are shown in the first and second columns of Table 2. Although this review was not originally intended to contribute to deficit reduction, but rather to identify potential opportunities for reinvestment, the government subsequently included savings realized through this process as part of its efforts to return to budgetary balance. They are therefore examined here in detail.

Table 2. Identified Strategic Review Divestments

Figures in $ millions

BUDGET 2011 - STRATEGIC REVIEW BREAKDOWN				DND'S INTERNAL LIST OF DIVESTMENTS	
TBS Strategic Review Categories	**Amount**	**DND Strategic Review Results**	**Amount**	**Strategic Review Divestments**	**Amount**
Increasing Efficiency and Effectiveness				27 Total Divestments	
		Efficiency in the delivery of programs and services	220.3	Equipment acquisition and disposal	45.9
		Finding efficiencies through the use of technology	63.3	Real property	45.5
		Increasing efficiency through modernization of education and training programs	37.8	Aerospace readiness	26.3
Subtotal	**321.4**	**Subtotal**	**321.4**	**Subtotal**	**117.7**
Focusing on core role				23 Total Divestments	
		Eliminating outdated and redundant equipment	58	Land tiered and training program	127
		Procurement processes	10.2	Maritime readiness	45.5
		Infrastructure	43.2	DND info tech program	50
		Aligning programs with core mandate	307.3	Withdrawal from NATO AWACS	81.6
		Increasing efficiency through consolidation activities	5.3	Withdrawal from NATO AGS	34.4
Subtotal	**424**	**Subtotal**	**424**	**Subtotal**	**338.5**
Meeting the Priorities of Canadians		Modernize and refocus policies to reflect current priorities		6 Total Divestments	
				CF compensation and benefits	70
				Class B Reservists	82.2
Subtotal	**164.1**	**Subtotal**	**164.1**	**Subtotal**	**152.2**
Total savings identified	**909.5**	**Total savings identified**	**909.5**	**Total savings identified**	**608.4**
Savings NOT identified*	90.5	Savings NOT identified	90.5	Savings NOT identified	391.6

* Total savings (identified or not) were to be $1 billion, or 5% of a baseline defence budget figure of $1 billion

Table 2 shows the impact of the Strategic Review at DND. The first two columns reflect the information supplied in Budget 2011, which provided few specific details, and indicates that $90.5 million in savings have not been identified. The third column depicts information provided by DND Public Affairs to the author via email. While providing a more specific level of detail about some divestments, no information was provided for 46 of these measures which account for $392 million (39%) of the total financial savings of the Strategic Review. Of note, the bulk of these unallocated divestments falls under the efficiency and effectiveness category, where only one-third of the divestments are identified.

The Strategic Review process took 18 months, involved a rigorous examination of all activities across the department's Program Alignment Architecture and focused objectively on how each activity related to DND's core priorities and on how many resources were actually expended on each activity. Through this process, $1.1 billion worth of proposed divestments (activities that DND would no longer undertake) was initially submitted by the department, but a ministerial-level review removed roughly $500 million worth of proposed divestments from consideration. In effect, this placed a political priority on retaining roughly half of the activities that DND had identified as its lowest performing activities. This forced the department to return to its analysis in order to find an additional $400 million of the next lowest performing activities, and to do so in a significantly compressed timeframe.[10]

The results of this process were announced in Budget 2011, and the itemization of DND's Strategic Review divestments found in that document is presented in the first two columns of Table 2. As of the fall of 2013, $90 million in divestments had not yet been identified. A fully itemized cost breakdown of DND's Strategic Review reduction was requested from DND in February 2013. The official reply indicates a total of 56 individual divestments, but as of September 2013, full details were available for only 10 of these[11] (the details for which are presented in the third column of Table 2). Consequently, more than two years after the process was completed, DND would not or could not provide a detailed description for $400 million (39 percent) of the Strategic Review divestments announced in 2011. Of particular note is the fact that details were available for only one-third (an estimated value of $118 million out of a total $321 million for divestments in this category) of initiatives falling under the category of "increasing efficiency and effectiveness" (see column three of Table 2). It is unclear why the full details of these divestments are not publically available, but individuals familiar with the Strategic Review note significant differences between the divestments proposed, those directed after ministerial review, and what divestments were actually made.[12]

The DND breakdown shows that the most significant Strategic Review divestments were: withdrawal from the NATO Airborne Warning and Control System (AWACS) and Alliance Ground Surveillance (AGS) programs ($116 million combined); reduction of land training programs ($127 million); reduction of aerospace and maritime readiness ($72 million); reduction of full time reserve employment ($82 million); and reduction of military compensation and benefits ($70 million).[13] Further information is provided in DND's *Report on Plans on Priorities 2013/14*, which includes a substantial discussion of the Strategic Review divestments across the department's Program Alignment Architecture. This analysis provides no indication of the magnitude of savings produced by individual initiatives, but does show that the Strategic Review has resulted in several Army capabilities being removed from service, the closure of seven recruiting centres, and the transfer of support functions from three Area Support Units to major bases.[14] DND's planning document also indicates that every single component of the defence establishment made a contribution to the reduction effort.

CF 2020: Canadian Forces Transformation

While the Strategic Review was still underway, the CF 2020 Transformation Initiative was launched in June 2010 and Lieutenant-General Andrew Leslie appointed Chief of Transformation. At that time, DND was already in the early stages of acting on the Deficit Reduction Action Plan (DRAP), conducting the Primary Reserve Employment Capacity Study and the Administrative Services Review in which portions of DND's Information Management and Information Technology (IM/IT) service were moved to Shared Services Canada.[15] These initiatives all followed a Defence Force Structure Review tasked with considering an optimal command and control arrangement and evaluating joint capability development and force generation. Thus, CF 2020 was one of several measures initiated within DND to help adjust to the new fiscal climate. It is of interest to note that as early as 2009 the CAF had decided that reducing the growth of defence overhead was a priority.[16]

The Chief of Transformation's terms of reference, initially signed by the CDS alone, stated that he was to optimize CAF command and control in a manner that committed fewer resources to non-deployable headquarters and invested in deployable capabilities, while reducing overhead. As the *Report on Transformation 2011* later stated, this approach was designed to mitigate the application of "internal flat taxes"[17] (uniform reduction targets applied equally to all portions of the defence establishment) that disproportionately affect operational forces and readiness in favour of reorganizing strategically. In short, CF 2020 was proactively launched by the Chief of the Defence Staff and driven by the need to "reduce the tail of today, while investing in the teeth of tomorrow."[18] The initiative was apparently endorsed by Prime Minister Harper himself.[19]

As the report states, CF 2020 was guided by three assumptions. First, DND would need to contribute roughly $1 billion towards deficit reduction measures. Second, 3,500 regular force positions, several thousand reservists, and an appropriate number of civil servants were needed for new defence priorities including Arctic, cyber, space, special operations forces capabilities and deployable support personnel. Third, the CFDS had to become "more achievable within assigned resources."[20] Approximately $1 billion in financial efficiencies were sought within DND's existing resources that could be reallocated internally to bolster an under-resourced capital program (the naval component alone was thought to be under-funded by roughly that amount, relative to the capability believed necessary).[21] This last assumption officially confirmed the long-held belief that the CFDS recapitalization plan is inadequately funded.[22]

Canadian Defence 'Transformation' and Renewal in Perspective

CF 2020 was not the first effort by the Canadian defence establishment to "do more with less."[23] This mantra has consumed DND since the Second World War, leading to unification in 1968, the 1971 Management Review Group, and the Management, Command and Control Re-engineering Team in the 1990s, all of which sought to reduce the resources expended by managing the military in a way which maximized or maintained operational capabilities. However, General Rick Hillier's 2005 Transformation Initiative marked a departure from past reform efforts in that it was "clearly focused on improving operational effectiveness"[24] and placing "*operations primacy* at the center of all decisions."[25] Rather than reorganizing to do more with less, Hillier's Transformation Initiative was focused on making the military "more effective, relevant and responsive."[26]

This 2005 effort had two main lines of reform: an operational force restructure to reorient the military towards joint operations; and a reorganization of headquarters. For a variety of reasons, the effort to increase jointness was "stillborn."[27] In contrast, with Prime Minister Paul Martin and Defence Minister Bill Graham's support, Hillier's headquarters reorganization was successful. Building on reforms to the command and control process initiated by previous Deputy Chiefs of Defence Staff, Hillier established a more robust and operationally focused command structure by standing up Canada Command, Canadian Expeditionary Forces Command (CEFCOM), Canadian Operational Support Command (CANOSCOM), and Canadian Special Operations Forces Command (CANSOFCOM), as well as a Strategic Joint Staff. [28]

Three aspects of this round of Transformation are notable. First, the reorganization occurred in the context of an expeditionary mission in Afghanistan that was shifting to Kandahar. Thus, an urgent operational imperative drove change. Second, the effort was led by then Major-General Walter Natynczyk, who went on to be Vice-Chief of the Defence Staff and succeeded Hillier as CDS in 2008. Thus, the senior officer responsible for implementing Transformation went on to lead the reformed organization he helped create. Third, although it was a “military led initiative,”[29] it was one facilitated by the strong working relationship Hillier enjoyed with Graham and Deputy Minister (DM) Ward Elcock, supported by the Prime Minister. These factors have not been in evidence in any of the defence change initiatives undertaken since 2010.

Enabled by the conditions described above, many aspects of the 2005 headquarters transformation were demonstrably successful. Arguably, without the new command and control (C2) arrangements and the overhead they created, the scope and scale of military operations in Afghanistan would have been impossible. This reorganization came at the cost of fiscal sustainability, however, which is unsurprising since Hillier’s Transformation was focused on improving the CAF’s operational effectiveness, not efficiency.[30] This observation was confirmed by the “Three Wise Men” assessment of Transformation which raised concerns about the impact of the revised structure on the allocation of departmental resources.[31] As one commentator subsequently described it, the effort produced “an empire-building spree”[32] as resources accrued to headquarter organizations in support of operations in Afghanistan.

The *Report on Transformation 2011*

The Transformation Team’s first challenge in determining how this overhead could be reduced was to quantify CAF/DND resource allocation. This process demonstrated both a limited degree of departmental awareness regarding its resource allocation (even after efforts were undertaken in this regard for the Strategic Review) and a disproportionate increase in resources devoted to headquarter units, with some operational forces actually shrinking. As Lieutenant-General Leslie subsequently noted: “At the height of the Afghan war, when most of us ... thought that most of the money and resources was going to the front line troops, that turned out to not be the fact.”[33] While operational units experienced personnel growth of 10 percent, headquarters and non-operational units increased by 40 percent. As a result, CF 2020 aimed its efforts at a total overhaul of DND’s command and control arrangements and support structure. Given the goal of finding $1 billion for deficit reduction, an additional 3,500 Regular Force positions for new defence priorities and $1 billion for reinvestment, while leaving operational forces and infrastructure untouched, it is not surprising that it proposed sweeping changes and outlined a complete reorganization of all CAF/DND structures above the wing/brigade level.

But these efforts to institute sweeping changes were almost immediately and severely undermined. Although Leslie's revised terms of reference were signed by both the CDS and DM, a senior civil servant, appointed as co-lead to the Transformation Team, was officially withdrawn from the exercise only four months later. This move significantly circumscribed the Transformation Team's ability to examine the entirety of the CAF/DND in significant detail. It also indicated that the collaborative leadership from the senior military and civilian leaders at NDHQ, necessary to the implementation of sweeping change within DND and across government, would not be forthcoming. Finally, without the support of the DM, accountable for DND's finances under the *Federal Accountability Act*, there was little prospect of a major change to DND's resource allocation.[34]

Despite this, the resulting *Report on Transformation 2011* delivered a detailed plan to reorganize defence in a way that could produce the desired deficit reduction and reinvestment targets. Several administrative efficiencies were recommended to generate financial savings ranging from $750 million to a maximum of $3.1 billion. The most significant of these included the adoption of new enterprise resource management programs, improving IM/IT delivery, reducing the use of contracted services and full-time reservists, and rationalizing base support, military cost moves[35] and travel. A partial list of these measures is provided in Figure 1.

Two interrelated and more transformative changes were proposed to allow for defence reinvestment. The first was a completely revised command and control arrangement that would include a single force employer, reorganized Regional Joint Task Forces, rationalized force generation structures, and a revised Chief of Force Development organization. Together, these changes would generate a 25 percent reduction in headquarters and overhead. The second proposed change called for centralizing DND's support functions in a single organization responsible for all garrison and non-deployed logistics support, oversight of select enablers (such as health support and military policing) and recruiting, training and education. It was estimated that by adopting best practices, devolving to common service standards and pursuing outsourcing options throughout this organization, the financial savings generated would facilitate the reinvestment of the desired 3,500 Regular Force positions and $1 billion.

In sum, the *Report on Transformation 2011* proposed a sweeping reorganization of essentially all non-operational defence organizations, without significantly affecting operational units. As the report itself recognized, its recommendations required further study to validate possible savings and identify the consequences of the proposed changes.[36] Nonetheless, it provided a comprehensive plan for Canadian military reorganization that would contribute to deficit reduction while avoiding internal flat taxes and cut tail to permit a significant reinvestment in teeth. Its plan provided considerable detail about how this would be achieved, particularly regarding the reorganization of the command and control and support structures.

Once tabled, however, the report proved highly controversial. Following a brief oral presentation, it reportedly sat on the Defence Minister's desk until a media leak led to its public release.[37] Lieutenant-General Leslie subsequently retired from the military. Since then, the report's influence has been mixed. Some of its recommendations for deficit reduction were adopted by DND during the DRAP process, and two years later, other elements reappeared in the Defence Renewal Plan. (See Figure 1 for more detail.) However, its most substantive recommendations, the extensive reorganization in support of reinvestment, have been almost completely ignored.

Figure 1: DND Change Initiatives: Timeline and Interconnections

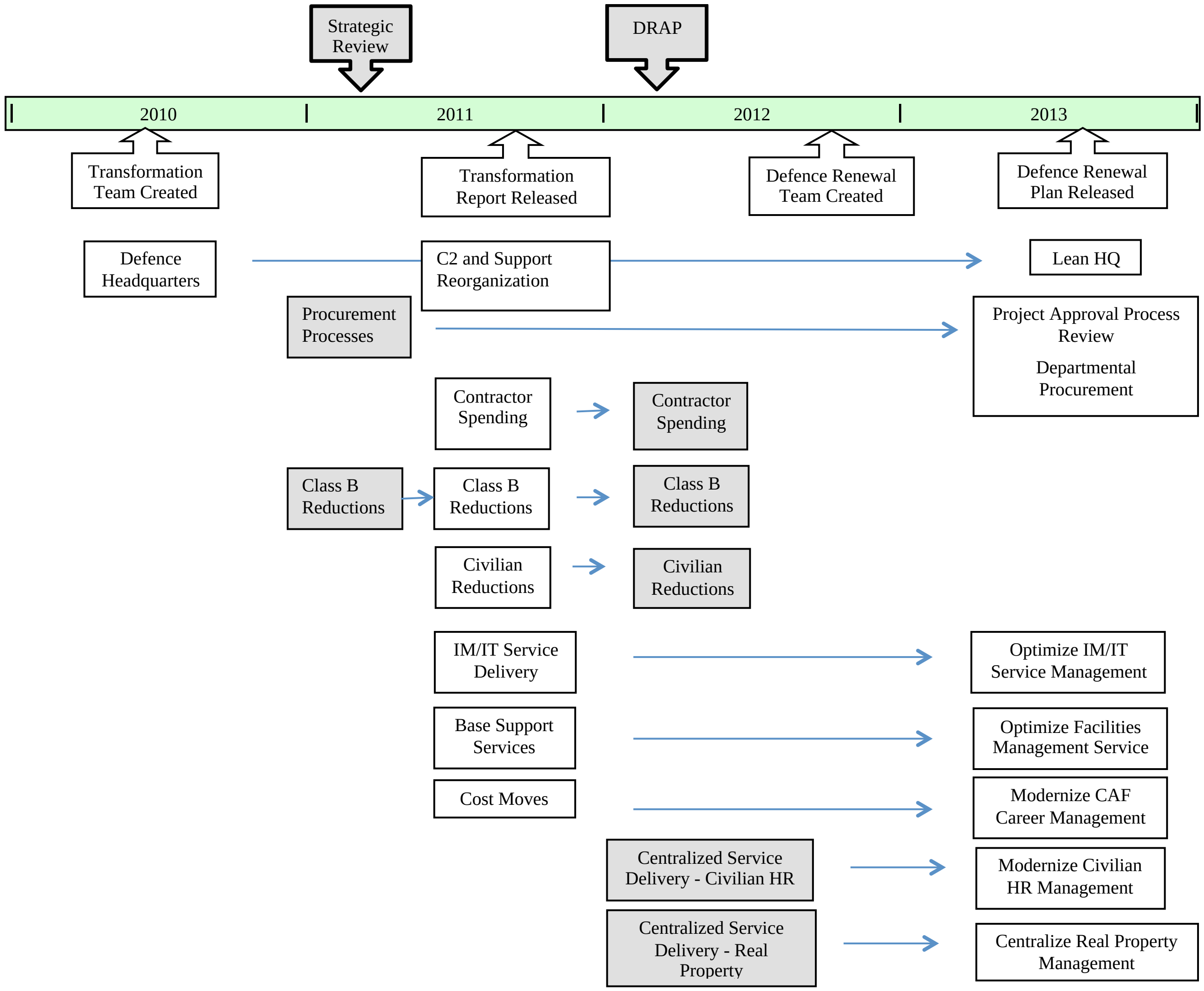

Figure 1 shows that many of the initiatives now proposed for further study in the Defence Renewal Plan were first proposed several years ago. Figure 1 traces the evolution of the CAF/DND Transformational or Renewal Activities (shaded grey) and budget cuts (in white) by theme. It shows that some of the Defence Renewal initiatives were first proposed in 2010 in the terms of reference for LGen Leslie, or recommended in Report on Transformation 2011. Other initiatives have their genesis in the Strategic Review launched in 2010 and in the 2012 DRAP process.

Budget 2012: Deficit Reduction Action Plan (DRAP)

While the work on the *Report on Transformation 2011* was underway, the 2011 Budget committed all federal departments to a deficit reduction exercise – the Deficit Reduction Action Plan (DRAP). Given the timelines of the federal budget process, DND's departmental submissions were developed quickly, with the substantive process completed within six weeks. The DRAP required each department to submit options for reducing its operating expenditures by both 5 and 10 percent. Individuals familiar with the process indicate that these proposals lacked the rigour of the divestment proposals put forward for the Strategic Review. While a considerable amount of effort was made to ensure the fidelity of the proposals for a 5 percent reduction, those for a 10 percent reduction were less developed. In some instances, the 10 percent reduction promised to provide twice the savings of the 5 percent option by simply doubling whatever measure had been proposed.[38]

The results of the DRAP were announced in Budget 2012, and mandated DND to reduce its operating expenditures by 7.4 percent. This was slightly more than the government-wide average of 6.9 percent, but considerably less than some departments which faced double-digit reductions. Planned to be phased in over a period of three years, the DRAP required a $1.12 billion reduction in departmental spending by 2014/2015 (see Table 3).

Table 3. Budget Cuts to DND
Figures in $ million

	2012-2013	2013-2014	2014-2015
Base Budget[1]	20,000	20,000	20,000
Strategic Review	-525	-1,000	-1,000
DRAP	-327	-706	-1,120
Combined Budget Cut	**-852**	**-1,706**	**-2,120**
% of Total Base Budget	**-4%**	**-9%**	**-10.6%**

1. The Strategic Review base budget level of $20 billion is used as the base budget level for all calculations.

Some of the reductions put forward by DND through the DRAP process reflected recommendations found in the *Report on Transformation 2011*. These included reductions of $445 million in contracting expenditures, $40 million in full-time reserve employment, and $128 million in defence civil servant employment. Unlike the Transformation report which applied these divestments in a way that protected operational forces, DND's *Report on Plans and Priorities 2013/14* shows that the reductions to contractors, reservists and civil servants will be applied to each and every component of the CAF/DND.[39] The DRAP also mandates that DND reduce expenditures on operational forces by cutting $75 million in National Procurement funding (the budget category that DND uses to pay for equipment maintenance, repair and overhaul), and saving $305 million by delaying the expansion of the CAF to 70,000 full-time members, as previously planned.[40] (Figure 2 provides the full breakdown of the DRAP reductions.)

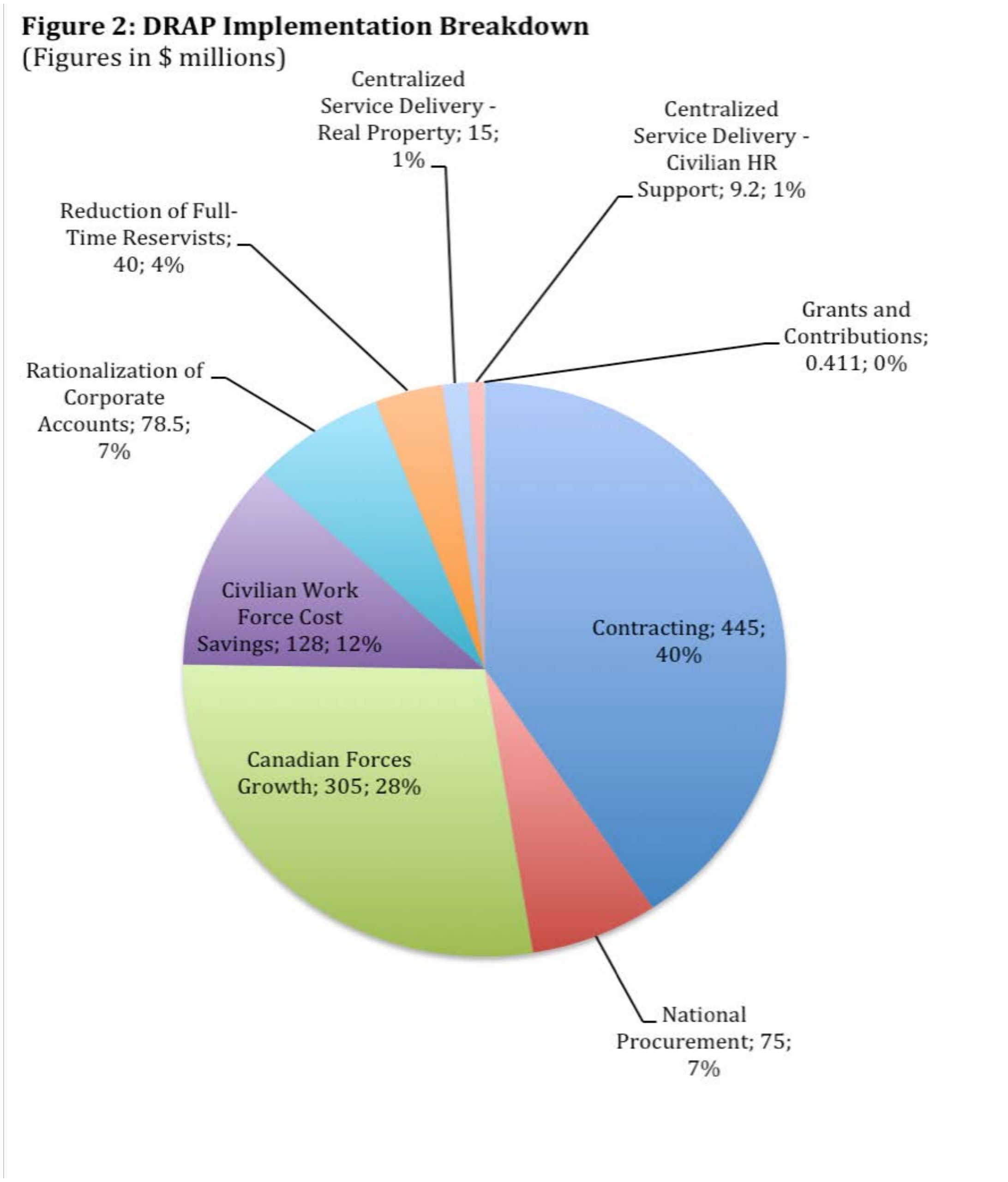

Figure 2 represents a breakdown of DRAP cuts, according to the itemized breakdowns provided by National Defence. It demonstrates that the most significant sources of budget reductions are cuts to contracting, the civilian work force cost savings, and "Canadian Forces Growth," a move to delay the expansion of the military. These all represent reductions to CAF/DND capabilities. Efficiency changes such as Centralized Service Delivery for Real Property and Civilian HR, and Rationalization of Corporate Accounts represent only a small portion of the overall savings.

The combined Strategic Review and DRAP initiatives for which detailed divestment data was available - which due to the data limitations pointed out in Table 2, do not include $392 million in Strategic Review divestments - were aggregated by the author into their constituent DND budget categories: Personnel; Operations and Maintenance; Grants and Contributions; and Capital. As Table 4 shows, the bulk of the reductions fall into the first two categories: $625.2 million for Personnel and $805.6 million for Operations and Maintenance. Although some reductions were made to Capital, none of these appear to affect the planned acquisition of new defence equipment.

Table 4. DND Breakdown of Budget 2011 and Budget 2012 Reductions
Figures in $ millions

Budget Category	Reduction Item	Budget 2011: Strategic Review	Budget 2012: DRAP	Total
Personnel	"Class B" Reservists	82.2		82.2
	CF Compensation and Benefits	70.0		70.0
	Civilian Work Force Cost Savings		128.0	128.0
	Reduction of Full-Time Reservists		40.0	40.0
	Canadian Forces Growth		305.0	305.0
	TOTAL Personnel Reductions			625.2
Operations and Maintenance	Aerospace Readiness	26.3		26.3
	Land Tiered and Training Program	127.0		127.0
	Maritime Readiness	45.5		45.5
	National Procurement		75.0	75.0
	Rationalization of Corporate Accounts		78.5	78.5
	Centralized Service Delivery - Civilian HR Support		9.2	9.2
	Contracting		445.0	445.0
	TOTAL O&M			**806.5**
Grants and Contributions	NATO AWACS	81.6		81.6
	NATO AGS	34.4		34.4
	Grants and Contributions		0.4	0.4
	TOTAL Grants and Contributions			**116.0**
Capital	Equipment Acquisition and Disposal	45.9		45.9
	Real Property	45.5		45.5
	DND Information Technology	50.0		50.0
	Centralized Service Delivery - Infrastructure		15.0	15.0
	TOTAL Capital			**156.4**
	Unallocated Strategic Review Reductions	391.6		391.6
	Totals	1,000.0	1,096.1	2,095.7

Deficit Reduction, CJOC and Naval Transformation, and the Reduction of Readiness

Although the DRAP was not associated with any wider transformational effort, in May 2012 DND announced CF Transformation Bound II, which resulted in the creation of Canadian Joint Operations Command (CJOC). CJOC, responsible for all military operations, was designed to reduce the number of officers in strategic headquarters by 25 percent and allow their redistribution to emerging capabilities and operational demands. Officially, this process allowed for the redistribution of a total of

175 positions, of which 130 were regular CAF positions.[41] According to individuals familiar with the process, most of the full-time personnel freed up by this reorganization were reassigned to other headquarters units. Although the CJOC website describes its creation as "LGen Leslie's primary recommendation,"[42] Leslie himself characterized it as a long-planned move and "the least" of his team's recommendations.[43]

In contrast, concurrent with the creation of CJOC, and as part of Navy Transformation, the Royal Canadian Navy announced a number of changes designed to reduce overhead and achieve staffing efficiencies. This included initiatives to centralize the naval readiness authority, consolidate naval schools and create a directorate of new capability introduction.[44] Of all the changes publically announced since 2010, this naval agenda most closely resembles the intent of the *Report on Transformation 2011*. To date, the Canadian Army and Royal Canadian Air Force have not issued comparable plans.

As a result, despite the intention that reductions in DND budgetary resources were not to affect military operations, this did happen. Lieutenant-General Peter Devlin, then Commander of the Canadian Army, testified before the Senate Committee on National Security and Defence in December 2012 that the Army's budget had been reduced by 22 percent since 2010. According to his testimony, this directly affected the Army's personnel, infrastructure and training. The impact on training in particular has been severe, as "the training budgets for the formations are probably about 45-plus per cent lower."[45] Although the Army has remained committed to Level 5 live fire training of combat teams, it has had to switch from a six month to a one year training cycle to do so, with the result that troops now engage in high-end training less often.[46] Furthermore, to meet these reductions, the Army declared as surplus to its requirement its TOW missiles, C1/C3 Howitzers, 60mm Mortars, Light Assault Radios, its Air Defense Anti-Tank System and Land Mine Detection capabilities. The Close Combat Vehicle program cancellation was reportedly designed in part to help offset the pressures placed on the Army program because of the cumulative impact of budget cutbacks.[47] Similarly, the previous Commander of the Royal Canadian Navy indicated that his budget had been reduced by 11 percent, the impact of which was concentrated on Operations and Maintenance.[48] Although the Commander of the Royal Canadian Air Force did not discuss the specifics of his reductions, they appear to be similar in scope, as some Air Force squadrons have had their flying hours reduced by more than 20 percent.[49]

Surprisingly, public discussion has failed to mention the fact that these budget cuts do not reflect the full impact of the deficit reduction exercises announced as of 2012/2013. As Table 3 shows, the combined impact of Budgets 2011 and 2012 does not take full effect until 2014/2015. By that year, the Canadian Army, for example, will have only 75 percent of the budget it had three years prior.

This reduction in operational capability prompted a letter from the Prime Minister's Office to the Minister of National Defence, dated 15 June 2012, subsequently leaked to the media,[50] which stated that: "thus far, your DRAP proposals have not sufficiently addressed corporate and institutional support and services."[51] Citing an imbalance in the allocation of defence funds towards the "ready force" and "institutional support," it directed Defence Minister MacKay to provide proposals "with a view to avoiding budgetary reductions that impact on operational capabilities, the part-time reserves, training within Canada, and the promotion and protection of our national sovereignty. You will need to demonstrate that all internal efficiencies have been identified and pursued, in addition to those in the 2011 Transformation Report."[52] The letter further specified that the new resources produced through internal efficiencies be reinvested in modernizing the CAF's operational capabilities, and specifically protecting Arctic sovereignty, monitoring and defending the sea and air approaches to Canadian territory, intelligence and cyber capabilities, search and rescue, capabilities to respond to domestic emergencies, and establishing a sovereignty protection mandate for 5 Wing Goose Bay. This missive shows that as of the summer of 2012, there was a significant degree of disconnect between the desired direction of the CAF/DND reduction measures and their implementation, and indicates that the Prime Minister's Office was under the impression that DND's reductions had not proceeded according to the Transformation initiative launched in 2010.

Defence Renewal

In August 2012, shortly after the PMO letter was issued, a Defence Renewal Team was stood up, with Major-General Al Howard and DND's Assistant Deputy Minister, Financial and Corporate Services, Kevin Lindsey as its co-leads. The team was directed to "minimize inefficiency, streamline business processes and maximize the operational results."[53] In February 2013, McKinsey & Company was hired to assist the process, and at that time, Rear-Admiral Andrew Smith took over from Major-General Howard, who retired. Just a few months later, in the summer of 2013, Smith retired and Major-General John Milne became the third military officer to lead the Defence Renewal Team in less than 12 months.

In October 2013, the Defence Renewal Charter and supporting plan were released to the public. As the plan outlines, Defence Renewal is aimed at improving the "effectiveness and efficiency" of the defence establishment by increasing output or by performing functions at less cost or with fewer personnel. Through 22 initiatives, the Defence Renewal Plan states:

> Our global reinvestment opportunity is projected to be in the range of $750 million to $1.2 billion annually by 2017-2018. This includes the potential for internally re-prioritizing between 2,800 and 4,800 military and civilian personnel on higher value work.[54]

Although a quick read of this text would suggest that the Defence Renewal Plan outlines reinvestment opportunities similar to those provided by the *Report on Transformation 2011*, this is not the case. In fact, the total monetary reinvestment opportunity was calculated to include the equivalent dollar value of Full-Time Equivalents (FTEs), DND's metric for full-time employees, which could be reallocated through its proposals. As the plan states, however, DND does not intend to eliminate personnel: "Although expressed in FTEs, this reinvestment opportunity is NOT the elimination of positions but an increased operational output efficiency in terms of Person Years."[55] Given this commitment, Defence Renewal more accurately provides initiatives that could lead to the reinvestment of 2,362 to 3,741 FTEs and $528-$845 million (this is itemized in detail in Table 5).

Table 5. Defence Renewal Reinvestment Potential

No.	Initiative	Reinvestment Potential				Investment required?
		FTE		$ million		
		Low	High	Low	High	
1.1	CAF Operational Force Posture and Readiness					TBD
1.2	RCAF Simulation and Synthetic Environment			7	20	Yes
1.3	CAF Maintenance Execution*	1,077	2,000			TBD
2.1	Inventory Management			87	162	Yes
2.2	Warehousing and Distribution			9	17	TBD
2.3	Maintenance Program Design			25	75	TBD
2.4	Departmental Procurement			160	196	TBD
3.1	Optimize IM/IT Service Delivery	82	104			Yes
3.2	Application Portfolio Management			12	36	TBD
3.3	Rationalize Defence IM/IT Program			19	23	TBD
4.1	Centralize Real Property Management	140	170			TBD
4.2	Rationalize Real Property Portfolio			69	127	TBD
4.3	Optimize Facilities Management Service Delivery			20	25	TBD
4.4	Improve Real Property Project Delivery			4	13	TBD
5.1	Modernize CAF Individual Training and Education			11	20	Yes
5.2	Modernize CAF Career Management Process			13	17	TBD
5.3	Military Personnel Management Capability Transformation	200	380			Yes
5.4	Modernize CAF Recruiting Process				0	TBD
5.5	Renewal of the Cadets and Junior Canadian Ranger Program			2	4	TBD
6.1	Lean Headquarters*	846	1,034			Yes
6.2	Project Approval Process Review			90	110	TBD
6.3	Modernize Civilian HR Management	17	53			TBD
	Total	**2,362**	**3,741**	**528**	**845**	

Table 5 details the 22 initiatives put forward in the Defence Renewal Plan, their reinvestment potential, and indicates whether they require up-front investment. It shows that at least six of these initiatives (shaded in red) are anticipated to require initial investments, the costs of which are unknown. It also shows that the real reinvestment potential from Defence Renewal is less than publicly stated. The columns under Reinvestment Potential list the low and high range estimates provided in the Defence Renewal Plan; where this showed a reinvestment potential in Full-Time Equivalents (FTEs) that was also expressed in dollars, only the FTE savings were listed to avoid double counting. The final column reflects data from the Defence Renewal Team as to whether initiatives require initial investments. For those that state "Yes" it has been determined that up-front investment is required, generally in capital equipment or business systems. This does not include project personnel or contracted support, with the exception of the 'Lean Headquarters' initiative. As final determinations on the remainder of the initiatives have not yet been made to assess if they require investment, they have been left as To Be Determined (TBD).

Although the Defence Renewal Team drew upon extensive support from McKinsey, at least 10 initiatives appear to share many similarities with those proposed in the *Report on Transformation 2011*.

These include the proposal to create a 'lean' headquarters; a scaled-down version of the command and control reorganization proposed in that Report. (The renewal initiatives bearing strong resemblance to the earlier transformation efforts are shaded brown in Table 6.) Thematically, the overall renewal efforts focus on Operations and Training, Maintenance and Materiel, IM/IT, Infrastructure, Personnel and Management Systems.

Aside from the creation of CJOC and Naval Transformation, Defence Renewal is the first action towards facilitating internal reinvestment in "operational capabilities and readiness."[56] Identifying the opportunities for reinvestment will be the subject of study over the next year, but at present, space and cyber capabilities have been identified as priorities, as has ADM Materiel's Project Management capacity.[57] The proposed initiatives all seem sensible, and have been drawn from the experiences of key allies as well as from past Canadian activities, including the Strategic Review and DRAP processes. In some instances, they build on efforts underway to improve the CAF/DND business processes. Whereas the Strategic Review and DRAP efforts were largely conducted in isolation from each other as discrete processes, without giving full consideration to the consequences and implications of their reductions, Defence Renewal is meant to take a holistic approach examining the entire defence enterprise. To that end, it will ostensibly provide a coordination and alignment function for the budget reductions exercises already underway.

Some caution is warranted, however, in assessing the Defence Renewal Plan, for four reasons. First, the document itself shows that DND will need to make initial investments in at least six of these initiatives before they can produce their intended reinvestment potential (shaded red in Table 5). While this is to be expected, DND will have to fund these investments within its existing resource levels, and these costs have not yet been determined. Thus, it is likely that Defence Renewal will actually add to DND's fiscal pressures in the short term before providing long-term reinvestment potential.

Second, as Table 6 shows, these initiatives will take several years to implement.[58] Only half of the initiatives will be fully implemented before 2017/2018, and the rationalization of defence infrastructure will continue until 2035. This lengthy timeline for implementation is especially notable, as 11 of the proposed initiatives were first studied as part of CF 2020, Strategic Review, or DRAP. As Table 6 shows, the directive to create a lean headquarters was included in the 2010 Terms of Reference for the Chief of Transformation, yet the initiative will not be fully implemented until 2016 - six years later.

Table 6: Timeline of Defence Renewal Initiatives

No.	Initiative	Origin			Implementation Schedule						Total Years
		10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	2035	
1.1	CAF Operational Force Posture and Readiness											4
1.2	RCAF Simulation and Synthetic Environment											6
1.3	CAF Maintenance Execution*											6
2.1	Inventory Management											5
2.2	Warehousing and Distribution											5
2.3	Maintenance Program Design											5
2.4	Departmental Procurement											5
3.1	Optimize IT Service Management											5
3.2	Application Portfolio Management											5
3.3	Rationalize Defence IM/IT Program											4
4.1	Centralize Real Property Management											6
4.2	Rationalize Real Property Portfolio											20+
4.3	Optimize Facilities Management Service Delivery											5
4.4	Improve Real Property Project Delivery											7
5.1	Modernize CAF Individual Training & Education											8
5.2	Modernize CAF Career Management Process											3
5.3	Military Personnel Management Capability Transformation											5
5.4	Modernize CAF Recruiting Process											4
5.5	Renewal of the Cadets & Junior Canadian Ranger Program											5
6.1	Lean Headquarters*											6
6.2	Project Approval Process Review											6
6.3	Modernize Civilian HR Management											5

	Transformation Team Terms of Reference
	Strategic Review
	Report on Transformation 2011
	DRAP
	Defence Renewal Implementation

Table 6 shows the timeline for implementing the Defence Renewal Plan. The Origin column notes those initiatives first proposed prior to Defence Renewal. The Implementation Schedule column reflects the scheduled implementation for each initiative presented in the Renewal Plan, beginning with the year in which the initiative moves to implementation, or an initial operating capability. As this shows, half of the initiatives will not be completed until 2017/2018 or later, although this is in some instances due to the necessary sequencing of initiatives, described in endnote 58. The final column shows the total years to achieve full implementation of each reinvestment initiative, beginning with the year the initiative was first proposed and ending with the planned year of full implementation. This demonstrates that the average time to completion exceeds five years.

Third, it is not clear that the Defence Renewal Plan can provide the personnel reinvestments that the *Report on Transformation 2011* deemed necessary and General Lawson confirmed are still needed. Speaking to the Senate Defence Committee, Lawson stated that Canada still requires “3,500 positions to reinvest into capacities that we see as fundamental to the future of the Canadian Armed Forces.”[59] Although the Renewal Plan outlines the possibility of finding this number of FTEs, doing so relies almost exclusively on changing the way the CAF provides maintenance and on creating a lean headquarters (these initiatives are denoted with an * in Table 6). The first initiative has been evaluated as difficult to implement, and its potential reinvestment opportunity assigned a low degree of confidence. Although the second (lean headquarters) initiative is assessed more favourably, the Defence Renewal Plan provides scant information about how this will be achieved. While the lean headquarters initiative will affect both the military and civilian portions of NDHQ, the Defence Renewal Team has not yet determined which CAF/DND organizations will be affected. In other words, for renewal purposes, what constitutes NDHQ has yet to be determined. However, since the initiative is restricted to organizations in the National Capital Region, what is proposed is a significantly less ambitious project that the reorganization proposed in the *Report on Transformation 2011,* which envisioned nation-wide changes. Furthermore, unlike every other Defence Renewal initiative, the headquarters reorganization has not been assigned a lead official to implement it, suggesting that progress on this could be slow. As well, the renewal of the CFDS may reduce the regular force military establishment. If this occurs, the FTE reinvestment potential may simply offset the impact of force reductions, rather than contribute to reinvestment.

Finally, even at their upper limit, the prospective financial reinvestments fall short of the $1 billion target established by the Transformation Team, and these amounts do not include the costs of initial investments. Furthermore, in the three years since the Transformation Team established that $1 billion target, $3.93 billion in available Vote 5 capital funding was not spent as scheduled.[60] With defence inflation averaging 7 percent, this slippage has significantly eroded the purchasing power of the capital program, increasing the recapitalization pressures the Transformation Team believed required $1 billion in reinvestment funding.[61] This is problematic since the Defence Renewal Plan provides for at best only 85 percent, and at worst half, of this three-year-old reinvestment target.

To be successful, Defence Renewal will require concerted coordination and continuity of leadership that it has not experienced to date, given the frequent turnover of its military leads. This is particularly the case because Defence Renewal took the ground-up approach of assessing what reinvestment opportunities were possible within the defence organization. While this means that Defence Renewal will likely have stronger endorsement from within the CAF/DND than past initiatives have, paradoxically, previous efforts to increase efficiency or cut spending in the Canadian government have been successful when specified reduction targets have been mandated by the Prime Minister: a top-down approach.[62] Although General Lawson has described Defence Renewal as his ‘centre of gravity’ over the next two years, he will require the support of the DM, the VCDS, the Minister of National Defence and the Prime Minister, if it is to succeed.

The 2013 Speech from the Throne: Operating Budget Freeze and CFDS Renewal

Only nine days after launching its Defence Renewal Plan, the 2013 Speech from the Throne announced two measures that will also occupy the defence leadership as it attempts to proceed with implementation. First, the speech promised further budget austerity, including an Operating Budget freeze, and further targeted reductions to internal government spending.[63] The two-year Operating Budget freeze, beginning in 2014/2015, will again mean that DND will not be compensated for negotiated wage increases. Based on the impact of the same measure in 2010, the author estimates that the annual impact will be roughly $118 million, with the cumulative impact by 2015/2016 at $236 million.[64] Together, the two Operating Budget freezes will call for a reallocation of roughly $591 million from DND's Operations and Maintenance budget to Personnel. In combination with the $805.6 million in Operations and Maintenance cuts outlined in Table 4, the total impact on Operations and Maintenance funding is roughly $1.4 billion. In 2009/2010, the last year before austerity measures took effect, DND was supplied with $7.61 billion in Operations and Maintenance funds.[65] Thus, this component of DND's funding has been reduced by at least 18 percent to date.

Second, in addition to further austerity, the 2013 Speech from the Throne announced that the *Canada First Defence Strategy* would be renewed. According to General Lawson, the process of engaging in a policy renewal was put on hold until the CAF/DND found efficiencies within its "own lines,"[66] indicating that this decision is tied to the announcement of Defence Renewal. Notably, Lawson recently indicated that a renewal effort could include a reduction in the Regular Force Military Establishment, a move that several commentators, including General (Ret'd) Hillier, have suggested was needed.[67] Should this happen, it may prove difficult to prevent the Defence Renewal Team's initiatives from moving from reinvestment opportunities to facilitating a downsizing.

A defence policy renewal is certainly needed, in large part because the CAF/DND did not proceed to implement the *Report on Transformation* 2011 two years ago. As a consequence, since 2011, the Canadian military has had its readiness levels reduced and capabilities cut in order to contribute to deficit reduction. Two years later, many of that report's recommendations will now be enacted to allow for reinvestment within the defence organization. However, because the type of transformative change proposed in the *Report on Transformation 2011* will not be pursued, the opportunity for reinvestment is significantly smaller. Since readiness and some capabilities were cut, the Defence Renewal Team will have to decide how much reinvestment will be directed to new capabilities, and how much to mitigating the impacts of SR and DRAP on operational readiness, and on potentially offsetting the impact of a cut to the military establishment.

This could be highly consequential for the Royal Canadian Navy in particular, since the affordability of its recapitalization plan was called into question in November 2013. In his Fall 2013 report, the Auditor General (AG) announced what had long been rumoured, that the adequacy of the naval recapitalization budget was a "key project risk".[68] While the National Shipbuilding Procurement Strategy (NSPS) Secretariat is working to mitigate the impact of these budget pressures, the AG "found that the CSC [Canadian Surface Combatant] project budget of $26.2 billion … is insufficient to replace Canada's 3 destroyers and 12 frigates with 15 modern warships with similar capabilities."[69] This echoes the findings of the Parliamentary Budget Officer's report on the Joint Support Ship which, similarly, found that the project budget was insufficient to replace the Royal Canadian Navy's existing supply ships with vessels of the same capability.[70] Thus, despite the CFDS pledge to "improve and replace key existing equipment,"[71] two officers of Parliament have found that the ships in the Navy's seagoing fleet will be replaced with less capable vessels unless the fleet becomes smaller. As a result, according to the Auditor General, "Canada may not get the military ships it needs if budgets are not subject to change."[72] Problematically, the CSC is in the first of what is anticipated to be multiple years of project definition, and only at the end of this process will there be a substantive understanding of exactly what fleet capabilities and sizes will cost. The NSPS Office will continue to advise

Treasury Board Ministers about potential cost/capability trade-offs regarding the naval combatant fleet, but they will likely be unable to do so with certainty until after the CFDS is renewed. While a substantive budget increase may be possible in the future, should it prove necessary, the government's pledge to pass balanced budget legislation makes this prospect uncertain, if not unlikely.[73] It is therefore imperative that the CFDS renewal articulate a clear prioritization of military capabilities that could guide possible adjustments to the defence budget and capital plan.

Conclusion

The preface to the *Report on Transformation 2011* argued: "Whatever decisions are eventually made will require a unified and coherent defence team pulling in the same direction under firm and dynamic leadership at all levels."[74] The last successful transformation in 2005 exhibited these traits, with unity of effort from the ministerial, military and civilian leadership of National Defence, an engaged Prime Minister and the key implementing officer going on to a leadership position in the transformed organization he helped create. In the current circumstances, without an operational imperative to drive success, coherence and continuity will be even more necessary. To date, the change agenda since 2010 has exhibited neither, and the government-wide financial cuts that might have driven significant reorganizations were implemented independent of the transformational activities. As a result, budget cuts resulted in internal flat taxes applied equally to all components of the CAF/DND. As of January 2014, after three years of departmental effort, the CAF and DND have yet to meaningfully change their internal operations in a way that would allow for reinvestment.

The renewed CFDS will clearly be less ambitious than the one outlined in 2008. General Lawson appears to have acknowledged as much in his *Guidance to the Armed Forces*, which recognized the need to "synchronize our level of ambition for new operational capabilities with today's fiscal realities."[75] Specifying how much less ambitious is almost impossible, given the lack of specificity in the 2008 defence plan and uncertainty over naval recapitalization. With respect to the former, it is clear that the CFDS balance among the personnel, equipment, infrastructure and readiness pillars has been substantially altered, with readiness bearing the brunt of reductions. Eighteen percent less readiness funding has already resulted in reduced training and flying hours and the impact will worsen in 2014/2015 as the next Operating Budget freeze takes effect. Regarding naval recapitalization, the one certainty is that the fleet will become either smaller or less capable unless naval project budgets are increased.

The renewal of Canadian defence policy will have to reorient the Canadian military to face new strategic demands with significantly reduced resources ($2.7 billion less than planned, every year) and a shipbuilding program that might not deliver the capability the government needs. Consequently, an honest CFDS renewal will need to prioritize the capabilities required to fulfill the government of Canada's requirements, as tough decisions will be needed to rebalance among personnel, equipment, infrastructure and readiness spending and potentially among Canada's land, aerospace, maritime and special operations forces.

NOTES

[1] Canada. Department of National Defence. *Defence Renewal Charter*. Ottawa, October 2013, 4.
[2] Years presented in this fashion are Canadian Fiscal Years. Canada, Department of Finance. *Budget Plan* 2012. Ottawa, 2012.
[3] Canada. Department of Finance. *Fiscal Reference Tables* 2013. Ottawa, 2013. Table 54. Available at http://www.fin.gc.ca/frt-trf/2013/frt-trf-1309-eng.asp#tbl54.
[4] Canada, Department of Finance. *Budget Plan 2010*. Ottawa, 2010.
[5] Lieutenant Colonel Ross Fetterly, "Budgeting for Defence," in *The Public Management of Defence in Canada*, ed. Craig Stone (Toronto: Breakout Education Network, 2009), 49.
[6] Canada. Department of Finance. "Table 9: Expenses (per cent of total)," *Fiscal Reference Tables*. Ottawa, 5 October 2012. Available at http://www.fin.gc.ca/frt-trf/2012/frt-trf-1202-eng.asp#tbl9. Accessed 18 February 2013.
[7] Prime Minster Stephen Harper, "Statement by the Prime Minster of Canada at the CDS Change of Command Ceremony," 29 October 2013. Available at http://pm.gc.ca/eng/node/25039. Accessed 30 October 2013.
[8] Canada. Department of National Defence. *Making Sense Out of Dollars*. Ottawa, 2012.
[9] Canada. Treasury Board of Canada Secretariat, *Strategic Reviews*. Available at http://www.tbs-sct.gc.ca/sr-es/index-eng.asp.
[10] Confidential Interviews. Ottawa, July, August 2013.
[11] Canada. Email to the Author. Department of National Defence. February 2013.
[12] Confidential Interviews. Ottawa, July, August 2013.
[13] Canada. Department of National Defence. Email to the Author. . February 2013.
[14] Canada. Department of National Defence. *Report on Plans and Priorities 2013/2014*. Ottawa, 2013.
[15] Andrew Godefroy, *The Ghost of General Otter.* (Calgary: CDFAI, 2012), 8.
[16] Lieutenant-General (ret'd) Andrew Leslie. *The Big Idea*. TVO. 25 January 2013. Available at http://ww3.tvo.org/video/186813/lt-general-ret-andrew-leslie-lessons-afghanistan. Accessed 19 February 2013.
[17] Lieutenant-General Andrew Leslie. *Report on Transformation 2011*. Ottawa: Department of National Defence, 2011, iv; CDAI Roundtable. Ottawa, ON, 5 October 2011, x.
[18] Lieutenant-General Andrew Leslie. *Report on Transformation 2011*. Ottawa: Department of National Defence, 2011, iv.; CDAI Roundtable. Ottawa, ON, 5 October 2011.
[19] CDAI Roundtable. Ottawa, ON, 5 October 2011.
[20] Lieutenant-General Andrew Leslie. *Report on Transformation 2011*. Ottawa: Department of National Defence, 2011, viii.
[21] CDAI Roundtable. Ottawa, ON, 5 October 2011.
[22] Lieutenant-General (Ret'd) George Macdonald. *The Canada First Defense Strategy - One Year Later* (Calgary: 2009).
[23] Lieutenant-Colonel Michael Rostek. "Managing Change within DND," in *The Public Management of Defence in Canada*, ed. Craig Stone (Toronto: Breakout Education Network, 2009), 220.
[24] Brigadier-General Daniel Gosselin and Craig Stone. "From Minister Hellyer to General Hillier," *Canadian Military Journal* (Winter 2005-2006), 10.
[25] Daniel Gosselin, "Navigating the Perfect Wave," *Canadian Military Journal* (Winter 2007-2008), 84 (emphasis in original).
[26] Canada. Department of National Defence. *CDS Planning Guidance-CF Transformation*-18 October 2005. Ottawa, 2005, 3. Cited in Major Devin Conley and Eric Ouellet. "The Canadian Forces and Military Transformation," *Canadian Army Journal*. Vol 14, No. 1 (Spring 2012), 71-83.
[27] Philippe Lagasse. "A Mixed Legacy," *International Journal*. Vol. 64, No. 3 (Summer 2009), 614.
[28] Allan English. "Outside CF Transformation Looking In," *Canadian Military Journal*. Vol. 11, No. 2 (Spring 2011), 12-20.
[29] Major Devin Conley and Eric Ouellet. "The Canadian Forces and Military Transformation," *Canadian Army Journal*. Vol 14, No. 1 (Spring 2012), 78.
[30] Lieutenant General (ret'd) Michael K. Jeffery. "Inside Canadian Forces Transformation," *Canadian Military Journal*. Vol. 10, No. 2 (2010), 9-18.
[31] Lieutenant-General RR Crabbe, Vice-Admiral L.G. Mason, and Lieutenant General F.R. Sutherland. *A Report on the Validation of the Transformed Canadian Forces Command Structure*. 31 January 2007.
[32] Allan English. "Outside CF Transformation Looking In," *Canadian Military Journal*. Vol. 11, No. 2 (Spring 2011), 16.
[33] Lieutenant-General (ret'd) Andrew Leslie. *The Big Idea*, TVO. 25 January 2013.
[34] Canada. Treasury Board of Canada Secretariat. "Strengthening auditing and accountability within departments. Federal Accountability Act." 11 April 2006. Available at http://www.tbs-sct.gc.ca/faa-lfi/fs-fi/16/12fs-fi-eng.asp, Accessed 27 November 2013.
[35] This budget category refers to funding to pay for military postings.
[36] See page v of the Preface. Leslie, *Report on Transformation*, 2011.
[37] Douglas Bland. "The Leslie Report in Context," *On Track*. Vol. 16, No. 3 (Autumn 2011), 8-12.
[38] Confidential Interviews. Ottawa. 2012 and 2013.
[39] Canada. Department of National Defence. *Report on Plans and Priorities 2013/2014*. Ottawa, 2013.
[40] Canada. Department of National Defence. Email to the Author, February 2013.
[41] Lieutenant General Stuart Beare. "Evidence," Standing Senate Committee on National Security and Defence. Issue No. 9, 22 October 2012, 14; Murray Brewster. "Ottawa rolls out 'defence renewal'; figures show reforms save $18M," ipolitics.ca. 6 October 2013. Available at http://www.ipolitics.ca/2013/10/06/ottawa-rolls-out-defence-renewal-as-figures-show-reforms-save-18m/. Accessed 30 October 2013.
[42] Canada. Canadian Joint Operations Command. Available at http://www.forces.gc.ca/en/about-org-structure/canadian-joint-operations-command.page? Accessed 19 October 2013.
[43] Lieutenant-General (ret'd) Andrew Leslie. Interview with the Author, 2013.

[44] Canada. Department of National Defence. *Backgrounder: Navy Transformation*. Ottawa, 11 May 2012. Available at http://www.forces.gc.ca/en/news/article.page?doc=navy-transformation-adjusting-to-deliver-a-revitalized-navy/hgq87xtc. Accessed 30 October 2013.
[45] Lieutenant-General Peter Devlin. "Evidence," Standing Senate Committee on National Security and Defence. Issue No. 11, 3 December 2012, 8.
[46] It should, however, be noted that the Army's budget increased significantly over the course of operations in Afghanistan. Available public data does not allow a comparison between the current state of Army resources and those available prior to their Afghanistan-related expansion.
[47] Murray Brewster. "$2.1B armoured vehicle purchase hangs in balance as army frets about cost," *Winnipeg Free Press*. 10 October 2013. Available at http://www.winnipegfreepress.com/canada/21b-armoured-vehicle-purchase-hangs-in-balance-as-army-frets-about-cost-227278891.html?device=mobile. Accessed 10 October 2013. It is not clear that the funds associated with CCV can be transferred in the manner desired, however.
[48] Vice-Admiral Paul Maddison. :Evidence." Proceedings of the Senate Standing Committee on National Security and Defence, 25 February 2013. Available at http://www.parl.gc.ca/content/sen/committee/411/SECD/12EV-49990-E.HTM.
[49] RCAF Officer. Personal Communication with the Author, August 2013.
[50] Murray Brewster. "Harper letter to MacKay," *The Globe and Mail*. 25 October 2012. Available at http://www.theglobeandmail.com/news/politics/harper-letter-to-mackay-your-defence-budget-cuts-arent-deep-enough/article4651375/.
[51] Prime Minister Stephen Harper, Letter to MND Peter Mackay, 15 June 2012.
[52] *Ibid*.
[53] Canada.Department of National Defence. *Defence Renewal Overview*. Ottawa, October 2013. Available at http://www.forces.gc.ca/en/about/defence-renewal.page. Accessed 30 October 2013.
[54] Canada. Department of National Defence (DND). *Defence Renewal Plan*. Ottawa, 6.
[55] Canada. DND. *Defence Renewal Plan*, 17. Emphasis in the original.
[56] Canada. DND. *Defence Renewal Charter*. Ottawa, October 2013, 3.
[57] Senior Defence Official. Technical Briefing on Defence Renewal, October 2013.
[58] The lengthy implementation timeframes is in some instances due to the interrelationship between initiatives. For instance, initiative 2.1 must be implemented before 2.2 can proceed, since the changes to inventory management must precede changes to warehousing and distribution. DND Public Affairs. Email to the Author. November 2013.
[59] Canada. "Evidence." Standing Senate Committee on National Security and Defence. 18 March 2013.
[60] Data comes from the Public Accounts of Canada, and compares the authorities available at the beginning of the fiscal year, with those spent.
[61] This issue is addressed at greater length in a forthcoming CDA Institute, MLI Vimy Paper on defence procurement.
[62] Donald J. Savoie. *Whatever Happened to the Music Teacher?* (Montreal & Kingston: McGill-Queen's University Press, 2013).
[63] Canada. *Speech from the Throne*. Ottawa: 16 October 2013.
[64] Canada. Department of Finance Canada, *Update of Economic and Fiscal Projections*. Ottawa: 2013. Data on the impact of this Operating Budget freeze was requested from DND Public Affairs. Their answer was: "DND is currently assessing the annual and ongoing impact of the 2013 Economic Update operating budget freeze on internal operations and administration. In an environment of constrained operating budgets, DND is ensuring the proper resources are in place to realize the important missions for which it is responsible." DND Public Affairs. Email to the Author, 22 November 2013.
[65] Canada. DND. "Making Sense of Dollars: 2009-2010 Edition." Ottawa, 2010.
[66] Canada. "Evidence." Standing Senate Committee on National Security and Defence. 18 March 2013.
[67] Lee Berthiaume. "Troop reductions could be on the table, Canada's defence chief says," Canada.com. 20 November 2013. Available at http://www.canada.com/news/Troop%2Breductions%2Bcould%2Btable%2BCanada%2Bdefence%2Bchief%2Bsays/9185278/story.html.
[68] Canada. Office of the Auditor General of Canada (OAG). "Chapter 3: National Shipbuilding Procurement Strategy," *Fall 2013 Report of the Auditor General of Canada*. Ottawa, 2013, 3.
[69] Canada. OAG. "Chapter 3: National Shipbuilding Procurement Strategy," *Fall 2013 Report of the Auditor General of Canada*. Ottawa, 2013, 20.
[70] Canada. Office of the Parliamentary Budget Officer, *Feasibility of Budget for Acquisition of Two Joint Support Ships*. Ottawa: 2013.
[71] Canada. DND. *Canada First Defence Strategy*, 18.
[72] Canada. OAG. "Chapter 3: National Shipbuilding Procurement Strategy," *Fall 2013 Report of the Auditor General of Canada*. Ottawa, 2013, 23.
[73] Canada. *Speech from the Throne*. Ottawa: 16 October 2013.
[74] Lieutenant-General Andrew Leslie, *Report on Transformation*. Ottawa: Department of National Defence, 2011, v.
[75] General Tom Lawson, *Chief of the Defence Staff Guidance to the Canadian Armed Forces*. Ottawa: DND, 2013.