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by Ross Fetterly
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POLICY UPDATE

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The 2017 Defence Policy marked a conspicuous shift from the 2008 Canada First Defence Strategy (CFDS), as well as the pronounced continuation of a distinct national long-term view of Canada in the world shaped by geography, economic potential and national alliances. The CFDS was strongly influenced by the decade-long Afghanistan campaign, and the recognition that an increased focus was required on long-term planning and execution of the capital equipment plan, in order to support the Canadian Armed Forces' (CAF) sustainability. In contrast, the 2017 Defence Policy was strongly influenced by the combination of a shift from a long-standing unipolar world that reflected growing Chinese military strength and global influence, as well as increasing illiberal forces shaped and inspired by Russia. While influenced by vocal American advocacy directed at allies to increase defence spending, the new defence policy also updates specific people-related policies, such as support for families and diversity. What is important, however, is that both documents recognized that more focus was required on long-term planning and execution of the capital equipment plan to support the CAF's sustainability.

Notwithstanding the two documents' similarities in focus, the 2017 policy was shaped by a combination of the present international strategic security environment and the close collaboration between the government and defence establishment. While the long-standing and predominant paradigm responsible for the foundation under which Western national defence establishments operated has not changed – that of providing security for their citizens – the expected shelf life of a national Western defence policy continues to contract. The paradox is that in an uncertain environment, where diverse threats and challenges are evolving in an incoherent, disjointed and at times unexpected manner, the inability to implement the new defence policy could have serious consequences for Canada. Defence policies are not simply an academic exercise, but a key foundation upon which national security is exercised.

Defence establishments and governments tend to prefer investment in current capabilities at the expense of future ones. While current defence capabilities are essentially a reflection of historical defence expenditure, defence policies are an important instrument to shape future capabilities. For a sophisticated and technologically advanced military like the CAF, adjusting to the direction provided in the defence policy is not fundamentally a scientific, technical or financial problem, but provides the institution with a central organizational challenge. This paper will begin with a discussion of the collaboration between government and the defence institution, together with the benefits which will be derived from this collaboration. The next section will emphasize the importance of governance in defence, followed by a discussion of a number of challenges inherent in achieving the objectives of the 2017 Defence Policy. The paper will conclude with an examination of the steps needed to make the defence policy operational.

Preparation and Planning – The Key Elements of Defence Support to the New Policy

Prior to the Liberal government's initiation of the defence policy development process, the Department of National Defence (DND) and CAF had spent considerable time and effort in



thinking about and planning for the future. To be sure, defence organizations are, by their very nature, planning machines. Yet in the preceding years, considerable institutional effort in Canada was devoted to developing and implementing a more robust capabilities-based planning (CBP) process in defence. Substantial changes complemented this process, largely through improved decision-making processes and governance at National Defence headquarters. The decade that Canada spent in Afghanistan leading and supporting combat operations resulted in a generation of senior officers posted to the headquarters with an experienced and confident approach to build on the lessons they had learned in the field. A key lesson early in the Afghanistan campaign was that they needed to prepare for the future in order to avoid some of the problems encountered in that mission related to a number of equipment capability deficiencies.

Each conflict has its own characteristics. Nevertheless, these experienced leaders brought a future focus – supported by capability-based planning, improved decision-making processes and other institutional support structures – and had done options analyses and studies in a number of areas prior to the government announcing a defence policy review. This work informed and supported the approach the government would take. The impact of this factor in analysis of the defence policy to date has been under-appreciated. In addition, the election of President Donald Trump in November 2016, and his advocacy for greater defence spending among NATO allies, provided further incentives for the government to invest in the CAF's future.



Figure 1: President Donald Trump speaks beside NATO Secretary General Jens Stoltenberg at the start of the 2017 NATO summit at their new headquarters in Brussels, Belgium, May 25, 2017. In his address, President Trump called on NATO allies, including Canada, to spend more on defence. (Jonathan Ernst/Reuters)

The government worked closely with the DND in developing the 2017 Defence Policy. This had several benefits, summarized as follows:



- **Government decisions on capabilities are clear and specific:**

The government was able to review a broad range of work the DND did on capabilities. This included the ability to review detailed internal reports and studies, be briefed by subject matter experts, and to make decisions based on the most up-to-date and best information available. In addition, broad consultation and feedback from independent third parties, independent think tanks and institutes, as well as citizens, further helped shape government decision-making in the desired capabilities listed in the defence policy. Identification of specific capabilities in the defence policy is an important element of that document, yet the value of this approach is not adequately understood. While a number of changes can be expected over the 20-year timeframe, it allows the federal government departments with responsibility for defence procurement to focus on implementation, instead of staffing individual capabilities for government approval.

- **The defence policy provides a procurement roadmap:**

The defence policy lists 38 projects. This includes the Royal Canadian Navy (5), Canadian Army (10), Royal Canadian Air Force (13), Special Forces (5) and joint capabilities (5). These identified and promised projects will constitute a significant military equipment renewal and modernization. Defence procurement responsibilities are divided across several federal departments. Identifying the projects in the defence policy provides the DND, CAF, Public Service Procurement Canada (PSPC), Innovation, Science and Economic Development (ISED) and central agencies with a reference document that can be used to prioritize and sequence capital equipment procurement projects, with associated funding. In essence, it presents an overall framework of major capital equipment projects to deliver specific capabilities that will occur over the defence policy timeframe. This allows the development and maintenance of a procurement roadmap within the federal bureaucracy to manage this large and complex endeavour. This provides discipline in the federal bureaucracy, where capabilities in the 2017 Defence Policy take priority. In the likely event that changes in the international security environment occur, such that new or different capabilities are required, these can be staffed through existing processes for approval.

- **Government and performance measurement are enhanced:**

Large defence capital equipment projects with their high level of advanced technology and costs are a challenge in every Western country, where project delays and cost overruns can occur with some frequency. Having a procurement roadmap will support and enhance performance measurement. Under this construct, capital equipment procurement project delivery can be tracked against a dedicated and integrated timeline for all 38 identified projects. As a major component of the defence policy document, equipment procurement needs to be closely tracked and information published regularly by the government to inform Canadians of the projects' status. This not only includes the DND, but all government departments and central agencies engaged in defence procurement. Program slippage occurs in large defence procurement projects for a variety of reasons and needs to be closely monitored through performance measurement processes. Government performance in the actual implementation of the defence policy will be



measured by the extent to which the responsible departments implement projects, and reforms are established to streamline the cumbersome and lengthy capital equipment project staffing and approval process.

- **Defence capital equipment projects are now a pull versus a push through the federal bureaucracy:**

Staffing of major defence capital equipment projects has historically been a time-consuming and bureaucratic process, which primarily includes the DND, PSPC and the Treasury Board Secretariat (TBS). Historically, when the CAF needed any identified new capabilities, they were developed and staffed individually through the federal bureaucracy and sent to the Treasury Board for government approval. In effect, the DND pushed projects through the approval process. Now, the government has identified the projects it wants over the 20-year timeframe of the defence policy, and it falls on the government departments responsible for defence procurement to deliver those projects. Nevertheless, in a risk-averse bureaucratic environment, many of the existing processes can be expected to remain. The five biggest steps in major capital equipment projects from options analysis to project close-out are process focused and are likely to also remain largely in place. Furthermore, central agencies such as the TBS will continue to have an important challenge role. By identifying the capabilities needed, the government has put in place a process through which they are pulling those projects. This aligns, co-ordinates and sequences the efforts across departments, through established priorities. It also allows the departments to focus on delivery of a collective task, rather than working on individual projects in isolation. Yet, until formal processes are decided and promulgated to deliver the 38 projects in a more timely manner, it will be difficult to forecast efficiencies that will be derived from this new Liberal government approach.

- **Canadian industry is engaged and has the opportunity to build capacity to support increased defence procurement:**

The DND produces a *Defence Acquisition Guide* with the intent to “help Canadian industry anticipate, in a systematic way, Defence’s short, medium and long-term procurement requirements” and to provide the domestic industry with the opportunity to be positioned to compete for future Canadian defence procurement opportunities. Publication of the next acquisition guide will allow Canadian industry to prepare for projects currently in the options analysis stage that were announced in the 2017 Defence Policy. Nevertheless, the scale, scope and funding announced for capability procurement in the defence policy will provide both a fundamental challenge and opportunity for Canadian industry.

Department of National Defence Focus on Governance

The management of defence involves transforming allocated resources into relevant military capabilities in accordance with government policy, and effectively forms a bridge between the national economy and military operations. Currently, priorities include implementing defence



policy objectives to meet emerging needs and support foreign policy, pursuing defence diplomacy objectives and strengthening key partnerships, as well as building the force of the future, and increasing the CAF in accordance with the 2017 Defence Policy. While these objectives drive institutional behaviour, from a military perspective many enduring balances must be maintained within the CAF. These include:

- effective capability and value-for-money
- operational tempo and quality of life
- army, navy, air force and joint capability
- strategic, operational and tactical capability
- conducting operations and preparing for the future
- sustainment versus transformation



Figure 2: The Major-General George R. Pearkes Building in Ottawa, Ontario, which houses the military headquarters of the Canadian Armed Forces (CAF) as well as a significant portion of Department on National Defence (DND) staff. The majority of military governance in Canada occurs in this building. (Wikimedia)

The previous government's funding cut to DND put into question the department's ability to execute its program. This led to an intense four-year focus by defence leaders on putting together a robust and responsive governance structure. This significant and sustained effort within National Defence headquarters has provided a considerably more timely and effective



institutional resource management regime. Together with an enhanced and focused performance management and oversight system, it's possible to have a common operating picture within the department under the Investment Resource Management Committee (IRMC), chaired by the deputy minister. Indeed, the centre of gravity in Canadian defence is the government's confidence that DND/CAF can execute its directed program. Improved governance and the persistent senior leadership attention on governance are fundamental enablers of program execution. Functioning effectively requires and consumes considerable DND and CAF leadership attention on a sustained multi-year timeframe. To succeed, the defence establishment needs to continue the emphasis on governance as a primary support mechanism for effective program delivery.

Although efficiency within DND remains a fundamental institutional goal, the ability to adapt to a changing international security environment, while simultaneously managing complexity in a dynamic setting that drives institutional change, will now be the goal. In the coming years, the large and growing defence budget will be subject to considerable, complex, unpredictable and uncontrollable circumstances. The impact of the shifting tempo of operations, increasing overall funding envelope, greater complexity, the nature and risk of the capital program, as well as the uncertain international security environment are all combining to create greater risk in the defence program. This presents distinct challenges to the DND.

Defence Challenges

National governments strive to achieve multiple goals simultaneously, of which national defence is simply one consideration. The national defence budget is unique within the federal government. This distinctiveness comes from the variety of activities it funds, the type of equipment it purchases, the land and the infrastructure it must maintain, and the considerable number of personnel defence departments and national military organizations must employ. This distinguishing feature of defence budgets has been the demanding requirement to balance funding expended in current budgets for pressing operational requirements, against maintaining capabilities for the future.

The five primary challenges within Defence in implementing the direction in the 2017 Defence Policy are personnel, experience, sustaining defence as a government funding challenge, support from other government departments and addressing the long-standing legacy of underfunding capital equipment procurement.

Personnel

While institutional-level governance and resource management processes have been put in place, the vexing issue of enduring military and civilian vacant positions needs to be addressed, particularly given the defence policy growth called for in military and civilian positions. However, structural concerns related to previous funding reductions are likely to impede this growth. Budget 2010 announced measures to constrain the rate of growth in operating expenditures in 2010/2011 and the following two years, followed by Budget 2011 which directed further budgetary



reductions, as part of the federal deficit reduction action plan (DRAP). Consequently, the military recruiting footprint across the country was reduced, together with funding for training. Since that period, military recruitment has not met recruiting targets and the CAF remains below its authorized strength, while attrition is elevated due to older military personnel retiring in greater numbers. In addition, hiring of civilians for vacant public service positions within the department was restricted and positions cut within the assistant deputy minister (Human Resources – Civilian). Similarly, with the generational shift now occurring in the public service, combined with the lengthy and cumbersome public service hiring process, a considerable number of public servants need to be recruited in the coming years. People are the primary drivers of programs in defence. Hence investing resources into recruitment of military personnel, concurrent with growing the capacity of military training institutions, needs to be a fundamental structural priority. Likewise, recruiting public servants with the training and experience to work in procurement and project delivery needs to be a primary near-term institutional priority as the number of government-designated capital equipment procurement projects increases in the coming years.

Experience

The experience that military personnel and public servants have is the second key human resource metric that will drive the ability to achieve the goals established in the 2017 Defence Policy. Rapidly ramping up new capital equipment programs substantially, beginning in approximately five years, will require substantial near-term planning, preparation and execution. The primary consequence of increasing the capital equipment program significantly over a sustained period, is that experience both within DND and PSPC will be constrained, as the number of military personnel, public servants and contractors will increase rapidly over a short period of time. The resulting transition and the manner in which it is executed will be a primary driver of institutional success or failure.

Support to Defence from Other Government Departments

The primary challenge external to defence within the federal system is to ensure that ISED, PSPC and TBS can support the large number of capital equipment projects planned in the 2017 Defence Policy over a 20-year period. Just as the policy called for the increase of both military personnel and civilians in the DND, similar increases in public servants within those three government organizations will also be required in order to develop the enlarged internal capacity to support the defence capital equipment program on a sustained basis. Yet, it is not only departments and agencies that will need to develop the increased capacity to support an expensive and complex long-term defence capital equipment program. This program will also compound the annual work already required by federal cabinet committees, including Treasury Board, the cabinet committee on Canada in the world and public security, and particularly the cabinet committee on defence procurement.

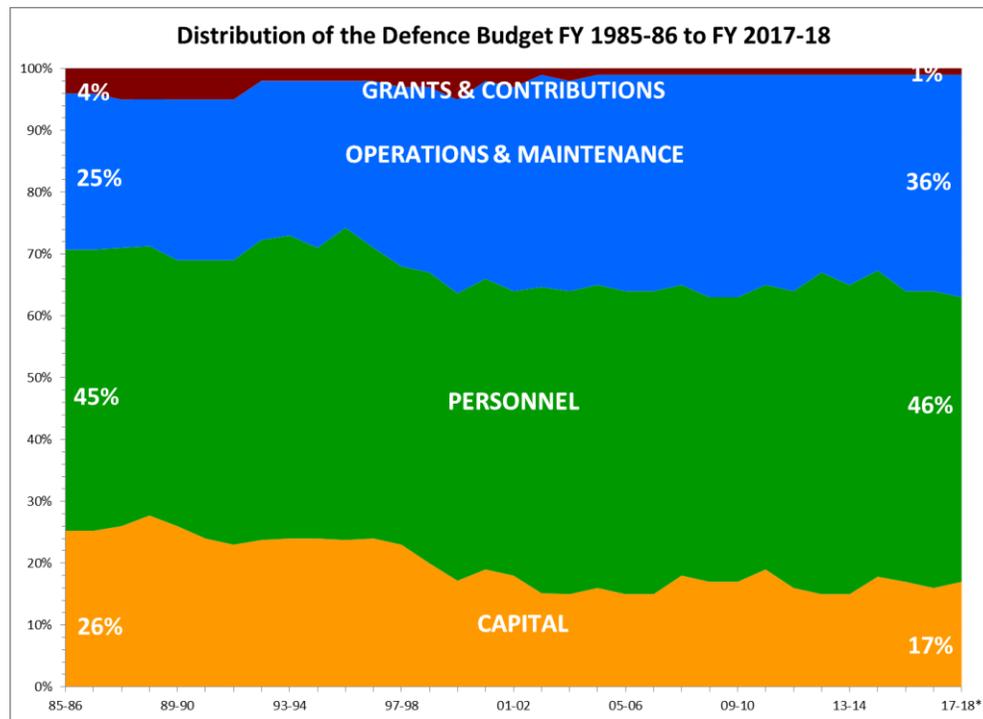


Sustaining Defence as a Funding Priority

Sustaining defence as a spending priority over a 20-year timeframe will be a significant challenge for any Canadian government over the period of the defence policy. National governments must choose annually among legitimate competing priorities. This can include such issues as increased funding to support Canada's Indigenous population, addressing the impact of long-term re-investment in domestic infrastructure, the effects of an aging population and the support to provincial health-care programs. Furthermore, the Canadian economy is in the ninth year of economic expansion, and at least one economic downturn in the domestic economy can be expected over the projected timeframe of the defence policy. When the Harper government was first elected, it pledged to substantially re-invest in military equipment. Yet, in the latter part of the almost 10 years of Harper governments, the attention began to shift to other priorities. Indeed, the history of defence funding since the Korean War has been a series of budgetary growth followed by declines. In defence, consistent long-term funding, particularly for major capital equipment procurement is most effective, due to the long-term nature of large projects from conception to project close-out. Rapid budgetary increases in defence departments, followed by significant spending cuts several years later, drive inefficiencies and sub-optimal outcomes. Furthermore, procurement bow waves, followed by years with limited equipment procurement skew future procurement patterns and distort a normal distribution of ages across equipment fleets.

Long-Term Under-Investment in Defence Capital Equipment

The chart below illustrates the impact of under-investment in defence capital equipment procurement over the past two decades, and includes current fiscal year 2017-2018 funding. Specifically, the declining proportion of the defence budget allocated to procurement over that period has been matched by a growth in operations and maintenance as a proportion of the budget. This is in part due to the increased cost of operating and maintaining aging equipment. In order to generate a sustainable replenishment of capital equipment stock, the percentage allocated to capital should be closer to 26 per cent than the current 17 per cent. Note that the growth in both military and civilian personnel, as called for in the defence policy, will increase both personnel and operations and maintenance costs.

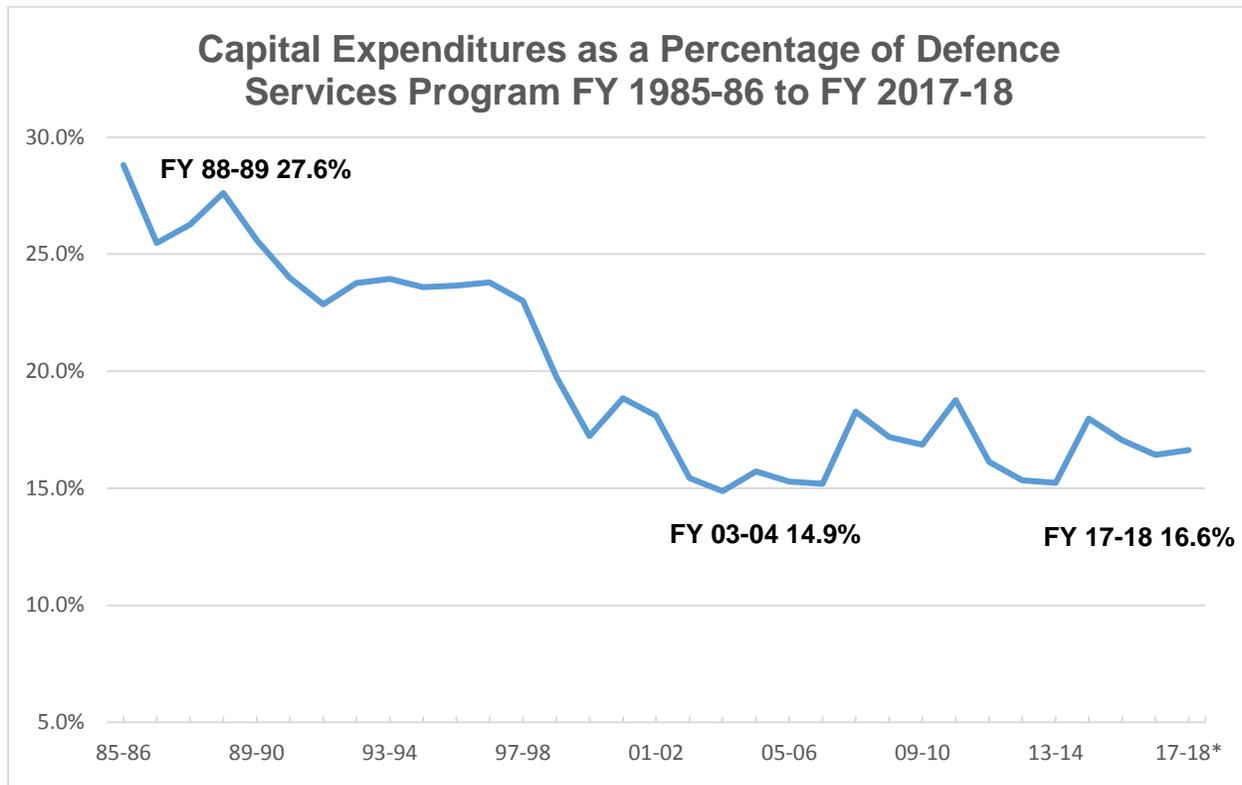


This next chart focuses on capital equipment procurement. This chart highlights the difficulty Canadian governments have incurred in trying to increase capital equipment procurement. Capacity is a major contributor to the challenge of significantly increasing procurement program execution in response to the 2017 defence policy. This is a legacy from the massive downsizing of the DND and CAF in the 1990s as part of measures the Chrétien government took to bring down the substantial structural deficit that was affecting the international Canadian government credit rating. For defence, this meant the assistant deputy minister (materiel) organization was reduced to approximately half of its former size. Hence, organizational capacity was substantially cut, precluding internal capability for sustained multi-year surges in capital equipment procurement.

In 2017, the DND and PSP faced a massively increased funding level for capital equipment over a sustained period. However, increasing capacity for procurement projects across a broad spectrum of projects will take considerable sustained effort and time. Linked to this challenge is developing knowledge and expertise of the CAF's personnel and assistant deputy minister (materiel) in procurement, as the number of large capital equipment projects in the department rapidly increases. This will considerably stretch out the current individuals with the necessary experience and expertise to move the substantial number of projects called for in the defence policy. Developing an effective project manager can take years through work experience in projects of increasing dollar size and complexity. Consequently, without a detailed and sustained plan to institutionally grow this expertise – a ramp-up in number of sizeable projects to deliver new or expanded capabilities – problems can develop in these projects that can cause inefficiencies, delays, cost over-runs and other problems due to inexperienced personnel. The table below provides the percentage of the defence budget spent on capital equipment from fiscal year 1985-1986 to the forecasted 2017-2018 expenditure, illustrating this challenge. When the Harper



government was first elected, it promised to increase investment in the CAF. Yet, despite the initial investments, substantially increasing output in a relatively short period of time proved to be a major challenge to the DND and supporting government organizations.



Conclusion: What Needs to be Done

The 2017 Defence Policy illustrates how an unstable international strategic environment is driving fundamental change in the way defence organizations are funded and operate. This requires defence establishments to incrementally change processes, procedures and structures, all while simultaneously and fundamentally re-orienting other aspects of the defence institution. Specifically, the high degree of integration within the DND and CAF, together with structural interdependencies across a broad spectrum of systems, results in the need for a sustained multi-year institutional effort in order to re-orient and refocus the defence establishment to execute the new defence policy as the external environment changes. Under this construct, the structural peculiarities of defence organizations create an environment where it is difficult to achieve an adaptation rate that is highly realized. Institutions generally change incrementally, rather than in a discontinuous manner, and largely through changes in the institutional framework on the margins. In conservative organizations, such as defence, discontinuous change brings challenges for institutional adaptation – this makes the outcomes of the adjustment process uncertain. As leaders in large organizations in competitive environments are learning, there is one clear



organizational knowledge imperative – that of building change management into its institutional structure. With no prominent factors at present that would lead defence analysts to believe that rapid change will not continue well into the future, military organizations need to formally plan to deal with a potential series of accelerating disruptions in the global security and defence sector.

The priority over the next one to three years needs to be heavily focused on recruiting and training people, both military and public servants. First, the military recruiting centre footprint needs to be rapidly expanded across the country. Second, human resource officers need to be recruited following cuts during DRAP, and to reduce the workload on line managers. The military training system is already responding to signals that capacity needs to be restored and updated following DRAP budget cuts.

In order to move the extensive list of large multi-year capital equipment projects in the defence policy through both the defence and federal bureaucracies, experienced military personnel need to be prioritized for corporate level positions within National Defence headquarters over the operational level position at least in the near term. This approach will go against the culture and mindset of military leaders – after all, military personnel join because they want to work in operational units, such as army regiments, air force squadrons and on naval ships and not in a corporate directorate within the vice-chief of defence staff organization in Ottawa. However, failure to meet defence policy procurement program targets will leave the CAF without all the capabilities they forecast they will need in the future security environment, as well as reduce military effectiveness in the uncertain years to come.

To facilitate support to the DND by other government departments and agencies in the execution of the projects listed in the defence policy, the federal cabinet committee on defence procurement needs to closely monitor the necessary growth in capacity of PSP, ISED and the TBS to support the DND. To provide Canadians an update on the department's progress in implementing defence policy direction, an annual report that documents the status of transition towards the desired future force is necessary. Indeed, with the international security environment rapidly changing and conflict evolving erratically and unpredictably across the sea, land and air domains, the pace of change within the defence establishment driven by the policy direction will accelerate.

Finally, perhaps the most difficult challenge over the 20-year timeframe of the defence policy will be to sustain the funding level. The track records of Canadian government spending on defence are not encouraging. The CAF has always been faced with the constant watermark of fiscal realities. This defence policy aspires to change that dynamic. Indeed, historically, decisions in defence in Canada – perhaps unintentionally and of necessity – have favoured personnel over capital equipment expenditures. Over a two-decade period, governments and national priorities can change a number of times. This is natural in a democracy. For sustained defence funding to occur, Canada needs a national consensus that it is an enduring priority. With the current shift away from a stable unipolar world, the unsettling rise of illiberal forces in many countries, a forecasted rapid rise in global population in the coming decades, together with pressures on finite global resources, the CAF will need to be an essential defence and security resource for the federal government in the coming years.

► About the Author

Ross Fetterly retired in 2017 from the Canadian Forces after a 34-year career as the Royal Canadian Air Force's director of air comptrollership and business management. He previously served as the military personnel command comptroller, and in other senior positions with the Department of National Defence Assistant Deputy Minister (Finance). He is currently a Fellow with the Canadian Global Affairs Institute.

Retired Col. Fetterly completed a tour in February 2009 as the chief CJ8 at the NATO base headquarters at Kandahar airfield, Afghanistan, where he was responsible for finance, contracting and procurement. While deployed he wrote a paper entitled *Methodology for Estimating the Fiscal Impact of the Costs Incurred by the Government of Canada in Support of the Mission in Afghanistan* with staff from the Parliamentary Budget Office. Col. Fetterly was employed as the deputy commanding officer of the Canadian contingent in the United Nations Disengagement Observer Force in the Golan Heights during the second intifada in 2000-2001. He has served as an air force squadron logistics officer and as a finance officer at military bases across Canada.

An adjunct professor at the Royal Military College of Canada (RMC) department of management and economics, and a Senior Fellow with the Centre for Security Governance, Dr. Fetterly has a B.Comm (McGill), M.Admin (University of Regina) and an MA and PhD in war studies from RMC. His PhD fields of study included defence economics, defence policy and defence cost analysis. His primary research focus is defence resource management. Dr. Fetterly also teaches courses in financial decision-making, defence resource management and government procurement at RMC. Through his company, Ross Fetterly Consulting Inc., he teaches a defence resource management course and a business planning course internationally for the Department of National Defence to senior military officers and defence executives in developing countries.

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