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2017 DEFENCE RENEWAL ANNUAL REPORT: REALIZING THE OPPORTUNITY



EXECUTIVE SUMMARY

Over the past year Defence Renewal has made significant progress towards meeting the overall objectives of the program, such that FY 2016/17 can be seen as a turning point in initiative delivery. The majority of initiatives are now well into implementation and are providing considerable benefit to the Defence Team, improving the way we procure, sustain, maintain and allocate resources. As of end FY 2016/17, a recurring impact of over \$478 million dollars has been reached, doubling the results over the previous three years. These are measured as either productivity gains or efficiencies which have been reinvested back into the program to meet existing financial pressures.

Some examples include:

- \$138 million in savings in Materiel management (as of end FY 2016/17) which are reducing financial pressures in our need to procure spare parts, maintenance services, and other materiel;
- The equivalent of \$86 million in of productivity gains in second and third line maintenance service resulting in increased fleet availability for aircraft such as the CH146, and reductions in in-service support contract expenditures;
- \$37 million in savings in real property operations, allowing more infrastructure reinvestments to repair and maintain aging real property;
- \$24 million in savings through better Management of Information Technology, allowing increased support in the upgrade of systems and our capacity to implement new projects; and,
- \$10 million in savings from overhead costs in the Cadets and Junior Ranger Programs, which have been directed into increased participation at camps and other activities

The original target of Defence Renewal was to generate a recurring value for the department in the range of \$750-\$1,200 million dollars. It is anticipated that the program will achieve this goal, entering the lower end of the target range within the next two years.



Over the coming year many of the Defence Renewal initiatives will transition to being the normal course of business, and as such will be closed out as special initiatives. Not only will they be providing a recurring financial impact, they will represent a change in thinking towards the management of resources. This represents a culture shift in how we do business.

Accordingly by end of FY 2017/18, Defence Renewal will transition towards a primary focus of enabling continuous improvement within the department. This will include supporting the establishment of a comprehensive regime of performance metrics and targets, development of business analytic tools, and utilising business intelligence to identify opportunities for improvement.

Linked directly to the government's Defence Policy obligations, Defence Renewal's re-asserted focus will be to embrace performance measurement and analytics to support, reinforce, and enable continuous improvement. It will support decision making with business intelligence, and assist in driving the delivery of results for the department and the Government of Canada.

Doug Haferkamp
Defence Renewal Team Lead



1. INTRODUCTION

This report from the Defence Renewal Lead provides an overview of the Defence Team's progress in implementing the Defence Renewal programme in FY 2016/17 and is presented in the following sections:

- 1. Introduction
- 2. Overview
- 3. Performance Initiatives
- 4. Organisational Practices
- 5. Conclusion
- Annexes

The report is derived from a number of sources including triannual reports by individual Defence Renewal initiative leads, and information provided to both the Defence Renewal Oversight Committee (DROC) and the Investment and Resource Management Committee (IRMC).

2. OVERVIEW

Defence Renewal -- the Defence Team's long-term effort to find better ways to conduct the business of defence and free-up resources for reinvestment in operational capabilities and readiness -- has significantly progressed over FY 2016/17.

During the past year Defence Renewal has concentrated its efforts on the six-performance themed portfolios. Originally this represented 24 individual initiatives. Most of these initiatives are now delivering significant impact for the department and are very close to reaching their objectives. Over the coming year, many of these initiatives will be closed down as the majority will have maximized their results and will transition from a "new approach" into an institutionalized normal course of business. The remainder will require more time to deliver, due to the scale and complexity of the initiative, but nonetheless will be closed as a DR Initiative as they no longer require DRT support to move forward. In addition, a smaller number of initiatives (3) have been removed as their objectives have not proven feasible.



Based upon April 2017 reporting, Defence Renewal has generated \$478 million in reinvestment opportunities through efficiencies (achieving the same output or effect with fewer resources) or productivity gains (or effectiveness - realising greater output or effect with the same resources).¹

Beginning in FY 2017/18, Defence Renewal will transition away from supporting each initiative directly, and into supporting the establishment of a continuous improvement process with the department, a principal original strategic objective of the program. Primarily this will include the establishment of a comprehensive regime of performance metrics and targets, development of business analytic tools, and utilising business intelligence to identify opportunities for improvement. This will guide resource allocation decisions, and ensure accountability.

Defence Renewal introduced two measures in FY 2016/17 to improve the credibility of reports. First was the implementation of a rule set working group forum in which Initiatives presented their methodology and calculations used to generate the numeric value of their reinvestment opportunity to a board comprised of C Prog and CFO for third party validation. Secondly, a risk profile was created to categorize reinvestment opportunities as credible or not based on the maturity of their rule sets. These processes were used to improve identified results confidence and hence accuracy of reporting.

Linked directly to supporting the government's Defence Policy Review and Deliverology commitments, continuous improvement within the department will embrace technology and innovation to support, reinforce, and enable process improvements directly linked to the provision of enhanced operational capability. It will support decision making with business intelligence, and assist in driving the delivery of results for the department and the Government of Canada.

3. PERFORMANCE INITIATIVES

The performance initiative portfolio, or those initiatives that seek to provide a financial or operational impact on the department as measured in either cost savings, productivity gains, or improved performance, is divided into six theme areas:

Operations and Training Portfolio

Portfolio Target: \$90 million by FY 2018/19 (Actual target value is pending rule set development, final Environmental and pan-CAF implementation plans and methodology to

¹ Annex A to this report details approved Reinvestment Opportunity identified thus far.



convert availability to a numeric value). The initial target has proven to be quite aggressive, and while it will not be achieved by FY 2018/2019, significant value will be realised in future years.

Achieved to date \$10.8 million

Originally there were four initiatives within the Operations and Training portfolio. One of the initiatives, the *RCAF Simulation and Synthetic Environment initiative*, has been closed since it has evolved into a capital project and as such is beyond the scope and mandate of Defence Renewal. Of the remaining three initiatives, Initiative 1.1 *CAF Operational Force Posture and Readiness* and Initiative 1.4 *Ammunition Management* have progressed to the point whereby their work will be institutionalised into normal business, and as such they too will be closed down over the coming year.

Defence Renewal Initiative 1.3 – CAF Maintenance Execution

This initiative represents a large and complex undertaking, designed to improve the effectiveness of first line maintenance operations, leading to increased serviceability of various CAF systems or fleets. With the completion of an extensive third party review by an outside contractor the initiative was split into 3 sub-initiatives in 2016, one each for the Royal Canadian Navy, the Canadian Army and the Royal Canadian Air Force. The three Services have conducted an in-depth review of their maintenance approaches and are preparing plans to apply improvement opportunities to increase in-service rates through numerous activities and approaches. Each plan will only focus on those actions that are within their authority or reach to implement. The remainder of the productivity opportunities identified by the contractor require pan CAF coordination (by SJS Strat J4) and leadership by other L1s (ADM's Mat, IE, and IM) before the Services can implement them. Given the complexity and challenging nature of the pan departmental opportunities, limited resourcing and other competing L1 priorities, pan-CAF opportunities will not be achieved within the Defence Renewal mandate and likely will not be achieved in out years either without Departmental direction. It is likely that the achieved results will fall slightly lower than the initial lower limit estimate.

Maintenance and Materiel Portfolio

Portfolio Target: \$400 million in FY 2019/20

Achieved to date \$290.1 million

Under the lead of ADM Materiel, the four initiatives of this portfolio constitute over 50% of Defence Renewal's overall reinvestment opportunities. The four initiatives under this portfolio continue to mature over time producing significant results for the department.



Defence Renewal Initiative 2.1 - Inventory Management

The Department of National Defence (DND) spends more than \$2 billion every year on goods in support of the various marine, air, and land fleets within the Canadian Armed Forces (CAF). These items include everything from day-to-day commodities to highly complex state-of-the-art components for aircraft, ships, and fighting vehicles. Tracking these components within a vast supply chain, and knowing when to buy more to ensure optimum availability while containing costs, is a significant undertaking. One of the key challenges is to ensure that only the most-needed items are procured.

The aim of the Inventory Management Initiative is to reduce unnecessary purchases by identifying dormant, excess or repairable inventory items, estimated at \$252.6 million in FY 2012/13 fiscal year, and to optimize the inventory procured and held. The objective is to redirect up to \$162 million, or 66% of these annual overbuys, into priority items.

To enable smarter procurement planning, the initiative is using business analytics and intelligence, and increasing inventory accuracy through efforts such as the National Stocktaking Project and the Inventory Management Modernization and Rationalization Project. These efforts will improve materiel visibility and oversight, reduce excess inventory, increase asset availability and reduce overbuys and dormant stock purchases.

Looking forward the initiative will continue to support the effective use of enterprise business intelligence and forecasting tools to enable smart procurement planning, will continue stocktaking and stock verification visits and will continue to rationalize inventory held, and dispose of materiel no longer required. The Automatic Identification Technology Project, now in the options analysis phase, will sustain overbuy expenditure reductions by providing near real-time asset and inventory visibility.

As of April 2017 reporting, this initiative has achieved \$138 million in annual recurring savings. By FY 2018/19, this initiative should achieve its upper target of \$162 million.

Defence Renewal Initiative 2.2 - Warehousing and Distribution

The Warehousing and Distribution Initiative, led by the Canadian Materiel Support Group, is ensuring that warehouse facilities are right-sized and efficient, and that the materiel distribution process is lean. More than 1,500 military personnel and civilian employees manage Canadian Armed Forces warehousing and distribution operations.



The objective of the initiative is to have the right materiel warehoused at the right location, and then delivered to customers in a timely, efficient and effective fashion. The initiative is expected generate efficiency gains that result in an average annual savings of \$8.65 million.

Savings and efficiency gains will be achieved by reducing the required number of warehouse personnel through optimizing warehouse operations, improving materiel management practices, and modernizing materiel information management systems. The initiative will also optimize the distribution network by reducing costs as materiel is delivered from warehouse to user. Savings will be calculated as expenses per category compared with FY 2013/14 baseline expenses for lease and infrastructure, third-line freight and personnel. Performance measures such as order backlog days and percentage of goods at destination on time will ensure that quality of service is maintained.

As of FY 2015/16, this initiative has delivered about \$2.5 million in savings through rationalization of distribution. Changes in the way the Department does business have resulted in more limited opportunities to find Reinvestment Opportunity within this initiative and it will be hard pressed to realize significantly higher savings.

Defence Renewal Initiative 2.3 – Maintenance Program Design

Each year the department invests approximately \$2.5 billion dollars on sustaining the various fleets of the Canadian Armed Forces (CAF). Sustainment, also known as in-service support, refers to all the activities to support a fleet once it enters service. Improvements in support programs can help ensure that CAF equipment and fleets are available, ready and reliable for CAF missions. They can also result in savings that can be reinvested in additional military capabilities.

Under this initiative, the Department of National Defence (DND) works with Public Services and Procurement Canada (PSPC), Innovation, Science and Economic Development (ISED) Canada, and the Canadian defence industry, to develop mutually beneficial approaches to fleet sustainment based on international best practices. A Sustainment Business Case Analysis helps procurement practitioners and the defence industry work collaboratively to develop tailored sustainment solutions that strike a balance between fleet performance, flexibility, economic benefits and value for money.

There are two principal objectives of the Maintenance Program Design Initiative: to rationalize the maintenance activities supporting equipment fleets; and optimize weapon system performance and value for money through the implementation of sustainment best practices. The initiative will achieve this through a whole-of-government approach, managed by an inter-departmental steering committee, which also includes Industry representatives nominated by the



Canadian Association of Defence and Security Industries and the Aerospace Industry Association of Canada.

The initiative is aligned with the Defence Procurement Strategy. Key aspects include:

- **In-Service Support Procurement (Sustainment Initiative):** to adopt best practices for sustainment contracting, and to better balance equipment performance against value for money and economic benefit when developing equipment sustainment solutions.
- **Maintenance Program Rationalization:** to increase cost and personnel efficiencies in maintenance programs.
- **Professional Development:** to increase competencies in sustainment procurement best practices.
- **Engineering Flight Test Rationalization:** to increase efficiency in the delivery of aerospace engineering test-and-evaluation capabilities.

As of FY 2016/17, this initiative has delivered \$86.2 million in efficiency and effectiveness improvements and has already met its expected original set target of between \$67 million and \$125 million by FY 2018-19.

Going forward sustainment best practices will be implemented for all new and renewed fleet support contracts as of January 2018. Moreover, the principles of the sustainment initiative, now being applied to new in-service support solutions, address a recommendation of the 2016 Auditor General of Canada that *National Defence should ensure that future equipment support contracts are based on achievable planning assumptions and allow for adjustments in the contracts based on changing circumstances, where feasible*. Flexibility to adjust our contracts to changing circumstances, which is one of the four principles of the Sustainment Initiative, will now be balanced with performance, value for money and economic benefit in new sustainment solutions.

Defence Renewal Initiative 2.4 - Departmental Procurement

The Department of National Defence (DND) spends billions of dollars each year to acquire goods and services in support of the Canadian Armed Forces (CAF). In addition to procuring major military equipment and systems, DND procures a broad spectrum of professional services, minor equipment, and an exhaustive list of goods ranging from medical equipment, to food and beverages to office supplies and everything in between.



The aim of the Departmental Procurement Initiative is to reduce the costs of DND-procured goods and services through innovative procurement approaches, while optimizing expenditures to deliver greater capability within budgetary limitations. Through consolidating approaches and applying smart procurement methods, the initiative has identified an opportunity to reduce expenditures by \$110 million, representing a savings of approximately 8%. Approaches to reduced costs include the re-use of existing equipment, the simplification of policies, processes and statements of work, requirements bundling in the form of standing offer agreements, and cost containment strategies embedded in governance and contract management.

As of FY 2015/16, this initiative has delivered \$64.1 million in savings and, pending a review of additional approaches potentially can reach savings of \$131 million by FY 2019/20.

Information Management/Information Technology Portfolio

Portfolio Target: \$41 million in FY 2019/20

Achieved to date \$23.9 million

The role of IM/IT in Defence is increasingly complex and critical. The introduction and evolution of the Defence Chief Information Officer has addressed the challenges posed by a decentralised Defence IM/IT programme, and the three Defence Renewal Initiatives are designed to support the overall effort to implement the IM/IT necessary for the department to realise the modern business reporting and support evidence based decision making required for long term success.

Defence Renewal Initiative 3.1 - IT Service Management

Prior to the IT Service Management Initiative, the Information Management/Information Technology (IM/IT) environment within the Department of National Defence and Canadian Armed Forces (DND/CAF) was de-centralized and in siloes, following a loosely federated model of IT service delivery under the responsibility of the various Environmental Chiefs of Staff and Level One (ECS/L1) organizations.

This structure, while highly responsive to environmental operational needs, was not conducive to fiscal prudence or efficiencies that could be realized through consolidation (partial or complete) of IT service delivery, supported by the rationalization of service management tools and standardization of IT services, processes and procedures. Under this Defence Renewal initiative, the IM Group has committed to establishing an Enterprise-wide ITSM solution based on common processes and toolset, an enterprise Service Catalogue and the consolidation of 169+ service provision units across the DND/CAF into 22 or less Service Management Centres (SMC). The SMCs will support client units as agreed upon by participating L1s. As well, a



National Service Management Centre providing national-level governance, coordination and guidance for SMCs will be established.

To date the program has generated savings worth \$3.8 million. The anticipated savings of this consolidation is \$5.2 million annually and will be achieved in FY 2018/19.

Defence Renewal Initiative 3.2 - Application Portfolio Management (APM)

Each year the National Defence expenditure on software applications, including procurement, support and manning, is assessed to be in the area of \$150 million annually, representing over 5000 applications. The objective of this initiative is to enable IT leaders to better manage and prioritize investments in applications and to better manage the risks associated with maintaining mission critical applications. In order to support this activity, TBS CIOB has worked with the CIO community to develop and validate a GC APM methodology.

Leveraging this methodology, a potential re-investment opportunity was identified of between \$12 and \$36 million through the reduction/replacement of approximately 25% of the application portfolio. To date, 1816 applications have been decommissioned (either retired or identified as duplicates) representing approximately \$10.4 million in cost reductions since the beginning of April 2014.

Defence Renewal Initiative 3.3 – Rationalize Defence IM/IT Programme

The objective of this initiative is to reduce IT expenditures within the IM/IT programme, particularly with respect to hardware purchases which fall within the responsibility of DND (as opposed to that of Shared Services Canada). Each year it is estimated that this represents approximately \$84 million in expenditure.

The initiative seeks to optimize the procurement of hardware/software professional services by providing an enhanced governance structure and greater ADM Information Management functional authority. It will enable the implementation of synchronized planning across the Defence Team, resulting in strategic sourcing and the ability to take advantage of in-year timing and product standardization.

To date the initiative has generated \$9.7 million in savings and has a target of \$17.8 million for FY 2019/20, representing a 20% reduction in cost.



Infrastructure Management Portfolio

Portfolio Target: \$95 million in FY 2019/20

Achieved to date \$36.9 million

The four initiatives in this portfolio, led by ADM Infrastructure and Environment, continue to advance, driven by the centralisation of real property management under a single Infrastructure and Environment Group custodian. The Infrastructure and Environment Group developed a phased implementation plan to successfully transform the Group into a single strategic and accountable organisation that focuses on delivery and people. National Defence spends \$1.5 billion each year on infrastructure and environmental programs in support of the Canadian Armed Forces. This represents 8,000 buildings (including 300 Heritage), 12,000 housing units, over 2.25 million hectares of land and 16,100 sewer and water works systems. In 2013 over 3946 FTE worked in the management of the portfolio through 9 separate management organizations.

Defence Renewal Initiative 4.1 - The Centralization of Real Property Management

The objective of the initiative was to centralize the management of Real Property (RP) under a single authority (ADM (IE)) providing leadership, strategic direction and real property services, reducing the number of custodians from 9 to 1. Centralization is now complete and the benefits of the new governance are having a positive impact. For example, centralization enabled the department to implement a system that provides consistent, reliable and timely information, undertake a nation-wide assessment of facilities, provide consistent strategic direction and tactical delivery, and streamline RP Management: governance, process, systems, tools and training.

To date, the initiative has delivered \$15 million in increased productivity, as measured by the increase in the value of services returned into the portfolio per FTE. That is to say, centralization has allowed fewer FTEs to manage more program, reducing overhead costs. This has allowed the initiative to help the program meet existing financial pressures as it strives to sustain a vast and aging infrastructure portfolio.

Defence Renewal Initiative 4.2 – Rationalization of the Real Property Portfolio

The objective of the initiative is to reduce the number of buildings and facilities within the portfolio. An original target of \$69 – 127 million worth of annual savings (4-8%) was identified. As the initiative progressed it became apparent that the timing to reduce holdings was far too optimistic. Due to many factors, including age and status of the portfolio, a divestiture of such a large percentage of the portfolio is not feasible with the time frame of the Renewal Program. However significant work has been accomplished.



A realistic target of annual expenditure reductions of \$28.7 million has now been identified to be accomplished by FY 2018/19. In addition, the Portfolio rationalization has enabled the department to eliminate or transfer significant liability and risk, collaborate with communities, OGDs and First Nations through the increased protection of the environment, and conformance to evolving environmental obligations, and the transfer non-core infrastructure to municipalities.

The portfolio realised the demolition of 115 structures with a total real property replacement cost of \$107 million including: 56 buildings in Goose Bay, a former food services building in Gagetown, 10 Storage buildings in Shilo, and a hangar in Montreal. The divestments of Building 66 in Moncton (former I ESU Building before the unit moved to Kingston) and payments for previously disposed properties also contributed reinvestment opportunities. Additionally, the *Defence Portfolio 2030* (formerly the *National Real Property Development Plan*) has been approved and released. Going forward, the document will provide the guidance -- and momentum -- to strategically rationalize the portfolio.

To date the initiative has realized savings of \$14.7 million.

Defence Renewal Initiative 4.3 - Optimize Facilities Management Service Delivery

The objective of the initiative is to leverage private sector capabilities with the re-alignment of internal resources to oversee the right mix of in-house and external Real Property contracts. Opportunities have been demonstrated through the standardization of maintenance services, elimination of duplication of effort and improved governance and processes. This includes negotiating a 3 year billing rate freeze with DCC (FY 2013/14 – FY 2015/16) for savings of \$20.7 million, contract consolidations for Housing Operations, and establishing energy efficiency performance contracts.

To date, the initiative has delivered \$7 million in increased productivity, with a potential as high as \$23 million worth of recurring savings to be established by FY 2018/19. This has allowed the initiative to help the infrastructure and environment program to meet existing financial pressures as it strives to sustain a vast and aging infrastructure portfolio.

Defence Renewal Initiative 4.4 Real Property Project Delivery

The objective of the initiative is to improve the delivery of capital projects, ensuring that they meet deadlines, budget, and scope – while at the same time apply modern practices to reduce both management and overall costs. Some examples of changes to the approaches utilised for infrastructure and construction projects are integrated project delivery (which involves early and ongoing engagement and collaboration between owner, designer and contractor), the investigation of Public-Private Partnerships, and increasing delegations of authority from the



MND. Collectively these activities are poised to deliver more than \$21 million in recurring savings. However due to the timeframe associated with construction projects these benefits will not occur until after FY 2018/19. A recurring target range of \$3-\$7 million in additional project value is envisioned to be achieved by FY 2018/19.

Personnel Portfolio

Original Portfolio Target: \$78 million in FY 2019/20

New Anticipated Target: \$36.4 million (awaiting final approval)

Achieved To Date: \$25.5 million (based on trimestral reporting)

Though diverse in scope and ambition, under the lead of MILPERSCOM the initiatives in this portfolio are at the point where they soon will be closed out, having transitioned into routine operations. Some of the initiatives have not obtained their envisioned targets, while others have generated modest returns. For example, initiative 5.2 - Modernization of Career Management Capability, will not reach its original objective of \$15 million in annual savings through reduced relocation costs. Neither will initiative 5.3 - Military Personnel Management Capability Transformation reach its objective of a \$25 million savings from the modernization of the military pay system. In the case of the former, a more effective estimating system for military moves has been developed, but no savings have been derived from it. With respect to the GUARDIAN project, originally intended to modernize the military HR and pay systems that project has had its scope significantly revisited, and no savings will occur within the envisioned timeframe of the Defence Renewal program. However the remaining initiatives have delivered significant results, including:

Defence Renewal Initiative 5.1 - Modernization of Individual Training and Education

Through the operation of multiple schools and colleges each year approximately 40,000 members are enrolled in 352 different training courses, representing 41 percent of the CAF population. This includes common trades' specialty training, professional development and language training.

Through the modernization of the delivery of programs, such as the use of the Defence Learning Network, an online learning system, the opportunity exists to provide greater access to programs, while reducing travel costs and actual time on course. A projected savings of \$17.9 million or an increased productivity of approximately 6% is anticipated to be delivered by the initiative by FY 2018/19.



Defence Renewal Initiative 5.4 - Modernization of the CAF Recruiting Process

This initiative has transitioned into a steady state of normal business as it responds to the ongoing need to embrace modern technology and practices to bring in the military members of tomorrow. Significant internal process improvements have been realized. For example the Recruiting Operations Centre has centralized recruiting, with decentralized execution, better geographic coverage through internet applications, quicker response times from recruiters to applicants, improved synchronisation with other L1s in managing personnel awaiting training and recruiting Reserve Force personnel. The CF Recruiting Information System 2 (launched in January 2015) has greatly enabled better file management, thereby improving effectiveness and efficiency.

This initiative has delivered an estimated \$7.9 million in increased productivity based upon the increase in the number of recruits for fewer recruiting expenditures.

Defence Renewal Initiative 5.5 Renewal of the Cadet and Junior Canadian Rangers

The renewal of the Cadet and Junior Rangers initiative will also close in FY 2016/17. The initiative is projecting \$9.9 million in efficiencies which will be reinvested into youth programs, including training activities and summer camps. The savings are attributable to such things as: reducing staff, suspending lesser-priority training activities, achieving efficiencies in summer programme transportation, introducing a field training uniform for army cadets, providing additional funding for fitness and sports activities at community-level, developing and delivering a training package for adult staff and volunteers, and funding growth in the JCR Programme.

Management Systems Portfolio

Portfolio Target: \$105 million in FY2019/20

Achieved to date \$90.8 million

There are two principal initiatives under this portfolio.

Defence Renewal Initiative 6.1 - Lean Headquarters

Over the past decade, as reinvestments into the Defence budget were made, the NDHQ expanded to meet the needs of a growing CAF. After reductions made by the 2010 Strategic Review, in 2012 NDHQ had approximately 17,600 FTE. Further reductions were underway through the Deficit Reduction Action Plan (DRAP). However concerns remained that due to the fluctuations



in size, positions had not been strategically managed, that in some areas there were too many levels of management, and that positions had been filled by availability, not by priority. The objective of the Lean HQ Initiative was to determine opportunities to optimize managerial layers and spans of control in NDHQ, to reduce headquarters structure and costs, improve business agility and generate operating efficiencies. The scope of Lean HQ included all of the NDHQ plus some additional National Level Service Delivery organizations. (NLSD).

By FY 2015/16, the number of FTE, both military and civilian, had been reduced through attrition to 15,357, a reduction of 2,252. Some of these reductions are attributed to the ongoing reductions mandated to the DRAP program, and others were due to a transfer of personnel to Shared Services Canada. However a remaining 946 FTE were reduced beyond those programs and serve to meet the Lean HQ reduction target. This represents a savings of HQ personnel salary of \$89.5 million.

An independent consultant review has confirmed that the new number of personnel is now appropriate. Going forward, the NDHQ will be managed by an integrated workforce strategy which will seek to optimize the number and balance of personnel among both military, civilian, and contractor positions. This will ensure that the HQ utilises its human resources in an efficient and effective manner, thereby meeting the objectives of the initiative.

Defence Renewal Initiative 6.2 - Project Approval Process Review (PAPR)

Within the annual major capital DND procurement spend is approximately \$2.4 billion. This represents projects which, from inception to delivery typically take 8 -10 years to complete. Given that price inflation in military products is over 4% per year, a significant portion of capital budgets can be lost when delays occur.

PAPR modelling has shown that it is possible to achieve up to 66% time savings in the approval process for submissions within the authority of the MND (currently PCRA level 1 and 2) and up to 33% savings for submissions within the authority of TB (currently PCRA 3 and 4). MND submissions currently account for 50% of the in-year submissions list and 75% of the backlog of departmental submissions.

Therefore, implementation of PAPR towards MND submissions will be the initial approach. In FY 2016/17, the first PAPR Phase 1 project (C.002544 Advanced Sub-Unit Water Purification Systems) obtained project approval, expenditure approval for definition, and conditional expenditure authority for implementation from the Minister of National Defence. At present there are 37 projects identified which are proceeding under the new PAPR approach.



Savings will be determined upon successful completion of each project. It is anticipated that the first phase of projects could potentially yield savings worth \$14 million by FY 2019/20, and well over \$100 million annually past that date once the process is fully implemented.

4. ORGANISATIONAL PRACTICES

Organisational Practices initiatives are those designed to institutionalize the progress made in individual performance initiatives. Over the first three years of Defence Renewal they have followed three thematic areas – Strategic Clarity, Business Execution and Knowledge Sharing.

Work under these initiatives have included a review of the department's oversight and governance structure, cumulating in the delivery of an independent report in FY 2015/16 with recommendations for changes to senior level program management and oversight. These will be implemented in FY17/18. In addition, FY 2016/17 saw the completion of the change management services contract with KPMG, which has provided guidance on future opportunities to improve business execution, particularly with respect to information management and evidence based decision making. Finally work progressed in the areas of Knowledge Sharing and Cultural Change through the ongoing evolution of interdepartmental working groups which are identifying ways and means of promoting these critical aspects for a modern organization.

Going forward into FY 2017/18, the Defence Renewal Team will increase its focus on organisational practices as it transitions to a role in continuous improvement. Following its original strategic objectives of using analytics and performance measurement to identify opportunities for improvement, the Defence Renewal Team will transition into a body that will support the Department's goals within the Defence Policy Review and approach to Deliverology.

A key aspect for FY 2017/18 will be the promotion of experimentation, supported by performance measurement and program analytics, to identify innovative solutions and approaches to program issues. Building upon the experience and lessons learned from the implementation of the performance-based initiatives, this enhanced focus for Defence Renewal will enable the department to seek innovation, and through the Knowledge Sharing and Cultural Change working groups will allow it to be optimised throughout the department.



5. CONCLUSION

The past year saw the initiatives under Defence Renewal achieve significant impact for the department providing an estimated benefit worth \$478 million. Overhead costs and process inefficiencies -- in critical areas such as materiel, information management, and infrastructure -- continue to be reduced, allowing the CAF and DND to address significant financial challenges and improve the overall delivery of services.

Defence Renewal has now reached a point whereby the initiatives will close out over the next two years as targets are met and the renewal activity becomes the normal course of business. The focus going forward will be to ensure that the original strategic objectives of the program be achieved. These include the establishment of performance metrics, the use of analytics to drive experimentation and innovation, and, once implemented, the use of knowledge sharing and organizational change to drive a culture of continuous improvement. As the department moves forward under the direction of the Defence Policy Review (DPR), the benefits and lessons learned from the strategic undertaking of Defence Renewal will support and aid in the implementation of the new Defence Program.



ANNEX A TO 2016/17 DEFENCE RENEWAL ANNUAL REPORT

Reported Savings (Efficiencies and Effectiveness)						
	15 April 2017 - Reporting					
Initiative		FY13-14	FY 14-15	FY 15-16	FY 16-17	TOTAL
1.1	CAF Operational Force Posture and Readiness	0	0	0	0	0
1.2	RCAF Simulation and Synthetic Environment	0	0	0	0	0
1.3a	RCN Maintenance Execution	0	0	0	50,000	50,000
1.3b	Land Maintenance Execution	11,000	4,639,324	4,544,399	0	9,194,723
1.3c	RCAF Maintenance Execution	0	0	583,600	0	583,600
1.4	Ammunition Management	0	0	0	0	0
2.1	Inventory Management	62,600,000	33,570,000	17,930,000	23,950,000	138,050,000
2.2	Warehousing and Distribution	0	2,500,000	0	0	2,500,000
2.3	Maintenance Program Design	0	4,845,207	47,103,024	34,267,322	86,215,553
2.4	Departmental Procurement	0	15,000,000	49,100,000	0	64,100,000
3.1	Optimize Service IT Management	1,062,300	2,206,300	0	600,500	3,869,100
3.2	Application Portfolio Management	0	2,610,000	6,898,000	928,546	10,436,546
3.3	Rationalize the Defence IM/IT Program	2,276,800	2,403,487	2,127,262	2,934,154	9,741,703
4.1	Centralize Real Property Management	2,550,000	1,700,000	850,000	10,000,000	15,100,000
4.2	Rationalize Real Property Portfolio	5,650,000	3,600,000	3,025,000	2,502,968	14,777,968
4.3	Optimize Facilities Management Service Delivery	1,500,000	500,000	4,500,000	500,000	7,000,000
4.4	Improve Real Property Project Delivery	0	0	0	0	0
5.1	Modernize CAF IT&E	0	0	0	0	0
5.2	Modernize CAF Career Management Capability	704,500	0	0	0	704,500
5.3	Military Personnel Management Capability Transformation	0	0	0	0	0
5.4	Modernize CAF Recruiting Process	0	0	0	7,900,000	7,900,000
5.5	Renewal of Cadet and Junior Ranger Programs	5,700,000	6,159,000	3,075,000	2,059,000	16,993,000
6.1	Lean Headquarters	0	0	0	87,932,686	87,932,686
6.2	Project Approval Process Renewal	0	0	0	0	0
6.3	Modernize Civilian Human Resources Management	0	257,200	219,000	2,190,000	2,666,200
6.4	Rationalize the Emergency Communications and Dispatch Services	0	0	0	0	0
8.3	Policy and Procedure Continuous Improvement	0	0	75,000	150,000	225,000
TOTALS		\$82,054,600	\$79,990,518	\$140,030,285	\$175,965,176	\$478,040,579

Note: Variance with figures reported in previous *Defence Renewal Annual Reports* follows from the use of data that was available at the time the *Annual Report* was prepared.

Note 2: The values contained in this table are based on April 2017 trimestral reporting. Adjustments to the reinvestment opportunity may occur based on final APPROVAL for some initiative's values and therefore, some adjustments may be made to reflect approved rule set.

