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## Defence Procurement Strategy: Effectiveness over Efficiency

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### JCSP 40

#### *Exercise Solo Flight*

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**Defence Procurement Strategy: Effectiveness over Efficiency**

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The Canadian military has been procuring equipment and services to support its soldiers since the inception of its individual services. Over the years as public opinion shifts, budgets shrink and technology drives equipment costs higher, we have struggled to tailor our procurement system to one that can deliver capability, on time, on budget, and in a transparent manner. In other words we struggle to demonstrate we have achieved value for money. This is because value is not purely the financial cost of acquisition. The role of politics, timing, transparency and the optics of competition cannot be underestimated in determining value.

Procurement like most government policies is a wicked problem<sup>1</sup>. There are many factors to consider when deciding what military equipment to buy, when and from whom. For small, low value items this can be relatively straight forward. Commercial off the shelf (COTS) equipment or fixed price contracts are often perfectly acceptable. However, acquisition of large high value assets such as aircraft or ships can be much more complicated.

A wicked problem is one that has not easily solved. “They are pressing and highly complex issues for policy formulation that involve many causal factors and high levels of disagreement about the nature of the problem and the best way to handle it.”<sup>2</sup> While there are many factors that make up a wicked problem, in the case of defence procurement, there are a few that are more prominent. First, the difficulty in defining exactly what needs to be procured is a challenge that faces most militaries, secondly any discrepancies of cost, scope or time between what was planned and what finally delivered can usually be explained or blamed on multiple

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<sup>1</sup> Horst Rittel and Melvin Webber, “Dilemmas in a General Theory of Planning”, *Policy Sciences* 4 (1973), 155.

<sup>2</sup> Sam Bateman, “Solving the Wicked Problems of Maritime Security: Are Regional Forums up to the Task?” *Contemporary Southeast Asia* 33, no.1 (Spring 2011): 2.

factors, and finally the procurer will undoubtedly be held responsible by the taxpayer if the process goes poorly.<sup>3</sup> Certainly, acquisition of major defence systems will never be simple or inexpensive. Therefore, the least controversial way to procure these high value assets is through transparency, demonstrating due diligence at every step. Over the years the Department of National Defence (DND) has had difficulty on the procurement front. Long procurement timelines and frequent turnover have led to scope creep and rising costs.

In response to DND's procurement difficulties, the Defence Procurement Strategy (DPS) was launched on the fifth of February this year.<sup>4</sup> This is touted as a fundamental change to the way Canada procures for defence. There are indeed some new aspects but on the whole, the structure of this new strategy is modeled on the National Shipbuilding Procurement Strategy Secretariat (NSPS). With NSPS firmly established and the now the National Fighter Procurement Secretariat (NFPS) up and running, the DPS, to be in place this May, is meant to act as the overall umbrella strategy for major capital acquisitions. With the development of these three structurally similar organizations, the government has clearly indicated that it believes this new concept will be able to deliver needed capability in a transparent and streamlined manner. However, it should be noted that NSPS has been declared a victory despite the fact a single ship has yet to be built under this new construct. After less than two years of existence, "there are already claims that the \$35 billion National Shipbuilding Strategy is in trouble as a result of

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<sup>3</sup> Horst Rittel and Melvin Webber, "Dilemmas in a General Theory of Planning," *Policy Sciences* 4 (1973): 167.

<sup>4</sup> Canada. Public Works Government of Canada. Last accessed 10 May 2014. <http://news.gc.ca/web/article-en.do?mthd=tp&ctr.page=1&nid=813789&ctr.tp1D=1>

contractual, financial and design difficulties.”<sup>5</sup> Despite these rumblings, the secretariat concept has gained favour and is being applied to more procurement areas.

### **Secretariat Concept**

The secretariat concept was first created when the National Shipbuilding Procurement Strategy was announced in June of 2010.<sup>6</sup> The concept first attempts to “create strong governance through an interdepartmental Deputy Minister decision-making committee.”<sup>7</sup> By facilitating the communication between the three departments needed for major acquisitions; DND, Public Works Government Services Canada (PWGSC), and Industry Canada through co-location, many challenges can be resolved early in the procurement process. Secondly, the focus on third party oversight is needed to enhance the credibility of the requirement definition process as past procurements have suffered from seemingly avoidable setbacks. Thirdly, highlighting transparency through effective communication and by demonstrating value for money at every step of the process will strengthen public support for future acquisitions.<sup>8</sup>

Public support is at the core of military procurement as government commits the funding. While we await the full DPS policy to be released in June, a closer inspection of the strategy reveals a political strategy at its core. The new Defence Procurement Strategy emphasizes jobs

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<sup>5</sup> Paul McLeod, “Our Ships Have Come In.” *Chronicle Herald*, 20 October 2011.

<sup>6</sup> Canada. Public Works Government of Canada. “Leveraging Defence Procurement to Create Jobs and Benefit the Economy,” last modified 5 February 2014, <http://www.tpsgc-pwgsc.gc.ca/app-acq/sam-mps/snacn-nsps-eng.html>.

<sup>7</sup> Canada. Public Works Government of Canada. “Leveraging Defence Procurement to Create Jobs and Benefit the Economy,” last modified 5 February 2014, <http://www.tpsgc-pwgsc.gc.ca/app-acq/sam-mps/snacn-nsps-eng.html>.

<sup>8</sup> *Ibid.*

and economic growth, the core of the conservative platform.<sup>9</sup> Unfortunately, military acquisitions don't normally translate into votes, however, the Conservative platform "Here for Canada" also focuses on strengthening the Canadian Armed Forces. According to their platform, the current government is committed to military acquisition but it must be done with the support of the voters through economic growth.

### **Efficiency Versus Effectiveness**

The intention of this paper is to argue the economic growth hoped to be achieved through factors such as early engagement and Industrial Technological Benefits (ITBs) are incompatible with the streamlining objective also included within the DPS. The DPS will assist DND in acting in the emphasized Whole of Government (WoG), shared accountability model. The additional communication that will occur with the new permanent working groups and governance committees will certainly be a catalyst to cooperation and compromise. DPS will likely also further emphasize transparency, something that has been lacking in past procurements. However, the strategy itself adds many additional steps in an already protracted acquisition process. The streamlining objective of the DPS seems lacking in concrete measures to reduce the timeline for major acquisitions.

Overall, the Defence Procurement Strategy is comprised of three key objectives:

- a. Delivering the right equipment to the Canadian Armed Forces (CAF) and the Canadian Coast Guard in a timely manner;

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<sup>9</sup> Stephen Harper. Conservative Party Of Canada Platform, [http://www.conservative.ca/?page\\_id=40](http://www.conservative.ca/?page_id=40), last accessed 10 May 2014.

- b. Leveraging our purchases of defence equipment to create jobs and economic growth in Canada; and
- c. Streamlining defence procurement processes.

This paper will examine each point of the DPS from the perspective of whether the strategy will help the military procure efficiently or whether the strategy's comprehensive focus on oversight, communication and regional benefits add layers of complexity that will end up lengthening the acquisition process.

### **DELIVERING THE RIGHT EQUIPMENT TO THE CAF IN A TIMELY MANNER**

In terms of the long procurement defence timelines, there has been significant success over the last decade in reducing the time spent getting into contract from 107 months to 48 months.<sup>10</sup> The improved timeline of 48 months is still a significant amount of time that should not be increased without careful consideration for added value.

Within the first objective, delivering the right equipment to Canada in a timely manner, there are three sub-objectives;

- i. Early and continuous client engagement;
- ii. Publish the defence acquisition guide; and
- iii. Provide third party oversight.

It will be shown that these objectives are familiar to DND and therefore their formal incorporation into the DPS should not slow down the overall procurement process.

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<sup>10</sup> Craig Stone, "A Separate Defence Procurement Agency: Will it Actually Make a Difference?" *Canadian International Council* (February 2012): 10.

## Early and Continuous Client Engagement

Engaging with industry is nothing new to defence procurement. For example, the Joint Support Ship (JSS) project, prior to sending out its first Request for Proposal (RFP), was heavily in contact with the two companies it had selected to provide an initial design. As in all major acquisitions, an enormous amount of effort went in to producing the RFP for tender, all of these efforts were made to ensure success. In the case of JSS, there was a Pre Qualification Phase to ensure the existence of multiple companies with the skill sets to build what was being proposed.<sup>11</sup> JSS also held industry days to share details of the project in an effort to look for areas that could be challenging from an RFP compliance aspect. Additionally, when JSS received feedback from the bidders that it would be difficult to meet all the requirements within the proposed cost envelope, JSS took steps to reduce some of the capability and obtained some additional funding from the DND programme to increase the budget.<sup>12</sup> In the 2009 CADSI report, industry recommended early engagement by “creating a communication environment that is open, collaborative, and continuous throughout the procurement process.”<sup>13</sup>

This concept of early engagement continues under NSPS. The Canadian Surface Combatant (CSC) is now holding similar industry days look for efficiencies in their build proposal. So while this objective is being highlighted, this is not a new concept for DND. Likewise, it should not add any additional time to the project as DND is not only familiar with the concept, they have implemented it several previous projects.

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<sup>11</sup>R. Houseman. *Lessons Learned: PMO JSS Contracted Project Definition Phase* (PM JSS 2183-32673-118, 4 May 10).

<sup>12</sup>*Ibid.*

<sup>13</sup>Canadian Association of Defence and Security Industries, *Military Procurement Report: Industry Engagement on the Opportunities and Challenges Facing the Defence Industry and Military Procurement* (December 2009): 17.

One of the challenges with engaging early is with long procurement timelines. The allocated budget is in current year dollars that do not account for any inflation, let alone the quickly rising costs of the defence industry. The average annual rate of inflation in Canada over the last century is approximately 3%.<sup>14</sup> However, the "...[a]nalysis of some 30 classes of weapon systems has shown that their Unit Production Costs (UPCs) have been growing in most cases at 5–10% per year "(Pugh, 1994). Therefore the long procurement process results in a large decrease in capability if the budget remains fixed. Any increases to the budget results in additional delays as these increases need Cabinet approval. What a defence contractor can build one year, may not fit in the budget by the time the government is ready to sign a contract. If Cabinet does not increase the budget, the only thing that can give is capability.

Conversely, for NSPS, early engagement with industry has led to the advance selection of a single prime contractor for ship building. The complaint is that this leaves limited negotiation room for the government to ensure value for money. The contractors were selected, each to build specific classes of ships, before defining the requirements and before setting a budget.<sup>15</sup> This may result in limited incentive for any yard to propose innovation, or cost cutting measures.

There are differing points of view on the level and type of early engagement needed. The additional DPS client engagement should not lengthen the acquisition timeline on the government side as this increased engagement already been incorporated in to the NSPS and NFPS secretariats.

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<sup>14</sup>Bank of Canada. Inflation Calculator. Last accessed 10 May 2014.  
<http://www.bankofcanada.ca/rates/related/inflation-calculator/>

<sup>15</sup> Micheal Byers and Stewart Webb, "Blank Cheque: National Shipbuilding Procurement Strategy Puts Canadians at Risk," *Canadian Centre for Policy Alternatives*, (December 2013): 9.

## **Publish a Defence Acquisition Guide**

The second sub-objective is to publish a Defence Acquisition Guide (DAG), with the first publication in June 2014. This is in response to a recommendation from the Jenkins Report, a report designed to promote better government engagement with the Canadian Defence Industry as well as the CADSI report.<sup>16,17</sup> The DAG will give the defence industry a preview of upcoming potential government acquisitions on the 5-15 year horizon so industry can determine where to focus their efforts to be competitive in the future. In the past DND and Industry Canada has engaged with Canadian defence companies to discuss future requirements and to see new technology produced by Canadian companies. The challenge is that defence procurement is slow and requirements can change with the changing political landscape, the DAG is not a guarantee. Without a government guarantee, private companies will likely not develop military capability without a market. Consequently, most Canadian industry is focused on civilian capabilities that can cross over into defence, such as communications and surveillance equipment. From a defence industry perspective, the DAG may help focus efforts but without a strong government commitment to purchase DAG items on a clear schedule, it may be risky. Regardless, overall acquisition timelines should remain the same with this new requirement under the DPS as the DAG is focused on future procurement.

## **Provide Third Party Oversight**

The third sub-objective is third party oversight. This objective is an imposed step likely due to perceived mishandling of previous acquisitions. For example, the failure of the first JSS

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<sup>16</sup> Canada. Public Works and Government Services Canada. *Canada First: Leveraging Canadian Industry through Key Industrial Capabilities*. (February 2013): xii.

<sup>17</sup> Canadian Association of Defence and Security Industries, *Military Procurement Report: Industry Engagement on the Opportunities and Challenges Facing the Defence Industry and Military Procurement* (December 2009): 17.

contract after years of preparation ended with both bidders being deemed non-compliant and an \$8 million dollar government payout.<sup>18</sup> Additional examples include, the Close Combat Vehicle (CCV) which was cancelled after significant investment and preparation by potential bidders,<sup>19</sup> and the fixed wing search and rescue aircraft (FWSAR), has undergone multiple scope amendments.<sup>20</sup> The third party challenge function was highlighted as an advantage of the NSPS structure. Its perceived success is likely one of the driving factors to form the NFPS. The controversy around the sole source selection of the F35 amid mounting costs and lack of transparency may have been mitigated through a challenge function.

The Joint Strike Fighter (JSF) program is not a typical procurement process, it is a collaborative research and development project initiated by the United States (US) to develop a fifth generation fighter aircraft for export. The concept of international collaboration allows the US to spread the development risk amongst program participants while those participating countries gain access to otherwise unaffordable technology. There currently exists only one other fifth generation plane in the world, the American F22, not available for international sale.<sup>21</sup> The JSF agreement allows second tier countries to pay a fee to access technology and have input into the design. Additional benefits are interoperability with other purchasing countries and access to

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<sup>18</sup>The Canadian Press. "Failed Navy Supply Ship bid Costs Ottawa upto \$8M." Last modified 20 Jan 2014, <http://www.cbc.ca/m/touch/news/story/1.2504285>.

<sup>19</sup>Vanguard Canada, "Government cancels CCV Project," last accessed 10 May 2014, <http://vanguardcanada.com/army-cancels-ccv-project/>

<sup>20</sup>National Defence and the Canadian Armed Forces, "Final Review: Review of the Statement of Operational Requirement for the Fixed Wing Search and Rescue Aircraft," last accessed 10 May 2014. <http://www.forces.gc.ca/en/about-reports-pubs/fix-wing-search-rescue-aircraft-2010>.

<sup>21</sup> Marco Wyss and Alex Wilner, "The Next Generation Fighter Club: How Shifting Markets will Shape Canada's F35 Debate," Canadian Military Journal 12, no.2 (Spring 2012):20.

a global supply chain. Canada has been involved with the F35 program since 1997 and has committed a total of \$710 million towards its development.<sup>22</sup>

Canada claims it did not enter the F35 program necessarily with the intent to purchase. Each memorandum of understanding (MOU) signed with the US ultimately left purchase optional but did give members a discount on purchase price. The controversy arose when the Defence Minister at the time, Peter Mckay announced Canada would purchase the aircraft sole source.<sup>23</sup> Amid soaring costs, it was then revealed that DND had not submitted the necessary justification for acquitting a fifth generation aircraft.<sup>24</sup> This sparked a debate on the exact capabilities needed in Canada's next fighter plane and why Canada was paying to develop an aircraft if it planned on holding a competitive process. A third party challenge would have insisted DND justify its desire to procure the JSF over other types of aircraft before the media and government opposition took on the role. This is one of many examples of the Canadian military being unable to agree on a defensible set of requirements for future purchases. An impartial body dedicated to oversight will give legitimacy to the acquisition process by challenging DND to justify their requirements.

The third party oversight will add time to the procurement process. It takes time to demonstrate a fair and impartial process as was evidenced recently during the selection of the TKS design for JSS. This added step will add time but it may avoid long delays in the final

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<sup>22</sup> Office of the Auditor General of Canada, *Chapter 2: Replacing Canada's Fighter Jets* (Ottawa: Public Works Government of Canada, 2012), 1.

<sup>23</sup> Office of the Auditor General of Canada, *Chapter 2: Replacing Canada's Fighter Jets* (Ottawa: Public Works Government of Canada, 2012), 21.

<sup>24</sup> Office of the Auditor General of Canada, *Chapter 2: Replacing Canada's Fighter Jets* (Ottawa: Public Works Government of Canada, 2012), 22.

acquisition steps, as most potentially controversial or debatable items will have been detected by the oversight function.

### **Conclusion – Deliver the Right Equipment**

The broad methodology outlined with the DSP strategy to deliver the right equipment in a timely manner is logical. DND is generally familiar with the concepts and has applied them, albeit recently, in previous procurements. Early and continuous engagement with industry has been successful in previous acquisitions. Much time and effort is invested in these major capital programs, it is recognized that continuous communication is critical to a successful outcome. The publishing of the Defence Acquisition Guide is a precursor of this engagement to allow industry to decide if they wish to participate in the government's future procurement projects. Given the recent procurement failures and controversy, DND has no choice but to accept third party oversight to justify their spending. It is clear amongst service members that delays to the acquisition process due to a failed RFP or due to lack of public support damage the overall long term ability of the CAF to fulfill its mandate. Third party oversight will hopefully help resolve some of the previous procurement challenges. This process may add additional time to the process but if the alternative is a stalled acquisition at the very end of the process, it may be a justifiable addition.

### **LEVERAGE OUR PURCHASES OF DEFENCE EQUIPMENT TO CREATE JOBS**

The second objective of the DPS, leveraging the defence industry, is the true crux of strategy. The political aspect of the DPS, cannot be under estimated. At \$10B in sales per year,

the Canadian Defence industry represents far less than 1% of the GDP.<sup>25</sup> However, a significant amount of Defence companies are based in the Conservative ridings of western Canada<sup>26</sup>.

Creating jobs by expanding the defence industry is a political win. This policy may mean that procurement takes significantly longer as DND learns to clearly justify their required capability and then determines if that capability can be produced in Canada. Regardless of the challenges surrounding the emphasis on the defence sector, it is here to stay.

The aim of leveraging the defence industry is broken down into four sub-objectives:

- i. Using a weighted and rated Value Proposition to assess bids;
- ii. Implementing an Export Strategy to support international sales ;
- iii. Identifying and applying Key Industrial Capabilities (KICs); and
- iv. Establishing an independent, third-party Defence Analytics Institute which will provide expert analysis to support the objectives of the Defence Procurement Strategy (DPS) and its evaluation

### **Value Propositions and KICs**

The first and third sub-objective of using Value Propositions and Key Industrial Capabilities (KICs) is aiming to favour capable Canadian companies and incentivize potential bidders to make investment in Canada. The former Industrial and Regional Benefit program (IRB), required “winners of major defence contracts to spend the equivalent of the dollar value of the contract supporting Canadian industry.”<sup>27</sup> The IRB process is being overhauled to stimulate high-end investment in the Canadian defence sector through the Value Proposition.

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<sup>25</sup> Canadian Association of Defence and Security Industries, *Military Procurement Report: Industry Engagement on the Opportunities and Challenges Facing the Defence Industry and Military Procurement* (December 2009): xii.

<sup>26</sup> Peter Diekmeyer, “Alberta’s Defence Industry: Harper Government Looks to Leverage this Province’s Significant Defence Industries,” *Canadian Defence Review* 20, no.1 (February 2014):11.

<sup>27</sup> Canada. Public Works and Government Services Canada. *Canada First: Leveraging Canadian Industry through Key Industrial Capabilities*. (February 2013): xii.

The Jenkins report recommends establishing KICs, “products that embody significant innovation, market potential or meet the needs of the Canadian Armed Forces.”<sup>28</sup>

The Value Proposition will help create better paying jobs for Canadians and increase investment in high-end technology in Canada. However, the ITB program is a big departure from the relatively straightforward go, no-go concept of the IRB. In addition, the Jenkins report proposes some potential KIC areas but states with the short timeline of the planned acquisitions; there is insufficient time for the major analytical initiative that is required.<sup>29</sup> With such minimal framework and a relatively compressed timeline, Industry Canada has a significant challenge to meet the expectations of the defence industry and the government. The KIC coupled with the weighted and rated Value Proposition will create a more robust industrial benefit program to support Canadian industry. However, this new requirement will likely add significant time onto the procurement process, certainly initially as Industry Canada attempts to apply the concept for the first time.

### **Implementing an Export Strategy**

While the KICs and Value Propositions aim to develop industry in Canada, the second sub-objective aims to export it abroad. Companies already know what products are easily transferable to the civilian market, given the boom-bust nature of government procurement the majority of our defence industry comprises of companies already providing equipment to the Canadian government and simultaneously for export. The potential for export could be a consideration when determining what KICs Industry Canada proposed to support but generally

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<sup>28</sup> *Ibid*, xv.

<sup>29</sup> Canada. Public Works and Government Services Canada. *Canada First: Leveraging Canadian Industry through Key Industrial Capabilities*. (February 2013): xii.

an export strategy for defence industries would likely be removed from the critical path of the procurement process. Should establishing KICs be based on potential for export, it may initially complicate the Value Proposition framework, however once established it would only need to be reviewed periodically. Conversely, the export strategy could be applied in parallel to the procurement process, leaving it as a consideration apart from the main acquisition process.

### **Establishing an Independent, Third-Party Defence Analytics Institute**

The final sub-objective tied to leveraging the defence industry has to do with the analysis of acquisition trends. Employing a Defence Analytics institute to help “guide and inform leveraging objectives of defence procurement,”<sup>30</sup> aims to address the lack of publicly available analysis on defence and economic related issues. This will be an additional tool used to assist the government in identifying opportunities based on past results. It will also assist politicians to minimize the accusations of partisanship often surrounding high value acquisitions such as defence. This does not appear to be a hurdle on the acquisition timeline critical path. It is not a third party oversight in a challenge function role; it is simply attempting to make data and analyses more available to industry.

### **Conclusion – Leverage Defence Industry**

Investment in the defence industry to stimulate the economy makes good political sense. Canadians often do not see the value in investing in military equipment, marketing the investment as a job creation tool, is a win for everyone but its implementation will be challenging. The Jenkins report suggested a few areas for KICs but no significant analysis to

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<sup>30</sup> Diane Findlay (speech, Economic Club of Canada, Ottawa, Ontario, February 5, 2014).

identify the most suitable capability areas has been done. Value propositions to raise the level of technology manufacturing in Canada as well as creating higher paying jobs seems like a marked improvement to the IRB strategy but the ITB program is markedly more involved than the IRB process. The announcement of DPS has created a significant expectation in the defence industry, how KICs are defined and how value propositions are implemented will be a source of debate. There is no doubt that these new processes, while politically favourable, will slow down the overall acquisition process as the multitude of details are worked out. Conversely, the Defence Analytics Institute and the export strategy will likely be neutral in terms of timeline as its objectives are off the critical path to procurement.

## **STREAMLINING THE DEFENCE PROCUREMENT PROCESS**

The final DPS objective of streamlining the procurement process, on the surface seems to offer some balance to the additional bureaucracy being added to the procurement process in an effort to improve transparency and economic outcomes.

There are three sub-objectives of streamlined and coordinated decision making;

- i. Adopting a new regime to ensure streamlined and coordinated decision-making;
- ii. Establishing a Defence Procurement Secretariat within PWGSC; and
- iii. Reviewing the current National Defence delegated authority to purchase goods with a view to increasing the level from the current \$25,000 to achieve more efficient procurement practices.

### **Streamlined Decision-Making and the Defence Procurement Secretariat**

In the case of streamlined and coordinated decision making, it purports to render the system more efficient by establishing two additional governing bodies; a working group of ministers and a governance committee of deputy ministers. The governance committee is the decision making body reporting to the working group, which operates under the construct of shared accountability. The concept of shared accountability seems counter to a streamlined decision making process, when competing priorities can stifle progress. However, with PWGSC clearly identified as the lead, this potential slow may be mitigated. The second objective, the establishment of the DPS secretariat, is modeled on the NSPS secretariat begging the question of defined roles and responsibilities. The OAG report on NSPS, defines the NSPS governance role as one that makes key decisions related to the implementation of the NSPS strategy.<sup>31</sup> NFPS has a similar secretariat construct. Each secretariat articulates its implementation role along the lines of engagement with industry, coordinated approach among departments and third party oversight.

The NSPS and NFPS currently report directly to the PWGSC minister. Presumably with the implementation DPS, NFPS and NSPS will report to DPS, who will in turn report to the minister. As of yet there has not been a review of the roles and responsibilities of each group to eliminate overlap, therefore it is unclear how this increased bureaucracy will translate in to increased efficiency and a streamlined process.

### **National Defence Delegated Authority**

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<sup>31</sup> Office of the Auditor General of Canada, *Chapter 3: National Shipbuilding Procurement Strategy* (Ottawa: Public Works Government of Canada, 2013), 12.

The only component within this objective that will truly streamline decision-making is the plan to increase the National Defence delegated authority from \$25 000. This will allow DND to conduct procurement without PWGSC oversight, under certain conditions, up to a certain dollar value. This will certainly increase efficiency but only as it will bypass the DPS process entirely.

The \$25000 procurement limit has been in place for a few years. If the intention is truly to increase the delegated authority, at a minimum the authority could be modified to tie it to inflation to maintain the purchasing power of the amount. This increase could be implemented quickly with minimal analysis, resulting in some savings while further analysis is being completed.

A review of the Australian Defence Procurement Policy (ADPP) reveals a very clearly articulated policy that empowers the Department of Defence (DoD) to conduct their own procurement.<sup>32</sup> In their construct the Contracting and Legal Division (CLD), loosely comparable to our PWGSC, provides legal and policy development and advice to the Australian DoD, it is not responsible to execute the contracts.

The Commonwealth Procurement Rules (CPR) is an overarching Australian government document that reflects virtually all the same considerations the Canadian government wishes to promote in procurement such as value for money, working with industry, encouraging

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<sup>32</sup>Australian Government. Department of Defence, "Australian Defence Procurement Policy," Last modified 1 July 2013, <http://www.defence.gov.au/dmo/gc/dppm/DPPM.pdf>.

competition, and inclusion of small and medium enterprise.<sup>33</sup> Individual government agencies are empowered by dividing acquisitions in to three categories, Simple, Complex or Strategic, and assigning the management of the acquisition to suitably qualified personnel.<sup>34</sup> The categories are determined by a risk assessment vice a dollar value. A Simple procurement would be a procurement that does not include IP rights, non-standard legal clauses, milestone payments nor design work. While there is no dollar value, the ADPP suggests that a procurement that fits the criteria for a Simple procurement but is valued over \$1M could be deemed complex due to the high dollar figure.<sup>35</sup>

When the Australian approach is compared to the Canadian approach, our low delegated authority points to inefficiency. Perhaps training in procurement leading to recognized competencies within DND could be included in the study. The current plan to examine the situation exhaustively before coming to the optimal figure may gain efficiencies in the short term, but empowering DND with proper training and competencies with the longer term objective of steadily increasing responsibility would truly streamline the procurement process. Regardless of the path chosen to increase streamlining, the longer the decision-making process takes, the longer efficiencies have to wait to be realized.

## **Conclusion – Streamlining the Defence Procurement Process**

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<sup>33</sup> Australian Government, Department of Finance and Deregulation, “Commonwealth Procurement Rules,” last modified 1 July 2012, [http://www.finance.gov.au/sites/default/files/cpr\\_commonwealth\\_procurement\\_rules\\_july\\_2012.pdf](http://www.finance.gov.au/sites/default/files/cpr_commonwealth_procurement_rules_july_2012.pdf).

<sup>34</sup> *Ibid.*

<sup>35</sup> Australian Government. Department of Defence, “Australian Defence Procurement Policy,” Last modified 1 July 2013, <http://www.defence.gov.au/dmo/gc/dppm/DPPM.pdf>.

The DPS streamlining objective seems like such a positive attribute of the new acquisition process. Unfortunately, unless clear roles are articulated and captured, the DPS secretariat seems like another NSPS secretariat layered ovetop of an already effective NSPS and NFPS. Presumably there will be more major acquisitions in the future for DPS to focus on, but at the moment NSPS and NFPPF seem to have center stage. This leaves us asking the question of the division of responsibility. There are already role definition challenges between the NSPS secretariat and the individual ship acquisition projects. If even that division of responsibility can pose a challenge, DPS may have a difficult time finding an exclusive value added role.

It is interesting to note that increasing the DND procurement limit is captured within DPS objectives. The DPS strategy is focused on major acquisition, third party oversight and industry engagement, raising the procurement limit seems like a PWGSC independent review. Never the less, the longer the review to raise the limit gets bogged down in reports and analysis, efficiencies will be stalled.

## **CONCLUSION**

Whatever is lacking in the details of the DPS, its roll out in May of this year is clear. Those details will need to be defined if this new strategy is to be successful. The overall message of creating a procurement process that will re-equip the CAF (and the coastguard) with much needed investment by leveraging the Canadian defence industry and streamlining the process is something all Canadians, military or civilian, can agree is a sensible idea. Politically, this message appeals to a broad swath of voters. The majority of the Canadian defence industry is located in conservative ridings, another political win. It is not the concept that is flawed; it is the lack of granularity that leaves doubt in the execution of the plan.

The DPS construct as a whole is premised upon the organizational structure of NSPS. Entire additional layers of process are being added to an already robust process without reviewing lower level process to remove any duplication. The key will be to clearly define the roles and responsibilities between these different governance bodies. When overlap is identified, and there will surely be some, who is responsible to adjust the structure? Overlap will simply mean unnecessary delays to the decision making process. In addition, NSPS had been touted as a great procurement concept, one that has a favorable report from the auditor general.<sup>36</sup> But it has yet to cut steel on a single vessel. Perhaps DPS is declaring victory on the NSPS strategy too soon.

Value Propositions and KICs have great potential to create better paying jobs for Canadians and increase investment in high-end technology in Canada. ITBs are quite a departure from the current simple IRB process employed by Industry Canada. Customized Value Propositions can only add significant time onto the procurement process, especially initially. The admitted lack of analysis done on the KIC concept coupled with a relatively compressed timeline, Industry Canada has a significant challenge to meet the expectations of the defence industry and the government.

The third party challenge function is already happening within NSPS. As a means to justify military requirements, these measures will assist DND in avoiding acquisition mishap costs in dollars and lost time.

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<sup>36</sup> Office of the Auditor General of Canada, *Chapter 3: National Shipbuilding Procurement Strategy* (Ottawa: Public Works Government of Canada, 2013), 23.

It seems a little ironic to discuss streamlining in a plan that adds a multiple layers of bureaucracy in an effort to speed up the procurement process. The details of the streamlining objective, the establishment of the DPS secretariat and additional governance, seem to provide more layers of approval not less. Only the increase to the Delegated Authority will truly streamline procurement but only after the “extensive due diligence and analysis.”<sup>37</sup>

The measures proposed with the DPS overall can only increase the procurement timeline. Any focus on quick decision making, will not compensate for the additional layers of bureaucracy created with this process. Oversight, industry engagements, custom value propositions take time, organizations naturally have competing priorities and interests. It is logical that the government is creating a procurement strategy that can be sold to the public, a public generally wary of defence spending. Packaging defence spending in terms of economic growth and jobs, to appeal to voters, specifically the conservative base will assist DND in getting the new platforms it desperately needs. The issue is that these additional measures are needed for citizen support to the acquisition process are just that, additional, and therefore are likely going to add time to the process. Streamlining, by emphasizing quick decisions by the additional layers added is not streamlining. DPS may indeed be the best procurement strategy for Canada in terms of balancing stimulating the economy, the defence sector and re-equipping the military. It may be effective but it will likely be less efficient.

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<sup>37</sup>Public Works Government Services Canada, “Increased Authority for National Defence to Purchase Defence Supplies,” last accessed 10 May 2014, <http://www.tpsgc-pwgsc.gc.ca/app-acq/stamgp-lamsmp/autorite-authority-eng.html>.

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