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LEVERAGING CANADA'S DEFENCE WHITE PAPER TO STREAMLINE RCAF PROCUREMENT

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TO STREAMLINE RCAF PROCUREMENT**

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AIM

1. The following paper will outline key initiatives and authorities under the Defence Procurement Strategy (DPS) and how it aligns with the Canadian Defence White Paper – *Strong Secure Engaged* (SSE). The aim is to identify and provide guidance on leveraging SSE to promote and expedite project initiatives within the Royal Canadian Air Force (RCAF) through Director General Aerospace Equipment Program Management (DGAEPM).

INTRODUCTION

2. In 2014, the Government of Canada launched the Defence Procurement Strategy (DPS) designed to undertake the intricacies and delays in defence procurement.¹ DPS was intended to reform the way Canada acquires military equipment. With that, its objectives were threefold: (1) on-time delivery of equipment to the Canadian Armed Forces (CAF), (2) leverage defence purchasing to stimulate job creation and economic growth, and (3) streamline the defence procurement processes and coordinated decision making.² In June 2017, the Canadian government released its defence policy SSE, a policy outlining the objectives of the Canadian Armed Forces (CAF).³ SSE identified additional assistance to achieve various procurement capabilities supplementing DPS initiatives that lacked adequate resources. SSE also identified

¹ Government of Canada. "Defence Procurement Strategy." Public Service and Procurement Canada, February 27, 2020. <https://www.tpsgc-pwgsc.gc.ca/app-acq/amd-dp/samd-dps/index-eng.html>.

² *Ibid.*

³ Government of Canada. "Strong, Secure, Engaged: Canada's Defence Policy." Department of National Defence, January 7, 2021. <https://www.canada.ca/en/department-national-defence/corporate/policies-standards/canada-defence-policy.html>.

several new capability investments and a top-up of funding for many older projects that required an increase in capital investment.

3. Issues with defence procurement itself is not a new phenomenon and have plagued the CAF for decades.⁴ However, the level of scrutiny regarding the procurement of high profile projects (e.g. ageing CF-18 fighter replacement) has reached a tipping point. Federal political parties of Canada are committed to rectifying the challenges inflicted with defence procurement processes. For instance, the Liberal Party has added to its platform a centralization plan creating a new organization, Defence Procurement Canada (DPC).⁵ Notwithstanding the creation of a new organization aimed at streamlining the defence procurement process, in the interim, the RCAF is required to work within the constructs of today's framework and mitigate the various obstacles as, "70 percent of all [defence] projects have not been delivered on time."⁶ The following paper will provide analysis and application on how to work within the confines and parameters outlined in the documents. It is paramount that the RCAF leverage the framework to improve/streamline the current procurement process. DGAEPM can utilize DPS and SSE to advance procurement capabilities and initiatives. First, the focus will be placed on the impact of the new delegations of authority and the increase to competitive and non-competitive contracts. A commitment to a surge in defence funding, coupled with the increased delegation of authority, will enable flexibility and agility in procuring goods and services. Secondly, incorporating the cost flexibility concept and delivering the right equipment to the RCAF facilitates defence procurement with industry factoring the rate of change in technological developments. Finally,

⁴ Collins, Jeffrey. "Defence Procurement Canada: Opportunities and Constraints." Canadian Global Affairs Institute, December 2019. https://www.cgai.ca/defence_procurement_canada_opportunities_and_constraints.

⁵ Liberal Party of Canada. "A Responsible Approach to Security: Our Platform." Federal Liberal Agency of Canada. Accessed January 12, 2021. <https://liberal.ca/our-platform/a-responsible-approach-to-security/>.

⁶ Government of Canada "Strong, Secure, Engaged: Canada's Defence Policy...", 74.

the paper will emphasize the implication on leveraging ‘Innovation’ through early, continuous industry, and client engagement.

DISCUSSION

4. SSE is focused on a surge of funding, an undertaking of financing over a 20-year defence budget. The Department of National Defence (DND) will receive a notable addition of funding on a cash expenditure basis. In total, over the next two decades, the policy provides \$48.9 billion on an accrual basis and \$62.3 billion on a cash basis.⁷ Throughout the policy's lifespan, significant funds have been reallocated within the preexisting funding envelope to provide an additional \$5.9 billion to support/sustain the budgets of several projects that already had funding.⁸

New Delegation of Authorities

5. The new authorities under DPS increase the delegation of authorities to DND. To streamline defence procurement processes, DND's delegated authority to procure defence supplies was forecasted to increase to \$5 million in 2019.⁹ Of note, the former would see a \$25,000 contract delegation to DND increase to \$5 million delegated authority.¹⁰ Progressively increasing authorities to contract independently will enable DND to procure the majority of goods, reducing, in theory, the time and effort. The crux pertains removing the requirement to staff approval through Public Service Procurement Canada (PSPC). DPS states, "this [initiative] is expected to provide increased efficiency in the purchase of goods and services of lower value

⁷ *Ibid.*, 43.

⁸ *Ibid.*, 101

⁹ Government of Canada. “Defence Procurement Strategy.”

¹⁰ Senate of Canada. “Interim Report of the Standing Senate Committee on National Finance.” The Standing Senate Committee on National Finance, June 20, 2019. <https://sencanada.ca/en/committees/report/78157/42-1>.

and complexity."¹¹ By eliminating a department in the process, it removes a layer of bureaucracy and reduces the transaction overhead cost.

6. Key initiatives, 94 and 95 under SSE, reverberate the increase in contracting authorities by stipulating that this streamlined process will reduce approval time by at least 50 percent for low-risk and low complexity projects through internal mechanisms (i.e. coordination, delegation, and approval process).¹² According to SSE, an increase of DND's contracting authorities for goods up to \$5 million would enable 80 percent of defence procurement contracts to be managed by the defence.¹³

7. Concerning capabilities in the Air Force, Directorate of Aerospace Procurement (DAP) provides procurement, materiel management, contracting and financial management advice, support and oversight related to the procurement of goods and services. Procurement Authorities (PA) within DAP work together with Project Managers (PM) and Technical Authorities (TA) as a team in the procurement process with the PA as the point of contact between DND, PSPC and contractors. DND/RCAF increase in delegation streamlines the acquisition of lower-value goods and therefore removes a department expediting the procurement of several initiatives. Despite having to contend with transparency and onerous regulations by Treasury Board (TB) contracting policy, the process will minimize interdepartmental duplication.

8. The Delegation Instrument pertaining to this initiative received Ministerial approval on 23 October 2020 and the amount for competitive goods and services contracts was increased to

¹¹ Government of Canada. "Defence Procurement Strategy."

¹² Government of Canada "Strong, Secure, Engaged: Canada's Defence Policy..., 75

¹³ *Ibid.*

\$7.5 million respectively.¹⁴ While the Delegation Matrix has been revised to reflect the new authorities, an analysis of the effectiveness will only be observed in the near to distant future. Also, the impact of these measures will only be maximized if DND/RCAF has a contracting workforce that possess the knowledge to procure and deliver the goods and services while adhering to the rules and regulations with minimal irregularities.

Leveraging Cost Flexibility

9. An investment in defence spending has placed significant pressure on defence procurement processes with a large military financial envelope. In that, the processes have not responded effectively to the rising and complex military demand. The challenges are partly due to bureaucracy, political influence, technological difficulties, cost overruns, and delivery delays.¹⁵ The concept of ‘flexibility,’ particularly regarding the costing process/methodologies for major procurements, is quintessential in delivering the required goods. It is important to note that the procurement process needs to enable/recognize that the initial project proposal's cost estimates are rough order-of-magnitude. Costs will undoubtedly change as detailed requirements are expanded and as time progresses. A rough order-of-magnitude at the beginning of the process should not determine the military requirement. It is unrealistic to develop a cost breakdown for a project initiated in 2021 for a capability to be delivered in 2031. Numerous factors can change over that period that will ultimately influence the final cost. Low accuracy in cost estimates can directly correlate to a capped project budget, ultimately influencing the procurement processes

¹⁴ Crosby, C. DELEGATION OF AUTHORITIES (DoA) FOR FINANCIAL ADMINISTRATION INSTRUMENT. ADM(Fin)/CFO: file 7356-3, 8 December 2020.

¹⁵ Auger, Martin. “Defence Procurement Organizations Worldwide: A Comparison.” Parliament of Canada. Library of Parliament Publication No. 2019-52-E, April 28, 2020. https://lop.parl.ca/sites/PublicWebsite/default/en_CA/ResearchPublications/201952E.

final number acquisition. One of the significant SSE changes was reflected in the Future Fighter Capability Project, in which the RCAF can optimize \$46.4 billion to fund equipment projects.¹⁶

10. The SSE policy identifies the concept of defence spending flexibility. The policy has implemented an accrual system to refine its capital projects' planning and budgeting. Flexibility is used in the equation to adjust the accrual budget to display developments in major capital projects. SSE outlines the following examples that could result in the requirement to adjust, or re-profile, accrual funding to include:

- a. Delays associated with contracting process and approval;
- b. Slippages in contract performance and delivery;
- c. Changes to planned project timelines;
- d. Changes in the scope of the project; and
- e. Changes to the cost estimates as the project becomes more advanced and updated costing information becomes available.¹⁷

11. With regards to the aforementioned Fighter capability, SSE articulates a planned acquisition of new jets that would increase the fleet to 88. This capability would deliver on the government's policy of working with the United States to ensure that NORAD and NATO are modernized to meet existing and future challenges.¹⁸ The flexibility of accrual defence spending leverages cash availability to the department exclusive for use by DND, diminishing the amount of scrutiny while maintaining the transparency required by TB.

¹⁶ Government of Canada "Strong, Secure, Engaged: Canada's Defence Policy., 103

¹⁷ *Ibid.*, 103.

¹⁸ *Ibid.*, 39.

Leveraging Innovation

12. Perhaps one of the most critical elements in leveraging SSE and DPS pertains to 'Innovation.' SSE places emphasis on the CAF regarding its responsibility for space capabilities. New investments are allocated to the RCAF in order to expand space-based assets in support of operations. The process of involving industry early in developing a statement of requirements appears to be consistent in both DPS and SSE. Early in the process, industry involvement facilitates the scope in developing requirements, particularly in areas viewed as technically difficult. SSE stipulates that the Defence team will promote a competitive environment and challenge innovators to advance solutions to rising quandaries. Under this notion, SSE paves the path for defence departments to collaborate with industry to develop and test new products to meet evolving capability needs while enabling companies to expand their market towards new export opportunities.¹⁹ The collaboration with industry reduces the lapses in communication and departments working in silos. Fostering this framework within the RCAF will improve efficiencies as, "[early] engagement establishes a two-way conversation between industry and government to better understand needs and available solutions...[it also] promotes a transparent approach to public procurement."²⁰

13. Canadian defence industry does not engage in the procurement process until the government develops a Statement of Requirement (SoR) and approaches industry with a Letter of Interest (LoI). It is understood that industry has the knowledge of what is technologically feasible. Therefore, early engagement is critical to the delivery of the department's request. Of

¹⁹ *Ibid.*, 16.

²⁰ Government of Canada, Public Works and Government Services Canada. "Early and Continuous Engagement - Defence Procurement Strategy - Defence Procurement - Buying and Selling." PWGSC, November 13, 2019. <https://www.tpsgc-pwgsc.gc.ca/app-acq/amd-dp/samd-dps/mhc-ece-eng.html>.

note, other nations such as Australia have garnered success by creating an organization that joins defence, industry, and academia early in the process to identify a solution (e.g. Rapid Prototyping, Development and Evaluation (RPDE) program).²¹ The RPDE program "[delivers] important technical guidance, advice and solutions to defence that may not otherwise be delivered in a timely manner using a conventional acquisition process."²² The RCAF has endeavoured to establish an "air force innovation hub" in the Waterloo tech triangle.²³ By acquiring space in Communitech, it will enable air force integration with creative minds (tech incubators and accelerators), academia and government.²⁴ The aim is not concentrated on solving RCAF technology challenges, but, embed RCAF members with the tech and academic community and thereafter help foster an "innovative mindset" within the CAF.²⁵

14. Notwithstanding the RCAF's involvement with Communitech, DGAEPM has an opportunity to expand the innovation community by leveraging SSE's new investment initiative in which \$1.6 billion over the next 20 years are allocated to the program Innovation for Defence Excellence and Security (IDEaS).²⁶ Ultimately, DPS and SSE innovation objective is to maximize opportunities for economic growth in Canada that supports high-quality jobs, fueled by innovation and by default capable of exporting aspects of the success abroad. Under the program IDEaS, only two 'key' RCAF initiatives were launched as defence challenges through the Competitive Projects Call for Proposals. The RCAF sought recommendations on the space

²¹ Department of Australian Defence. "Defence Industry Support and Skill Development Programs." Auditor-General Report NO.20 OF 2015–16. Australian National Audit Office, February 25, 2016. <https://www.anao.gov.au/work/performance-audit/defence-industry-support-and-skill-development-programs>.

²² *Ibid.*

²³ Thatcher, Chris. "Operation Innovation." The Maple Leaf - The Royal Canadian Air Force. Government of Canada, April 10, 2017. <https://ml-fd-staging.caf-fac.ca/en/2017/02/3545>.

²⁴ *Ibid.*

²⁵ *Ibid.*

²⁶ Government of Canada "Strong, Secure, Engaged: Canada's Defence Policy., 78.

environment's congested nature. Objects orbiting the Earth pose a risk as they could interfere with or disrupt space capabilities. Therefore, there is a need to "collect, collate, integrate, analyze and display all the available data feeds that are essential to establish and maintain a complete and continuous situational awareness for effective management of space assets."²⁷ The second initiative pertained to the RCAF requesting solutions for the "analysts in monitoring and interpreting the high volume of Full Motion Video (FMV) feeds."²⁸ This capability is critical to the RCAF airborne intelligence, surveillance and reconnaissance (ISR) platforms attached to air assets like the CP-140 Aurora. Unfortunately, according to the IDEaS platform, there are no current opportunities listed. The only future opportunity pertains to the Assistant Deputy Minister (Infrastructure and Environment) addressing older buildings' green heat retrofitting.²⁹ The importance instilled in the defence environment is directly linked to innovation and the knowledge used to combat today's threat. The IDEaS program, when leveraged, would foster networks connecting subject matter experts (SMEs). Capitalizing on the IDEaS program would stimulate discussion amongst SMEs with the potential of providing viable options to resolving various RCAF projects.

CONCLUSION

15. The defence White Paper SSE produced a transparent road map outlining Canada's defence priorities. SSE identified the funding requirements to tackle present and future military demands. On average, DND maintains over 12,000 contracts annually, which equates to

²⁷ Government of Canada. "Defence and Security Challenges for First Competitive Projects Call for Proposals," November 20, 2018. <https://www.canada.ca/en/department-national-defence/programs/defence-ideas/past-opportunities/first-call-for-proposal.html#2-2>.

²⁸ *Ibid.*

²⁹ *Ibid.*

\$6 billion to capital programs.³⁰ Of note, Canadian allied countries are also inflicted with complications associated with defence procurement.³¹ The intricacies and challenges associated with the defence procurement include political will, weapon systems, supply chains, and the ever-changing technical innovations in the defence sector. Delivering procurement initiatives on time is complex. While increasing contracting authorities, cost flexibility, and innovation may facilitate the procurement process, the RCAF must operate within a politically charged bureaucratic system. Canada's multi-departmental defence procurement framework is currently inefficient and, in many respects, generates duplication of effort with control tension over contracting responsibilities/authorities. Centralization of procurement activities may rectify many of the issues; however, the viability should be evaluated once the DPS and SSE initiatives are fully implemented and assessed. DPS and SSE both attempt to streamline the procurement process enabling the administration of departmental priorities and objectives. Due to the disruptive nature of a reorganization, it is paramount that benchmarks be assigned to assess the efficiency rate of the increase in a delegation of authority. Early communication with industry, coupled with timely and effective decision-making, will enable the major capital acquisition process. These new strategies may lead to improvements in defence procurement; nevertheless, in order for the initiatives to be both effective and efficient, the most imperative component pertains to hiring a functional and capable defence acquisition workforce.

³⁰ Government of Canada. "Update 2019 | Transforming the way Defence works," June 04, 2019. <https://www.canada.ca/en/department-national-defence/corporate/reports-publications/defence-investment-plan-2018/2019-transforming.html#2.1>

³¹ Auger, Martin. "Defence Procurement Organizations Worldwide: A Comparison."

RECOMMENDATION

16. RCAF dedicated procurement positions: Increase the acquisition workforce's size to improve and extend the capacity to manage the procurement process (cradle to grave). This endeavour should include a professional development stream. In addition, dedicated military positions should be assigned to a file that includes a reduction in staff rotation. To achieve results with limited disruption, an important consideration would include the impact of introducing an extended posting cycle. For an embedded military position to be prolific, a 'procurement specialist' needs to be assessed as a viable career path.

17. The RCAF should leverage the IDEaS program and include other innovative, highly developed RCAF projects (e.g. Remotely Piloted Aircraft Systems (RPAS) project, Defence Enhanced Surveillance from Space Project (DESS-P), and the Integrated Command, Control, and Communication Project (IC3-P)).

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