

# Canada is Making Real Procurement Progress, but Still Falling Short of *Strong, Secure, Engaged*

**Dave Perry**

On 19 October 2018, the Canadian Surface Combatant (CSC) project, National Shipbuilding Strategy and Canadian defence procurement in general made a major step forward with the identification of Lockheed Martin Canada as the preferred bidder in the competition to select a ship design. By the time this issue goes to print, contracts will likely have been signed with Lockheed for the design and development of the CSC and with Irving Shipbuilding to build the ships. Negotiations were still underway at the time of writing and one of the other bidders has filed a challenge with the Canadian International Trade Tribunal and the Federal Court, but Canada's surface ship replacement will likely take a step forward early in 2019 by signing contracts to start work on Lockheed's Type 26-based bid. Much work remains on the project, of course, but this is a major move forward for the naval re-capitalization program, and a positive milestone for Canadian defence procurement overall.

The CSC milestone is a public example of what has been a quietly positive trend in Canada's defence procurement. The financial reports of the Department of National Defence (DND) to Parliament in the fall of 2018 show that the government of Justin Trudeau continues to fall well short of its procurement plans but there have been encouraging developments in the overall trajectory of the procurement program. Spending money on capital procurement isn't the only, or necessarily the best, measure of how effectively the Trudeau government is implementing the procurement aspects of its defence policy, but it provides the easiest way of comprehensively evaluating its process on procurement and one that allows a comparison with past governments. While operational employability of fully capable new equipment is the ultimate test of defence procurement, the government needs to buy the equipment before that can be accomplished.

The Public Accounts of Canada for fiscal year 2017-2018 show a meaningful increase in DND's procurement spending in the first year of the Trudeau government's *Strong, Secure, Engaged* defence policy. In the first year under the policy, DND spent \$3.7 billion on capital. In real dollars, that is the most Canada has spent on military equipment and infrastructure procurement since 2010-2011, the year that set the high-water mark for Canadian defence procurement spending since the 1980s. The Supplementary

Estimates A for 2018-2019 show that in the fiscal year ending 31 March 2019 that level of spending might rise yet again. As of that document's publication, DND's capital allocation for the year stands at \$4.1 billion, roughly \$200 million more than at the same point in the previous fiscal year. While the money for 2018-2019 has yet to be spent, it is a good sign that Canada's procurement spending will increase for the second year in a row.

This is especially the case because the same Public Accounts for 2017-2018 referred to earlier show that DND has finally started to spend the capital procurement money it has been allocated. Historically, DND spent virtually all of the money it was allocated each year for capital. Through 2006-2007, on average 98% of the allocated funds were actually spent each year. Starting in 2007-2008, however, DND started leaving hundreds of millions of dollars worth of procurement funds unspent at year's end. This underspending, which took several forms, is referred to generically in the Public Accounts as a 'lapse.' This lapsed funding denoted funding that was requested and made available to DND for capital purchases but that went unused in the year intended.

In 2017-2018 only \$160 million, or 4% of DND's capital funding allocation, was allowed to lapse by DND. As a percentage, that was the smallest capital lapse since 2006-2007. So at least for one year, things have returned to normal. DND actually spent most of its procurement money; hopefully the same will occur this year.



Credit: Canada's Combat Ship Team

Lockheed Martin and BAE Systems' Type 26 entry for the Canadian Surface Combatant competition was selected as the preferred bidder on 19 October 2018.

## Department of National Defence

## Organization Summary

	Authorities To Date	These Supplementary Estimates		Proposed Authorities To Date
		Transfers	Adjustments	
		(dollars)		
<b>Budgetary Voted</b>				
1a Operating expenditures	15,630,416,828	(50,665,361)	56,276,610	15,636,028,077
5a Capital expenditures	3,761,023,833	(11,381,536)	313,034,460	4,062,676,757
10a Grants and contributions	176,719,317	(11,000,000)	24,183,114	189,902,431
15a Debt write-off	.....	15,380	1	15,381
20a Debt forgiveness	.....	173	1	174
<b>Total Voted</b>	<b>19,568,159,978</b>	<b>(73,031,344)</b>	<b>393,494,186</b>	<b>19,888,622,820</b>
Total Statutory	1,202,283,005	(163,853)	.....	1,202,119,152
<b>Total Budgetary Expenditures</b>	<b>20,770,442,983</b>	<b>(73,195,197)</b>	<b>393,494,186</b>	<b>21,090,741,972</b>

Note: Additional details by organization are available on the Treasury Board Secretariat website – <http://www.canada.ca/en/treasury-board-secretariat.html>.

A summary of Department of National Defence expenditures from the 2018-2019 Supplementary Estimates (A) indicates Capital Expenditures will increase from approximately \$3.8 billion to \$4.1 billion for the 2018-2019 fiscal year.

Despite these positive trends, DND is still falling well short of meeting the procurement spending targets laid out in *Strong, Secure, Engaged*. In 2017-2018 actual capital spending fell \$2.5 billion short of the projection laid out in the policy. The Supplementary Estimates are painting a similar picture for 2018-2019, showing that DND is on a trajectory of falling short by a comparable amount once again. The fiscal year is not finished, however, and DND's Deputy Minister has stated publicly that she is hoping to see the amount that goes unspent drop below \$1 billion.

Achieving the Deputy Minister's spending target will be extraordinarily difficult, as Canada's defence procurement system is still trying to ramp up to spend money at a higher rate than it has in decades. The largest chunk of that money is earmarked for the CSC project. The next largest is for the future fighter jet project, which released a draft Request for Proposal (RFP) for pre-qualified bidders in the fall. The stated plan for that project is to have an actual RFP released in the spring of 2019. After years of inaction, Canada is trying to make up for lost time and is rushing to get on with the purchase, and the viability

of the current timetable depends on the feedback provided by bidders to the government of Canada just prior to Christmas. These two major projects aside, the bulk of DND's capital money is distributed across dozens of other projects. Spending it is therefore not reliant on any single project but rather moving many of them, simultaneously, while also buying new ships and fighters – no easy task. Additional procurement improvements therefore are still needed to reach the spending targets outlined in *Strong, Secure, Engaged*. At this point, it is clear that the Trudeau government is not contemplating any big changes to procurement such as a major hiring spree or institutional reorganization to create a long-discussed single Canadian defence procurement agency.

However, a number of small improvements have been made, and more may be on the way. DND has continued to hire additional procurement staff and train those it already employs. Internally, there have already been reorganizations to put a two-star General and Rear-Admiral in charge of the air force's fighter jet and navy's shipbuilding projects respectively, and DND's defence procurement process manual is being revised.

The Minister of Public Services and Procurement Canada (PSPC) also indicated that additional help is on the way as the government is moving to a risk-based contracting approval model for defence procurement. Such a shift will not be flashy as it represents an incredibly technocratic change to one part of Canada's cumbersome approvals process which previously required PSPC to obtain Treasury Board approval for most major contracts through a process which took multiple months. The new process will delegate this approval authority to PSPC for lower risk contracts, saving months on each contract, while also allowing attention to be focused on reviewing the contracts that most need the review.

As the selection of the CSC preferred bidder indicated, and DND's spending data confirm, progress on procurement is being made, although not as much as envisioned in Canada's defence policy. Searching for more small, unsexy, but meaningful changes to the procurement process is probably the most realistic way of ensuring that as much of that targeted spending is actually spent as possible. 🍷

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Credit: Cpl Dominic Duchesne-Beaulieu



The Request for Proposals for CF-18 Hornet replacements is expected to be released by the spring of 2019. Here, a Hornet is pictured after a flight at a Romanian airbase during *Operation Reassurance* on 29 November 2018.