

# **FIXING DEFENCE PROCUREMENT**

BY ALAN WILLIAMS

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Fixing defence procurement is a common mantra from governments. Yet, not only have we not seen improvements, there are ample objective measures indicating that over the last decade it has significantly deteriorated. There are two reasons for this inertia. First, to effect real change, clear and unequivocal direction must come from the prime minister. To-date, no prime minister has provided this imperative. Second, governments have not taken the time to really understand the impediments to effective and efficient defence procurement. Instead, they have relied on superficial remedies, often advanced by companies whose self-interest trumps that of the military or taxpayer.

How did we get to where we are today? A brief review of the history of defence procurement is important. The decision to establish a federal department with authority for procurement was a government response to the angry reaction by the Canadian public to profiteering during World War I, and subsequently to the infamous “Bren Gun” scandal of 1938. As a result of the scandal, the government quickly reacted and in 1939 created the Defence Purchasing Board with exclusive powers to enter into contracts to purchase munitions and the power to control profits.

The Defence Purchasing Board was replaced by the War Supply Board. On April 9, 1940, the Department of Munitions and Supply Act was proclaimed to provide for the requirements of the Armed Forces of Canada. The Department of Munitions and Supply was established to administer the Act. On April 1, 1969, Parliament passed the Government Organization Act. This created the Department of Supply and Services and included the Department of Defence Production (except for the International Programs Branch), the Shipbuilding Branch from the Department of Transport, and a range of other services and programs consolidated from various organizations.

In June 1993, Public Works and Government Services Canada (PWGSC) was created through the merger of the Department of Supply and Services and the Department of Public Works. In 1996, legislation confirming the merger and establishing the new department was enacted. The department was intended to operate as a common service agency for the Government of Canada in support of departmental programs and, importantly, enhance the integrity and efficiency in the contracting process. In the fall of 2016, PWGSC was renamed Public Services and Procurement Canada (PSPC).

In the last two decades, and increasingly over the last ten years, the procurement system has become dysfunctional. Here then are the top three impediments to a well-run defence procurement organization along with recommended solutions:

1. Lack of clear accountability;
2. Lack of performance measures;
3. Lack of a long-term cabinet-approved capital plan.

## 1. LACK OF CLEAR ACCOUNTABILITY

For over a decade, I have been a fervent advocate for the need to establish one point of accountability. Quite simply, there is excessive overlap and duplication between the roles of the Minister of National Defence and the Minister of Public Services and Procurement Canada. Unless and until one minister is placed in charge of defence procurement, it will never be as efficient and effective as it could be.

On March 18, 2010, the Honourable Peter MacKay, then Minister of National Defence, appearing before the Standing Committee on National Defence said the following with reference to the replacement of the Fixed-Wing Search and Rescue program:

“We've also faced the reality that this involves more than just one department, as you can appreciate. DND does not go out and negotiate the contract for equipment. That is left to the Department of Public Works. Industry Canada, obviously, has the most direct interface with the industries that are involved in the building of fixed-wing search and rescue aircraft.”

It is time for the hypocrisy to end. Governments should no longer be entitled to proclaim their unqualified support for the military while consciously neglecting to take this one step – providing one point of accountability - mandatory to ensuring the timely provision of goods and services to the men and women serving this country. Governments should not be entitled to lament the complexity of the procurement process and yet refrain from taking steps to dramatically and significantly simplifying the process.

The concept of clear accountability was also a recommendation in the Canadian Association of Defence and Security Industries' (CADSI) December, 2009 report. In this report, CADSI recommended that, “overall accountability for the combined responsibilities of defence equipment and the defence industrial base should reside at the Cabinet level in one Minister.”

I recognize that addressing this governance issue will not solve all the procurement problems, but it is a necessary first step. Amongst our close allies, Canada stands alone with its system of “dispersed accountability.” In the United States, the Secretary of Defense is accountable for military procurement. In the United Kingdom, this responsibility falls to the UK Secretary of State for Defence. In Australia, defence procurement is under the authority of its Defence Materiel Organisation, accountable to the Minister of Defence.

Ironically, instead of clarifying and strengthening accountability, over the past few years we have witnessed a continuing erosion and confusion around of accountability. Under the new Defence Procurement Strategy (DPS) a new Permanent Working Group of Ministers was established supported by a new Permanent Deputy Ministers Governance Committee. Also introduced was a Defence Analytics Institute as well as an Independent Panel on Defence Acquisitions, consisting of an unaccountable group of outside experts with a mandate to challenge the military's requirements. Through this maze of committees and advisors, it will be even more difficult to pinpoint the minister accountable for defence procurement.

The concept of clear accountability should be obvious to most people. After all, it is a basic tenet of any well-run private or public organization. The requisite legislative and organizational changes can be implemented within one year. The change is supported by past defence ministers including ministers Eggleton, Graham and Pratt. As mentioned above, it also has the support of Canadian industry. Why then, has there been so much opposition to its implementation?

The fact is, two groups of people will want to maintain the status quo. First, are the bureaucrats and Minister of PSPC. For these people, it is much more stimulating and rewarding to be part of billion dollar programs and announcements than to focus on the purchasing of the more mundane goods and services such as furniture, travel and temporary help. The thought that they would lose this role (not necessarily true) drives them to reject the concept of a single defence procurement organization under one minister.

The second cohort that fights this proposal consists of those companies that put their self-interest ahead of those of the military or taxpayer. Their priority is to influence the government's awarding of defence contracts. To do so, they need to maximize their points of entry into the defence procurement process. If you want to influence a decision to favour your client, you want to be able to speak to a minister or senior officials involved in the process. If there are two or three involved, you have a greater chance of meeting with one of them. If there is only one minister accountable, then "all your eggs are in one basket."

The benefits in creating a single procurement organization go beyond strengthening accountability. First, the process would also be streamlined. At the present time, the process only moves as fast as the slower of the two organizations permit. As ministers, deputy ministers or even assistant deputy ministers change, the process stops for new briefings. With two departments involved, twice as many potential interruptions occur. Also, decisions need to go up two organizational structures that can have different cultures and different approval processes. The result is that many months can be lost due to briefings and approvals through multiple organizations.

Second, savings will emerge from the elimination of overhead and duplication of functions through the merging of the PSPC and DND resources. Ten years ago, I calculated possible reduced staffing of between 48 and 120 person-years. This translated into annual savings of between \$4.8 million and \$12 million annually and represented a reduction from the applicable base of between 1.7 percent and 4.4 percent.<sup>1</sup> Obviously, these figures need to be updated. But there can be no doubt savings would accrue. From a human resource standpoint, of perhaps greater impact than the savings, would be the ability to address the acute staff shortages.

In January 2015, a report authored by Dave Perry on behalf of the CDA Institute and the Macdonald-Laurier Institute highlighted the significant purchasing staff cutbacks at DND over the past 25 years and the negative impact this had in completing acquisition projects. In the paper entitled "Putting the 'Armed' Back Into The Canadian Armed Forces," Mr. Perry indicated that the number of staff dedicated to buying military equipment dwindled from 9000 in the early 1990's, to less than 50% or 4355 in 2009. Removing the overhead and duplication and reallocating these resources would help address this huge impediment to re-equipping the military in a timely manner.

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<sup>1</sup> "Reinventing Canadian Defence Procurement: A View From The Inside," Alan S. Williams, School of Policy Studies, Queen's University, 2006, p. 81

Finally, it must be remembered that the objective is not to eliminate the skills and value-added contributions inherent in the PSPC personnel but to merge these resources with those within DND in order to create a more effective and accountable organization.

Third, unless and until one minister is vested with overall accountability for defence procurement, it will be difficult if not impossible to introduce system-wide performance measures. Such measures are crucial in identifying bottlenecks, cost and quality issues and in focusing appropriate actions for improvement. Measuring performance can also tell you what you're doing well so you can share your successes with others.

Some people might naturally be hesitant in removing PSPC from the process. Surely, they would argue, PSPC provides significant value-added oversight ensuring the integrity of the process. Furthermore, as a common services organization one would expect that they would generate savings through economies of scale.

With respect to the integrity in the process, there are two points worth noting. First, while PSPC oversight might have been beneficial in the past, today there are other mechanisms that serve a similar purpose. Of particular note is that the Canadian International Trade Tribunal, the Federal Court, the Auditor General of Canada, the media, and the general openness of our society help guard against any manipulation of the system. There is no doubt that anyone working on a DND procurement file is aware of the dangers in operating with anything less than full openness, integrity and fairness.

Second, and especially noteworthy, PSPC has itself acknowledged that it is incapable of ensuring the integrity of the defence procurement process. On September 14, 2007, it issued policy notification 86 (PN-86), asserting that it would no longer be accountable for the information provided by departments. This change is reflected in section 1.10.5 (e) of the PSPC Supply Manual which now states, "Clients are responsible for ensuring that all information relating to their requirements, which is provided to PWGSC, is complete and accurate". The technical statement of requirements (SOR) defined by DND is obviously the primary means to wire or fix a procurement (witness the F-35 SOR debacle). Rather than finding ways to validate the openness and fairness of the SOR, PSPC decided to abdicate its role and admit defeat in ensuring integrity over the entire process.

With respect to improved cost efficiencies, the acquisition of military goods and services is not a common service, but rather a DND-specific service. No other department is going to acquire these kinds of weapons systems and as such no efficiencies through economies of scale can be realized by PSPC.

### ***Recommendation 1***

Establish a new defence procurement organization headed by one minister.

## **2. LACK OF PERFORMANCE MEASURES**

Famed management guru Peter Drucker once stated, "Any government, whether that of a company or of a nation, degenerates into mediocrity and malperformance if it is not clearly accountable for results" (Page 71, Post Capitalist Society, Peter F. Drucker, 1993). Without one minister being held accountable for results, no performance measures can be produced and without performance

measures open to public scrutiny performance suffers. In the past, I have outlined the array of potential measures that measure cost, timeliness and quality. None of these are produced today. Two commonly used performance measures are the timeliness and cost of acquisitions.

## Timeliness

On May 29, 2013, speaking before a military trade show, Associate Defence Minister Kerry-Lynne Findlay acknowledged timeliness problems in defence procurement.

“Going forward we do need to do a better job of ensuring the procurement system benefits Canadian taxpayers,” she said. “We need to ensure the impact of their hard-earned dollars isn’t eroded by inflation due to excessive delays. We need to ensure our military capabilities remain robust and effective so we can continue to count on them when they are needed most.”

Minister Findlay went on to reveal that defence officials recently completed a two-year study of past military purchases that was aimed at finding ways to speed up the process. She was right to insist upon speeding up the process. Notwithstanding the overlap and duplication between DND and PWGSC, significant reductions were achieved between 1998 and 2004. The overall procurement time was reduced from nearly 16 years (190 months) to slightly over 9 years (111 months).

Sadly, under her and her colleagues’ direction, these results were not sustained. By fiscal year 2010/2011 all of the cycle-time gains achieved through 2004 had been eroded. The length of time to complete a project rose to over 16.5 years (199 months), an increase of 66% from 2004 to 2011. Today, it is taking longer to define our requirements and to complete an acquisition than it did in 1998. Chart 1 below, compiled from internal DND documents, displays these timelines in a graphic format.

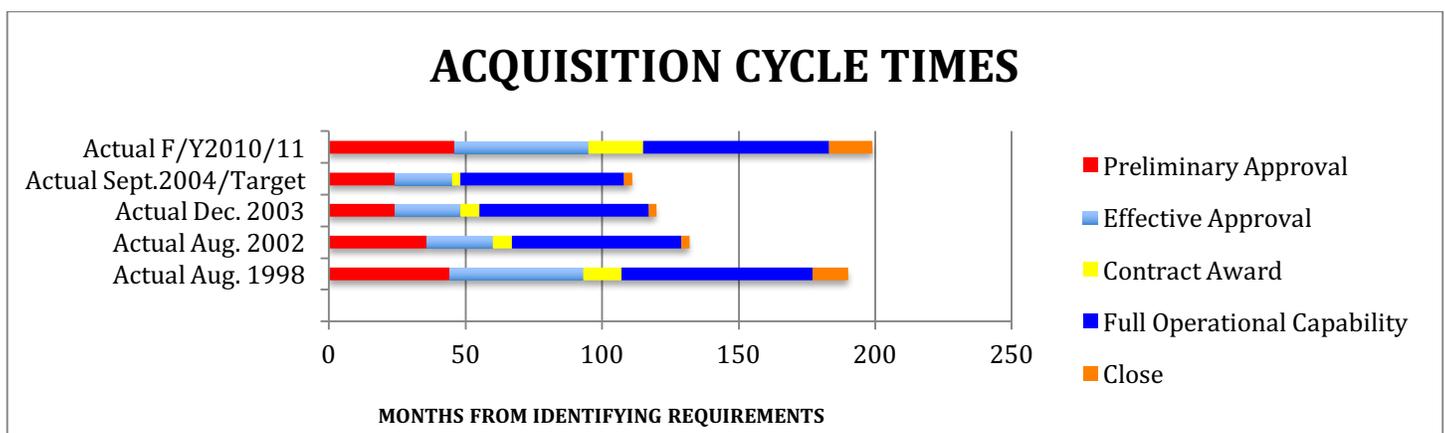


Chart 1

## Costs

Governments that have little or no understanding of defence procurement resort to sole-sourcing their purchases. While there are instances where sole-sourcing is appropriate (e.g. unforeseen emergency), these situations are relatively rare. Everyone understands that when you tell someone you are going to buy a product from him or her, you lose all bargaining power.

It is no different with defence procurement. Sole-sourcing is bad for industry as there is no incentive for the seller to provide high quality jobs as compared to when a purchase is undertaken via a competition. Sole-sourcing is bad for the taxpayer as acquisitions can cost up to 20% more than through a competition. And, of course, the taxpayer bears this extra cost.

Finally, sole-sourcing is a double disaster for the military. First, these extra costs come out of the limited DND capital budget, thereby eroding the department's purchasing power. Second, and perhaps the biggest drawback to sole-sourcing, is the fact that without an open, fair and transparent competition we can never be certain we are providing the best product to our military.

So what is the recent history with respect to sole-sourcing defence procurement? Chart 2 below compares the performance between 2000 and 2013. From a high of 85% competitive procurement bids in 2004, the government has averaged only about 64% from 2005 through 2013. Up to \$5B unnecessarily squandered!

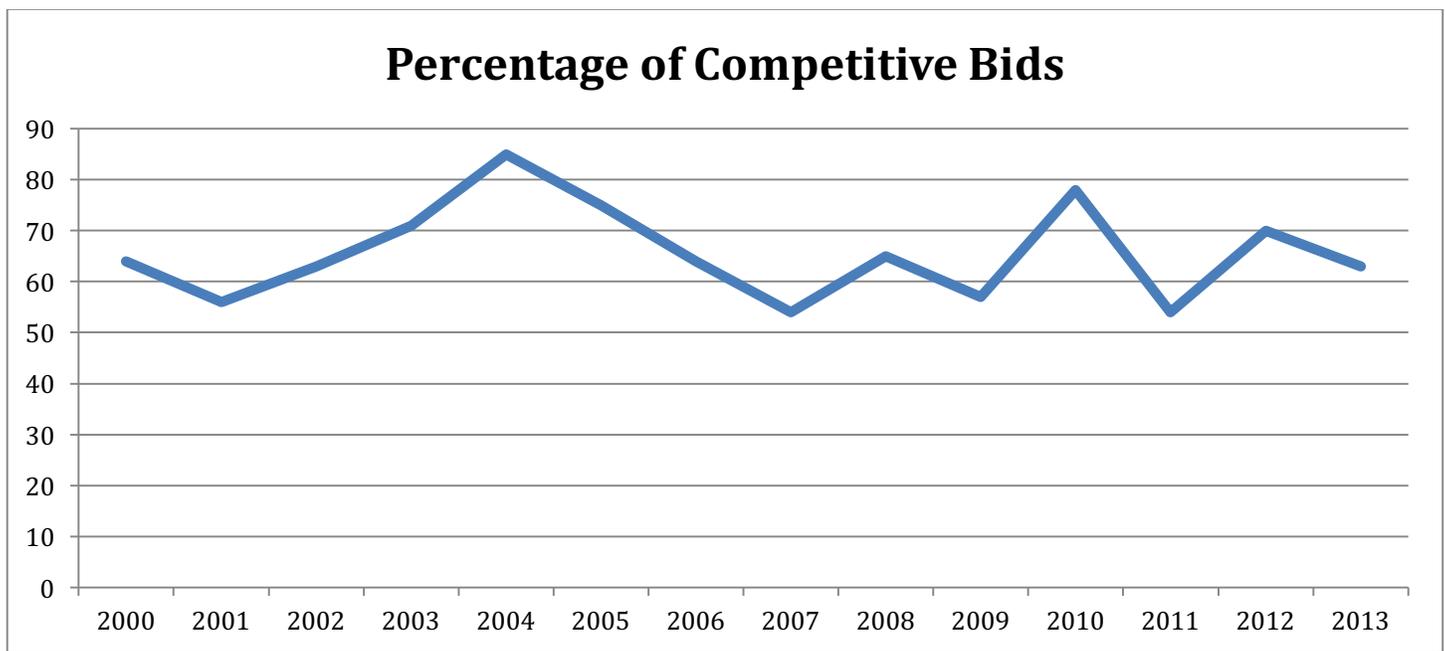


Chart 2

Neither these nor any other system wide indicators are currently made available, not to the public nor to parliamentary committees.

### **Recommendation 2**

The new Defence Procurement organization should provide system-wide performance measures on:

1. Acquisition cycle-times, identifying variances from plans based upon
  - (i) delays while waiting for external approvals;
  - (ii) internal delays;
  - (iii) contractor delays; and
  - (iv) change in scope.
2. Cost variances for all major projects
3. Quality

### **3. LACK OF A CABINET-APPROVED, LONG TERM CAPITAL PLAN**

Today, no such plan exists. Yet, its benefits would be far reaching. From a public information standpoint, all Canadians would have a better understanding of what and how their money was being spent. Members of Parliament and the media could more readily question and challenge the government on how these capital initiatives would support the military's role and mandate. Finally, industry would be a huge beneficiary of such a plan. Understanding future capital priorities would allow industry to form consortiums and position themselves in an optimum position to compete at the appropriate time. This takes the guesswork out of the procurement process and reduces the costs to companies – costs that today are passed on to the taxpayer.

Why has the government not prepared such a plan? The reason is simple. Such a public plan approved by the government, makes it extremely difficult to randomly add or remove planned capital programs. If a strategic lift program were nowhere to be found in the plan, a government would have to publicly defend its position to now make it the number one priority. Similarly, a government would have to defend the cancellation of the Close Combat Vehicle (CCV) program, a program that had been strongly defended and justified in the plan for many years – and which cost the companies involved tens of millions in bid costs.

On the other hand, preparation and promulgation of such a plan is indicative of a government that has gone about the business of defence procurement in a properly structured manner. First, it should set the mandate and policy direction for the military. Second, it should approve the projects that support the mandate and the role(s) it established for the military. Third, it must assure itself there are sufficient funds available to undertake the projects in the plan. Preparation of such a plan is also reflective of a government that has enough self-confidence in its planning and processes and is not fearful of having to publicly justify changes to the plan.

#### ***Recommendation 3***

Prepare and promulgate a Cabinet-approved long-term capital plan

#### **Conclusion**

For me, fixing defence procurement is not merely a bureaucratic exercise. Rather, it is a very personal matter. I have had the honour of working with the men and women in the military as they risk their lives for the country. Like many others, I will continue to speak out as long as governments refrain from taking these basic common sense initiatives necessary to provide our military with the right goods and services at the right time at the right cost.

It is about time the Prime Minister was able to turn to one minister and demand full accountability from that minister for defence procurement; no excuses, no waffling, no blaming someone else.

Doesn't everyone win when costs are reduced and the process is streamlined? Doesn't everyone win with improved transparency through the release of performance measures? Doesn't everyone win when there is a commitment to a long-term plan that outlines what will be purchased and when?

Implementing the recommendations in this paper will set defence procurement on the right path and provide the necessary benchmarks and feedback to ensure it continues to improve. To do so will require an open, trusting and respectful bureaucratic-political relationship, a relationship that has sadly eroded over the past decade.



Alan Williams is a former Assistant Deputy Minister of Materiel at DND. He is now President of The Williams Group providing expertise in the areas of policy, programs and procurement and a Senior Associate with David Pratt & Associates in Ottawa. He has authored two books, *“Reinventing Canadian Defence Procurement: A View From the Inside”* and *“Canada, Democracy and the F-35”*. He can be reached at [williamsgroup691@gmail.com](mailto:williamsgroup691@gmail.com) and at [alan@davidprattandassociates.com](mailto:alan@davidprattandassociates.com).