



A SEPARATE DEFENCE PROCUREMENT AGENCY: WILL IT ACTUALLY MAKE A DIFFERENCE?

J.C. Stone | February 2012

STRATEGIC STUDIES WORKING GROUP PAPERS

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CANADIAN INTERNATIONAL COUNCIL
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ABOUT THE AUTHOR

Dr. Craig Stone is the Director of Academics at the Canadian Forces College. He holds a BA in Economics from the University of Manitoba and an MA and PhD in War Studies from the Royal Military College of Canada. Dr. Stone joined the academic staff at Canadian Forces College (CFC) as an Assistant Professor in the summer of 2005 after 29 years in the Canadian Forces, the last five at CFC in the Strategic Studies Directorate. Dr. Stone lectures in the areas of strategic resource management, the economics of defence and Canadian defence policy. His current research interests concern the economic impact of defence expenditures and the allocation of resources within defence, the defence industrial base and the evolution of senior officer Professional Military Education within the Canadian Forces.

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ISSN 1925-4903

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EXECUTIVE SUMMARY

The acquisition announcements over the past few years have renewed the debate about whether or not Canada should follow the path chosen by some of our Allies and create a separate procurement organization within the Canadian government to deal specifically with defence projects. Allan Williams, a former Assistant Deputy Minister (Materiel) in the Department of National Defence (DND), is a strong proponent of the need for one agency; however, there are others who argue that the creation of a separate organization will not change the underlying problems. There are advantages and disadvantages to both. This paper examines the issue of creating a single procurement agency in Canada and argues that it will not fix the underlying problems that all developed nations experience with large complex military procurement projects: cost overruns; delayed deliveries; and equipment not meeting requirements.

SOMMAIRE

Les annonces d'acquisitions effectuées ces quelques dernières années ont ranimé le débat, à savoir si le Canada devrait ou non suivre la voie choisie par certains de nos alliés et créer une organisation d'approvisionnement séparée, au sein du gouvernement canadien, pour traiter spécifiquement des projets de la défense. Allan Williams, ancien sous-ministre adjoint (Matériel) au ministère de la Défense nationale (MDN), est un ardent défenseur du besoin d'une agence ; toutefois, il en est d'autres qui soutiennent qu'une organisation séparée ne changera pas les problèmes sous-jacents. Les deux options présentent des avantages et des inconvénients. La présente communication examine la question de la création d'un organisme d'approvisionnement unique au Canada et soutient que celui-ci ne règlera pas les problèmes sous-jacents que tous les pays développés connaissent avec les grands projets complexes d'approvisionnement militaire : dépassements des coûts, livraisons retardées et équipement qui ne répond pas aux exigences.

The acquisition announcements over the past few years have renewed the debate about whether or not Canada should follow the path chosen by some of our Allies to create a separate procurement organization within the Canadian government to deal specifically with defence projects. Allan Williams, a former Assistant Deputy Minister (Materiel) in the Department of National Defence (DND), is a strong proponent of the need for one agency and argues "the government should place responsibility and accountability for defence procurement in a newly created organization called Defence Procurement Canada under the statutory authority of the [m]inister of National Defence."¹ His background in the procurement environment, both in DND and in Public Works and Government Services Canada (PWGSC), gives credibility to the argument for a separate organization; however, there are others who argue that the creation of a separate organization will not change the underlying problems that plague large procurement projects in Canada: the politics associated with industrial regional benefits and the desire of politicians to have money spent in their ridings or region. There is more to the problem than just politics and there are advantages and disadvantages to having a separate organization and an individual minister of the Crown responsible for defence procurement.

The United States, Australia and the United Kingdom are Canada's closest allies and each has dealt with the issue of improving defence procurement within the last decade; two of three nations (Australia and the United Kingdom) have a separate procurement agency of sorts while the United States does not. The approach taken by each of the three nations provides very useful benchmarks and lessons for Canada. For example, in 1999 the United Kingdom launched a Smart Procurement Initiative (SPI) designed to improve the acquisition of fighting equipment in terms of time, cost and performance. In order to do this they created a separate procurement agency. The more recent Gray report deals with how successful the implementation of the smart procurement initiative has been over the last decade. The issues raised in the Gray report are relevant to any approach Canada may take.

Studies about reforming defence procurement are not a recent phenomenon. The problem of acquisition reform, the term most commonly utilized for this subject, has been around for decades. Bernard Gray, in his October 2009 review for the United Kingdom's Secretary of State for Defence, indicated that "Acquisition Reform, as it is generally known, is a subject only about 5 minutes younger than the acquisition of military equipment itself. Within the last 30 years there have been at least three substantial efforts in this direction in the UK, and two in the United States."² In the context of the United States, it could be argued that they have been trying to reform their acquisition process since Secretary of Defense Robert Macnamara introduced cost benefit analysis and systems analysis into the procurement process in the 1960s as part of the Program, Planning and Budgeting System. Ross Fetterly's recent study of defence procurement reforms in other nations begins with a quote from Steven Reeves that captures the essence of this issue when he stated: "During the past 50 years, defense acquisition reform panels, studies, reviews, and commissions occurred with such frequency that they could virtually provide lifetime employment."³ Unfortunately, cost overruns, late deliveries and an inability to meet operational requirements are repetitive problems for most modern western militaries and the problems never seem to go away. This is not to say that everything is bad, but rather to indicate that defence procurement is a very complex and difficult activity. Consequently, governments and defence departments are always trying to improve the results in order to meet taxpayer expectations that their tax dollars are being spent effectively. The issue for this paper is whether or not a separate procurement agency would really make a difference for Canada.

1 Alan S. Williams, "Reinventing Canadian Defence Procurement: A View from the Inside" (Montreal and Kingston: Breakout Education Network, 2006), 5.

2 Bernard Gray, *Review of Acquisition for the Secretary of State for Defence: An Independent Report by Bernard Gray* (London: Bernard Gray, October 2009), 15. Gray goes on to indicate that 100 years ago the costs of delivering Dreadnoughts were the stuff of newspaper campaigns, and it is likely that 400 years before that, Henry VIII's Treasury had rows with the Navy over the cost and lateness of the Mary Rose. The Mary Rose was built between 1509 and 1511 and was one of the first ships able to fire a broadside.

3 Steven V. Reeves, "The Ghosts of Acquisition Reform: Past, Present and Future" (Washington, DC: Industrial College of the Armed Forces, 1996), 25; quoted in Lieutenant-Colonel Ross Fetterly, *Defence Procurement Reform in Other Nations*, Claxton Paper number 10 (Kingston: School of Policy Studies, Queen's University, 2009), 1. Reeves' paper was written 15 years ago and nothing has really changed. Fetterly's study is, in fact, an examination of acquisition reform activities that have continued for Australia, the United Kingdom and the United States since Reeves' study.

THE PROCUREMENT PROCESS

The procurement process in most nations is essentially the same at the macro level. Someone within the defence organization identifies what is referred to as a capability deficiency and an initial assessment of options to resolve the deficiency is conducted. Next, those options are analysed and a determination is made about which option meets the requirements and that selection is refined and approved, the equipment purchased and brought into service. What happens and how it happens inside these broad categories varies from nation to nation based on the type of government and how taxpayer money is provided from government to defence to the equipment provider.⁴ Some of those differences between nations are connected to the existence of a separate procurement agency and some are specifically connected to the bureaucratic and political process that is followed within the government. For the purposes of this paper, only the issues related to acquisition reform initiatives and the existence of a separate agency will be addressed.

PROCUREMENT IN THE UNITED STATES

Fetterly's study on procurement reforms indicates that "modern defence procurement reform in the United States began in June 1986 with the President's Blue Ribbon Commission on Defense Management, commonly known as the Packard Commission."⁵ Table 1.3 in Fetterly's study summarizes the ten reform initiatives or activities that have occurred within the US since the Packard Commission in 1986 and the most recent initiative outlined in the *Defense Acquisition Transformation Report to Congress* in 2007.⁶ Studies and reports have continued since 2007 and attempts to improve the process continue. What is important for this paper is that unlike the United Kingdom and Australia, there is not a single agency responsible for procurement. In the United States the "structure DOD utilizes to plan, execute, and oversee those activities is an intricate and multivariate 'system of systems' composed of the requirements, resource allocation, and acquisition systems."⁷ Defence in the United States is governed by three sets of federal regulations that hierarchically go from regulations that apply to all organizations in the federal government to regulations specific to the DOD to regulations specific to components within DOD.⁸

The systems of systems referred to above can be summarized as: "Every weapon system in the U.S. arsenal is created to satisfy a specific *requirement*, must be paid for by the federal *budget*, and is designed and built within an acquisition system."⁹ The three steps along with an indication of where efforts have been made to improve the process are outlined in Figure 1 below. The steps, which are the responsibility of separate organizations, include: the Joint Capabilities Integration and Development System (JCIDS) (the requirements system); the Planning,

4 Details of the current Canadian process can be found in Department of National Defence, *Procurement Administration Manual*, DND pub A-PP-005-000/AG-002 (Ottawa: DND, 14 Feb 2005). Discussions on the actual process over time and its evolution can be found in Fetterly's Claxton Paper and Craig Stone's "Defence Procurement and the Need for Disciplined Capital Investment," Chapter 5 in *The Public Management of Defence in Canada*, 93-109, edited by Craig Stone (Toronto: Breakout Education Network, 2009).

5 Fetterly, 3. The actual Packard Commission report can be found at: *A Quest for Excellence: Final Report to the President by the President's Blue Ribbon Commission on Defense Management* (Washington, D.C.: President's Blue Ribbon Commission on Defense Management, June 1986), accessed 27 October 2011, <http://www.ndu.edu/library/pbrc/36ex2.pdf>. A number of other documents connected to the final report can also be found at the National Defense University link for the Packard Commission report.

6 United States Secretary of Defense, *Defense Acquisition Transformation Report to Congress: John Warner National Defense Authorization Act; Fiscal Year 2007; Section 804* (Washington: DOD, 2007), accessed 27 October 2011, http://www.defense.gov/pubs/pdfs/804JulFinalReport_to_Congress.pdf. Warner's Act required a biannual report be made to Congress on acquisition reform. This was the second edition of the report.

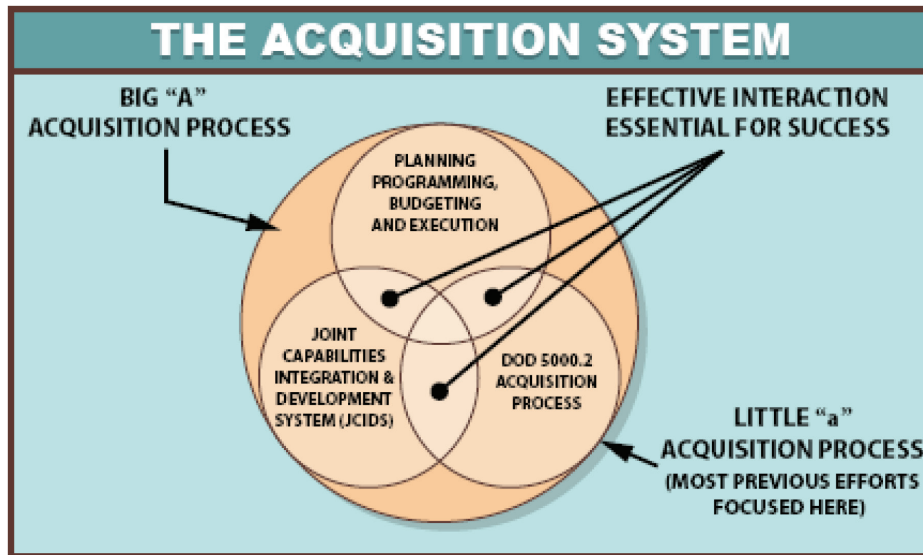
7 Moshe Schwartz, *Defense Acquisitions: How DOD Acquires Weapon Systems and Recent Efforts to Reform the Process*, CRS Report RL34026 (Washington, D.C.: Congressional Research Service, April 23, 2010), accessed 27 October 2011, <http://www.fas.org/spp/crs/natsec/RL34026.pdf>. This report by Schwartz is an excellent summary of the US Acquisition System and the recent reform initiatives in the United States.

8 Schwartz's study indicates that the "first set of regulations, which apply to the entire federal government (including DOD unless stated otherwise), are found in the Federal Acquisition Regulation (FAR); the second set of regulations apply only to DOD and are found in the Defense Federal Acquisition Regulation Supplement (DFARS); the third set of regulations apply only to individual DOD Components and are found in component-unique FAR Supplements. Procurement actions in DOD must adhere to the various regulations, including those executed as part of DOD's acquisition programs, and Program Managers must take the regulations into account during the planning and execution of their programs." Schwartz, 2. Individual DOD components in this context include the Army, Air Force, Navy and Marine Corps, Defense Logistics Agency and U.S. Special Operations Command, each of which have unique supplements in the FAR.

9 *Ibid.*, 3.

Programming, Budgeting, and Execution System (PPBE) (the resource allocation or budgeting system); and the Defense Acquisition System (DAS) (the acquisition or procurement of a system).

Figure 1: DOD's Defense Acquisition Structure



Source: Defense Acquisition Performance Assessment Report, February 2006, p. 4.

Although the depiction at Figure 1 implies a process in which there is an efficient integration of three steps, the reality is much different. The 2006 *Defense Acquisition Performance Assessment Report* found that:

the Acquisition System is believed to be a simple construct that efficiently integrates the three interdependent processes of budget, acquisition and requirements termed—“Big A.” Little “a” is the acquisition process that tells us “how to buy” but does not include requirements and budget, creating competing values and objectives... Actually, our observations showed the system to be a highly complex mechanism that is fragmented in its operation. Further, the findings we developed indicated that differences in the theory and practice of acquisition, divergent values among the acquisition community, and changes in the security environment have driven the requirements, acquisition and budget processes further apart and have inserted significant instability into the Acquisition System.¹⁰

However, what is clear from examining the recent attempts at reform is that there is no discussion or intent to go to a single organization to manage defence procurement. Schwartz’s paper reviews the different organizations in the past decade that have provided either direction or guidance for changing the process. It is obvious that a single organization would not solve the problems nor prevent Congress from imposing changes that may or may not help in the long term.¹¹ These are issues that are similar to other allies and to Canada.

¹⁰ United States, *Department of Defense, Defense Acquisition Performance Assessment Report*, A Report by the Assessment Panel of the Defense Acquisition Performance Assessment Project For the Deputy Secretary of Defense (Washington, D.C.: DOD, January 2006), 4.

¹¹ Schwartz, 13. For example, the report indicates that “More recently, concerns over defense acquisitions have centered around significant cost overruns, schedule delays, and an inability to get troops in the field the equipment they need when they need it.”

PROCUREMENT IN THE UNITED KINGDOM

As indicated above, the UK has just recently subjected itself to an independent review of its acquisition process. Bernard Gray's report covers a wide range of issues and provides recommendations to improve the process across eight broad areas; however, the discussion of recent UK initiatives for improving acquisition really began in 1998 with the *Strategic Defence Review* and the subsequent 2001 release of Policy Paper Number 4 on Defence Acquisition.¹² The 1998 defence review launched the *Smart Procurement Initiative* (renamed to Smart Acquisition in the 2001 policy paper) that was intended to "transform processes and organisational structures with the aim of making the procurement of defence equipment *faster, cheaper and better*."¹³

What is important for this paper is that the 1998 defence review turned the procurement executive into a defence agency that was to act as the single customer inside MOD Headquarters and separate procurement approaches were adopted for major and minor projects. The policy paper of 2001 confirmed this and articulated in one place the responsibilities of the organizations involved in the smart acquisition process. These organizations, which all must work together in order to make smart acquisition work, include:

- a. "The Equipment Capability Customer (ECC) which determines future capability requirements;
- b. The Defence Procurement Agency (DPA) which is responsible for procuring equipment capability to meet those requirements;
- c. The Defence Logistics Organisation (DLO) which is responsible for supporting equipment which has already entered service; and
- d. The '2nd Customers' (or the users), namely the single Service staffs who advise the ECC on operational needs and the Front Line Commands who determine the availability and sustainability requirements for in-service equipment."¹⁴

The Defence Procurement Agency was charged with providing "value for money and to deliver equipment to the Services within the agreed parameters for time, cost and performance."¹⁵ In 2007, in what seemed like a natural progression of combining resources to achieve efficiencies, the Defence Procurement Agency was joined with the Defence Logistics Organization to form the Defence Equipment and Support Organization. Although the Gray report did not challenge the requirement for a single defence procurement agency, one of its recommendations dealt with this new equipment and support organization. The Gray report indicated that "the programmes managed under the "Smart Acquisition" regime that was part of the creation of DPA performed significantly better than previous programmes."¹⁶ In essence Gray was indicating that the amalgamation of the procurement agency and the logistics organization into one organization had brought the organization back into the core MOD, rather than being a separate agency outside the MOD.

Most recently, with a new government and a new Strategic Defence and Security Review that deals with the UK's financial situation, the issue of improving the effectiveness of the acquisition process will surely become an issue. Lord Devene's *Defence Reform: An independent report into the structure and management of the Ministry of Defence*, released in June 2011, indicates the group conducting the study limited their review because Bernard Gray had been appointed Chief of Material and charged with implementing the recommendations in his report.¹⁷ Levene makes a number of process recommendations internal to MOD and makes a number of recommendations in the area of engaging industry earlier in the procurement process. All of these are framed with a view to

¹² United Kingdom, Ministry of Defence, *Policy Paper No 4: Defence Acquisition* (London: Ministry of Defence Director General Corporate Communication, December 2001).

¹³ *Policy Paper No 4*, 3. See also Ministry of Defence, *Strategic Defence Review* (London: MOD, 1998). This review was presented to Parliament by the Secretary of State for Defence in July of 1998.

¹⁴ *Policy Paper No 4*, 4.

¹⁵ *Ibid.*, 6.

¹⁶ Gray, 8.

¹⁷ United Kingdom, Ministry of Defence, *Defence Reform: An independent report into the structure and management of the Ministry of Defence* (London: MOD, July 2011). Chapter 11 of the report deals with acquisition.

continuing the process that has been under way over the past decade to improve acquisition. For the UK, a single procurement agency remains the preferred model and Canada can learn from the UK's experiences over the past decade, particularly the issues around the Gray report and the observations about the Defence Procurement Agency being joined with the Defence Logistics Organization.

PROCUREMENT IN AUSTRALIA

In a manner similar to the United Kingdom, Australia's recent efforts at procurement reform also began in the late 1990s with the issuing of a new defence policy statement and a new approach to the relationship between industry and defence. In March of 1999, then Minister of Defence John Moore requested a review of the Collins Class Submarine Project, but the recommendations for improvement dealt primarily with the actual submarine and not that much for the overall governance issue. Nevertheless, the issue of procurement had caught the attention of Ministers and in a speech to the Pacific 2000 International Maritime Exhibition, Minister Moore indicated he wanted procurement to be faster and cheaper with a clear focus on adopting more business practices.¹⁸ Moore established a working group to look at acquisition reform and the subsequent policy documents of the early 2000 period reflected a focus on better engagement between industry capabilities and military requirements. This was also reiterated again in the Kinnaird review when the report indicated: "As the body responsible for the management of major projects, the Defence Materiel Organisation (DMO) needs to become more business-like and outcome driven."¹⁹

Relevant to this paper, the Kinnaird review also indicated that the

"creation of the DMO provided a single point of accountability for the acquisition and through-life-support of Defence equipment and gave rise to a number of important reforms in the management of the acquisition process. But, despite what has been achieved, the task of transforming the DMO into a performance driven organisation is far from complete."²⁰

There was a clear recommendation from the Kinnaird review that the Defence Material Organization needed to become an executive agency responsible for project management.

The next review after Kinnaird's was conducted by David Mortimer in 2008. Ordered by the Parliamentary Secretary for Defence Procurement, the Honorable Greg Combet, the intent of the review was to conduct an evaluation of the effectiveness of the ongoing reforms to the Defence Material Organization (DMO) that were being implemented as a result of the previous Kinnaird review.²¹ The Mortimer review acknowledged the progress being made in implementing the Kinnaird review recommendations and provided additional recommendations to further enhance that success.

Most relevant to this paper were two recommendations under the general theme of alignment and structure. Specifically, the 2008 Mortimer review recommended that "the DMO should become an Executive Agency under the *Public Service Act 1999*, and retain its Prescribed Agency status under the *Financial Management and Accountability Act 1997*" (recommendation 5.1) and that, "To effect this change a charter should be drawn up between Defence and DMO which would clearly spell out the responsibilities of each agency. The charter should

18 Speech by The Hon. John Moore MP, Australian Minister for Defence At the Opening of the Pacific 2000 International Maritime Exhibition, Sydney Exhibition and Conference Centre, 1 February 2000, accessed 18 October 2011, <http://www.defense-aerospace.com/article-view/verbatim/16263/australian-mod-on-procurement-reform.html>.

19 Malcolm Kinnaird, *Defence Procurement Review 2003* (Canberra: 15 August 2003), iii. In December of 2002, the Secretaries Task Force on Defence Procurement (Task Force) was created to investigate and report to the government on problems associated with major Defence acquisition projects. The report is referred to as the Kinnaird review.

20 *Ibid.*, iv.

21 David Mortimer, *Going to the Next Level: The report of the Defence Procurement and Sustainment Review* (Canberra: Strategic Communication and Ministerial Services, Defence Materiel Organisation, 2008), vii. This latest review of acquisition by David Mortimer was a commitment made by the government during their 2007 election campaign.

include provision for the Chief Executive Officer of DMO's continuing membership of the Defence Committee" (recommendation 5.2).²²

The important issue with respect to these two recommendations is that the Government did not support recommendation 5.1 for a variety of legislative and organizational reasons, but did support recommendation 5.2. The government agreed that the defence department and the material organization needed to have an agreement that clarified responsibilities and committed to developing a charter that would "clarify roles, authorities and responsibilities; to codify the instruments that will enable cultural change in DMO; to set appropriate benchmarks and measures of performance and to institutionalise the more demanding requirements of transparency and accountability."²³

In summarizing the Australian experience with improving the acquisition process and identifying those lessons that are most appropriate for Canada, there are two areas that stand out and both are also consistent with the UK experience. First, there is a separate organization responsible for the procurement process and the Australian Government acknowledges that they need to strengthen the ability of DMO to provide it with separate advice on "cost, risk, schedule and acquisition strategies for major capital equipment."²⁴ Second, like the reviews and recommendations in the UK, there is clear indication that more emphasis needs to be placed on the defence and industry relationship and for defence procurement officials to develop a more business-like culture and approach to acquisition.

PROCUREMENT IN CANADA

The procurement system in Canada involves a number of different organizations in Government, but the three dominant organizations that would be involved in creating a single agency are DND, PWGSC and Industry Canada. The criticism of the process is that it takes too long because there are three separate organizations that need to have input and that the three departments have conflicting priorities for acquisition. While this may be true to some degree, the priorities of the three departments would exist within one agency because those priorities are the priorities of the government. For example, while defence may wish to maximize defence capability with limited resources, the government is not going to allow them to spend billions of taxpayer's dollars without some economic benefit to Canada. That economic benefit will come through a competitive process in which a Canadian company wins (PWGSC) or through offsets for Canadian industry (Industry Canada). This will be a requirement regardless of whether three separate departments are involved or one single agency is involved. Accepting the above as a reality and knowing that Canada's problems have been the same as other nations, that is cost overruns, changing requirements, delayed delivery, etc., what would a single agency achieve?²⁵ In order to answer this question some background is essential.

Like other nations discussed in this paper, Canada has been trying to improve its acquisition process for a number of years; however, unlike other nations, Canada has not had a decade of reviews and government reports on acquisition and industry failures within the defence community. The lack of such reviews is the result of very few acquisition projects being announced in the 1990s and early 2000s and a very strong desire on the part of Government's to not articulate defence policies, industrial strategies and the like. This has not prevented DND and others from trying to improve the process and there have been a number of auditor general reports, parliamentary committee reports and scholarly articles written about the procurement process and the need to improve it. For example, in 2001 a conceptual plan to reduce acquisition time by 30 percent was developed. At that time the *Defence Planning Guidance 2001* directed the Assistant Deputy Minister (Materiel) to prepare a

²² Mortimer, xv.

²³ Australia, Department of Defence, *The Response to the Report of the Defence Procurement and Sustainment Review: The Mortimer Review* (Canberra: DOD, 2009), 38.

²⁴ *Ibid.*, 16.

²⁵ It is important to note that the problems, although common to most nations, are not problems to the same degree. For example, in Canada cost overruns are rarely an issue whereas delays in delivery are more likely.

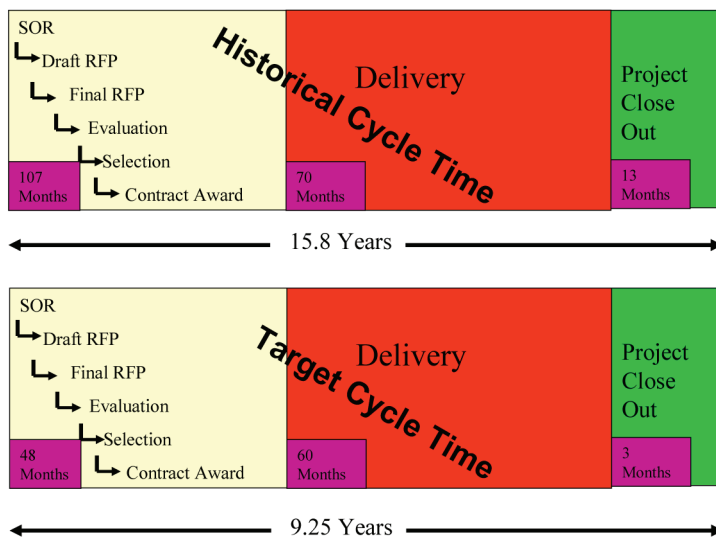
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plan on how DND could “shorten the acquisition cycle from Preliminary Project Approval to Initial Operating Capability for capital projects by 30 %.”²⁶ This was further expanded to include the entire cycle time and not just the portion identified in the Defence Planning Guidance:

In recent months, the Deputy Minister has agreed to extend the 30% reduction to the entire cycle time from the Identification of an Operating Deficiency to project Close Out. This decision was prompted by the realization that a 30 % reduction between PPA [Preliminary Planning Approval] and IOC [Initial Operating Capability] is not a significant enough reduction to adequately address the fundamental objective of getting systems capability to operators sooner.²⁷

As a first step, a baseline cycle time was established as 15.8 years, as indicated in Figure 2 below. The significant issue from the analysis conducted to establish this baseline timing was that more than half the time was spent approving the project and getting it to contract and that was where efforts to shorten the process were required. There has been success over the last decade in reducing that time frame from 107 months down to 48 months. This was achieved without a single agency and additional improvement will need to come from the 48 months and not the 60 months of delivery time.²⁸

Figure 2: Historical and Target Cycle Times in Defence Procurement



Source: Alan S. Williams, *Canadian Defence Procurement: A View From Inside* (Montreal and Kingston: Breakout Education, 2006), 96–97, Stone, *Public Management of Defence*, and DND internal documents available on ADM (Material) website.

Based on the information in Figure 2, identifying what, if anything, a single agency would improve requires an ability to indicate where in the process a single agency would be more efficient and cost effective than the existing system. Figure 3 shows the existing process that all three departments are involved in, with the exception of preparing the statement of requirement, which is a DND activity. Figure 3 shows where industry would be engaged and how the process would move from the initial articulation of a deficiency and statement of requirement to the options being analyzed, a determination made about which option met the requirements, a selection being made and the equipment being purchased and brought into service. The process, however, is not

²⁶ Canada, Department of National Defence, *Defence Planning Guidance 2001* (Ottawa: DND, 11 April 2000), 3-29.

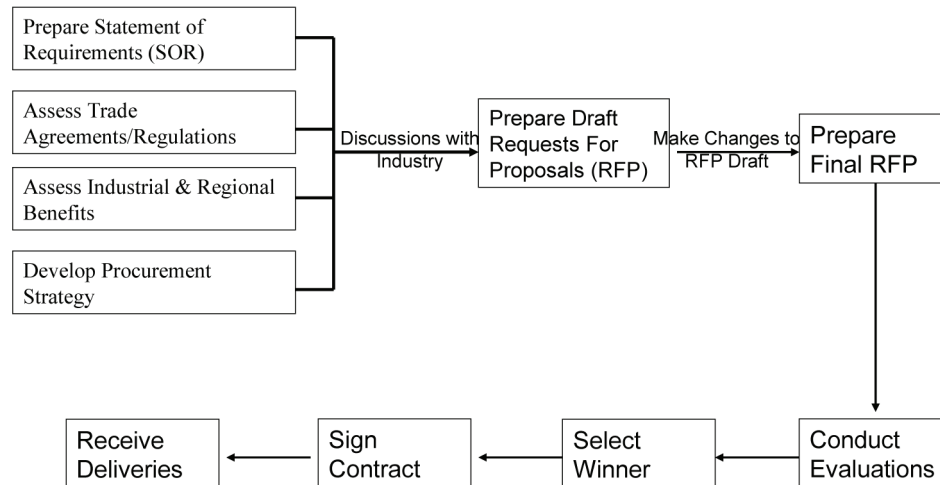
²⁷ ———, *Reducing Acquisition Cycle Time by 30%: A Conceptual Plan* (Ottawa: ADM (Mat) 1 April 2001), 1/24. This is the conceptual plan ADM Mat was directed to develop in the Defence Planning Guidance 2001 document.

²⁸ There is little room to further reduce the delivery timelines. Companies will achieve this through new production processes and will make the required trade-offs that improve their bottom lines and profitability.

the only aspect that requires improvement. It is what happens inside the process that connects to cost overruns, delayed delivery, etc. and there has been input and suggestions on these issues from industry.²⁹

Figure 3: Major Steps in the Procurement Process

Source: Williams, *Reinventing Defence Procurement*, 38.



In response to a request for advice from government in the fall of 2009, the Canadian Association of Defence and Security Industries (CADSI) conducted a 13 week consultation with defence industries in order to “determine how the Government could obtain the equipment needed by the Canadian Forces and achieve an optimal economic return on investment.”³⁰ In their report of December 2009, the third general recommendation is most relevant to this paper because it states: “overall accountability for the combined responsibilities of defense equipment in the defense industrial base should reside at the cabinet level and one minister.”³¹ CADSI emphasized that most of our allies do not divide ministerial accountability and responsibility for procurement and their report argues that Canada is among the most difficult nations to do business with in the context of defence acquisition. The 13 weeks of consultation provided numerous examples of this issue and the report identified the four issues below as the routinely cited examples:

- a. “The length of Canada’s procurement process – the process is seen to have a more porous and unpredictable than others.
- b. Bureaucracy and weak decision-making-layers of bureaucracy that are built into the Canadian system without consistent decision-making or accountability, uncertainty as to what the customer is looking for either from an equipment for industrial regional benefits perspective.
- c. Inflexible and one-sided contracting – many commented that contracting process lacks flexibility for innovative solutions
- d. Lack of transparency – the ability of contractors to communicate with government officials even in advance of the issuance of proposals leads to a sense that there is a lack of transparency in the procurement process.”³²

29 In the last six years there have been significant increases in defence expenditures and in the Government’s announcements of major defence acquisition programmes. This renewed emphasis on defence was complicated by the Canadian Forces’ participation in Afghanistan, a long period of Minority Governments, and a number of significant procurement setbacks. The combination of these issues created the conditions for a review of acquisition practices in Canada and the call for a separate procurement organization like those of Canada’s major allies.

30 Canadian Association of Defence and Security Industries, *Canada’s Defence Industry: A Vital Partner Supporting Canada’s Economic and National Interests* (Ottawa: CADSI, December 2009), v.

31 *Ibid.*, vi.

32 —, *Improving Canadian Defence Procurement: Feedback From Industry Consultations on the Opportunities and Challenges Facing the Defence Industry and Military Procurement* (Ottawa: CADSI, November 2009), 4.

The reality in Canada is that many of the defence industry organizations engaged in this consultation believe we should go to a single procurement organization modeled around those that are used in Great Britain and Australia: "The objective of the entity would be to create a single "touch-point" to consider and address all aspects of procurement – what does the military need, what industrial benefits should be required, and how can the Crown receive the greatest value for money."³³ However, at the time of writing, little progress had been made in establishing a separate agency and it appears that there is no real intent to do so. As recently as July 2011 a spokeswoman for the Prime Minister's office indicated there were no plans to create a single procurement agency.³⁴ Nevertheless, the appointment of Mr. Fantino as the Associate Minister of National Defence responsible specifically for procurement is an indication that the Government realizes something needs to be done. However, the underlying question remains: does Canada need a separate procurement agency? The current system, although not free of problems, cannot be considered a total failure. The Materiel organization inside the defence department has increased the number of acquisition projects it is managing substantially in the past five years. It is an organization that has gone from managing 15 projects that were awarded between 1998 and 2005 to 29 projects between 2006 and 2011. Not all were without controversy, but the existing system is producing capability for the military. More importantly, Figure 2 clearly shows they have had success in reducing the time it takes to get to the delivery stage of the process. What is to be gained by going to a single agency?

THE ADVANTAGES AND DISADVANTAGES OF SINGLE AGENCY

The intention in this section is not to provide a list of all the advantages and disadvantages, but rather to single out a limited number of critical issues which address the major issues that appear timeless in the history of acquisition reform. As well, only issues related to DND, PWGSC and Industry Canada will be discussed because they are the three major departments involved in large procurement projects. There are many other departments and organizations involved, but not to the same degree.³⁵

Will a single agency shorten the process?

The creation of a single agency will shorten the process somewhat. Presently system disagreements between the three organizations are often resolved at the highest level within the bureaucracy. There is a staff process that needs to be followed to get to that level and if the individuals were within one agency, there is scope for lower level resolution of issues thereby reducing the time required to resolve differences. The portion that may be reduced as a result of a single procurement agency will not save much additional time within the 48 months identified in Figure 2; however, having a single agency would maximize the number of individuals available by combining the workforces of PWGSC and DND that deal with procurement projects. In this particular area, there has been some discussion and concern over the decline in the knowledge and experience in the federal public service on defence procurement matters. This is directly related to budget and personnel reductions in the 1990s and the significant reduction in the number of public servants with large military capital equipment project experience. This is compounded by the rotational nature of military personnel moving in and out of the procurement group within DND. Both DND and PWGSC face shortages in this highly skilled area and combining the two organizations may provide management increased flexibility and opportunity to further reduce the time frame and improve effectiveness. This is perhaps one of the strongest arguments for creating a single agency.

³³ *Ibid.*, 32. For industry, the mandate for such an organization would include: providing the equipment necessary to fulfill the Canada First Defence Strategy; carrying out the mandate of the Defence industrial strategy; defining the specifications of the equipment and services; managing the contract process; ensuring industrial benefits; and promoting the Canadian Defence Industry and Canadian defence capabilities to international clients.

³⁴ Laura Payton, "New federal procurement agency not in the cards", CBC News, posted 5 Jul 2011, accessed 1 October 2011, <http://www.cbc.ca/news/politics/story/2011/07/05/pol-defence-procurement.html>.

³⁵ For example, Foreign Affairs is involved in controlled goods and export issues and regional organizations like the Atlantic Canada Opportunities Agency (ACOA) and the Western Economic Diversification Canada (WEDC) are also often involved.

Will a single agency reduce cost overruns?

As discussed, for each of the nations examined in this paper, cost overruns are a consistent problem for large procurement projects. With rare exception, cost overruns would not be resolved by having a single procurement agency. Cost overruns are often the results of inaccurate initial cost estimates, changing costs of inputs and changing user requirements. All three of these issues can be connected to the length of time it takes to get from identification of the requirement to the award of the contract and to the length of time it takes government to make a decision about a specific acquisition project. One of the challenges faced by Canadian procurement staff is that cost estimates at the beginning of the acquisition process are rough order of magnitude costs and the staff has historically been faced with politicians and central agencies in the bureaucracy that do not accept that those costs will change by the time an actual request for proposal is released to industry. For example, the Joint Support Ship Project was to provide three multi-role vessels with more capability than the existing oiler and replenishment vessels for \$2.9 Bn. The bids from two companies were significantly over the established budget provisions. One of the companies offered "to build two ships for the available funding while the other offered three, but at a cost significantly higher than the budget provisions."³⁶

In this particular case, the rough order of magnitude cost estimate was not accurate and industry was not able to provide what was required for the amount of money available. There are a variety of reasons for this, one of which was the cost of steel being significantly more expensive than originally estimated. The cost of steel was more expensive due to market demand for steel, which was unpredictable at the time the original cost estimates were developed. There are many other reasons that contributed to the existing delays in the JSS acquisition, but this example demonstrates the challenge that staff face when dealing with the existing political system and machinery of government that expects rough order of magnitude costs to remain unchanged. Although the JSS is not necessarily a typical example, the challenges associated with time delays, agreed costs and agreed quantities, all of which impact the final cost and delivery dates, are typical in the Canadian context. A single agency would not correct this type of interaction between the government and a department.

Will a single agency allow early industry involvement?

A single agency would be no more effective than the current system for allowing early industry involvement under the existing rules in Canada. Figure 2 shows where industry engagement is possible in the process and industry would like to have that engagement earlier in the process. For example, the CADSI report completed for the Ministers indicates that, in addition to annually providing industry the ongoing plan to equip the Canadian Forces, industry would recommend that government:

- a. Articulate domestic industrial objectives during the requirement definition stage (i.e. before the procurement strategy is chosen);
- b. Shift to rated requirements from mandatory ones in the selection process to ensure overall best value including economic objectives;
- c. Shift to indigenous in-service support (ISS) after the initial warranty period on significant military equipment procured from off-shore sources; and
- d. Buy what Government has co-developed with Canadian industry if/when the Canadian Forces need that capability.³⁷

However, Canada's current procurement structure that requires a competitive process to be followed is a detraction for early industry involvement, particularly during the research and development phase in which solutions to capability deficiencies are sought. Unfortunately, there is no guarantee that industry involvement in the early part of this process will translate to a winning bid, predominantly because of the Agreement on Internal

³⁶ Martin Shadwick, "The Joint Support Ship Revisited," *Canadian Military Journal* 11, no. 1 (Winter 2101): 63.

³⁷ CADSI, *Canada's Defence Industry*, vii-viii.

Trade. Essentially, this agreement creates a condition in which company that participated in the development of a product has the intellectual property that was developed during the research phase become part of the statement of requirement in a competitive bidding process with its competitors. Government could declare a national security exemption, but they must use this mechanism judiciously. A single agency would not change this. Changing the Agreement on Internal Trade would allow the government the ability to reward research and development success in this manner, providing the original research and development activity was a competitive process. In this particular area it will be interesting to see how the government deals with the recommendation by the Expert Panel on Innovation that states:

the government should make better use of its substantial purchasing power to create opportunity and demand for leading-edge goods, services and technologies from Canadian suppliers... therefore recommend that encouragement of innovation in Canadian economy should become a stated objective of procurement policies and programs.³⁸

This is essentially the same argument/challenge: government should encourage research and innovation by purchasing from Canadian companies. This is a noble goal, but only works if those companies can win in a competitive bidding process. Otherwise, Canada can be accused of violating its trade agreements under NAFTA and the WTO.

Will a single agency promote Canadian defence industry?

Much like the above, the promotion of Canadian defence industry is directly connected to the government buying Canadian defence industry products for its own military. It is very difficult for industry to compete internationally when they cannot sell their products to their own military. The agreement on internal trade is a factor in this issue, but not the only one. For DND there is also a cost issue. Integrating Canadian specific products into an existing system may not be cost effective, regardless of how good the product may be. This is particularly relevant for systems that are acquired from foreign nations because Canada does not have the ability to produce complete weapon systems for most environments. There are some exceptions to this, but Canada's defence industry is, for the most part, a supplier of components and subsystems to a larger system integrator. Therefore, integrating a Canadian product into this system may be much more expensive than just using the original equipment manufacturer's system, assuming both meet operational requirements. A single agency will not resolve this issue.

Will a single agency provide a single point of accountability?

One of the more significant arguments for a single agency is to provide a single point of accountability. More specifically, in the Canadian context, is the ability to hold a single Minister of the Crown accountable when things go wrong. In theory, a single agency with a Minister responsible for that agency would achieve this point of accountability. The practical reality is it would not change what is common practice today, which is Cabinet solidarity and accountability for all major decisions. Ministers are only held accountable if the Prime Minister wants this to happen, otherwise it is a government decision by Cabinet and everyone is accountable in the next election. The G8/G20 debate about money spent in Minister Clement's riding is a good example of this.

CONCLUDING THOUGHTS

There are a number of positive outcomes that are possible if the government should choose to go to a single procurement agency like that found in Australia and the United Kingdom and it warrants serious consideration

³⁸ Canada, Minister of State (Science and Technology), *Innovation Canada: A Call to Action. Executive Summary*, Expert Panel Report on the Review of Federal Support to Research and Development (Ottawa: PWGSC, 2011), 6.

from a machinery government perspective. It will, however, not solve most of the underlying reasons for why major acquisitions become problematic. As discussed in this paper, the issues of cost overruns, delayed deliveries and equipment not meeting requirements plagues those with and without separate agencies. The reasons have much more to do with internal issues that have nothing to do with whether or not there is one agency responsible or three departments responsible. As well, politics will always be a critical factor regardless of whether or not there is a single agency.

Perhaps more telling for Canadian procurement moving forward is the recent shipbuilding announcement. In this case, the government chose to divorce itself completely from the process in order to prevent any possible accusations of political interference. On the one hand, this may be the way of the future for large projects. Most individuals, industry and provinces, appear, in general, to be accepting of the decision. It is too soon to tell if the Quebec dissatisfaction will become a political issue, but it appears not to be at the moment. On the other hand, the process followed can also be viewed as government avoiding its responsibility for making a \$35 Bn decision and leaving it to civil servants who are not accountable to the electorate. Again, it is too soon to tell if this will become an issue for the government, but it should not. The government set up the process so they were not actually avoiding their responsibility.

What is clear from this brief examination of how Canada and its allies conduct procurement is that a single agency will not solve the most common problems that appear to be timeless and that most of our allies also face. A single agency may improve many parts of the process, but it will not solve the underlying challenges.

STRATEGIC STUDIES WORKING GROUP

The Strategic Studies Working Group (SSWG) is a partnership between the Canadian International Council (CIC) and the Canadian Defence and Foreign Affairs Institute (CDFAI). The CIC absorbed the former Canadian Institute of Strategic Studies (CISS) upon the CIC's formation in 2008, and the CISS's original focus is now executed by the SSWG.