



## NAVAL PROCUREMENT

*Dave Perry*

Canada's process for procuring defence equipment involves multiple government departments, is long and is extremely complicated. Indeed, the Department of National Defence (DND) guideline on its internal process alone runs to 265 pages. The following Briefing Note depicts only the major activities involved in Canada's process for buying equipment for the Royal Canadian Navy (RCN) and makes many simplifications and generalizations for the sake of brevity. (For a more general discussion of shipbuilding in Canada, see Briefing Note #8.)

The RCN's projects follow the same basic process as the other military services,<sup>1</sup> with the exception of the Arctic and Offshore Patrol Ship (AOPS), Canadian Surface Combatant (CSC), and Joint Support Ship (JSS) projects. These fall under Canada's National Shipbuilding Strategy (NSS), and are therefore subject to a few small, but meaningful, differences outlined below. The key characteristic that distinguishes the RCN's equipment projects from those of the wider DND and Canadian Armed Forces (CAF) is that the RCN has a relatively small number of projects – 25 projects out of a defence-wide total of 234, or 11% – with significant costs. Naval project budgets range from roughly \$70 to \$80 billion, between 34 and 55% of the defence-wide total.<sup>1</sup> Thus, the RCN has relatively few projects, but a disproportionate share of the most costly ones.

The five stages of a Canadian defence procurement process are: Identification; Options Analysis; Definition; Implementation; and Close-Out. In the Identification stage, a capability deficiency is identified by a project sponsor in DND/the CAF. During this stage, potential funding sources are identified, the strategic context within which the potential project exists is described, a project brief is written, and the High Level Mandatory Requirements are outlined. At this point, a Project Complexity and Risk Assessment is undertaken and ranks the potential project on a four-point scale where a four indicates the most complicated and risky projects. If the proposal to address the capability deficiency is approved by the Defence Capability Board, it officially becomes a project.

In recent years, an identified funding source was required to move from the Identification stage into Options Analysis, unless the project was identified as a 'Key' initiative. The approval by government of *Strong, Secure, Engaged: Canada's Defence Policy* in 2017, at least for a time, identified those projects with funding that could make this transition. In the future, new projects moving from Identification to Options Analysis, or projects in Identification with cost increases since the publication of *Strong, Secure, Engaged*, must complete an Investment Plan Change Proposal to identify a source of funds within DND's investment plan, before moving to the next phase.

At the beginning of the Options Analysis stage, all projects with budget over \$100 million (and some others) must have their High Level Mandatory Requirements reviewed by the Independent

Review Panel for Defence Acquisition (IRPDA). During this stage the Statement of Operational Requirement is developed, options for addressing the capability gap identified, including an assessment of the costs and benefits of options. Initial engagements with industry will sometimes occur, and policy coverage, if required, is secured. This sometimes, but not always, requires a Memorandum to Cabinet. A Business Case Analysis is completed, and the identified preferred option is briefed for approval at the Defence Capabilities Board at the end of this phase, followed by another review by IRPDA. In Options Analysis the project is presented to a Senior Review Board, and from this point forward it is briefed to that board annually. The Risk and Complexity Assessment is also refreshed.

At this stage the project is reviewed by an interdepartmental governance team, including representatives from Public Services and Procurement Canada (PSPC), the department responsible for conducting the actual procurement activity and negotiating contracts. A key part of the procurement process from this point forward is interdepartmental meetings coordinated by the Defence Procurement Strategy Secretariat at PSPC chaired by varying levels of senior executives depending on a project's cost. This secretariat function is provided in part by the National Shipbuilding Secretariat for the RCN's three NSS projects. All projects with budgets over \$20 million are reviewed for the potential application of the Industrial Technological Benefits Policy, and those over \$100 million must comply with this policy, resulting in engagement with officials from Innovation Science and Economic Development Canada.

At the end of Options Analysis the project is briefed to the Program Management Board for approval to enter the Definition phase, and onward for recommended approval to the Investment Management Review Committee for approval if aspects of the project exceed the \$50 million budget threshold. Once approved at this board, a Corporate Submission outlining the project and its plans in detail must then be prepared to secure expenditure authority, usually from either the Minister of National Defence or the Treasury Board. The Minister can approve a project if its assessed complexity and risk falls within DND's capacity to manage projects, which is assessed on the same four-point scale noted earlier. Currently DND's assessed capacity is a 3, so the Minister can approve projects with an assessed risk and complexity of 3 or lower.

The AOPS, CSC and JSS projects are somewhat distinct from many other capital projects in that they all received conditional expenditure authority in the Definition phase, which has required multiple Treasury Board approvals for that phase of the project's life. In contrast, many projects receive a single approval.

When expenditure authority is granted, this marks the transition from determining what should be done to mitigate a capability deficiency, to determining how the preferred option will be implemented. This approval also means that the project is assigned 'Vote 5' Capital Funding, special financial authority used when capital expenditures exceed \$5 million<sup>2</sup> – some of which is used to create a dedicated DND project management office, which determines substantive requirements, cost and schedule estimates. During the Definition phase the procurement strategy is developed and executed, including the release of any tender documents and evaluation of bids (if applicable).

At the end of Definition phase, once a procurement strategy has been executed, the project must again secure approval from the same governance bodies required to enter Definition, to proceed to the Implementation phase. In this phase, PSPC must obtain contracting approval to sign the contract from the Treasury Board.

As equipment is delivered, the project eventually reaches an Initial Operational Capability which in project management terms is the milestone reached when the capability provided by the project can be used operationally on a sustained basis.

The next meaningful milestone is Full Operational Capability which is the milestone reached when all project deliverables have been delivered. At this point, the project moves to the Close-Out stage, which ends when all administrative project activities are officially completed. All told, the current average timeline for a major DND project is 16 years, with the time to completion increasing with a project's complexity and risk. Many variables, including political decisions, the project budget, and the alignment, or lack thereof, of inter-departmental actors when decisions or approvals are needed can add or subtract years to a project's life. The RCN's three NSS projects, amongst the most risky and complex at DND, have experienced all of these factors in addition to the complication of being part of an industrial strategy to revitalize Canada's shipbuilding industry. The shipbuilding projects can therefore be expected to take longer than other RCN projects.

## Notes

1. It is the same for non-service parts of DND too like CJOC, the intelligence groups, information management, etc.