



## Naval Procurement<sup>1</sup>

In Canada, the procurement of defence equipment entails a complex and lengthy process, involving the participation of numerous government departments. So complicated is this process that the Department of National Defence (DND) has a 265-page document outlining the guidelines for its internal process alone. For the Royal Canadian Navy (RCN), then, the process of procuring a new vessel is an extensive undertaking, replete with submissions, briefings, consultations, and approvals, with many opportunities for the extension or contraction of the projected project timelines. This is the case, too, for the vessels being procured under the National Shipbuilding Strategy (NSS). The risk and complexity associated with those projects, however, has tended to extend their timelines for completion, even as their basic procurement process remains fundamentally the same.

For the RCN, procurement projects proceed through a basic process comparable to that used by Canada's other military services.<sup>2</sup> The only exceptions are the projects undertaken under the NSS, namely the Arctic and Offshore Patrol Ships (AOPSs), Canadian Surface Combatants (CSCs), and Joint Support Ships (JSSs). For these projects, there are a handful of minute but key differences in the procurement process. While the RCN's equipment projects are thus comparable in process to those of the Canadian Armed Forces (CAF) or DND more generally, there is one principal distinguishing feature: the cost and scale of such projects. Specifically, while the RCN has relatively few procurement projects, it has a disproportionate proportion of the most expensive ones. Indeed, although the RCN has only 25, or 11%, of the total 234 defence procurement projects in Canada, these projects account for between 34% and 55% of the defence-wide total budget, with the Navy's project budgets ranging from approximately \$70 billion to \$80 billion. Though comparable in their overall procurement process, then, the RCN's projects are disproportionately expensive compared to the DND's other procurement ventures.

In Canada, a defence procurement process encompasses five stages: Identification, Options Analysis, Definition, Implementation, and Close-Out. The Identification phase marks the inauguration of a procurement project, consisting of a DND or CAF project sponsor diagnosing or pinpointing a capability deficiency. On the heels of this initial identification, prospective sources of funding are determined, the strategic context for the possible project is defined, a project brief is compiled, and the High Level Mandatory Requirements are elucidated. A Project Complexity and Risk Assessment is subsequently performed, ranking the project on a four-point scale in which a four represents the riskiest and most sophisticated and difficult of projects. If the Defence Capability Board approves the proposal to remedy the capability deficiency, the proposal officially becomes a project.

A project's progression from the Identification stage to the Options Analysis phase recently necessitated an identified funding source, unless the project was characterized as a "Key" initiative. The 2017 Canadian defence policy, *Strong, Secure, Engaged*, identified the projects that then possessed funding and thus were then eligible to transition to the Options Analysis phase.

Moving forward, new projects seeking to make a similar transition – or projects in the Identification phase that have experienced cost increases since the release of *Strong, Secure, Engaged* – are required to complete and submit an Investment Plan Change Proposal to denote their source of funds under DND’s investment plan before they will be able to shift into the Options Analysis phase.

In this Options Analysis stage, all projects with a budget in excess of \$100 million (as well as some other projects) are required to have their High Level Mandatory Requirements subject to the review of the Independent Review Panel for Defence Acquisition (IRPDA). The project’s Statement of Operational Requirement is thus formed, and alternatives for confronting the capability gap are delineated, which includes an analysis of the benefits and costs of the various options. If needed, policy coverage is ensured – sometimes requiring a Memorandum to Cabinet – and this phase can also include the first engagements with industry. A Business Case Analysis is conducted, the preferred option for addressing the gap is briefed for the Defence Capabilities Board’s approval (towards the end of the Options Analysis phase), and the IRPDA conducts another review. A Senior Review Board receives a presentation on the project, and the Board is briefed annually thereafter regarding the project’s progress. The Project Complexity and Risk Assessment first undertaken during the Identification phase is similarly updated. Moreover, an interdepartmental governance team comprised of representatives from Public Services and Procurement Canada (PSPC) – the department tasked with administering the procurement activity and negotiating the requisite contracts – undertakes a review of the project. From this point onwards, a vital component of the procurement process is the interdepartmental meetings that are coordinated by PSPC’s Defence Procurement Strategy Secretariat, chaired by differing levels of senior executives, depending upon the cost of the project. In the case of the RCN’s three procurement projects occurring under the auspices of the NSS, the National Shipbuilding Secretariat performs this secretariat function. Furthermore, any project with a budget in excess of \$20 million is reviewed for the possible application of the Industrial Technological Benefits Policy. Those projects with budgets over \$100 million are required to adhere to this policy, thus mandating the involvement of Innovation Science and Economic Development Canada officials.

The conclusion of the Options Analysis phase sees the Program Management Board being briefed on the project, approving its transition to the Definition phase, and, for projects with aspects exceeding the \$50 million budget threshold, recommending the Investment Management Review Committee’s approval. Once the Program Management Board’s approval is secured, details of the project and its specific plans are compiled into a Corporate Submission. The project receives expenditure authority on the basis of this submission, from, typically, the Treasury Board or the Minister of National Defence. The Minister of National Defence is authorized to approve a project only if its assessed risk and complexity – which, as previously mentioned, is evaluated on a four-point scale – falls within the DND’s ability to manage projects. Since the DND’s assessed capacity is currently a three, the Minister of National Defence is capable of approving projects for which the assessed risk and complexity is up to and including three. For the RCN’s JSS, CSC, and AOPS projects under the NSS, their Definition phases entailed their receipt of conditional expenditure authority, requiring numerous Treasury Board approvals during that stage. However, many other projects receive a singular approval. Once a project has acquired this expenditure authority, contemplation shifts from analyzing how a capability deficiency should be addressed, to how the optimal option will be implemented, and the project moreover receives “Vote 5” Capital Funding. This is special financial authority that is utilized when the capital expenditures in question surpass

\$5 million, a portion of which is then allotted to the establishment of a dedicated DND project management office. This office assumes responsibility for the determination of substantive needs, schedule estimates, and cost projections. The Definition phase also sees the development and execution of the procurement strategy, including the release of tender documents and, if applicable, the consideration of bids.

The Implementation phase commences once the procurement strategy has been executed and the project has gained approval from the Program Management Board and, if necessary, the Investment Management Review Committee – the same bodies whose approval was required for the project to transition from the Options Analysis phase to the Definition stage. At the outset of the Implementation stage, PSPC acquires contracting approval from the Treasury Board in order to sign the contract for the procurement of the equipment. Once the equipment is delivered, the project attains an Initial Operational Capability, denoting the point at which the capability being supplied is able to be operationally utilized on a continuous basis. Full Operational Capability is the next milestone reached, which describes the stage at which all project deliverables have been completed and handed over. The project thus enters the Close-Out stage, the final of the five procurement stages in Canada. Progression into this stage indicates the official completion of all administrative project activities.

In all, a major DND project requires, on average, 16 years to progress through the five stages of procurement. Projects of greater risk and complexity tend to require extended timelines. There are a variety of other factors that can increase or decrease the time required for a project to proceed from Identification to Close-Out, including the project's budget, political decisions, and the extent to which interdepartmental actors are aligned when approvals or decisions are required. For the RCN, its three NSS projects are among DND's most complex and risky. As such, the AOPS, CSC, and JSS projects have encountered all the aforementioned factors, in addition to the further complication of being a component of a national strategy seeking to restore and enliven the shipbuilding industry in Canada. As such, the shipbuilding projects planned and progressing under the NSS can be anticipated to take longer than the RCN's other projects to move through their Identification, Options Analysis, Definition, Implementation, and Close-Out stages.<sup>3</sup>

---

## References

<sup>1</sup> Based on an original submission by Dave Perry.

<sup>2</sup> The procurement process is the same for non-service components of the DND, as well, including the Canadian Joint Operations Command, information management, the intelligence groups, etc.

<sup>3</sup> The process for the RCN's acquisition and procurement of equipment as described above includes only the major and primary activities involved. Generalizations and simplifications are made for the sake of brevity.