

Defence business

Big promises require big decisions

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A fresh look at procurement

Defence and security have understandably taken on new urgency.

In its recent Budget, the Canadian government announced more than \$8 billion in new funding over five years on top of the increases already pledged in 2017 under the *Strong, Secure, Engaged* defence policy.ⁱ

Budget 2022 provides \$6.1 billion over five years to increase the capabilities of the Canadian Armed Forces (CAF), with an additional \$1.4 billion in annual spending after that. The budget also proposes to provide \$500 million in 2022-23 for military aid to Ukraine. Also recently announced, an additional \$4.9 billion over the next six years will be made to modernize continental defence / NORAD and in the longer term, another approximately \$40 billion over 20 years is being planned.

The government will also conduct a defence policy review to update *Strong, Secure, Engaged*, reassessing CAF's size, capabilities, role, priorities, and resources to respond to emergencies at home and contribute to operations abroad given the changed environment.

Increased defence spending

A review makes sense. And the increased spending is welcome news after arguably, many years of underinvestment. Will it gradually move to meet NATO's 2 per cent funding minimum?ⁱⁱ

Defence spending typically aligns with foreign policy priorities. The last Canadian foreign policy review was in 2001.ⁱⁱⁱ

The *Strong, Secure, Engaged* policy in June 2017 laid out a strong foundation for how to build a modern defence organization. The policy projected departmental expenditures of \$553 billion over 20 years, starting in 2016-17, with as many as 330 projects underway in 2020.^{iv} The policy noted that 70 per cent of all projects are behind schedule and broadly outlined the actions needed to resolve defence procurement challenges.^v

While progress has been made, more is required for Canada to modernize and revitalize its defence force for the potential demands of increased operational readiness.

But spending more also needs to focus on the issues in the defence procurement system.

Procurement must be shortened

In the face of rapid technological change, information technologies, such as networking hardware and software face obsolescence relatively quickly without necessary upgrades. So a lengthy procurement process may mean these elements risk being out of date before the equipment even goes into service. It's also one thing to procure new equipment but that equipment also needs to be serviced and maintained, which often can result in a greater cost over the lifecycle than the original cost of the equipment itself.

Some defence agencies handle this by postponing the choice of such hardware and software until the later in the cycle by budgeting early on and defining the core specifications but deferring specific IT requirements as late as possible.

But there are other options.

Agile procurement methods include cloud-based systems. Digital, cloud-based procurement systems improve the ability

o track and analyze spending, which can result in consolidation of contracts, unearth potential duplication, and result in cost savings.

In the private sector, procurement has evolved into a new data-driven operating model that supports supplier and third-party interactions and performance while both fostering innovation and mitigating risk.^{vi}

Driving innovation

It is not just how a supplier is doing against its contracted service level agreements but also making sure the best suppliers have the ability to bring forward innovative solutions, ultimately resulting in better and more fruitful relationships. In this environment, procurement becomes the relationship broker managing performance and driving innovation, including more clearly defined roles and responsibilities.

All organizations must be purpose driven. From there, it requires governance, processes, policies, guidelines, procurement templates, and accountability. Collaboration

between the government and the defence industry is key. Political will is a must for change to be successful, to cut the red tape, streamline, and strengthen procurement.

There's no question defence procurement is complex. But it is not insurmountable with a shared commitment to accountability.

There are ways to make procurement systems simpler and less cumbersome. And as recent world events have demonstrated, timely action is needed as much as money.

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ⁱ Chapter 5: Canada's Leadership in the World, Budget 2022, Government of Canada

ⁱⁱ NATO's Two Percent Guideline: A Demand for Military Expenditure Perspective

ⁱⁱⁱ Canada blocking NATO pledge for more defence spending, Reuters, August 28, 2014

^{iv} Does Canada Need a Foreign Policy Review, Randolph Mank, Canadian Global Affairs Institute, January 2019

^v Planned Capital Spending under Strong, Secure, Engaged: 2020 Update, Office of the Parliamentary Budget Officer, October 28, 2020

^{vi} Strong, Secure, Engaged. Canada's Defence Policy, Department of National Defence, Canada p. 74.

^{vii} Future of Procurement, KPMG International