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CANADA

**REPORT 7, OPERATING AND MAINTENANCE
SUPPORT FOR MILITARY EQUIPMENT—
NATIONAL DEFENCE, OF THE FALL 2016
REPORTS OF THE AUDITOR GENERAL OF
CANADA**

**Report of the Standing Committee on
Public Accounts**

**Hon. Kevin Sorenson
Chair**

JUNE 2017

42nd PARLIAMENT, FIRST SESSION

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THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

TWENTY-NINTH REPORT

Pursuant to its mandate under Standing Order 108(3)(g), the Committee has studied Report 7, Operating and Maintenance Support for Military Equipment—National Defence, of the Fall 2016 Reports of the Auditor General of Canada and has agreed to report the following:

“REPORT 7—OPERATING AND MAINTENANCE SUPPORT FOR MILITARY EQUIPMENT—NATIONAL DEFENCE,” *FALL 2016 REPORTS OF THE AUDITOR GENERAL OF CANADA*

INTRODUCTION

According to the Office of the Auditor General of Canada (OAG), under the “2008 *Canada First* Defence Strategy, the Canadian Armed Forces must be prepared to undertake six core missions:

- I. Conduct daily domestic and continental operations, including in the Arctic.
- II. Support a major international event in Canada, such as the Olympic Games.
- III. Respond to a major terrorist attack.
- IV. Support civilian authorities during a crisis in Canada, such as a natural disaster.
- V. Lead and/or conduct a major international operation for an extended period.
- VI. Deploy forces in response to crises elsewhere in the world for shorter periods.¹

Based on these six core missions, National Defence determines the capabilities required.² Ensuring that these capabilities can be achieved requires equipment that is available and reliable; this, in turn, requires support.³

As regards terminology pertaining to military equipment,

- “Support” refers to “operating and maintenance activities that include engineering, training, inspection, maintenance and repair of equipment, and provision of spare parts;”⁴

1 Office of the Auditor General of Canada [OAG], [“Report 7 – Operating and Maintenance Support for Military Equipment –National Defence,”](#) *Fall 2016 Reports of the Auditor General of Canada*, para. 7.1.

2 Ibid., para. 7.2.

3 Ibid.

4 Ibid., para. 7.2.

- “Availability” refers to the “proportion of time during a stated period that a type of military equipment is in an operable state (not undergoing maintenance) in relation to the total time it is needed for operations;”⁵
- “Reliability” refers to the “ability of equipment to consistently perform its intended function according to its specification.”⁶
- “Materiel” refers to “items such as vessels, vehicles, aircraft, animals, missiles, arms, ammunition, clothing, stores, provisions, or equipment.”⁷

The OAG also notes that “National Defence maintenance and repair activities are performed by Canadian Armed Forces technicians or by private sector firms:

- Simple and short-term preventive maintenance and minor repair activities are performed relatively frequently by civilians and military personnel on bases across the country or in the field. These tasks can take hours or days to be completed.
- Lengthier and more complex inspection, major repair, or complete equipment overhaul activities are centrally managed by the Assistant Deputy Minister (Materiel). These tasks are performed by National Defence or by the private sector in specialized facilities and can take days, weeks, or months to complete.”⁸

According to the OAG, the “largest equipment support budget is the [\$2.5 billion] National Procurement program, managed by the Assistant Deputy Minister (Materiel),” and includes securing “spare parts and contracts with private companies and foreign governments for maintenance, including more in-depth maintenance such as extensive equipment overhaul.”⁹

The OAG explained that “National Defence is responsible for the construction and maintenance of all defence establishments and works for the defence of Canada and for research relating to the defence of Canada and the development of and improvements in materiel.”¹⁰ Furthermore, “Public Services and Procurement Canada has the authority to buy or otherwise acquire defence supplies required by National Defence, including service contracts for the repair and maintenance of defence equipment.”¹¹

5 Ibid., para. 7.3.

6 Ibid.

7 Ibid., para. 7.7.

8 Ibid., para. 7.4.

9 Ibid., para. 7.5.

10 Ibid., para. 7.7.

11 Ibid., para. 7.8.

In its 2011 audit, [Chapter 5—Maintaining and Repairing Military Equipment—National Defence](#), the OAG concluded that “there was a lack of cost and performance information as well as a significant gap between the demand for maintenance and repair services and the funds available.”¹² The Office also found the following:

- “the costs to maintain replacement equipment were higher than those for existing equipment because the new equipment was more complex;”
- “National Defence did not regularly monitor the impacts of postponing repair and maintenance;” and
- “National Defence indicated it was likely that, in its long-term Investment Plan for new equipment, it had not allocated sufficient funds for equipment support for the full life cycle of the equipment.”¹³

In the fall of 2016, the OAG released a performance audit that focused on “whether National Defence managed equipment support in a cost-effective manner, so that military equipment was available and reliable to meet the Canadian Armed Forces’ operations and training requirements.”¹⁴ The following six types of equipment—whose annual support contracts are valued at about \$700 million—were studied:¹⁵

- I. CC-177 Globemaster III strategic airlift aircraft;
- II. CH-148 Cyclone maritime helicopters;
- III. CH-147F Chinook medium-to-heavy lift helicopters;
- IV. CC-130J Hercules aircraft;
- V. Victoria-class submarines; and
- VI. Tactical armoured patrol vehicles.¹⁶

On 1 May 2017, the House of Commons Standing Committee on Public Accounts held a hearing on this audit. In attendance from the OAG were Michael Ferguson, Auditor General of Canada, and Gordon Stock, principal. From the Department of National Defence were John Forster, Deputy Minister; Vice-Admiral Ron Lloyd, Acting Vice-Chief of Defence Staff and Commander of the Royal Canadian Navy; Patrick Finn, Assistant

12 Ibid., para. 7.9.

13 Ibid., para. 7.10.

14 Ibid., para. 7.11.

15 Ibid., para. 7.6.

16 Ibid., Exhibit 7.1.

Deputy Minister, Materiel; and, Brigadier-General Werner Liedtke, Director General and Deputy Chief Financial Officer.¹⁷

FINDINGS AND RECOMMENDATIONS

A. MANAGING SUPPORT FOR EQUIPMENT

1. Planning Assumptions

The OAG found that “National Defence had made some initial planning assumptions that overestimated equipment use, underestimated support costs, and under-resourced personnel requirements. Consequently, higher-than-estimated support costs and the lack of personnel contributed to reduced availability and use of the selected equipment [the OAG] examined.”¹⁸

Additionally, the OAG noted that “National Defence did not optimize value for money with the support contracts for the selected equipment” studied, and that “as a result of these initial planning assumptions, National Defence paid for a higher level of service than it used. The significant fixed costs associated with these contracts reduced funding available for other equipment.”¹⁹ However, the OAG also noted that “National Defence has taken some steps to make improvements, such as renegotiating an equipment support contract.”²⁰

For example, the OAG found that “National Defence recognized that its assumptions in the equipment support contract for the CC-130J Hercules aircraft were inaccurate and did not optimize value for money.”²¹ Later, in 2015, Public Services and Procurement Canada renegotiated the contract, “thereby allowing some flexibility with the intent to improve its value for money.”²²

Lastly, the OAG concluded that “inaccurate initial planning assumptions made when establishing these contracts for equipment support led to higher costs and in some cases reduced equipment availability.”²³

17 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 1 May 2017, [Meeting 53](#).

18 OAG, “[Report 7 – Operating and Maintenance Support for Military Equipment –National Defence](#),” *Fall 2016 Reports of the Auditor General of Canada*, para. 7.20.

19 *Ibid.*, para. 7.21.

20 *Ibid.*

21 *Ibid.*, para. 7.31.

22 *Ibid.*

23 *Ibid.*, para. 7.34.

Example of Planning Assumptions that Overestimated Equipment Use

With the Chinook helicopter contract, National Defence could not apply measures designed to promote contractual performance until the helicopter reached 7,100 flying hours in a year. The Chinook has flown fewer than 3,000 hours in each year since it was delivered, well below its normal operating level. Consequently, National Defence has not realized the full benefits from this performance-based contract.

Source: Office of the Auditor General of Canada, "[Report 7 – Operating and Maintenance Support for Military Equipment – National Defence](#)," *Fall 2016 Reports of the Auditor General of Canada*, para.7.68.

In light of these issues, the OAG recommended that "National Defence should ensure that future equipment support contracts are based on achievable planning assumptions and allow for adjustments in the contracts based on changing circumstances, where feasible."²⁴ In its action plan, National Defence stated that it agreed with this recommendation and committed to ensuring that a challenge function occurs through various boards and committees "in order to ensure sponsors have based their expected outcomes on achievable planning assumptions."²⁵

In his opening remarks, John Forster, Deputy Minister, National Defence, added the following:

In 2016 we started rolling out a new sustainment initiative that replaced the previous policy for sustainment contracts. We now bring together procurement experts from National Defence, from Public Services and Procurement, and from Innovation, Science and Economic Development. These experts work in close co-operation with industry to identify the best approaches for in-service support for our equipment. The benefits of this collaboration are many, not the least of which is that we can obtain the information necessary to determine, by fleet, what kind of life-cycle maintenance is required, what industry can offer at what cost, and how the federal departments can leverage their collective resources and know-how to make it happen.²⁶

Given the importance of proper planning with regard to military equipment, the Committee therefore recommends:

Recommendation 1

That, by 31 January 2018, *National Defence* provide the House of Commons Standing Committee on Public Accounts with a report assessing the effectiveness of the new challenge function and the Sustainment Initiative in ensuring that equipment support contracts are based on achievable planning assumptions and allow for adjustments in the contracts based on changing circumstances.

24 Ibid., para. 7.35.

25 National Defence, [Detailed Action Plan](#), p. 1.

26 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 1 May 2017, [Meeting 53](#), 15:35.

2. Life-cycle Costs

According to the OAG, “Treasury Board policy requires that a department’s investment plan take into account not just the acquisition of assets but their full life-cycle costs, including support costs and acquired services.”²⁷ [The Office] found that the most recent National Defence Investment Plan from 2014 did not include full life-cycle costs for the six types of equipment” examined in this audit.²⁸

The OAG also notes that up-to-date “full life-cycle costs, including support costs and acquired services in the Investment Plan, are needed to make sure that sufficient funds are set aside to use the equipment as planned, or National Defence will have to significantly reduce its level of operational and training requirements.”²⁹

Therefore, the OAG recommended that “National Defence should prepare and regularly update life-cycle cost estimates at key decision points for each type of equipment and monitor actual costs against revised estimates” and that it should also “update its Investment Plan to reflect more complete life-cycle costs.”³⁰ National Defence agreed with this recommendation and in its action plan committed to the following:

As part of the Defence Policy Review and in support of the development of Investment Plan 2017, cost estimates for all planned and ongoing projects are being refreshed and updated to reflect a more complete life-cycle cost estimate. As part of the Investment Plan 2017 development, the Department plans to deliver a plan that identifies individual acquired goods and services investments over \$20M as well as life-cycle costs on a [program] basis. The development of these products by the end of 2017 will demonstrate significant progress towards addressing this recommendation. Additionally, National Defence will update and monitor life-cycle costs at key decision points.³¹

When questioned about the lack of proper life-cycle costing, John Forster provided the following:

The Treasury Board policies on costing have evolved, even last year, and actually they match exactly where we've gone and are heading and have invested this year. The 2014 plan did not include life-cycle costs for all of our equipment. Some of that costing didn't include sustainment costs. In some of it we didn't make allowances for inflationary costs. There were a lot of holes, in my view, when I first looked at it. That's exactly why we made all the investments in changes to how we do our costing. Our next investment plan, which is due at the end of this year, will include all of those provisions.³²

27 OAG, “[Report 7 – Operating and Maintenance Support for Military Equipment –National Defence](#),” *Fall 2016 Reports of the Auditor General of Canada*, para. 7.43.

28 Ibid.

29 Ibid., para. 7.47.

30 Ibid., para. 7.48.

31 National Defence, [Detailed Action Plan](#), p. 2.

32 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 1 May 2017, [Meeting 53](#), 17:25.

Notwithstanding this testimony, the Committee recommends:

Recommendation 2

That, by 31 January 2018, *National Defence* provide the House of Commons Standing Committee on Public Accounts with a report detailing how proper life-cycle costing is now being used, and how its Investment Plan has been updated to reflect more complete life-cycle costs.

3. Use of Incremental Funds

According to the OAG, “Treasury Board requires that when National Defence is allocated incremental funds from the government’s fiscal framework—that is, additional funds for items such as new equipment and operating and maintenance costs—it must use those funds specifically for that purpose. This funding should be tracked separately for the intended equipment and not made available for different equipment.”³³

In this audit, the OAG found that “National Defence did not monitor whether it used all of these funds for the intended equipment and in some cases for other purposes.”³⁴ For example, “National Defence was allocated \$115 million for support for the Chinook helicopter in the 2014–15 fiscal year and \$137 million per year thereafter. At least \$5 million from the 2014–15 fiscal year was not spent to support the Chinook and was redistributed to other equipment.”³⁵

The OAG concluded that since “National Defence did not track the additional funds provided for specific equipment, it did not know if they had been used for other purposes. Furthermore, without having full life-cycle costs of assets, including support costs and acquired services, in the Investment Plan, National Defence may not set aside sufficient funds to support the equipment as planned.”³⁶

Thus, the OAG recommended that “National Defence should clarify, in consultation with the Treasury Board of Canada Secretariat and the Department of Finance Canada, the use of incremental funds provided to National Defence, and ensure that these funds are appropriately monitored and used.”³⁷

National Defence agreed with this recommendation and in its action plan stated that as part of ongoing discussions with the central agencies, it will “seek to clarify the use of

33 OAG, “[Report 7 – Operating and Maintenance Support for Military Equipment –National Defence](#),” *Fall 2016 Reports of the Auditor General of Canada*, para. 7.49.

34 Ibid.

35 Ibid., para. 7.50.

36 Ibid., para. 7.51.

37 Ibid., para. 7.52.

incremental funds from the accrual envelope and ensure National Defence processes meet expected management practices.”³⁸

When asked about the use of incremental funds, Michael Ferguson, Auditor General of Canada, shared the following:

We talk about the case of the Globemaster aircraft, where we found that “National Defence was allocated \$140 million a year in incremental funding for Globemaster aircraft support, but spent only \$79 million in the 2015–16 fiscal year.” Then we talk about trying to track money that wasn't spent. Based on our understanding there was an expectation from Treasury Board that these earmarked funds would be tracked and that the department would be able to report on them, but in a number of the examples we cite here, we found that we couldn't see where the money was spent on that equipment and we couldn't see what else it was spent on. Essentially, that's simply the situation as we found it.³⁹

Therefore, the Committee recommends

Recommendation 3

That, by 31 January 2018, *National Defence* provide the House of Commons Standing Committee on Public Accounts with a report explaining how its use of incremental funds has been clarified.

B. EQUIPMENT USE AS PLANNED

1. Human Resource Capacity

The OAG found that with regard to acquiring the new selected equipment, National Defence “assumed that personnel would come from crews operating and servicing existing equipment. National Defence identified risks related to not having enough personnel with the right skills to carry out equipment support and to operate the equipment,” but “was unable to resolve these risks and fully staff these positions for a number of reasons.”⁴⁰ Additionally, there “was also a shortage of personnel at National Defence to negotiate, monitor, and challenge contractor performance.”⁴¹

The OAG pointed out that the “*Canada First Defence Strategy* stated that the Canadian Armed Forces was to increase its target of Regular Force members to 70,000, partly to support the acquisition of new equipment. However, this target was not

38 National Defence, [Detailed Action Plan](#), p. 3. According to the [Government of Canada](#), the Privy Council Office, the Treasury Board Secretariat, and the Department of Finance are referred to as the “central agencies.”

39 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 1 May 2017, [Meeting 53](#), 16:35.

40 OAG, “[Report 7 – Operating and Maintenance Support for Military Equipment –National Defence](#),” *Fall 2016 Reports of the Auditor General of Canada*, para. 7.62.

41 *Ibid.*, para. 7.63.

implemented. National Defence set its goal at 68,000 and has not reallocated personnel to adequately support new equipment.”⁴²

Therefore, the OAG recommended that “National Defence should better define and integrate resource requirements in the initial decision-making process for equipment approval and support. National Defence needs to monitor and manage equipment support risks in a comprehensive and integrated manner to ensure sufficient personnel and funds are aligned with operations and training requirements.”⁴³ Mr. Ferguson further added that “National Defence needs to use an integrated resource management approach that incorporates all aspects of the equipment’s life cycle, including acquisition, materiel, support, and personnel, from a cost and operational perspective.”⁴⁴

National Defence agreed with this recommendation and stated in its action plan that it will “develop its first integrated human resources strategy to balance skills and personnel across both the Department and the Canadian Armed Forces. The strategy will be developed in 2017-18 with implementation beginning in 2018-19.”⁴⁵

Therefore, the Committee recommends

Recommendation 4

That, by 30 April 2018, *National Defence* provide the House of Commons Standing Committee on Public Accounts with a report detailing its Defence Team Human Resource Strategy, as well as the plan and schedule for its implementation.

2. Contract Performance Measures

According to the OAG, “National Defence used performance-based equipment support contracts to achieve a specific level of equipment availability. The contracts included measures designed to promote contractor performance.”⁴⁶ However, the Office found that “in some cases, due to poor quality of its data, management did not have the information that would allow it to properly measure contractor performance.”⁴⁷

42 Ibid., para. 7.64.

43 Ibid., para. 7.65.

44 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 1 May 2017, [Meeting 53](#), 15:30.

45 National Defence, [Detailed Action Plan](#), p. 4.

46 OAG, “[Report 7 – Operating and Maintenance Support for Military Equipment –National Defence](#),” *Fall 2016 Reports of the Auditor General of Canada*, para. 7.66.

47 Ibid.

Thus, the OAG recommended that “National Defence should improve the data quality in its information system in order to better manage equipment support.”⁴⁸

National Defence agreed with this recommendation and stated the following in its action plan:

Several initiatives are in progress that will directly or indirectly improve data quality in the Defence Resource Management Information System (DRMIS). These include, but are not limited to, initiatives such as the Inventory Management Modernization and Rationalization Project, the National Stocktaking Project, and implementation of Materiel Accountability Action Plans.⁴⁹

When questioned about the effective use of data and DRMIS, Vice-Admiral Ron Lloyd, Acting Vice Chief of the Defence Staff and Commander of the Royal Canadian Navy, National Defence, provided the following explanation:

One of the challenges we've had with DRMIS is that in order to reformat one of those reports, you have to go into the system and do that reprogramming. In 2015 we introduced a suite of tools, business objects, which allow you to rapidly access the data and then configure it in a report such that you can then make evidence-based decisions. We're having success with respect to moving forward on that. So it's the tools, I would suggest, that are going to enable us to use that data better and more effectively and make better decisions going forward.⁵⁰

Nevertheless, given the importance it places with regard to data quality and use, the Committee recommends

Recommendation 5

That, by 31 October 2017, *National Defence* provide the House of Commons Standing Committee on Public Accounts with a report detailing the concrete measures the Department has implemented to ensure that its data is used effectively to make evidence-based decisions.

Recommendation 6

That, by 31 January 2021, *National Defence* provide the Committee with a report assessing the overall effectiveness of all the Department's initiatives that seek to improve data quality in the Defence Resource Management Information System, including the Inventory Management Modernization and Rationalization Project, the

48 Ibid., para. 7.69.

49 National Defence, [Detailed Action Plan](#), pp. 4-5.

50 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 1 May 2017, [Meeting 53](#), 15:50.

National Stocktaking Project, and the implementation of materiel accountability action plans.

C. INTEGRATING PLANNING AND OVERSIGHT OF EQUIPMENT SUPPORT

1. Integrated Resource Planning and Governance

The OAG found that “National Defence had made some improvements. For example, it launched a new contracting approach in June 2016, where it analyzes and challenges business cases when proposing new equipment support contracts or amendments.”⁵¹

The OAG also discovered that although National Defence had conducted studies that “provided recommendations to streamline governance,” it found that “there are now more processes and additional oversight committees.”⁵² The Office consequently concluded that although “additional monitoring may make for better decisions, it can also contribute to delays and inefficiencies in making acquisition and equipment support decisions.”⁵³

Hence, the OAG recommended that “National Defence should take action to streamline governance processes and better integrate resource planning for equipment support.”⁵⁴

National Defence agreed with this recommendation and stated in its action plan that the “implementation of the National Defence Project Approval Process Renewal initiative will facilitate a more streamlined governance process and enable the Department to achieve the required throughput.”⁵⁵ Additionally, the Department is committed to “streamlining internal processes to align with the Treasury Board Policy Suite Reset;”⁵⁶ however, the latter is dependent upon the Treasury Board of Canada Secretariat’s completion of this work.⁵⁷

Thus, the Committee recommends:

51 OAG, “[Report 7 – Operating and Maintenance Support for Military Equipment –National Defence](#),” *Fall 2016 Reports of the Auditor General of Canada*, para. 7.78.

52 *Ibid.*, para. 7.80.

53 *Ibid.*

54 *Ibid.*, para. 7.84.

55 National Defence, [Detailed Action Plan](#), p. 8.

56 *Ibid.*

57 *Ibid.*

Recommendation 7

That, by 30 April 2018, *National Defence* provide the Committee with a report detailing the progress regarding the streamlining of internal governance processes to align with the Treasury Board Policy Suite Reset.

2. Measuring National Defence's Performance

In response to questions about the 2011 audit, "National Defence told the House of Commons Standing Committee on Public Accounts that it would develop performance measures on its maintenance and repair activities in its financial and materiel information system by December 2013."⁵⁸

However, the OAG found that "while National Defence had established performance measures in support contracts with private sector firms, it did not develop similar measures for its own performance. For instance, it did not measure how long it should take to provide spare parts for equipment through its supply depots."⁵⁹

Therefore, the OAG recommended that "National Defence should measure its own performance on how well it manages equipment support."⁶⁰ National Defence agreed with this recommendation and stated in its action plan that once "the new Departmental Results Framework is implemented in 2017, the Department will be in a better position to improve the monitoring of and reporting on updated performance measures."⁶¹

With respect to performance measurement, VAdm Ron Lloyd noted the following:

We have learned a significant amount over the last two years with respect to performance measurement, and we've now been able to scale it, not only from our financial but into our materiel and our personnel and training. We're continuing to make consistent progress with respect to those initiatives.⁶²

3. Reporting on Performance

The OAG noted that some of the information on equipment availability in National Defence's *Departmental Performance Report* (DPR) was not calculated in a manner that was complete or consistent.⁶³ Specifically, National Defence used a different measure for

58 OAG, "[Report 7 – Operating and Maintenance Support for Military Equipment –National Defence](#)," *Fall 2016 Reports of the Auditor General of Canada*, para. 7.85.

59 *Ibid.*, para. 7.86.

60 *Ibid.*, para. 7.87.

61 National Defence, [Detailed Action Plan](#), p. 9.

62 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 1 May 2017, [Meeting 53](#), 17:15.

63 OAG, "[Report 7 – Operating and Maintenance Support for Military Equipment –National Defence](#)," *Fall 2016 Reports of the Auditor General of Canada*, para. 7.89.

internal purposes than in its DPR: for “internal purposes, it measured the actual availability compared with planned availability.”⁶⁴ For example, the OAG found “that neither the Chinook helicopter nor the CC-130J Hercules aircraft were included in the aggregate calculation for the performance measure of availability reported in the [DPR].”⁶⁵

Consequently, the OAG concluded that “the information on equipment availability provided to Parliament was not consistent or meaningful. Furthermore, information on equipment availability in National Defence’s [DPR] excluded the equipment that was not operated due to insufficient personnel and operating funds.”⁶⁶ Mr. Ferguson further elaborated about this situation:

Our concern was that the information that was being reported publicly in the departmental performance report was in some cases inconsistent with internal information that the department had. We would have expected that the information they were reporting to Parliament would have been the same type of information they had internally.⁶⁷

Thus, the OAG recommended that “National Defence should implement a process to measure and report on equipment availability and apply it in a consistent manner for internal and public reporting purposes.”⁶⁸

National Defence agreed with this recommendation and in its action plan stated that the “implementation of the Departmental Results Framework currently underway will establish equipment availability and serviceability performance measures that ensure consistency in reporting and communicate broader Departmental requirements.”⁶⁹

Given that National Defence has stated that performance measurement pertaining to both managing equipment support and availability will be linked to the implementation of the Departmental Results Framework, the Committee thus recommends:

Recommendation 8

That, by 30 April 2018, *National Defence* provide the Committee with a report detailing the progress of the Departmental Results Framework—including the rationale for selecting key performance indicators regarding equipment support and availability—as well as how internal results are being reported to Parliament and to Canadians.

64 Ibid.

65 Ibid.

66 Ibid., para. 7.90.

67 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 1 May 2017, [Meeting 53](#), 16:05.

68 OAG, “[Report 7 – Operating and Maintenance Support for Military Equipment –National Defence](#),” *Fall 2016 Reports of the Auditor General of Canada*, para. 7.91.

69 National Defence, [Detailed Action Plan](#), p. 11.

CONCLUSION

The OAG concluded that for the six types of equipment examined in the audit, “National Defence did not adequately manage the resources used to support military equipment in a cost-effective manner, to meet operational and training requirements. However, National Defence has taken some steps to make improvements, such as renegotiating an equipment support contract to improve its value for money.”⁷⁰ Additionally, the OAG found that some “initial planning assumptions, for the types of equipment [it] examined, overestimated equipment use, underestimated support costs, and under-resourced personnel requirements, which led to higher costs and reduced equipment availability.”⁷¹ This is important, given that the “equipment support contracts had fixed costs (representing large sums of money) resulting in National Defence paying for a higher level of service than it used, thereby reducing funding available for other equipment.”⁷²

To address these issues, the Committee has made eight recommendations to help ensure that National Defence manages equipment support in a cost-effective manner, so that military equipment is available and reliable to meet the Canadian Armed Forces’ operations and training requirements.

70 OAG, [“Report 7 – Operating and Maintenance Support for Military Equipment –National Defence,”](#) *Fall 2016 Reports of the Auditor General of Canada*, para. 7.92.

71 *Ibid.*, para. 7.93.

72 *Ibid.*

SUMMARY OF RECOMMENDED ACTIONS AND ASSOCIATED DEADLINES

Table 1 – Summary of Recommended Actions and Associated Deadlines

Recommendation	Recommended Action	Deadline
Recommendation 1 (p. 5)	<i>National Defence</i> needs to provide the Committee with a report assessing the effectiveness of the new challenge function and the Sustainment Initiative in ensuring that equipment support contracts are based on achievable planning assumptions and allow for adjustments in the contracts based on changing circumstances.	31 January 2018
Recommendation 2 (p. 7)	<i>National Defence</i> needs to provide the Committee with a report detailing how proper life-cycle costing is now being used, and how its Investment Plan has been updated to reflect more complete life-cycle costs.	31 January 2018
Recommendation 3 (p. 8)	<i>National Defence</i> needs to provide the Committee with a report explaining how its use of incremental funds has been clarified.	31 January 2018
Recommendation 4 (p. 9)	<i>National Defence</i> needs to provide the Committee with a report detailing its Defence Team Human Resource Strategy, as well as the plan and schedule for its implementation.	31 April 2018
Recommendation 5 (p. 10)	<i>National Defence</i> needs to provide the Committee with a report detailing the concrete measures the Department has implemented to ensure that its data is used effectively to make evidence-based decisions.	31 October 2017

<p>Recommendation 6 (pp. 10-11)</p>	<p><i>National Defence</i> needs to provide the Committee with a report assessing the overall effectiveness of all the Department's initiatives that seek to improve data quality in the Defence Resource Management Information System, including the Inventory Management Modernization and Rationalization Project, the National Stocktaking Project, and the implementation of materiel accountability action plans.</p>	<p>31 January 2021</p>
<p>Recommendation 7 (p. 12)</p>	<p><i>National Defence</i> needs to provide the Committee with a report detailing the progress regarding the streamlining of internal governance processes to align with the Treasury Board Policy Suite Reset.</p>	<p>30 April 2018</p>
<p>Recommendation 8 (p. 13)</p>	<p><i>National Defence</i> needs to provide the Committee with a report detailing the progress of the Departmental Results Framework—including the rationale for selecting key performance indicators regarding equipment support and availability—as well as how internal results are being reported to Parliament and to Canadians.</p>	<p>30 April 2018</p>

APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
Department of National Defence	2017/05/01	53
Patrick Finn, Assistant Deputy Minister Materiel		
John Forster, Deputy Minister		
Werner Liedtke, Director General and Deputy Chief Financial Officer		
Ron Lloyd, Acting Vice Chief of the Defence Staff and Commander of the Royal Canadian Navy		
Office of the Auditor General		
Michael Ferguson, Auditor General of Canada		
Gordon Stock, Principal		

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings* ([Meetings Nos. 53 and 62](#)) is tabled.

Respectfully submitted,

Hon. Kevin Sorenson
Chair

