

# House of Commons Standing Committee on Finance

## Pre-Budget Consultation Process The 2012 Federal Budget

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### **SAVING INITIATIVES WITHIN THE DEPARTMENT OF NATIONAL DEFENCE**

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There is an opportunity for the Government of Canada and the Department of National Defence to realize millions of dollars in operating savings by using the budget flexibility it always has which will allow for the effective utilization of its in-house resources.

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Savings Initiative within the Department of National Defence

Executive Summary

The Department of National Defence (DND) has been given the opportunity to harvest significant savings from their land transportation costs by just following through on the recommendations of their August 2006 “Audit of Contracting for Transportation”. In this audit, DND’s Chief of Review Services concluded that DND should fully utilize its “Green Fleet” prior to contracting out to private carriers. This recommendation has never been fully implemented and in 2009, DND returned to its former practices and decided not to pay overtime to its bus and transport drivers and employed more costly contracting out solutions while its own “Green Fleet” sat idle.

In 2010, Clarence Welton, a DND truck driver, developed and submitted a business case demonstrating to DND Management that by utilizing the budget flexibility that they already have, over \$300,000 (net) could be saved in transportation costs at CFB Petawawa by simply moving a small amount of money from the Operating and Maintenance (O&M) budget to the Salary Wage Envelope (SWE)<sup>1</sup>.

After a significant challenge Mr. Welton was able to present his case to Minister Day, who at that time was the President of the Treasury Board. Minister Day agreed with Mr. Welton’s business case and a minimum amount funds were transferred to the SWE which allowed for a small amount of savings.

The opportunity however, is not unique to CFB Petawawa. Similar savings can be realized at other Bases and Wings across the Country. DND’s “Green Fleet” is being under utilized, outside contractors are being over utilized and the result is Canadian Taxpayers are footing the bill. It is estimated that a minimum \$ 1,500,000 could be saved annually if DND would implement this minor change in just four more locations and significantly more if DND was willing to expand the scope of the project.

In addition to contracting out in the transportation area, DND has been increasing its use of an agent Crown Corporation, Defence Construction Canada, for delivery some of its real property services. Defence Construction Canada, which is funded 100% by DND, has doubled in size in the past five years and now employs over 900 people with an annual salary cost of more than \$82,000,000.

It is estimated that this is costing DND an extra \$ 30,000,000 per year in place of using its own in-house resources. This situation should also be examined as DND is being over charged for work that can be delivered with existing staff.

This briefing is significant in that it demonstrates that at no cost to the Crown, significant savings can be found within the Department of National Defence should Management, Employees and the Unions work together to realize this potential.

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<sup>1</sup> Business Case was validated by DND Management in July 2010

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## Background

In 2009, the Department of National Defence refused to pay overtime to employees (in-house bus and transport drivers) responsible for the movement of personnel and equipment at CFB Petawawa. DND management stated that due to budget constraints, no funding was available from the Salary Wage Envelope (SWE) to pay overtime costs. Instead, DND Management opted to bring in outside contractors to continue to perform Base transportation requirements. The funding to pay for these contracts came from the Operating and Maintenance (O&M) budget.

As employees became increasingly concerned about their job security and what appeared to be a waste of taxpayers' money, one of the transportation employees, Clarence Welton, developed a business case demonstrating that by using the existing in-house resources, the CFB Petawawa transportation requirements could be met and at a fraction of the cost. This initiative did not require any new employees or the need to acquire more equipment.

The business case was developed following DND's internal policy on contracting, "DAOD 3004-1, Procedural Overview, Contracting", in which it states:

*"before proceeding with the contracting option, due consideration should be given to whether or not there are other cost-effective means of satisfying the requirement (examples, for services, include internal options such as overtime, term employment, temporary secondments, student support, work sharing, etc. and, for goods, satisfying from stock, temporary loans, make-versus-buy, etc.)"*<sup>2</sup>

After preparing the business case, which demonstrated significant savings and substantial cost avoidance, and having not received any response from DND Management, Mr. Welton contacted and met with the President of the Treasury Board, Minister Day. Shortly after the meeting, minimum overtime funding was made available for the transport group which allowed in-house drivers to perform some extra duties that they were hired to do and this was done at fraction of the cost of the alternative, contracting out.

A copy of this business case is attached for your review demonstrating that in only three situations, the Crown could have saved \$ 72,000 through the use of in-house resources. For 2009/2010, the initiative was estimated to save \$ 300,000 just at CFB Petawawa.

## Moving Forward

The situation concerning the use of outside contractors for DND transportation needs was not unique to CFB Petawawa and continues to be a problem at other Bases and Wings right across Canada. Employees from these different Bases/Wings have

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<sup>2</sup> DOAD 3004-1, Procedural Overview – Contracting – Assessing Approach to Satisfying Requirement

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consulted their colleagues from Petawawa in order to modify the business case to reflect their specific situation.

By using the same methodology as described in *DAOD 3004-1*, and applying it to just the transportation needs of DND is it estimated that over the next five years, millions of dollars will be saved.

For example, if \$ 300,000 in transportation cost saving can be found at just five locations, this is equal to \$1.5 million and over five years, \$7.5 million.

In fact, this is just minimum cost savings estimations. If the “Green Fleet” was included in the transportation supply data base as of part of the National Payload Co-ordination Centre as recommended by the 2006 “Audit of Contracting for Transportation” contacted by DND’s Chief of Review Services, even greater savings could be achieved in this area.

It is estimated that the “Green Fleet” (including buses, tractor trailers, and vans) and their drivers sit idle 40% to 60% of the time and more costly private sector contractors are used. This is due to DND’s unwillingness to pay overtime. This fact was confirmed by a study conducted by CF staff Lt V Larosee , dated July 28, 2010 “*Cost Comparison Between Use of MDO-5 Vice Contracting*” sub titled “*Initial Business Plan of 3 May 10 by Mr. C.B. Welton, 2 Svc Bn, Tn Coy, A P1*”

## Issues

In reviewing this matter three issues come to the surface:

- First, that the lack of flexibility in DND’s budget is leading to poor investment decision resulting in higher costs to taxpayers.
- Second, despite preparing a sound business case, a DND employee had to go to great lengths to get Management’s attention on the matter, and continued to push matter forward.
- Third, several of the recommendations related to the August 2006 “Audit of Contracting for Transportation” conducted by the DND’s Chief of Review Services in regard to the increasing the use of the “Green Fleet” remain outstanding and as such savings that could be achieved are being lost.

On the first issue, if DND could have simply moved O&M dollars to the salary budget to cover overtime costs, perhaps the management decision to use more expensive outside contractors could have been avoided altogether. As there was no flexibility in the salary budget, as noted in a March 2010 e-mail from Minister Mackay to Clarence Welton, a more costly solution was executed.

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The current mindset at DND is to save on salaries dollars but spend the entire O&M budget despite the economics of the situation. In this situation, DND should be following their own directives and where it makes sense, transfer O&M budget dollars to salary dollars to ensure the most cost effective solutions are being executed.

**RECOMMENDATION: DND management should be proactive and utilize its Green Fleet to its full potential at all Bases and Wings before using the services of outside contractors.**

On the second issue, it was discouraging for staff that despite having a sound business case, it required the intervention of the local MP, Ms. Cheryl Gallant, and the President of the Treasury Board, Minister Day, to have this matter resolved.

As DND moves into its strategic and operational review, several cost savings initiatives could be forwarded by staff and this should be encouraged, however, if Management is going to be difficult to deal with, staff will not be willing to come forward with effective solutions.

**RECOMMENDATION: DND Management should be directed by the Privy Council Office and the Treasury Board Secretariat to work with their Unions to encourage staff to forward cost saving initiatives and to implement the results of the 2006 Audit on the contacting of transportation services.**

It is unfortunate that the public and perhaps even the political perception of the “size” of the public service are based on the number of full time positions.

In this case it was demonstrated that the size of the team was correct, but because the “salary budget” was fixed and no effort was made by DND to use the flexibility that existed, a more costly solution was executed. If the current TB Policy on moving funds is “penalizing” departments for moving O&M dollars to Salary budgets, perhaps this issue should be examined to determine the true cost that this policy may be having on the public service.

### **More Savings**

But the potential for savings does not stop with this single example.

In addition to the transportation of personnel and equipment, DND Management has undertaken other forms of contracting out without the proper supporting business cases, which is costing taxpayers a considerable amount of money.

DND has started to increase its use of an agent Crown Corporation, Defence Construction Canada (DCC), to deliver more of its real property responsibilities at Bases and Wings across the country.

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DCC has a single client, DND, and all of their costs (100%) are paid for by DND. These costs are paid from either DND's Capital or O&M budgets. Initially DCC was created to assist DND with the delivery of large capital projects during the Cold War. DCC's role was that of contracting and contract coordinator. Over the past five years, DCC has expanded its role from contract coordinator into day to day facilities and property management and similar to the transportation issue, DND employees qualified to do the work are being by-passed and many sit idle.

Over this same five year period the number of DCC employees has grown from 458 to over 900 (an increase of 96%). All 900 employees are paid for by DND with a planned salary cost of \$82 million for 2010/2011 and increasing to \$94 million in 2013/2014<sup>3</sup> (an additional increase of 14%).

While DCC grows and this growth is paid for by DND, DND's own Construction and Engineering (CE) staff has seen their training programs slashed and a hiring freeze implemented.

In examining the DCC situation, DND management had been asked to supply supporting business cases justifying the shifting of work from CE staff to DCC but nothing has been forthcoming. In contrast DND Construction and Engineering staff have prepared a number of business cases demonstrating where they can deliver services using in-house resources in a more cost effective manner, but Management has not taken the time to review the documents.

It is estimated that DCC is costing DND and the Taxpayers of Canada an additional \$30 million per year (minimum) with a five year projection of \$150 million.

In addition to the growth of DCC, several senior DND personal, both forces and civilian members who were responsible for directing work to DCC, have retired from DND and joined DCC in senior positions within days of departing. Although this is not considered to be a conflict of interest in terms of the Public Services Post Employment Guidelines, the optics of favoritism are extremely high and one could argue is influencing the decision to increase the amount of work going to DCC.

**RECOMMENDATION: As part of the pre-budget consultation process we ask that you direct DND management to work with their Unions to review the costs of using DCC. With 900 employees now at DCC, all of whom are paid for by DND, this area of cost is significant and determining if existing in-house resources are best positioned to deliver these services needs to be examined.**

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<sup>3</sup> Defence Construction Canada – Annual Report 2010/2011