



National Defence

Défense nationale

Deputy Minister

Sous-ministre

National Defence Headquarters
Ottawa, Ontario
K1A 0K2

Quartier général de la Défense nationale
Ottawa, (Ontario)
K1A 0K2

The Honourable John Williamson
Chair, Standing Committee on Public Accounts
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Mr. Williamson,

As agreed upon in the Government Response to the 4th Report of the Standing Committee on Public Accounts entitled *Report 3, Supplying the Canadian Armed Forces, of the 2020 Spring Reports of the Auditor General of Canada*, National Defence submits its final response to Recommendation 4.

Sincerely,

Bill Matthews

Enclosures: 1

**Response to the Standing Committee on Public Accounts
Report 4, Supplying the Canadian Armed Forces, Spring 2020 Reports of the Auditor
General of Canada**

Recommendation 4 – On Transportation Costs

That, by 30 April 2021, National Defence provide the House of Commons Standing Committee on Public Accounts with a progress report with regard to communicating the costs of all available transportation methods and providing clear guidance on how to select the mode of transportation to ensure that decisions are founded on a full understanding of costs. A final report should also be provided by 31 January 2023.

Background

In the spring 2020 report entitled *Supplying the Canadian Armed Forces – National Defence*, the Auditor General requested that DND/CAF communicate the costs of all available transportation methods and provide clear guidance on how to select the mode of transportation to ensure decisions are founded on a full understanding of costs.

DND/CAF agreed with Recommendation 4 and noted in its Management Action Plan that it was conducting a thorough review of its freight distribution system to improve effectiveness. This review involves three main streams of action: the **Distribution and Materiel Inventory Network Optimization (DMINO)** project; improving training and communication; and the introduction of a new transportation module within DND/CAF's Enterprise Resource Planning system through the **Modernization and Integration of Sustainment and Logistics (MISL)** project, which will include costing information.

An initial progress report on this review was provided to the Committee in April 2021, and a final progress update is detailed below.

Final Progress Update

Distribution and Materiel Inventory Network Optimization (DMINO)

The DMINO project is on-track to improve the efficiency and effectiveness of material transportation operations in the CAF by establishing a new Ground Distribution Network. The review is currently in the final of three phases. The first phase resulted in the creation of eight strategic scenarios for key stakeholders to consider to improve the DND/CAF material distribution and warehousing system. Phase 2 of the project led to the development of a new Scheduled Military Distribution structure and schedule, which was completed in August 2022.

The final phase of DMINO will determine the best mix of DND/CAF assets and commercial transportation, combining the new Scheduled Military Distribution and Scheduled Commercial Distribution networks. This will result in a revised Ground Distribution Network that will decrease variability in delivery schedules to 1-2 days, versus up to 21 days using the existing network. The new Ground Distribution Network will also include an automatic default to the lowest cost option to meet delivery requirements, which will require specific intervention to override. This final phase will be completed by December 2023.

Improving Communication and Training

The first phase of the DMINO project provided a baseline understanding of cost and service level deficiencies throughout the ground distribution transportation network. Since 2020, the Assistant Deputy Minister (Materiel), has used this baseline to track incremental improvements in transportation management to optimize stock levels across the network. This will continue to reduce costs and supply shortages by ensuring that stocks are replenished as required.

As indicated in the April 2021 National Defence progress update on Recommendation 4, DND/CAF policy currently mandates that costs should be considered when selecting transportation methods. Transportation costs are dependent on the provider (DND/CAF versus commercial) and mode of transportation, with internal resources reimbursed at the kilometric rate and commercial costs set within the existing National Master Standing Offer. The use of premium transportation (e.g. air freight) is reserved for high-priority requests. Key information on transportation costs has been identified for end-user training to ensure users have a full understanding of costs when making materiel-related decisions.

The National Payload Coordination Centre (NPCC) is coordinating efforts to improve communication with the CAF Base Dispatcher community, making daily and weekly contact to ensure dispatchers are fully aware of ground transportation challenges such as cost, scheduling, and reliability. The 2020 baseline has been used to measure service levels across the transportation network and adjust internal communication accordingly.

Modernization and Integration of Sustainment and Logistics (MISL)

The CAF's Modernization and Integration of Sustainment and Logistics (MISL) project will introduce a new transportation module within the DND/CAF Enterprise Resource Planning (ERP) system. This new software will merge Driver and Fleet management with Transportation management platforms, allowing for real-time tracking of material moving through the transportation cycle and streamlining financial oversight. Training material is actively being created to ensure a smooth transition for DND/CAF employees as they adjust to this platform upgrade.

Upon completion, MISL will improve the efficiency and effectiveness of DND/CAF's material distribution network to enhance the Defence Supply Chain. This integrated logistics platform will be more intuitive, transparent, and efficient in enabling the smooth operation of DND/CAF transportation activities. MISL will provide Standing Offer visibility to highlight low-cost shipping methods, alongside the ability to forecast and consolidate routes for increased efficiency. This will address how financial authorities are exercised in the selection of standard or premium service levels and is also being informed by the outcomes of the DMINO project.

The new transportation module is currently being implemented and is on schedule to be added to the ERP system by summer 2024 and go live by December 2024. The DMINO and MISL projects will continue to be fully aligned with incremental changes made since 2020 until the completion of this Defence Supply Chain overhaul by December 2024.

Continuous Improvement to the Defence Supply Chain

National Defence is providing this final update to the House Standing Committee on Public Accounts, as agreed to in the Management Action Plan response to Recommendation 4. The

Department continues to make incremental improvements through greater data collection and communication across the network, while the MISL and DMINO projects will deliver a fully integrated logistics platform by the end of 2024. The improved Ground Transportation Network will significantly reduce delivery time variability, while the new Transportation Module will direct users towards the lowest cost option and allow for the consolidation of routes.

These initiatives are collectively and continuously improving the communication of transportation costs, guiding better transportation decisions throughout DND/CAF, and ensuring greater financial tracking and transparency throughout the Defence Supply Chain.