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Chair

Mr. Tom Lukiwski

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• (1100)

[English]

The Chair (Mr. Tom Lukiwski (Moose Jaw—Lake Centre—Lanigan, CPC)): I want to welcome all of the witnesses who are with us today.

Colleagues, as you know, we're continuing our study of small and medium-sized enterprises and federal procurement.

Today we have several associations and companies with us to provide testimony. Rather than introduce all of them and their affiliations right now, I'll let the witnesses do that when they speak.

We will start in the order that I have the witnesses on my sheet, with the Association of Consulting Engineering Companies, Mr. John Gamble, president and chief executive officer.

John, you have the floor.

Mr. John Gamble (President and Chief Executive Officer, Association of Consulting Engineering Companies – Canada): Good morning, and thank you for the opportunity to be here with you.

The Association of Consulting Engineering Companies is a business association representing about 400 engineering companies across Canada. We are a federation of 12 provincial and territorial associations. Our members collectively have about 2,000 offices and employ about 60,000 Canadians, including engineers, architects, natural scientists, and land-use planners. It's very multidisciplinary.

About 80% of our firms have 50 or fewer employees, but Canada also boasts the largest engineering consulting company in the world.

We obviously welcome the opportunity to participate in public contracts. Public procurement fulfills government mandates and commitments. It allows access to expertise and experience and provides the government with flexibility and savings. It creates jobs and opportunities for Canadians and grows businesses and tax revenue. It encourages innovation, and done properly, has a fair and equitable sharing of risk and reward.

Our recommendation for public procurement of not just SMEs but all professional service firms, particularly those in the design sector, would be to adopt an existing document called, "Selecting a Professional Consultant", which was a best practice guide that was developed by the National Guide to Sustainable Municipal Infrastructure, also known as InfraGuide.

The InfraGuide is a series of documents that were developed in collaboration with the Federation of Canadian Municipalities, the National Research Council, Infrastructure Canada, and the Canadian Public Works Association. It was based on extensive research, and of the 50 best practices they developed over its lifetime, one of them specifically addresses the procurement of professional services, with engineering and architecture specifically in mind.

When they were presented with the challenge that all public sectors have of trying to achieve value in a fair and transparent process, they came to the conclusion that the public agency should be using qualifications-based selection. It attempts to address that long challenge that we've all had together. We're trying to do timely, fiscally responsible delivery and to encourage quality and innovation. At the centre of this is the public interest and the taxpayers' dollars.

It's important to know that engineering and architectural-related services only make up less than 1% of the entire life cycle of most assets we get involved in. Whether it's a building, a port, harbour, or airport, 80% to 90% of the cost ends up being the operation and maintenance. Even the capital construction is rarely more than 10% and is typically around 5%, yet that 1% that you invest in engineering and architecture has a cascading effect throughout the design life of that entire project. It's at this rather modest investment at the front that you have the opportunity to innovate, to look at new materials, new methods, and different ways of doing things.

I would therefore suggest to you that the engineering fees, the architectural fees you pay at the beginning of a project, should not be viewed as an expense to be minimized but rather an investment to be leveraged. It's at the beginning of a project when you have, figuratively speaking, a blank page. The opportunity for innovation and change is easy and inexpensive, but once you start pouring concrete, once steel goes into place, once you start writing code, the new ideas, changes, and alterations become almost exponentially more expensive until you're finally in the operational phase, which can sometimes be decades, and then you're pretty much stuck with what you've decided on. You'll end up living with engineering decisions for decades.

Procurement is the key to leveraging this. It's all about establishing common objectives and outcomes and making sure there's a mutual understanding. It's about making sure there's a clear understanding of cost-benefit relationships and clarifying the roles and responsibilities. At the end of the day, you want to make sure you have the right team for the right job and that they have adequate resources to deliver on what you have committed to the Canadian taxpayer. I would suggest that the lowest price is not the best price. The right price is the best price.

We have common challenges in public procurement. Often it will become a process unto itself rather than a means to an end. It discourages innovation, it often takes an extended period to award, and it sometimes confuses value with low price, whereas a good procurement system will clearly define scope, outcomes, and objectives. It evaluates what actually distinguishes the proponents from each other, as opposed to pages and pages of boilerplate. It fairly shares risk and reward. It rewards proposals that add value and that propose innovation.

- (1105)

It uses a short list where necessary because writing proposals is very expensive for the industry, particularly SMEs, and it considers the life cycle of the project and focuses on the best value rather than the lowest price.

We find that when the lowest price is assumed to be the best price, proponents will minimally interpret the scope of work in order to be competitive. That means they are not looking at alternatives, they are not looking at the value-adds. It will actually penalize you if you propose innovation. It will actually penalize you if you anticipate difficulties that might arise in subsequent construction phases or even in the operations. Consequently, significant life-cycle savings are sacrificed in favour of short-term savings. There's a saying in our industry that sometimes if you know too much about your clients' needs, it's the kiss of death if you want to win the job.

Many public agencies say we only use 20% price, or 40% price, or 10% price. In the handout I have provided to the clerk, you will see that sometimes if the 20% is scored from zero to 20, and the qualifications are all scored in a narrow band, the price will still dominate. Your proponents interpret that as "I have to minimally interpret the scope of work." Consequently, surprises during construction downstream should really not be surprises.

The best practice known as qualifications-based selection is very much like the job interview process. You request the qualifications, you evaluate and rank your proponents, and you ask for proposals from the front-runners. Then you sit down and interview in most cases, and you select the highest-ranked consultant. At this point, you have not yet asked for a fee submission. You take your top-ranked proponent, you sit down with that person, and you make sure you have a mutual understanding of the project's scope and outcomes. It allows the owner to say, "You know what? We would like to do more of this and less of this." It actually allows the owner more fidelity with the outcome, and you can make sure the fees correspond to the outcome, to the risk, and to your consultant's level of effort. Then you can award the assignment.

If you can't come to terms, just like a job interview, then perhaps you agree to split company. Just like anyone else, we prefer not to

get jobs because we were the low bidder. We prefer to showcase what we can bring to the table. We want to show that we can add value to the organization. If we're liked by the potential employer, then we discuss terms. If we can't agree to those terms, then perhaps they go to someone else. No one says you have to blow your budget. You can work within your budget, just like we do as employers.

Qualifications-based selection is supported not only by the ACEC but also by the Royal Architectural Institute of Canada, Engineers Canada, the International Federation of Consulting Engineers, the American Public Works Association, and organizations worldwide.

I provided you with a number of studies that have been done. This has been done for 40 years in the States. In fact, it's legislated that if the federal government is going to buy engineering or architectural services, it must use qualifications-based selection. Furthermore, if you are receiving funding from the federal government to do projects, you must also use qualifications-based selection. After 40 years there was an extensive study of 200 projects. They found that using qualifications-based selection with a post-negotiated fee with engineers and architects reduced construction overruns by 70%. Schedule overruns were reduced by 20%. Most owners said they received better service and had a greater ability to deal with societal issues.

In summary, you get the right outcomes, the right team, realistic schedules and budgets, fewer change orders and disputes, a better business relationship, and at the end of the day, better service, better quality, and better value for taxpayers.

The good news is that we are in discussions with PSPC about a pilot project. We hope this will take place over the course of 2018, with ROIs to go out. I want to congratulate PSPC and assistant deputy minister Reza for taking on this challenge. There is a lot of evidence out there. As I say, this is not a new and crazy idea. It was validated 10 years ago by InfraGuide, a publication written by the public sector for the public sector.

In conclusion, while putting price aside at the beginning might be counterintuitive to public procurement, the physicist Albert Einstein said that "not everything that counts can be counted and not everything that can be counted counts."

●(1110)

I believe that our industry, SMEs, and large firms could provide better service and better outcomes for the government if it were to adopt qualifications-based selection as recommended by InfraGuide 10 years ago, as has been commonly carried out by the United States, has been used by the City of Calgary for many years, and we have upcoming pilots from Transportation Alberta and Metrolinks as well as PSPC.

Thank you for your time and your attention.

The Chair: Thank you very much.

Next, we'll have from Brookfield Global Integrated Solutions, Mr. Gordon Hicks.

Mr. Hicks, you have 10 minutes, please.

Mr. Gordon Hicks (Chief Executive Officer, Brookfield Global Integrated Solutions): Thank you.

I'll start by giving an overview of BGIS, as we're now known. Brookfield Global Integrated Solutions was our previous name.

Founded in 1992, BGIS Global Integrated Solutions provides a full range of consulting, management, and delivery services for occupiers of real estate to improve their business performance. Globally, we manage 320 million square feet across 30,000-plus locations.

Our goal is to deliver innovative business solutions for our clients, continually creating stakeholder value and supporting them in achieving their business objectives. We also strive to be a role model for sustainable operating practices and portfolio strategies. BGIS's Canadian operations have become the largest provider of integrated real estate services in our country with more than 4,500 employees delivering services across Canada. Our scale and reach across Canada ensures our clients an unparalleled level of support across their portfolios.

In a business world of unprecedented change and competitive pressures, BGIS is committed to pursuing new and better ways of delivering services for clients to enable them to drive their businesses forward. We pride ourselves on being a leader in our industry when it comes to corporate social responsibility and giving back to the communities in which we operate.

Our annual CSR report summarizes our sustainable practices and achievements while highlighting the strategies and goals we've created for our company moving forward. As BGIS now celebrates 25 years having started here in Canada as a Canadian organization providing facility management services across the real estate industry, promoting awareness of sustainable business practices remains a key priority, and we remain a key driver in this sense in our industry.

We have a number of objectives related to sustainability, including our 20/20/20 goal of reducing energy, waste, and water, and we drive this across our business environment, across our industry. We have demonstrated our leadership through our actions in diverting our waste and reducing our water consumption, as well as obviously reducing our energy intensity across our facilities and supporting our clients in reducing theirs.

For two years running, *Corporate Knights* magazine has recognized BGIS as one of the future 40 responsible corporate leaders in Canada in this regard, and we're ranked first out of four in the real estate management development category as defined under the global industry classification standard.

In 2015 we announced the Building Energy Innovators Council, which is a small, not-for-profit organization established to support the clean tech industry and the small to medium-sized enterprises in that industry to bring their new services and solutions to the market and leverage our portfolio globally as well as across Canada to enable them to achieve that goal.

We've raised over \$400,000 annually for 34 charities and continue to work to build better communities across our nation.

Concerning PSPC's RP1 and RP2, our organization is a very large service provider to the federal government and in particular, PSPC's real property division. Our contracts in this regard consist of the delivery of diverse real property services for crown-owned and leased government assets. The scope of work includes property management, project delivery, and lease administration services for numerous Government of Canada custodians. Services delivered under these contracts include items such as operations and maintenance, repair for mechanical and electrical systems, building cleaning, and the delivery of construction projects. Collectively under the real property agreements, BGIS is responsible for managing approximately 1,900 locations across five million square metres of space.

The RP1 contracts represent six separate regional agreements including Pacific, Western, Ontario, Quebec, Atlantic, and the national capital region. These RP1 contracts commenced in April 2015, and run for a seven-year term initially and then six years of options.

Concerning RP2, this particular contract is a subset in the national capital region. It started in May 2013 and runs through to 2025 with options.

In providing these services delivered through the real property agreements, BGIS subcontracts in excess of 80% of the available spend it manages on behalf of the government. As such, BGIS understands the importance of maintaining access to a large and diverse list of vendors, including small and medium-sized enterprises. Subcontractor support is critical in the success of our delivery of these services.

●(1115)

Our procurement approach to real property contracts transfers total service delivery responsibility to BGIS for the services covered within the statement of work. With some exceptions, BGIS is principal contractor in the delivery of services and utilizes its own procurement policies and procedures and contract documentation when subcontracting these services, with the requirement that BGIS's subcontract conditions are compatible with those in the real property contracts and not less favourable to Canada.

BGIS also works with PSPC to pursue avenues for leveraging and implementing federal procurement programs such as the build in Canada innovation program, BCIP, with the real property contracts. We create industry awareness of these programs through our industry contacts and ultimately through all of our members of the Building Energy Innovators Council, which engages small and medium-sized enterprises, as stated earlier, in the clean tech sector.

BGIS consistently applies procurement policies and contracting processes that have been designed to ensure best value to Canada. In all of our procurements, BGIS aligns the contractual requirements of our RP1 and RP2 contracts and is also considerate of additional government policies, guidelines, and strategies including such things as the security requirements, which recently have actually become more onerous for this sector.

With regard to supplier engagement, BGIS is responsible for applying procurement and contracting processes that ensure value to Canada and represent cost efficiency, quality of services, and appropriate risk mitigation. Under these contracts, we are responsible for ensuring that procurement activities are conducted in an open, fair, transparent, and accessible manner and provide ongoing opportunities for participation throughout the industry.

BGIS makes every effort to ensure that procurement activities are inclusive of all vendors. Our objective is to provide and maintain a diverse supply chain that is reflective of our communities, employees, client base, and values. We recognize that small and medium-sized enterprises are a core component of our supply chain.

While no consistent governmental or industry certification standard exists to allow for consolidated tracking and reporting of this group, BGIS analyzes its own data sources to identify our subcontracting volume in this sector. Based on The Conference Board of Canada's guidelines regarding small and medium-sized enterprises, we estimate that over 90% of our supplier base utilized in supporting these real property contracts is in fact made up of small and medium-sized enterprises totalling approximately 75% of the annual recurring spend.

BGIS does not establish targets for SME utilization due to competitive procurement activity requirements of openness, fairness, and transparency. However, our goal is indeed to provide accessibility for all opportunities and the associated information to this diverse supply chain.

In order to accomplish this objective, we're actively engaged in a number of industry associations: Aboriginal and Minority Supplier Council, women-owned business enterprises, Canadian Gay and Lesbian Chamber of Commerce, Canadian Federation of Independent Business, Office of Small and Medium Enterprises, Canadian Construction Association, Association de la construction du Québec, Royal Architectural Institute of Canada, Association of Consulting Engineering Companies, and Bureau canadien de certification intégrité. Our vice-president of operations actually sits on the board of this organization.

We have a number of engagement strategies also to ensure that we're staying engaged with local associations and their membership. These outreach activities include meetings, presentations, social media, and other outreach activities.

BGIS makes every effort to work with industry, to respond to industry concerns, adjusting our processes as necessary in order to facilitate continued access and opportunity for all vendors, a recent example being adjustments to procurement processes for construction projects of less than \$1 million. I've provided the link in the handout.

BGIS provides communication of opportunities through various social media platforms along with communication channels through industry associations. We deliver accessibility of opportunities by leveraging an electronic bidding tool, providing enhanced access, promoting efficiency, and utilizing an open, fair, transparent, and accessible platform available to all enterprises.

Thank you.

• (1120)

The Chair: Thank you very much.

Now representing the Canadian Printer Supplier Coalition, we have both Mr. Dave Montuoro and Mr. Hugh Ralph.

Gentlemen, I understand you'll be sharing time. You have about 10 minutes between the two of you.

Mr. Hugh Ralph (Director of Direct Sales, Business Solutions Division, Sharp Electronics of Canada Ltd.): Good morning and thank you, Chair.

Thank you to the entire committee for inviting us to speak to you today.

My name is Hugh Ralph, and I'm the director of direct sales at Sharp Electronics of Canada. Seated beside me is Dave Montuoro, who is a competitor of mine at Canon Canada. The two of us are such fierce competitors that it's hard to get us in the same room, let alone speak to you with one common voice here today.

What we're here to speak about is really a case study of how not to do a federal procurement, a procurement that will eliminate competition and significantly hurt small and medium-sized businesses across Canada.

Shared Services Canada is in the middle of a plan to consolidate how the federal government procures printers and copiers. The Shared Services plan will create an oligopoly of very large suppliers that will inevitably drive up prices, drive down service levels, and of particular concern, it's a plan that will undermine the small and medium-sized businesses that make up our service and sales dealers across the country.

For example, Sharp Canada has 77 dealer partners with offices in 138 communities from coast to coast to coast. These are the small and medium-sized businesses that I'm speaking about.

I'll pause here and let Dave introduce himself.

Mr. Dave Montuoro (National Sales Manager, Federal Government Accounts, Canon Canada Inc.): Thank you.

Thank you, Chair, and thank you to the entire committee for inviting us to speak today.

My name is Dave Montuoro. I'm the manager of the federal government accounts for Canon Canada.

Canon Canada has 54 independent dealer partners working across the country. The federal government spends about \$60 million a year on printers, copiers, and their related services. The current printer and copier procurement system works very well for us, for government, and especially for small businesses. In the current procurement system, there are 12 qualified companies that are eligible to supply imaging and printing equipment across 25 categories of equipment, ranging anywhere from your single function desktop printer right up to your large floor-standing, multi-function printers.

If you work in a federal department, agency, or crown corporation and you're in charge of acquiring printing equipment, you simply go to a government-dedicated website, look at the products available in the equipment category you're interested in, and select one. It's easy, it's efficient, and it guarantees the best price.

Since every supplier can see the prices offered by every other supplier, and with 12 companies fighting over this business, the competition is fierce, with suppliers continuously lowering pricing below normal retail rates. This stiff competition has also driven the companies to provide the highest service levels to their government customers.

Shared Services Canada is planning on eliminating the system and in the process removing at least nine companies from this competition. They will reduce the number of qualified suppliers from 12 to at most three. This is not competition; this is an oligopoly. A monopoly is one company. An oligopoly is two or three companies operating in a cosy relationship.

They say that through this oligopoly Shared Services Canada will create cost savings and increase efficiencies government-wide. That doesn't make any sense to me.

Hugh.

• (1125)

Mr. Hugh Ralph: It doesn't make sense to me either, Dave. With the removal of these nine suppliers, Shared Services Canada is also removing that fierce competition that's led to low pricing and top-notch service levels in recent years.

In our view, this is a Shared Services Canada solution in search of a problem. The government has publicly stated that it wants government procurement to be more open, more agile, and innovative. It appears to us that Shared Services Canada didn't get the memo. They're taking an open and agile process that allows government to access innovation within the print industry and changing it to a closed process that will be locked for a minimum of six to eight years. This will limit the government's access to new and innovative technologies constantly emerging in our dynamic industry.

The Government of Canada is by far and away the largest single buyer of printers, copiers, and related support services in the country. Shared Services Canada's plan for these office printers and copiers hurts many dealers in smaller communities across Canada, especially those in the more remote regions of the country where federal government contracts support jobs and help our local dealer partners validate the quality of the products and services they offer to the other companies in their communities.

Dave.

Mr. Dave Montuoro: The Shared Services Canada plan will hurt small businesses, like Klondike Business Solutions. Klondike is an indigenous-owned and -operated small business based in Whitehorse and one of our dealers that relies on federal government business. The plan will hurt companies like Modern Business Equipment. This is a business owned by a woman entrepreneur named Judy Mallard. It employs more than two dozen people and has been a business for over 50 years in St. John's and Corner Brook, Newfoundland. The plan will hurt companies like TOP Office Products in Brockville that is owned by Jan and Carol Risberg and currently supporting four other employees. Jan is actually sitting behind me here.

He wanted to attend this hearing today because he's so concerned about the effect SSC's plan will have on his business. There are dozens and dozens of dealers and small business people just like these whose business will be undermined by SSC's plan to end competition. These are proud people. They're not looking for handouts. They just want to be able to compete for government business as they always have. The government needs to stop Shared Services Canada from implementing its plans for office printers and copiers or at least modify it, so that it doesn't hurt the small and medium-sized businesses that make up our dealer networks. Canon and Sharp and our 132 dealers across Canada just want to compete.

Thank you again to the committee for inviting us to speak. We'd be happy to do our best to answer any questions you might have for us.

The Chair: Thank you very much.

Finally, we have from Vard Marine, Mr. Andrew Kendrick.

Go ahead, Mr. Kendrick.

Mr. Andrew Kendrick (Vice-President, Operations, Vard Marine Inc.): Mr. Chairman and ladies and gentlemen, thank you for the opportunity to appear in front of this committee. Improving government procurement is, in our company's opinion, a real priority for the health of Canada's economy and for the perception of Canada's government by its taxpayers.

I'll say just a few words to provide context about Vard Marine. We are an SME. We are about 110 people, 90 of whom are in Canada. We are headquartered in Vancouver, and my office is here in Ottawa. We design ships, and we do related marine consulting.

In Canada, we're responsible for the design of the Arctic offshore patrol ships and the new polar icebreaker. We have recently finished the design of a new Antarctic icebreaker for Chile. We design ferries for companies such as Seaspans Ferries, BC Ferries, and STQ in Quebec.

Also, we are completely global. At the moment, our projects include countries from Senegal and Turkmenistan to Taiwan and South Africa. We have experience of a very wide range of procurement systems in both the government and the private sectors.

Because my time is limited, I will summarize and paraphrase some of the remarks in the written material I have provided to the clerk. Thankfully, I'm helped in that by the submission from Mr. Gamble, to almost all of which we would just say, "Hear, hear!"

I do have a few other things that I'd like to emphasize.

Our company's general impression of Canadian government procurement is that it's extremely well intentioned. It sets out to apply sound principles of fairness, openness, and transparency. Unfortunately, the internal problems of the system mean that it often achieves quite poor outcomes and all too frequently manages no outcomes at all.

Changes to the processes in recent years have often been counterproductive, and that's particularly the case for small and medium-sized companies and innovative companies. The changes have driven up our costs of doing business, increased project timelines, and considerably increased project uncertainties.

The government's procurement expertise is spread very thin. This has been acknowledged by a number of government officials, and our own experience confirms it. I'll try to provide a few examples of some of these points.

The government is increasingly using requests for information, industry consultation sessions, and releases of draft requests for proposals to solicit input from industry. The intention is completely laudable. It's to try to ensure that a final request for proposals is as good as possible, but this, from our perspective as an SME, is free consulting. It takes time. It takes money. We cannot afford to send people across the country for consultation sessions. Also, it skews the outcome of the process towards larger companies that have lobbyists who can afford to do this. What we often see happening is that it makes the procurements more complex. Adding complexity does not help us, and we don't believe it adds help for the government.

In recognition of some problems, the government has been making increasing use of supply arrangements and standing offers. This is a way of simplifying things, potentially, but it's not always conducted terribly well.

A number of government departments are making increasing use of one mechanism, ProServices, which started off as an IT vehicle and is now being expanded to other things. From the engineer's perspective, it's interesting that in that mechanism all engineers are lumped into a single category of "engineer", whereas you have another category for badges, insignia, and ceremonial accoutrements technologist. I'm not sure that their relative contributions to the Canadian economy are on the same level.

I do realize how important the insignia are.

What this means is that when departments use this vehicle, they create a whole new RFP process within it and quite often, in our experience, they get it wrong.

We were recently asked to bid on a requirement that had already gone out to tender twice and failed twice because the qualifications requirements that were being asked for just didn't exist in the Canadian industry. We could have done this, except that we were asked to provide somebody with a Canadian degree as our subject matter expert. We have many professional engineers and many people with other degrees, but none of the ones that were relevant were from Canadian universities. We don't understand why that was asked for.

I won't talk about low bid. Low bid has been covered off already, and very well.

What's even worse than low bid is low rate, and that often appears in these supply arrangements. If the government is really interested in finding the engineer who will charge the lowest hourly rate, then shame on the government: they are probably not the engineers you want. It's a far worse mechanism than low bid for a package of services.

● (1130)

Social engineering aspects, which we see in the large contracts— industrial regional benefits, industrial technical benefits, value propositions—are not easy for SMEs to handle. We can provide 100% Canadian content because we are 100%, but when we get into things like value propositions, this is difficult. The terminology is difficult. You have a few specialists who will give you consulting advice on this, for which you have to pay handsomely. They don't always have the same opinions on what's required, nor does the government. Further, there's another problem, which is that the time frames for these are often out of step with the procurements. Setting up a consortium R and D project with Canadian universities and other Canadian companies involves NSERC approvals and other mechanisms. We just can't get the time frames to match on these.

Before getting into a few recommendations, which we offer purely as our suggestions, I went through some of the earlier testimony to this committee looking at ideas such as set-asides. On small business set-asides, indigenous people set-asides, women's set-asides, we have experience with these in other countries. We caution you, if you are going to go down that road, to do it very carefully. What we see happening—and this is particularly the case in the U.S.—is that these privileged organizations now start to act as gatekeepers. They're not actually achieving trickle-down effects; they're merely increasing the cost of providing the services.

We are a matrix organization. My project manager in our single largest project at the moment is a woman. Recently one of my staff in Ottawa was named one of the outstanding female engineers in Ontario by Professional Engineers Ontario. I fail to see how it would help them if we failed to win government contracts, and instead were replaced by women-owned businesses.

We decided to make some recommendations for things that we think could be done better. We offer these up as part of a menu that you should consider, and certainly not going against what John Gamble was talking about earlier, which are all good recommendations as well. We don't see there being a one-size-fits-all solution for contracting; it's different depending on whether you're buying printer services or real estate or engineering, so all of these have to be looked at sensibly.

Here they are in no particular order. One thing is that, since I arrived in Canada, which was in 1981, your threshold for sole-sourcing has been \$25,000. In fact it's gone down because that now includes the tax. That increases the burden on contracting. It makes it more difficult. I realize that sole-sourcing is not popular, but some of what you're doing instead creates sole sources. It creates sheer monopolies. What we see with national defence is that it awards 10-, 15-, and 20-year contracts to single organizations, which essentially become sole-source; and with all respect to the incumbents, it increases the temptation to charge as much as the market will bear. We think you should really look at what's possible under procurement rules, to reduce the number of contracts you actually put out on the street while avoiding sole-sourcing.

One thing we'd like to see is that you declare your budgets. Particularly in the consulting world you can have a \$10,000, \$100,000, or \$1-million solution. Please tell us what you want.

You need to also display price realism.

To reduce the burden on industry, have page-count limits on proposals. This is done in the U.S. and in many other places. We've been in on the design of the polar icebreaker. Our proposal was longer than the design and build, which the U.S. government is looking for, for its polar icebreaker.

Please look at our past performance. Please evaluate it. We'd really like that.

I'll leave you with one other point, which is innovation. Fifteen to 20 years ago, the government encouraged innovation through the unsolicited proposals program. The build in Canada innovation program is a good but partial substitute. It only covers build in Canada, and that's a small fraction of our economy.

There are many other items we'd like to propose solutions for. I'll leave the rest of it to any questions you may ask.

Thank you again.

● (1135)

The Chair: Thank you very much, to all of our witnesses.

Colleagues, here's one little point of business. We will suspend around 12:45 p.m. I have about 15 minutes' worth of committee business, dealing primarily with the upcoming calendar and where our next meetings will take us.

With that, now we'll go to our normal round of seven-minute interventions, starting with Mr. Jowhari.

Mr. Majid Jowhari (Richmond Hill, Lib.): Welcome to our witnesses, and thank you for your great testimony.

I'm going to start with Mr. Kendrick. You specifically mentioned that government procurement expertise is diminishing. I want to go back and try to get an understanding of what you specifically meant by government procurement expertise, and in what specific area.

Mr. Andrew Kendrick: Let's take National Defence as an example. They have a very ambitious procurement program which is coming up at the moment, and because they haven't had any major procurements for many years, they don't have enough staff to deal with this. This has been said by DND; it's been said by PSPC. They need to rejuvenate that expertise, and that's a tricky task. Twenty or

30 years ago, many of the people who were in government procurement were from the industry. They were recruited into industry at various stages in their career. They understood how industry worked. That seems to have become increasingly difficult. What we see now is a lot of very junior people who don't understand how the industry works, trying to make decisions without having the background. We see the consequences of that in some of the rather poor procurement documentation that comes out on the street.

Mr. Majid Jowhari: You also touched on the fact that the size of the procurement bids are getting larger, and you wanted to limit the number of pages or page counts. Can you touch on that?

● (1140)

Mr. Andrew Kendrick: It's something that we see elsewhere in the world. I mentioned the U.S., Australia, South Africa where we've done proposals recently. They will say that you're limited to 20 pages for your technical proposal. We very rarely see that in Canada. As I said, on our polar icebreaker proposal, which we won, our proposal was 500 pages thick. That's a significant volume of effort to create documents like that.

Our opinion is that if you can't present your intentions in a relatively small document, then you probably don't deserve to get the job.

Mr. Majid Jowhari: Probably that would be a nice thing. If the expertise is there, you could clearly state your requirement and make it much shorter. Okay.

I'm going to go to Mr. Ralph and Mr. Montuoro. You said that Shared Services Canada is creating this oligopoly. I'm glad I got the term right. Let me understand. Going from 12 to three, in your opinion, why is Shared Services Canada doing this?

Mr. Hugh Ralph: In my opinion, they are undertaking this process with a view to centralization, which will allow them to create efficiencies from a cost perspective and across the total range of devices that the federal government procures. In our experience, a couple truisms come into play. One is where there's mystery, there's margin. What they're moving towards is what's referred to in the industry as "a managed print solution", so it's not just for the hardware, but also for a variety of professional services' elements that aren't being bid and competed as part of this process, but will be part of the award. Hence my comment around where there's mystery, there's margin.

I've worked in the industry for 30-plus years, primarily in Canada, but also in the U.K. and the U.S. In some ways, this structure will allow the three successful proponents, if there are that many, to add price flexibility and margin attainment through the professional services piece and to no longer compete as aggressively on the price of the hardware. Their goal is—and will be stated I'm sure—"this will allow us to control, centralize, and drive cost savings for the government". However, in our experience, while that might work in a private sector model—large global companies with command and control can do that—in a decentralized decision-making environment such as your departments and agencies, it's fraught with difficulty and not prone to success.

Mr. Majid Jowhari: Mr. Montuoro, do you want to add anything to that?

Mr. Dave Montuoro: We asked these questions during the industry engagement pieces. The answer always seems to be that it will be easier to manage, "we will only have to vet equipment from three companies versus vetting equipment from 12 companies". It really comes down to making their lives easier in managing this procurement vehicle.

Our response to that was you're not really managing it today. The way the process works now is we go through a third party known as NSTL, where they do the vetting of the equipment and we pay for that vetting. Previously, when Public Works was managing this standing offer, it was set up that way. We don't really see any reason to move away from that—

Mr. Majid Jowhari: I want to get to Mr. Gamble and talk about qualification-based selection. You basically said to put the pricing last. First, make sure there's qualification-based selection and open it up to small businesses, then bring in your concept of innovation, and at the end bring the prices.

Can you tell me which countries or jurisdictions have done this and what kind of success they've had? What do you consider as the barrier? I want to give you the opportunity to talk about some of the best practices.

Mr. John Gamble: It's counterintuitive. The United States has been doing this for 40 years. Included in the USB I gave to the clerk, there's an extensive study they've done. I provided the InfraGuide document itself. The City of Calgary has been doing it for many decades, and it's done it very successfully. They would be a very good example, and you might consider inviting Jennifer Enns if you want to learn more about this. It has worked very well in the States, and it yields significant reductions in construction cost overruns and schedule slippage, if you do the engineering and architecture right.

• (1145)

Mr. Majid Jowhari: I was hoping to tie it to the expertise.

The Chair: Mr. McCauley.

Mr. Kelly McCauley (Edmonton West, CPC): Thank you, gentlemen.

Mr. Gamble, we've heard repeatedly about the difficulty with our RFP process. My favourite was for the fixed-wing search and rescue. I think it was 38,000 pages, and they still overlooked that the government was willing to spend an extra billion dollars that wasn't listed in the RFP.

How is it different dealing with private sector businesses, as opposed to the government with their RFPs? Give me some best practices. Would you just trim out items in the government RFP? We heard about issues such as having to put in unlimited liability. We heard issues of having to have social structure built in. Just give me some feedback on what we need to trim out on the government side.

Mr. John Gamble: In fairness to the government, the private sector clients are among the very best and the worst. Government is sort of predictable; they're a little bit of the devil you know. I think the RFPs often presume an outcome. The way they're structured, they're looking for professionals to come in and produce drawings for production, rather than propose solutions.

Qualifications-based selection is like hiring a person onto your staff and hoping they don't do work to rule. You're asking who buys into your vision. I think it was Bill Gates who said he didn't hire smart people so he could tell them what to do; he hired smart people so they could tell him what to do.

What they discovered in the United States and in the City of London, where they did the same thing, was that the procurement time took less money and wards happened faster. Ask what they can you do for you, how they can get the project over the goal line. Once you have the preferred consultant, then you can sit down and jointly develop a detailed scope with corresponding fees. We have 40 years of experience in the United States and this seems to work very well.

Mr. Kelly McCauley: Apples to apples, how much more expensive are government projects than similar projects in the private sector?

Mr. John Gamble: That's difficult to say. Some private clients are absolutely dreadful; they actually do reverse auctions. Others sole-source, because they can. Others will say you did a great job on the last one, and as long as the price isn't out of their budget you can continue. It's difficult because there's no such thing as apples to apples in the private sector.

Mr. Kelly McCauley: Could you give us some examples of what we could learn from some of the good ones in the private sector?

Mr. John Gamble: You should emulate the ones that do qualifications-based selection.

Mr. Kelly McCauley: Okay, but you touched on that already.

Mr. John Gamble: There may be extraordinary circumstances. We don't even rule out sole-sourcing if there's a compelling public policy or security reason. The procurement process can be very expensive. I think if we had a criticism of government procurement, it would be that it's such an expensive process. What proponents are aggravated by is that if you do 500 pages of document, about 450 of those pages are the same from every proponent, but it's very expensive to do. You want to cut to the chase.

Mr. Kelly McCauley: That's what we hear repeatedly—it's expensive, it's difficult, and it doesn't necessarily provide proper outcomes.

Mr. John Gamble: Exactly. You want to get to what is actually allowing the proponents to distinguish themselves from one another. Give them the chance to say what they would do differently, what they would do to add value to the project or policy.

Mr. Kelly McCauley: Mr. Kendrick, thanks for your information. I was out visiting Robert Allan a little while ago. I need to pop in and see your outfit the next time I'm in Vancouver. You made a great comment about being well-intentioned, but we know where good intentions lead.

I'm wondering if you could give us some feedback. You deal with the private sector, building ferries with other governments. What are we doing wrong? What are they doing better than us? Could you give us a quick rundown on what you think we need to tackle?

Mr. Andrew Kendrick: Certainly some of the private sector clients we most enjoy working with are the ones who bring us in early, as Mr. Gamble was saying, and treat us as part of an integrated project team. I don't like that terminology but it's sometimes useful.

Don't dictate the solution. Tell us what you want to achieve and then we'll work with you to achieve that. A good example is our work with Seaspan Ferries. They weren't sure at the start if they wanted to have a new ship to run their services to Vancouver Island or if they wanted to do this with tugs and barges or what, so we went through a beauty contest. We convinced them that we were the people they should be talking to, and then we worked together and achieved a very successful result, I believe. The first two ships have been developed. A second batch is now just going out to contract. They are tremendously innovative vessels. They run on LNG fuel with battery hybrid backup—

• (1150)

Mr. Kelly McCauley: If we could just back up a bit, who else was bidding on that then besides you?

Mr. Andrew Kendrick: My old friend and yours, Robert Allan.

Mr. Kelly McCauley: Okay. Walk us through, just quickly, the procurement process if they were able to get to you very fast, whereas for us, the government, it would take probably 15 years.

Mr. Andrew Kendrick: They asked us for ideas. Cost was not a factor. It was, here's our problem, how would you go about dealing with it? We gave them a set of ideas and they picked among the bids. I believe they got three or four people who proposed in response to that, and away we went.

The government's not comfortable with that, and part of the reason is that it requires expertise. It comes back to the earlier point. If you have people in procurement who really are not sure of what they are

doing, then they tend to default to ticks and boxes. Does so-and-so have 10 years of experience doing this? Tick. Does he have a degree in this? Tick. Has he done this exact same thing before? It doesn't encourage innovation.

Mr. Kelly McCauley: One of the issues we have heard repeatedly is the past experience where you could have the most brilliant young mind but because they haven't done it 15 times before they are excluded from a contract.

Mr. Andrew Kendrick: I told a Public Works guy a few years ago that they would have refused to accept Alexander the Great as a general or Mozart as a composer. They just didn't have enough years experience under their belt.

Mr. Kelly McCauley: How much is that and how much is just our general risk aversion? If I look at Seaspan, one bad design, like a Fast Cat type of thing, could sink the whole company, yet they seem quite happy to roll the dice with this process whereas government's not going to sink and yet we still are massively risk averse.

The Chair: Give a short answer if you could, Mr. Kendrick.

Mr. Andrew Kendrick: I don't understand it and I wish it could be changed. What the government really needs to work on is figuring out where risk should reside. Not all risk should go to the contractor. Some should stay with the government. That's a key principle.

The Chair: Mr. Masse, for seven minutes, please.

Mr. Brian Masse (Windsor West, NDP): Thank you, gentlemen, for being here today.

Mr. Kendrick, I'll continue with human resource capacity and not having the expertise. Has that heightened over the last five years or the last couple of years? What has taken place in terms of public servants who formerly had some experience in both the private and the public sector to help facilitate and transition projects from basically the paperwork to the shop floor? What's taking place there?

Mr. Andrew Kendrick: I can't really talk to all that's going on within the government, but there's been a demographic transition. A lot of the older and more experienced people have retired. A number of the other people who have the expertise within the departments, have been promoted, and unfortunately that leaves the inexperienced people with the day-to-day responsibility for getting the RFPs out on the street. The big difference between how this is seen on the government side and how this is seen on the industry side is that responding to requests for proposal is the most important thing we do. If we don't win work, we're out of business, so it's handled by very senior, very experienced people in our organizations. On the opposite side of the table are the 20 and 30 year olds, and there is not adequate quality assurance of the documentation that goes out. Some of it is just really poor.

The government needs to work on its processes but because it doesn't have enough expertise internally, that tends to fall to the bottom of the queue. There is the essential of getting an RFP out because department X wants something done. The government is not a learning organization. It's not an organization that practises continuous improvement.

We are all required to have ISO 9000 certification. There is no equivalent, from our perspective, going on in the government.

Mr. Brian Masse: Mr. Ralph and Mr. Montuoro, in your opinion, what type of outreach is there available to help facilitate SMEs to even dream of making the decision to perhaps bid on a contract? One of the benefits of having a government contract and also any government business is the guaranteed cheque. That should be one of the elements.

I come from the tool and die mould-making auto industry. In the auto industry, tier two and tier three suppliers have to carry debt loads for contracts they win to the larger automotive companies. They don't get paid for half a year to up to a year and end up having borrowing costs as part of an inefficient model of competing. I raise that as an issue, but one of the things they do get out of the government contracts is a stable, set procurement payment that is sound and predictable.

What is happening in your eyes as to federal public servants and support to facilitate fair competition to get SMEs into the game?

• (1155)

Mr. Dave Montuoro: One of the points I make is that the current system works well. It serves government well. It serves the manufacturer well, and it serves small and medium-sized enterprises well. For the dealer or the small business, the government business is, first of all, a validation. It's a guaranteed source of income that allows them to operate their business, so it's a baseline support for them, which then allows them to go out and be competitive and profitable in other areas of the business in their regions.

That's kind of what we alluded to. Our argument is that the current system works well and supports SMEs across the country. The new procurement vehicle would not do that. It would eliminate all of these SMEs from doing any business at all with federal departments.

Mr. Brian Masse: My point is that it is a stable part of an operating revenue stream coming in that gives them predictability to work on other projects, and they don't get the same benefits perhaps from other private sector contracts.

What about supports, though, in terms of expanding or trying to get into other procurement? Is that something that is out there that you're worried about with the transition here? What's been offered to those organizations and those companies that have current contracts that ameliorate the problems you foresee? Has there been any outreach? Have there been any supports under the new process to bridge that gap and to create some fairness that way?

Mr. Hugh Ralph: The Shared Services process that's still under way has such size and scale requirements embedded into their invitation to qualify process that we, at Sharp Canada, as the OEM, were precluded from bidding. All of our dealer partners are now automatically locked out, once this is awarded for the six-to-eight-year time frame that I referenced.

As an example, there were four or five criteria that were mandatory pass/fail that were purely based on the size and scale of your business in Canada as the OEM. I think there are 12 proponents currently supplying the federal government, and only seven organizations bid. Five were eliminated out of the gate even after industry consultation by Shared Services, which was long and extensive. I give them due credit for that, but they ignored the voices. Consultation is one thing, actually hearing it is another, where people like myself wrote submissions suggesting that would be the outcome of "large is big" and "better is great".

Mr. Brian Masse: On the Hill, I think there's a lack of public and institutional understanding of how large, changed, and radical Shared Services is. That even affected our Canada census in terms of procurement and securing and protecting data and the use of the data for statistics surveys in the market.

The Chair: Unfortunately, we're going to have to stop there.

Mr. Peterson.

Mr. Kyle Peterson (Newmarket—Aurora, Lib.): Thank you, Mr. Chair, and thank you to everyone for being here. It's a good cross-section of industry at the table today and it's nice to hear the different perspectives.

I just want to focus first on Hugh and Dave and talk about the situation you find yourselves in. Am I right in hearing that the status quo is working great? Is that how we would like to see it or is there improvement that can help reach the outcomes that are not proposed by Shared Services?

• (1200)

Mr. Hugh Ralph: Based on extensive industry background and experience, if managed print services is a direction the federal government would like to go and implement, I'm not convinced. In fact, I'm strongly opposed to the fact that it should be managed print services from only three proponents. A number of the submissions in the consultation phase said that the feedback from suppliers and the feedback from our customers, the departments, was that individual companies have regional expertise. Modern, for example, services frigates that come into the port in St. John's. It turns the photocopier service around as part of getting them back out to patrol. There local expertise that is totally ignored by this procurement process.

Mr. Kyle Peterson: Okay.

Go ahead, Dave.

Mr. Dave Montuoro: One of the points that I'll make is exactly what Mr. Kendrick alluded to regarding your procurements, where you have these check boxes. The check boxes don't really give you what you're looking for in your end result. The fact that one company has 60,000 devices installed across Canada doesn't mean that they can provide a better service for the government. Hugh mentioned that there were companies that were precluded from even bidding, as part of this ITQ. Only two companies were able to bid on their own. The rest of the companies that did bid were forced to bid as a partnership or as a joint venture. We actually bid as a partnership with a competitor, which, in our business, doesn't really make a lot of sense to us.

Mr. Kyle Peterson: Yes. I understand that. I appreciate the insight.

I want to bring in Brookfield. It was great to read your submission and hear your presentation. You are doing a lot of good stuff engaging SMEs in the supply chain process in your business. Can you elaborate? Is this from the top down? How did you get to where you are? Is it because it's the right thing to do, or because it's good business, or is it a combination? How do you implement the great stuff that you're doing?

Mr. Gordon Hicks: Firstly, we started as a small business. Twenty-one years ago, when I joined the organization, we were 85 people. We built the business up. We're now a global player. It was the Canadian government that gave us our first contract, which allowed us to get our feet under us to then build the scale and competence to grow and compete globally. We have about 7,500 team members now across 12 countries around the world, although we remain very strong here in Canada and we create jobs in Canada by virtue of the fact that our operations centres are here, our core centres of expertise reside here. It's pretty exciting from that perspective.

That said, when you've been there, you start to understand what it takes to be able to support small businesses to be successful. What we try to do with our contracting is to make sure we have contracts let regionally. When we let those contracts regionally, we group them into portfolios whereby there's a sufficient amount of work for a local business for it to be attractive. Some of the conditions that we have to put contractors and consultants through to comply with the requirements of the federal government are relatively onerous. The security requirements alone are pretty significant. To find the right balance between best value to Canada and a meaningful amount of work for the local proponent is something we've worked hard to achieve.

Then there's being visible. We have regional procurement teams, so they understand the nuances of the local regions. We can be out there meeting with the different associations and encouraging them to participate in some of the activities that are happening within our work with the federal government, but also beyond that within the other parts of our business.

I think those are two key areas.

We've talked a lot about the professional consulting-type activities that are happening. John, with ACEC, and certainly Mr. Kendrick and I would tell you that it resonates. These RFPs are extremely onerous and expensive for consulting engineers and so on to

participate in, so we've gone out with RFSOs—requests for standing offers. In the fall of this year we went out, and we had 200 organizations submit to participate and work with us. We selected 40 across the country, in 12 different regions of work. Of those 40, over 50% are small to medium-sized enterprises, so we think that process works.

We then work on a rotation basis for projects under \$1 million. We rotate through in those given geographies, based on that RFSO, the three or four consulting engineers that have been pre-qualified in an effort to be fair and equitable with the apportionment of work. That was qualifications-based—90% of the criteria for selecting those proponents were qualifications-based; 10% were price. We're constantly learning, but we think we're doing some things well and we're going to continue to do those things.

Then of course, we have outreach to the different associations, because we're constantly trying to open our minds to new ideas and listen to some of the input from our constituents so that we can become even better at bartering with our colleagues to be able to provide best value to Canada at the end of the day.

● (1205)

Mr. Kyle Peterson: Thank you for that elaboration.

The Chair: We'll now go to our five-minute rounds.

Mr. Kelly.

Mr. Pat Kelly (Calgary Rocky Ridge, CPC): Thank you, Mr. Chair.

Mr. Kendrick, I was intrigued by your discussion around page-count limits on procurement. We've heard before today from other witnesses...in particular when it comes to a small or medium-sized enterprise that doesn't have the same capacity to lobby or have in-house professional skill to prepare for a bid.

Can you elaborate on this? I think you said that this was something that exists in the United States already. Is it possible, on a very large or complex project, to get a really concise RFP?

Mr. Andrew Kendrick: I believe that it is. In the example I noted, the U.S. government is planning to buy three new heavy icebreakers. There are five industry teams that are going to bid on that. They've been told that their proposal—technical, price, qualifications—has to be 200 pages maximum. They say that they expect that to be about a \$3-billion procurement.

We also recently were successful in winning another contract for the U.S. Coast Guard where they're building 27 essentially light frigates. We had the same thing there. There was a page limit for that one. I think it was 400 pages in total. That's 27 ships, each at a unit cost of about \$350 million. It's the single largest procurement in the U.S. Coast Guard's history. It can be done. As I said, other countries that we deal with do this all the time as well.

My wife used to sit on the committee that awarded Fulbright scholarships. There, the key gate was a two-pager. They had two pages to describe what they were going to do, which was quite complicated. I read one, and so did she, about string theory. It was just amazing. For 10 minutes I understood string theory. It's gone now, but it was a very, very impressive proposal.

Even quite complex concepts can be reduced to their essence in a fairly small amount of material.

Mr. Pat Kelly: Does this go to the deficit in expertise? Is that the issue?

Mr. Andrew Kendrick: It's partly that. It's partly a matter of attitude. I think the more expert you are, the more you can recognize quality quickly.

Mr. Pat Kelly: Churchill, I think, was the one who once said that he apologized for preparing a long speech, and that if he had had more time, he would have prepared a short one. It's difficult to be concise, and it requires expertise and the ability to express something that is complex in a short space.

With the limited time I have left, I will quickly turn to Mr. Hicks.

You mentioned that you do not have a set-aside, or you do not use set-asides, for small and medium-sized enterprises for competitive reasons, and you listed very quickly a number of industry groups that represent various types of small businesses. Do you track or do you know what percentage of procurement ends up with small and medium-sized enterprises—or for any of the categories of the business that you mentioned?

• (1210)

Mr. Gordon Hicks: We do. We track it on our own. About 96% of our subcontractor base is small to medium-sized enterprises. The reality is that we're very careful in the context of ensuring that our procurements are open, fair, transparent, and accessible. We don't want to preclude a large organization from being able to access and secure work while we are trying to encourage small to medium-sized enterprises. I think we try to find the right balance by virtue of exposing the different enterprises to the fact that there are opportunities with an organization. We actually try to educate them and help them learn about how to do business with our organization. We have procurement vehicles, electronic bidding, and so on that makes that possible. That has been our approach, and it seems to be working quite well.

Mr. Pat Kelly: Thank you.

[Translation]

The Chair: Mr. Ayoub, you have five minutes.

Mr. Ramez Ayoub (Thérèse-De Blainville, Lib.): Thank you, Mr. Chair.

As one of my colleagues said, it is very interesting to hear from different companies and consultants. Professional engineering services are very different from direct equipment sales. I know it thanks to my past experiences.

Sometimes companies will do both. In the field of high technology, it is necessary because we often need both. The difficulty is to have the knowledge, expertise and specialization in engineering to be able to make the link between all this.

In the past, I worked in the technology field. The companies I worked for had the primary motivation to enter the market and eliminate the competition. All means to access markets were good, for example by lowering prices. We talked about lending employees. Employees were at the company's premises to do the work and to propose solutions. In the end, the goal was to be in the business and have the chequebook, and the business prospered with that money.

I have worked in the municipal sector, and I am now a member of Parliament. I can tell you that our goal is to protect citizens' money and make the best choices possible. The question is always that of shared risk.

As I understand it, Mr. Kendrick said that sometimes the risk has to be attributed more to the government. There is an important difference of opinion as to how to bring all this together.

Mr. Kendrick, if you were the minister responsible for procurement services, would you make the same speech as today or would it be slightly different in terms of the motivation? What would you change?

[English]

Mr. Andrew Kendrick: Thank you. I apologize, but I will respond in English. My French is good enough for comprehension, and luckily—

Mr. Ramez Ayoub: Go ahead in English. That's good for me.

Mr. Andrew Kendrick: Some of the time we would like to be fat and happy and not have to compete, of course, but we recognize that's not the reality of the life we live. I've spent enough time in the old Soviet Union to see where lack of competition and government direction end up at the ultimate.

I think, though, that what you need to do is compete to the extent that is necessary. I apologize to anyone who sells pens, but buying a pen is different from buying services. It's a very small part of what is done. Even with what seem to be relatively simple services, perhaps, to some people, such as buying photocopying services, this is much more complex. It really is more complex. It's a complex environment that we're all working in. Building services is complex, and although we seem to be a cross-spectrum, many of the things I hear from Brookfield are exactly the same things that we would say are important to the business.

Important for Brookfield and important for us is that the government work gave us our stepping stone to becoming an export success. Seventy per cent of our business is exported, and that's largely on the back of initial contracts that we got from the federal government. It was a seal of quality, a seal of approval, that we were able to take to other countries worldwide.

I'm not sure if that's a complete answer to your question, but we need to stay on top of our game. The only way that we stay on top of our game is by competing with other people. We have to do that.

•(1215)

[Translation]

Mr. Ramez Ayoub: Government assistance, competitiveness and the RFP approach where it is important to be as competitive as possible are two ways to help small- and medium-sized businesses across Canada.

For this to happen, should government support be important and competitiveness even more so?

[English]

Mr. Andrew Kendrick: This is one of the points that I made—

The Chair: Mr. Kendrick, it will have to be an extremely short answer, please.

Mr. Andrew Kendrick: Give mechanisms for new entrants. At the moment, there are no mechanisms. Bring back things like the unsolicited proposal program. Expand on the building Canada program. These are the ways to encourage new ideas, innovation, and new entrants to the market.

The Chair: Thank you.

Mr. McCauley.

Mr. Kelly McCauley: Mr. Kendrick, I'll go back to you. You were talking about one of your RFPs being 200 or 400 pages, very short. What prevents us from issuing something like that?

Mr. Andrew Kendrick: Nothing, but part of the problem here is that I think all of us have probably fallen victim to these ticks in boxes. We've been disqualified in a proposal for not exactly repeating a table that was in the RFP.

Mr. Kelly McCauley: Like an attestation box?

Mr. Andrew Kendrick: No, but that's happened as well.

To us, we shouldn't have to repeat everything that the government gives to us, but all too often we do. This is where 300 of these pages come from. Yes, we will have a kick-off meeting. Yes, we will have a monthly progress meeting. Yes, we will have a weekly teleconference, blah blah blah.

What we would really like to dare to say is what you said, that this is fine, and we should concentrate on the important stuff.

Mr. Kelly McCauley: Yes, I sometimes think if the government flew a plane into a mountain, they would consider it a success if they ticked all the boxes. It seems the same with our procurement.

I was looking at Britain's DND, and I think they have a system whereby they choose a program and they contract out the service delivery and the procurement. Are you familiar with...?

Mr. Andrew Kendrick: That's why I left Britain. I'm a political refugee from Margaret Thatcher.

Voices: Oh, oh!

I used to work in what was then called the Procurement Executive of the Ministry of Defence, so yes, I know what was the case. I know what is the case.

There are an infinite number of ways of getting it wrong, unfortunately. Again, you have to be very careful because the government is the biggest business in Canada. It's the biggest

business in Britain. It's the biggest business. You can't afford to contract out all your procurement services any more than you can your national defence.

Mr. Kelly McCauley: Okay.

It sounds as if we can streamline our system without adding any risks or any issues to the taxpayers.

Mr. Andrew Kendrick: There will always be risk to the taxpayer. If you pretend there isn't you're deluding yourselves.

Mr. Kelly McCauley: There's a risk right now with what's going on with the current program. There's always going to be a risk, but we can streamline it by taking out unnecessary, added work.

Mr. Andrew Kendrick: Hopefully so.

Mr. Kelly McCauley: Busywork?

What's your impression of what we're doing with the procurement of combat ships right now?

Mr. Andrew Kendrick: If I told you the truth, I would get my company into trouble. If I told you a lie, I would get myself into trouble. I apologize, I'm just not going to go there on the record.

Mr. Kelly McCauley: Let's skip it altogether. I don't want you in an awkward spot.

One of the issues we've heard repeatedly is, and I brought it up earlier, when people are bidding they're being excluded because they don't have enough past experience, even though it may not be valid past experience. Someone made a great argument about AI. Of course it hasn't really existed all that long, but we would be asking for 15 years of experience with that.

Is that an ongoing issue, Mr. Gamble? I think you mentioned it was, but I thought I heard contradictory info between Mr. Kendrick and Mr. Gamble that you were saying to look for past experience or vice versa.

One is saying we need the past experience. The other one is saying not to look at it as much.

•(1220)

Mr. John Gamble: No, I didn't catch that. I don't think we're at odds.

You want to make sure the past experience is relative and is germane. It is an indicator; there's no better indicator than past experience. I don't disagree within some sort of window or opportunity or program to facilitate new entrants into the marketplace.

But I don't think we were at conflict at all.

Mr. Andrew Kendrick: Experience is important but it's not always going to be the most important thing.

Mr. Kelly McCauley: How can we weed that out in an RFP? Again, we've heard repeatedly from the SMEs' witnesses that it is excluding a lot, especially new companies.

Mr. Andrew Kendrick: It is. I made a very brief suggestion that if you want to grade past performance by categories, you can give new entrants an automatic passing grade. For the first couple of times they bid you can say they should declare they're a new entrant. We're not going to require this specific experience. We're going to take you on the merits of the other elements of your proposal.

It's just a suggestion. It might work in some cases, maybe not in others.

Mr. Kelly McCauley: I'm out of time. Thanks, gentlemen.

The Chair: Madame Mendès.

Mrs. Alexandra Mendès (Brossard—Saint-Lambert, Lib.): Thank you all for being here.

To follow on Mr. Kendrick's comment on Britain, I've been reading Richard Bacon's book *Conundrum*. It's all about public accounts in the United Kingdom. He talks a lot about defence, so I do understand where you're coming from.

I'd like to ask you all, and you answer however you see fit, is the government's agile procurement initiative beginning to improve this process? Do you believe this would be a very innovative way to start addressing the procurement issue?

Mr. Andrew Kendrick: I will just say that we don't see any evidence of that yet.

Mr. Hugh Ralph: My experience to date has been that the initiative is well described, well spoken, and understood at the most senior levels, but it's not translating down into the organizations that are actually doing the buying.

A clear example—just very briefly—would be this procurement that we're so concerned about is to be awarded for six to eight years. If size is a qualifier today, that means that our company and Canon are locked out in perpetuity because we'll never have the size in six to eight years.

Mrs. Alexandra Mendès: The size in what sense?

Mr. Hugh Ralph: The size of our business in Canada was on pass/fail in the procurement process.

The theory is terrific, but awarding on a six- to eight-year term is inconsistent with agile.

Mrs. Alexandra Mendès: Okay, and does that then go against Shared Services procurement policy right now? Is that what you're saying, that this whole agile initiative goes against it?

Mr. Hugh Ralph: Yes, it does not align to the overall direction, correct.

And it will, in our view, also preclude innovation from companies like ours because you've narrowed the organizations you can buy from.

Mrs. Alexandra Mendès: The initiative does that, or the current situation does that?

Mr. Hugh Ralph: The awarding to three vendors for a six-year to eight-year term will preclude innovation from the other organizations in the industry as we bring...

Mr. Dave Montuoro: The initiative does that.

Mrs. Alexandra Mendès: Okay, that's it.

But the initiative would do that, if I understand correctly. In your view it hasn't trickled down to the executives who should be implementing it.

Mr. Hugh Ralph: Correct.

Mrs. Alexandra Mendès: Looking at the other speakers this morning, how would we make sure that this then trickles down where it should go so that we continue to provide that? As you said, we need outcome-directed procurement, not necessarily just the funding or the money costs. If we want to go to outcome procurement, how do we ensure that the initiative is a trickle-down one, in your recommendations?

Mr. Dave Montuoro: Yes, and I think aligned with our recommendation, you're doing that today. The model they're using today does just that. It opens up the business to large corporations like Canon and Sharp. The fallout of the business is with the small and medium-sized businesses. By bringing in this new initiative, you will eliminate that. You will go away from that completely. You will go to mostly two—they say three—multinational companies that will go out and bring their wares out on their own.

• (1225)

Mrs. Alexandra Mendès: Basically you're telling me that the Shared Services policy is against the agile government procurement initiative.

Mr. Dave Montuoro: If you look at what they're doing in their proposal, it does not align with agile procurement.

Mr. John Gamble: I certainly understand the attractiveness of Shared Services in terms of value for taxpayers, for consistency, and so forth.

In professional services, though, it could unintentionally become another layer between the service provider and the end-user. That's a little bit of a challenge because, particularly if you want outcome-based procurement, we need to understand the needs.

I'll use a past life in the provincial government. The judges drive what a courthouse looks like, but you don't get to spend face time with a judge. When they want a window changed so they can overlook Lake Ontario, it's going to happen whether at 90% of design or 10% of design.

Because we had to work through an intermediary every decision, every change, takes that much longer. As I alluded to, early in the design you can accommodate a lot, late in the design, very little. We like the notion of consistency, but if there is another agency—if there are more hands that paper has to pass through, or files have to pass through—then we just feel that both architects and we are that much more removed from the client or the end-user of our services.

The Chair: Thank you.

Mr. Masse, we have you for three minutes.

Mr. Brian Masse: Thank you, Mr. Chair.

I'll continue with Mr. Montuoro and Mr. Ralph.

Some of your testimony is very important in terms of facilitating a fairness in the sense of it. The six to eight years seems very cumbersome, especially when corporations right now are doing massive acquisitions and changes, not just internally, but also with elimination of competition by purchasing...of competition.

What types of requirements are you familiar with? You may not be able to answer this, but in terms of the bidding contracts for the six to eight years, are there any requirements for those who are making the bids to either retain some type of corporate structure or independence, or is it basically if it's purchased later on or merged as a company, it just becomes their standard operating contractual grouping under the new entity?

Mr. Dave Montuoro: It's a great question, and I think I know where you're going with this. I don't know the answer to that.

Mr. Hugh Ralph: The Shared Services process has been such that after industry consultation and an invitation to qualify, those that were shortlisted are currently going through—as we understand it—a “review and refine requirements” phase. They've shortlisted down to successful proponents. Past that, when they down-select to as few as three, they'll issue the final RFP. Having been locked out of the process, both of us at earlier phases in this procurement were not aware of what the final arrangements will look like and have no visibility to it.

Mr. Dave Montuoro: Within the document that they refer to as the ITQ, the invitation to qualify.... Within the current standing offer, if there is a name change—so if Canon Canada Inc. were to change its name to Canon Europe—we no longer have a standing offer. They would have to send out a request for amendment to all of the parties that are currently part of that standing offer, and have everybody agree to allow the name change.

Is that part of this new ITQ? There is nothing there that I saw. It was actually a question that I asked not too long ago.

Mr. Brian Masse: I see that as a strategic flaw in terms of the overall process. We're encouraging the elimination of competition, in many respects. We're also, in my view, facilitating a potential erosion of supporting SMEs to grow, and also domestic industries as well. I see this as a structural problem in the bidding contract that's being proposed. It's one of the reasons it should be immediately revisited, in my opinion, because six to eight years is a long time. It's a long time to eliminate competition and to discourage SMEs from participating in federal procurements of any type.

• (1230)

The Chair: Colleagues, I think we'll have time for two more seven-minute interventions before we suspend to go into committee business.

We'll start with Madam Ratansi.

Ms. Yasmin Ratansi (Don Valley East, Lib.): When it comes to three and a half minutes, I'll share it with Mr. Drouin.

Thank you all for being here. I am trying to come to grips with what you're saying from an industry perspective, from a business perspective, and looking at it from a government perspective. Government bureaucracy is always risk-adverse.

Mr. Gamble, you were saying that by using best price versus low price, we're losing out on innovation, and we're losing out on

truthfulness. We saw it in Phoenix. It's a boondoggle. We were told there were life savings. No. There are no life savings. In fact, we have to wear it, as MPs.

How would you help the government—through your QBS system—to ensure that procurement is done, governance is proper, and that there is training? Mr. Kendrick was talking about there not being enough training. How do you marry the two?

Mr. John Gamble: First of all, I'm not going to speak to Phoenix, because I just don't know enough about it. I'm just glad I'm not a civil servant.

Ms. Yasmin Ratansi: I know that.

Mr. John Gamble: First of all, we've heard this. There is inherent owner risk with any project. However, through the business sector, we're prepared to take on some of that risk, provided, one, that risk is very clear to the proponent and is clearly and well understood, and two, there is the ability to manage and mitigate the risk. That's both the technical and managerial capacity to manage the risk, but also the contractual authority to manage that risk. The third piece is that the remuneration has to be appropriate. That's what QBS tries to do. It tries to wed the deliverables and the outcomes directly.

Under conventional procurement, you get a price envelope, you have people write a proposal, they get in, you go through a mechanical formula. These may or may not match what's been promised. Under QBS, the whole point is to allow you, as the owner, to say, “You're not doing enough QA/QC here. What would that cost us? Do you need to do that?”

It allows that sort of post-award negotiation for more efficiencies and operational considerations, but it also allows very direct discussions around risk.

Ms. Yasmin Ratansi: In 1972, the United States introduced QBS. You have been bidding a lot on that contract, Mr. Kendrick. Has the Auditor General ever audited that procurement process and come up with a positive or negative result?

Both of you can answer it.

Mr. Andrew Kendrick: I'll defer to Mr. Gamble on that.

Mr. John Gamble: [*Inaudible—Editor*] exclusively to engineering and architectural services. It has survived Nixon, Ford, Clinton, Reagan, Bush, Obama, and so far Trump. It's been under scrutiny. In fact, since it was introduced in the 1970s, 46 states have adopted similar or comparable budgets, so I think the success votes for itself. I believe California had a third party audit of their services in the last three or four years.

The bottom line is that it has worked. It seems to have had high-level success. It's counterintuitive to typical public procurement, so it is under siege from time to time, but it always seems to prevail.

Ms. Yasmin Ratansi: Thank you.

Mr. Hicks, you were talking about changing from an RFP to an RSO. I'm wondering how that would fit in with a government. I think there was a question asked about the type of business or the outcome-based procurement that the government is trying to achieve, where it is a pilot between the Treasury Board and PSPC. I'm wondering whether you heard about it or whether you think that would be a more agile approach. I think Mr. Ralph was saying, no, maybe not, because people don't understand it.

Have you any thoughts on it?

Mr. Gordon Hicks: No. I don't have enough information on that to give context, so I'd prefer not to comment.

Ms. Yasmin Ratansi: Okay. Not a problem.

The Chair: Ms. Ratansi, that would leave you approximately two and a half minutes to cede to Mr. Drouin, if you wish.

Ms. Yasmin Ratansi: Mr. Drouin.

Mr. Francis Drouin (Glengarry—Prescott—Russell, Lib.): Great. Thank you.

First off, thanks, everybody, for being here.

I have a couple of questions for you, Dave and Hugh. This is with regard to your thoughts on what the problem was from the get-go. Was there an issue with printers in the Government of Canada? For the life of me, I can't understand what the issue would be with buying printers. It should be a fairly simple procurement. As well, once the printer breaks down, if it needs servicing, it should be a fairly simple issue to solve. Somehow we are stuck in this conundrum again, within procurement, and we can't seem to solve it.

• (1235)

Mr. Dave Montuoro: Nothing's broken.

Mr. Francis Drouin: What was the problem from the get-go?

Mr. Dave Montuoro: Well, there isn't.

Mr. Francis Drouin: Did Shared Services share the problem?

Mr. Dave Montuoro: Well, there isn't a problem.

We questioned this, and the answer was that there will be less equipment for us to vet. That was the answer that was given to us. I know that they have other reasons and other explanations of why they want to do this—you know, if they're dealing with three companies, and one department has one vendor only, there are savings there—and that's all correct.

Mr. Francis Drouin: It would simplify calling 1-800 as opposed to calling 1-866?

Mr. Dave Montuoro: Not even; not even, because all of that exists today. What they want to do is to have departments deal with one vendor and one vendor only. Well, you can do that today with today's procurement vehicle. But today the Department of National Defence can put out an RFI or a tender and 12 companies can respond. Just imagine 12 companies responding to a bid versus three companies responding to a bid. The chances are that you're going to get the best price, and you're going to be forced to give the best service. You want an opportunity to continue to do business with that department and other departments, and also to gain other business within the department.

That is the current system. It is as simple as I mentioned. If you need a new photocopier or printer in your department, you simply go to a website hosted by NSTL. If you know that you need something that runs 40 pages a minute with all of these different options, you can configure the unit. You can configure mine, you can configure his, you can configure all of the vendors that are qualified within that area, and if the price—

Mr. Francis Drouin: And your printers work with all operating systems?

Mr. Dave Montuoro: Yes. They work with all operating systems.

Thank you.

The Chair: We're out of time there. However, Mr. McCauley has ceded the last seven-minute intervention to the chair. I invoke this right very rarely, but I will ask a couple of questions.

I'm curious, just to follow up on what Mr. Drouin and Mr. Masse were saying, about Shared Services Canada's apparent decision to reduce the number of qualified competitors from 12 to a maximum of three. It may be one or two. We don't know that yet. To me, I just have an inherent bias: I'm in favour of competition. I think the more competition the better. It's been proven time and time again. It lowers prices and increases efficiency and service.

Beyond that, my question to you specifically is this. Do you know how Shared Services Canada came up with a six- to eight-year rationale? I don't see why eight years is an appropriate time frame to evaluate the effectiveness of the program that they're suggesting. I would think that it could be done in far less time than that. Giving any company unlimited, unparalleled access to the government and their printer services for eight years is far worse than the monopoly that might occur.

How did the six to eight years from Shared Services Canada even enter into the discussion?

Mr. Dave Montuoro: I'm going to make a point then I'm going to let Hugh answer that question because he can answer that better than I can.

We talk about six to eight years. That's the term of the contract. If a department procures a service in year six or year eight, then potentially, that is a five-year deal, so that six to eight years could actually be 13 years.

You can answer the other part.

Mr. Hugh Ralph: Thank you, Dave.

Shared Services' approach is based on the premise that industry analysts will say that this managed print approach, which involves doing an enterprise study and a total cost of ownership, will drive organizational savings and that they've consulted with people. From our view and having worked in the industry and for competitors that lead in espousing that approach, there is validity to that. However, in my earlier testimony, I mentioned that, in my experience, it's primarily based on private sector organizations that can exert command and control.

While Shared Services is down a path with these large entities, the feedback from larger entities in the procurement process is that it will take them six to eight years to work across government and deploy this model. Therefore, the pieces of feedback from industry that they've chosen aligns with the centralization, or decision-making at the centre, for deployment at the departmental and agency levels.

We had an experience ourselves at Sharp Canada, where the Province of Nova Scotia went through a similar procurement and awarded to a single supplier. They awarded in 2014 and sitting here today, in 2018, we got our first notice of cancellation, which indicated that the award-winning proponent might be ready to deploy their hardware, after four years into the agreement. For other large players in the industry that are advocating for the lack of competition, it gives them command and control and they pushed, in my view, for that length of contract to allow them the flexibility to deploy in a complex and very decentralized fashion across the Government of Canada.

• (1240)

The Chair: I have a final question in the two minutes or so that I have left.

If I'm hearing you correctly, you would be recommending that Shared Services Canada revisit their apparent decision to reduce the number of qualified suppliers from 12 to two or three. Are you also suggesting or asking this committee to make a recommendation that Shared Services Canada eliminate or go back to the status quo of the methodology in awarding contracts to supplier companies that they've had for the last number of years?

Mr. Dave Montuoro: Yes, we are. Thank you.

The Chair: Colleagues, that will do it for our testimony.

I want to thank all of our witnesses for being here. Thank you for your testimony.

My standard final comments are that should you have any additional information you think would be of benefit to this committee in our deliberations, we would ask you to please supply those recommendations or suggestions to our clerk, as quickly as possible.

We will suspend for a couple of minutes and come back to committee business.

[Proceedings continue in camera]

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