

DCC

## **Defence Construction (1951) Limited**

**2002–2003 Annual Report**

**[www.dcc-cdc.gc.ca](http://www.dcc-cdc.gc.ca)**

**Defence Construction Canada (DCC) is a Crown corporation with a mandate to provide contracting, construction contract management and related infrastructure services to the Department of National Defence (DND). Site offices are located wherever there is a Canadian Forces base or wing. Services include:**

- Procurement
- Contract Management
- Environmental Services
- Facilities Management
- Technical Support Services
- Project Management Support
- Support to Deployed Operations



**Defence Construction Canada**

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Ottawa, Ontario K1A 0K3



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# Values

## **Dedication**

DCC is dedicated to supporting the infrastructure requirements of the Department of National Defence. For over half a century, DCC employees have dependably and diligently carried out that mission.

## **Fairness**

DCC deals with its client, contract partners and employees in a fair and ethical manner, advocating mutual respect and professionalism in the attainment of the common interests of all parties.

## **Competence**

DCC has created a dynamic working environment in which the qualifications, experience and expertise of employees are focused on developing innovative solutions to the client's needs.

# Mission

To provide high quality, timely and efficient contract management and related services to support the Department of National Defence in the long-term development and management of its facilities infrastructure.

# Corporate Objectives

To fulfill its mission as a service provider to the Department of National Defence, DCC conducts its operations in accordance with six important objectives. These are:

1. to carry out the work in an efficient and effective manner, and at the minimum administrative cost consistent with primary objectives;
2. to manage contractual relationships in a fair and reasonable manner;
3. to maintain flexibility in operational structure, systems and practices in order to react to changing circumstances and client needs;
4. to conduct operations in a way that contributes to the protection of the natural environment;
5. to maintain human resources management practices that advocate and advance the well-being of employees;
6. to protect the interests of the Crown.



Defence Construction Canada  
Construction de Défense Canada

Board of Directors  
Conseil d'administration

June 30, 2003

The Honourable Ralph Goodale, P.C., M.P.  
Minister of Public Works and Government Services  
The House of Commons  
Ottawa, Canada K1A 0A6

Dear Minister:

I am pleased to submit to you, on behalf of the Board of Directors, the Annual Report for Defence Construction (1951) Limited, for the fiscal year ended March 31, 2003. This submission is made in order to fulfill our responsibilities respecting governance of the Corporation and in accordance with Part X of the *Financial Administration Act*.

We take our role as a service provider to the Department of National Defence very seriously and, consequently, our services are provided with a strong sense of commitment to our corporate values of dedication, fairness and competence. This commitment is demonstrated through the way we do business each day, and DCC employees are guided by corporate objectives aimed at improving client service.

The mandate of the Corporation is to support the Department of National Defence in meeting its operational, construction and property management related requirements. While the Corporation continues to seek new and innovative ways to meet this aim, we remain aware of the need to maintain absolute transparency in the conduct of our operations. Although the Corporation is a mature organization, ways to continuously improve the flow of information among our stakeholders remains a priority. In our role as a service provider, we meet the needs of our client, and as a Crown corporation, we are accountable to Canadians.

As required, this report also includes our financial statements for the period April 1, 2002, to March 31, 2003. The Office of the Auditor General of Canada has audited these financial statements.

Both the Board and senior management of the Corporation remain committed to building on our past successes and look forward to meeting the new challenges ahead of us in the next fiscal year.

Respectfully submitted,

John D. McLure  
Chair

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# Highlights 2002–2003

*(all dollar amounts reported in thousands)*

Contract expenditures	\$ 352,876
Value of contracts awarded	\$ 336,786
Number of contracts awarded	1,465
Value of contracts completed	\$ 388,556
Number of contracts completed	1,500
Successful contracting ratio (Ratio of contracts awarded to contracts tendered.)	97.0%
Level of client satisfaction	99.0%
Number of contractors and consultants used	1,273
Services revenue	\$ 24,422
Utilization rate (Percentage of employee hours spent on client contract work.)	73.3%
Direct personnel expense multiplier (Ratio of services revenue to direct payroll costs, including benefits and compensated absences.)	1.55
Number of employees at fiscal year end	280

# Message from the Chair

It is indeed my pleasure to again report, as Chair, on the continuing productivity and service provided by Defence Construction Canada (DCC) to the Department of National Defence (DND).

The course of business at DCC depends largely on the business circumstances of our client, and the Corporation continues to respond to the needs of DND, working to find effective solutions to the inevitable operational and fiscal challenges that occur throughout each year. With our corporate objectives focusing on the provision of high quality client service, the notion of innovation was identified and highlighted as a key development area in 2002–03.

In addition to providing procurement and construction contract management capabilities, DCC environmental support, facilities management, project management support and participation in Canadian Forces operations overseas are all services that have helped support the client throughout fiscal 2002–03. By the end of the fiscal year, these specialty services accounted for nearly 30% of the Corporation's total revenue. As we continue to be open to other service opportunities, we recognize that the development of innovative services and solutions will continue to benefit our client. In fiscal 2002–03, DCC has renewed its emphasis on encouraging innovation within its organization by establishing criteria for a national innovation award, and by committing resources to this area.



As Chair, I am also pleased to report progress in enhancing our governance framework. We are taking a leadership role in managing environmental stewardship. Recently, DCC finished developing an integrated risk management framework that will ensure that the Corporation's key risks are

identified, assessed and mitigated. Additionally, the audit committee continues to help DCC identify and act on ideas for improvement. Our internal audit processes, coupled with reviews performed by the Office of the Auditor General, continue to highlight DCC as a transparent, values-based organization that seeks to serve the Crown. Management continues to respond to audit observations in a timely and appropriate fashion.

In closing, I wish to acknowledge those directors who have been recently reappointed to the Board and to thank Mr. Brent DiBartolo, who completed his term with the Board earlier this year, for his dedicated service to the Corporation.

A handwritten signature in dark ink, appearing to read 'John D. McLure', written over a horizontal line.

John D. McLure  
Chair

# Message from the President

This Annual Report describes another very active, productive and successful year for Defence Construction Canada. One measure of DCC activity is the amount of expenditures on contracts, which, this year, totalled \$353 million. Although this is slightly less than the amount for the last fiscal year, revenue

generated from professional services increased by 22% to \$24 million. This growth reflects the increased demand from DND for both procurement and construction contract management services, and for new ventures developed by the Corporation to respond to the changing needs of the Canadian Forces in Canada and overseas. We are particularly proud of the role DCC plays in supporting deployed operations in partnership with the Canadian Military Engineers.

In 2002–03, as an outcome of the strategic planning process and after a thorough review of corporate objectives, four themes emerged around which all aspects of DCC business planning, monitoring and reporting will be grouped. The first theme, governance and leadership, saw the development of an enterprise risk management framework that was integrated into the strategic planning process, and the launch of an initiative to recognize and reward innovative business practices — the key to DCC's future success. The second theme targets the enhancement of service delivery. As has been the case for the past several years, the specific area of concentration remained the implementation of quality systems. The Operations Division improved process management and control and the Contract Services Division started updating its ISO certification to 2000 standards. Both measures are examples of how DCC endeavors to entrench quality as a tangible element of DCC culture.



Enhancing stakeholder relationships is the third management theme. Various communications projects were undertaken under the new Client Services function to improve the transmission of information to users of DCC services, thereby improving their ability to make informed service selections.

The senior management team participated, through committee and conference, in strengthening our relationships with our industry and other government agencies. Finally, under the corporate services theme, many initiatives were undertaken to improve financial management, increase the Corporation's stake in employee benefits, training and development, and to upgrade the enterprise information management system.

I believe that the Corporation's ability to undertake and complete these initiatives while responding to an increase in demand from DND, much of it for new and different services, is a testament to the competence and dedication of the entire DCC team. I would like to recognize that superior performance.

The DND program requirements for professional, construction and environmental services are expected to increase in 2003–04, as is the demand for all of DCC's current services. Each new year brings new challenges and DCC remains open to opportunities to respond in any way where our capabilities can provide value for our client and stakeholders.

A handwritten signature in dark ink, appearing to read 'Ross Nicholls'.

Ross Nicholls, P. Eng.

President and Chief Executive Officer



# Corporate Profile

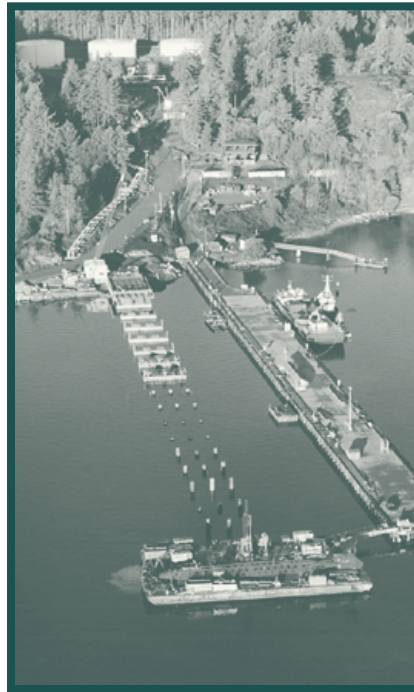
## Governing Legislation

Defence Construction (1951) Limited was incorporated in 1951 by Letters Patent issued pursuant to the *Companies Act* of 1934, and was granted continuance under the *Canada Business Corporations Act* of 1978. The Corporation, commonly known as Defence Construction Canada (DCC), is accountable to Parliament through the Minister of Public Works and Government Services.

## Mandate

The mandate, as set out in the Letters Patent, directs DCC to provide a wide variety of property related services in support of defence projects. These are implemented in support of the goals of the Department of National Defence (DND), the Canadian Forces and the Government of Canada. This mandate was reviewed by the Minister and renewed without change in 2001. In May 2001, a new Memorandum of Understanding (MOU) between DND and DCC was signed to update the terms of the working relationship.

Although historically the business has focused on services related to construction, over the past few years, other value-added activities such as project management support, environmental services and operational support services have become a large percentage of total service offerings. The new MOU acknowledges DCC's increased flexibility in providing unique services outside the traditional range of contracting, contract management, and project management support.



## History

DCC continues to do the contracting and contract management for most infrastructure work on Canadian military bases and wings. The Corporation has managed successive generations of projects, such as the construction of the original Distant Early Warning (DEW) Line in Canada's Arctic and the construction of the North American Air Defence Modernization Program, which replaced the DEW Line in the late 1980s and early 1990s. DCC currently

manages the demolition and environmental clean-up of redundant DEW Line facilities. In addition, DCC put in place the infrastructure required to meet Canada's NATO commitments in Europe and provides similar services to Canada's NATO allies with establishments in Canada.

**DCC is involved in upgrading and rebuilding existing sites for DND. Pictured above, under construction, is a jetty in Colwood, British Columbia. DCC handled the contract management for the decommissioning, deconstruction and building of a new jetty, tank farm and fuel transmission pipeline.**

## Defence Construction Canada Environmental Management Policy

The mission of Defence Construction Canada (DCC) is to support the Canadian Forces (CF) and the Department of National Defence (DND) in the management of its facilities infrastructure. DCC respects all CF and DND environmental policies and directives. The DCC Corporate Plan and all subordinate business and operational plans incorporate the principles of sustainable development, pollution prevention, and environmental protection and enhancement. These sound environmental management practices are integral elements of good business management, responsible stewardship and global sustainability.

## Policy Functions

DCC plays an important role in the implementation of government policy in areas relating directly to the Government of Canada's contracting requirements. For example, in its business operations, DCC provides **broad access to business opportunities and encourages competition**. This is demonstrated by the Corporation's use of MERX, Canada's official public sector electronic tendering service. With 99% of all contracts going to tender, as opposed to being sole sourced, DCC contributes to a level playing field for Canadian businesses. Knowing that protecting the interests of Canadians remains paramount, DCC **demonstrates fiscal responsibility** in the award and management of publicly funded contracts. The process stipulates that contracts are to be awarded to the lowest compliant bidder. DCC remains fully **compliant with national and international trade agreements**, and has taken these into account in its procurement processes, specifically, the process for awarding contracts subject to the North American Free Trade Agreement (NAFTA).

DCC supports federal policy objectives in the area of **official languages** and **access to information**. DCC strives to offer bilingual services in all office locations, and for current employees, DCC actively supports language training. Transparency of operations is integral to DCC's business strategy, and the Corporation complies with the letter and the spirit of both the *Access to Information Act* and the *Privacy Act*. In fiscal year 2002–03, DCC processed nine access to information requests from the general public and five consultation requests from other federal departments.

## Corporate Funding and Equity

DCC operates under a service billing system and delivers services to DND on a full cost-recovery basis. The Corporation's equity structure consists of 1,000 authorized shares, of which 32 are issued. The Minister of Public Works and Government Services holds the majority (25), with each member of the Board of Directors holding one qualifying share.

**BANKER** — The Royal Bank of Canada

**AUDITOR** — The Auditor General of Canada

## Services

DCC serves as an intermediary between its government client, on the one side, and consultants and contractors on the other. For over 50 years, DCC has delivered an extensive range of infrastructure projects to the Department of National Defence: everything from runways and civil works to buildings, from target systems to radar stations, and from environmental remediation to unexploded ordnance disposal. The following is a list of the Corporation's principal services.

**Procurement** — For construction, maintenance, goods and services. Procurement and solicitation planning, preparation of tender documents, solicitation, evaluation and award, market assessment and bid-ability reviews.

DCC complies with the spirit and intent of all applicable environmental legislation, regulations and guidelines while carrying out its operations and activities. The Corporation integrates responsible environmental management practices in all its business systems by continued development and maintenance of an Environmental Management System. Furthermore, DCC takes the appropriate measures to ensure that all employees are provided with the direction, training and authority required to carry out business in accordance with the principle of due diligence. In turn, all DCC employees are expected to work proactively to achieve or surpass the Corporation's environmental performance measures.

**Contract Management** — Contract administration including contract payments, change management, cost control, risk management, document and schedule control, quality assurance, quality audit, dispute mitigation and resolution, claims management, performance assessment and warranty management.

**Environmental Services** — Assessments and audits, technical support to environmental remediation, unexploded ordnance clean-up and decommissioning, waste management programs, environmental management systems and HAZMAT survey coordination.

**Facilities Management** — Building condition reports, life safety system management, maintenance contract management, utilities management and re-capitalization planning.

**Technical Support Services** — Range inspection, facility inspection, commissioning, constructability reviews, design coordination, shop drawing reviews, building energy performance services and GIS services.

**Project Management Support** — Scope, cost and schedule control, program planning and preparation of scope documents such as terms of reference and statement of requirement.

**Support to Deployed Operations** — Procurement, quality assurance and contract administration.

## Environmental and Safety Responsibilities

The DCC Board of Directors and management group are committed to the principles of sound environmental stewardship, the practice of due diligence and, as a public institution, in meeting the expectations of Canadians.

An Environmental Management Framework, established in fiscal year 2000–01, outlines the strategic direction and long-term objectives of the environmental aspects of DCC activities. The implementation of this

strategy is ongoing, with approximately half of the work completed in fiscal 2002–03. The target for complete integration of environmental operational and administrative procedures is by the end of fiscal 2003–04.

The Corporation's environmental, safety and health committee oversees the implementation of this framework. This group meets four times a year to review current environmental issues and to generate ideas that assist DCC in meeting its environmental management responsibilities. In addition, all regional and divisional business plans are expected to include an action plan for meeting the goals of the Framework.



Committed to increasing awareness of workplace safety, Brian Hughes, DCC National Safety Coordinator, discusses health and safety procedures with Jennifer Culleton, Environmental Coordinator and Ryan Polkinghorne, Contract Coordinator.

Environmental incidents are defined by DCC as:

*Any specific or recurring event(s) that lead to an undesired potential or actual impact on the biophysical environment, the atmosphere or on human health or safety. Such incidents can arise from DCC or contractor's activities in offices or work sites or through third party activities that impact on these sites. Incidents include any legal or regulatory non-compliance, regardless of a physical incident having taken place.*

In fiscal year 2002–03, there were two environmental incidents reported. One occurred on a work site in the Atlantic Region. A second incident occurred in the Western Region after the handover of a project to the client. As at March 31, 2003, the causes of each incident remain under review.

## Maintaining a Safe Work Environment

The management of employee occupational health and safety remains a key concern of the Board and the Environmental, Safety and Health Committee. DCC continues to invest in safety-related communications and training activities. With the work carried out by the National Safety Coordinator, employees have developed an increasing awareness of health and safety issues. The Committee and the National Safety Coordinator remain highly committed to maintaining DCC's excellent record as a safe workplace.

For reporting purposes, incidents that result in lost work time are tracked by the Corporation. In 2002–03, four incidents involving DCC employees were reported. One of these incidents occurred in the head office, with three occurring on work sites. These incidents resulted in a loss of 70.5 hours of work time. This represents 0.72 accidents per 100,000 work hours and 12.7 lost work hours per 100,000 work hours.

## Key Success Factors

Five characteristics of DCC's service provision allow for consistent delivery of quality service to DND operations.

**Cost effectiveness** — Because DCC operates on a fee-for-service basis, it offers competitive pricing for its services, helping the client save money.

**Focus** — For more than 50 years, DCC has had a single focus on one major client and, consequently, has developed an understanding of the client's needs and preferred approaches. This unique characteristic makes DCC unlike any other organization from either the private or the public sector.

**Delivery** — DCC provides immediate and reliable access to technical and administrative expertise and, unlike many providers of similar services, does so on a continuing basis at the work site.

**Service** — Standing midway between the public and private sectors, DCC knows how the construction industry and the government work. This allows for effective translation of requirements between the client and external service providers.

**Flexibility** — As a Crown corporation and separate employer, DCC can assign quickly the required number of people with specific skill sets to any project. DCC's mandate allows it to administer and staff projects with efficiency and flexibility equal to that of the private sector.

# Business Review

## Partners

### DEPARTMENT OF NATIONAL DEFENCE

Defence Construction Canada (DCC) was created to support the Department of National Defence (DND) in delivering defence projects. Consequently, DND is the Corporation's client. Since it has done business with DND for over 50 years, DCC is well versed in DND's priorities and working methods. Because of this close working relationship, DCC is able to foresee and prepare for any changes that may have an impact on the client.

There are many levels and units at DND that interact with DCC. The Infrastructure and Environment Branch (IE) of National Defence Headquarters (NDHQ) is a primary contact, especially for the centrally managed capital construction program. However, over the last several years, DND has been devolving authority and budget accountability down the hierarchical structure, and from the centre outwards. Now, the chiefs of maritime, land and air staffs are responsible for their own construction and maintenance programs. DCC deals extensively with their organizations, primarily at the tactical (base/wing) level. In addition, DCC contracts for and delivers consulting, construction and environmental services on behalf of several other DND client groups, and for other DND programs. In December 1998, DCC signed an infrastructure service delivery commitment with DND. This agreement focuses on developing a common understanding of how DCC

contributes to the objectives of the Canadian Forces. However, a successful partnership also requires that practices and procedures be aligned, and in May 2001, a revised Memorandum of Understanding (MOU) was signed, setting out the modern realities and context of the working relationship.

### ADDITIONAL PROGRAMS AND CLIENT GROUPS

- Canadian Forces Personnel Support Agency;
- Canadian Forces Housing Agency;
- Defence Research and Development Canada;
- Director General, Aerospace Equipment and Program Management;
- J3 Engineer; and
- NATO forces with establishments in Canada.

### CONTRACTORS AND CONSULTANTS

Although DCC creates value for the citizens of Canada, the Corporation does not provide service directly to the public. Instead, private sector consultants and contractors constitute the specialized "public" that interacts with DCC. For

that reason, it is important for everyone at DCC to be aware of what is happening in the industry.

Through the course of business, employees interact with contractors on the job site every day. However,



In the last fiscal year, DCC worked with 1,273 contractors and consultants on innovative projects such as 3R's deconstruction, where base houses, no longer required by DND, are dismantled and reused. Shown here is a former base house being moved by a contractor from CFB Cold Lake to a new location. This practice prevents excess material from going into landfill.

## DCC at Work — Joint Achievement

Working with Defence Research and Development Canada (DRDC), DCC's environmental experts have played a role in a project recognized by the U.S. government as "compliance project of the year."

The award was presented on December 3, 2003 at the annual conference of the Strategic Environmental Research and Development Program, a part of the U.S. Department of Defense. The award was presented to the research scientists from DRDC Valcartier. DCC attended the ceremony.

For DCC, the project began when DRDC Valcartier asked for help at CFB Shilo. As a result of a proposal submitted to DRDC in 2001–02, DCC helped with a major research project at the training range in Shilo to characterize the levels of specific contaminants after years of training activities.

there are also frequent, more formal exchanges with the Canadian Construction Association (CCA) and its provincial and trade counterparts. These interactions help keep DCC abreast of developments in the industry and bring a useful measure of realism to the interactions between DCC and its contractors. DCC keeps in touch with the insurance industry to learn of trends in risk management, and with the surety industry, for developments in contract security. Representatives of DCC continue to sit on committees and maintain relationships with such groups as the Association of Consulting Engineers of Canada, the Royal Architectural Institute of Canada, the Canadian Public Procurement Council, and the Canadian Design-Build Institute.

Keeping current with industry standards is critical to DCC's ability to deliver service. Consequently, DCC encourages its employees to maintain and develop their professional skills, and the Corporation supports them in maintaining industry certifications and designations relevant to their work. Examples are CCA Gold Seal and Project Management Institute PMP certifications.



## Canadian Construction Sector

The construction industry is a major component of the Canadian economy. According to the Canadian Construction Association ([www.cca-acc.com](http://www.cca-acc.com)) this industry employs more than 900,000 Canadians, or about 6% of the total labour force. Moreover, it now generates about \$140 billion annually in gross output and accounts for 12% of Canada's gross domestic product.

In evaluating this very considerable impact on the Canadian economy and the role that DCC plays in that contribution, it is important to understand the structure of this sector. There are numerous small construction firms in Canada. Because these firms constitute the backbone of the industry, DCC must understand the challenges and the very real, ongoing business threats that these entrepreneurs face. In support of their need to conduct business, DCC works to maintain a level playing field, simplify bidding procedures, stimulate interest, and encourage competition for all contracts that the Corporation puts in place. At the same time, DCC is sensitive to the requirement to maintain cash flow and is adept at negotiating fairly when changes must be made to projects. Because DCC understands the needs of DND and the consultants and contractors, it is able to mediate fairly when differences arise.

**DCC acts as the intermediary between DND and the contractors and consultants who perform the work. Pictured here is one of the contractors working on renovations at the Stone Frigate Building at the Royal Military College in Kingston, Ontario.**



Strong businesses always try to improve the effectiveness of their operations, and as any manager knows, the key to continuous improvement is continuous evaluation. At DCC, those evaluations are called “compliance reviews,” but they are often called “site audits” informally. A site audit is a formal process in which an evaluator ensures that all aspects of DCC service delivery and business management are reviewed and monitored to preempt any potential problems. In the fiscal year 2002-03, 12 site audits took place within DCC offices.

Although the site auditor follows a formal checklist, work sites are not penalized for off-the-page innovation. Instead, site auditors operate openly and will debrief site personnel before leaving, so that personnel have a chance to explain why they do certain things the way they do. It is also a chance to reveal skill deficiencies that can lead to retraining opportunities.

## Service Lines

### CONTRACT SERVICES

For over 50 years, DCC's Contract Services Division (CSD) has linked DND with the contractors and suppliers who can fill its infrastructure needs. CSD provides these procurement services across Canada and overseas and it understands DND's demanding operational requirements, the rigour of the federal procurement policy and the unique practices of the construction industry.

Every year, approximately 1,500 contracts are issued for professional services, construction, goods and other infrastructure-related work. CSD's innovative, responsive and efficient procurement processes have been designed to meet client and industry needs. The DCC ISO 9001 certified quality program ensures consistent delivery, enhanced client input and continual improvement. A few of the options available are:

**Quick response tenders** — DCC establishes a source list of contractors at each base to respond to the specific construction needs of each location. Depending on the requirement and value, these contracts can be in place within 14 calendar days.

**Tender boards** — Minor construction projects that are equally time sensitive but more complex in nature are candidates for this process. The target time from notice to award for this process is 25 calendar days.

**Design-build** — This contract option is used to deliver a major portion of design within the construction contract. While the time required to contract for this option is longer than the time needed for other standard processes, the overall project delivery time has been reduced from the traditional design-bid-build method.

DCC has many other infrastructure-related tender processes, each designed to meet a particular requirement. Some of the options are as follows:

**Best value contracts** — Price and technical requirements determine the award, and it is not based solely on the lowest bid.

**Construction management** — Contractor expertise is engaged to help manage multiple construction activities.

**Energy performance contracts** — Firms are contracted to make infrastructure improvements on DND facilities with payment made from the resulting energy savings.

**Standing offers** — Firms are pre-selected to provide specific construction activities as and when required.

**Facility maintenance contracts** — Expertise is contracted for long-term operation and maintenance of DND facilities.

### TIMELINESS OF PROCUREMENT

Client groups within DND want to begin project work as soon as possible after receiving internal approval. Since timeliness of contract award is important both to DND and to the contractors and consultants, this activity is reported as a key performance indicator.

DCC intentionally sets aggressive targets for the timeliness of construction and consultant procurement because DND values expediency. The target represents a reasonable length of time from the point at which the notice of proposed procurement is received from the client, to the time when the contract could be awarded to the contractor or consultant. Targets do not include additional time that may be required as a result of amendments, budget issues or bid anomalies. Factors that affect performance against the targets include changes to the scope and value of the work during the procurement process.

## DCC at Work — Reduce Reuse Recycle

When the military doesn't need base housing anymore, it doesn't simply demolish the buildings. It disposes of them. This process is referred to as deconstruction — the selective dismantling or removing of material from buildings before or instead of demolition. Buildings — just like anything else — can be reused and recycled, and deconstruction prevents excess building materials from ending up in landfill.

In some cases, DCC has arranged for entire houses to be moved and reused. Some people have moved former DND houses onto lakefront property and used them as cottages. Some 50 houses were moved from the Ottawa area alone in previous years. Near the end of fiscal 2002–03, this type of project was initiated at CFB Cold Lake, and a total of nine buildings were moved. This project continues into 2003–04, with 40 more buildings slated for removal.

The following two tables demonstrate DCC progress at the end of fiscal 2002–03 in terms of timeliness of construction and consultant procurement. The numbers for fiscal 2002–03 reported in these tables are shown as a percentage of how many times the target was met. In the past, DCC has reported the average number of days that it has taken to award all of the contracts within each category. However, DCC believes that tracking and reporting the percentage of contracts that meet the time targets in each category is a more meaningful and objective measure of performance. Thus, the results for fiscal year 2001–02 have been restated to conform with this new method of reporting this performance indicator. For fiscal 2003–04, the performance targets have been updated to reflect this change, with the new target set at 50%. To provide context for the results from fiscal 2002–03, the median number of days to award the contracts is provided.



## OPERATIONS

The Operations Division delivers a broad scope of services to construct and maintain DND facilities including: control towers and hangars, dockyards and tank maintenance facilities, community centres, housing, barracks and clinics, water and sewer systems, communications systems, and roads and grounds. Other services include: firing range inspections, facilities management, property management support, facilities condition reporting, building systems troubleshooting, rapid response to urgent security needs, program management, commissioning and training.

Fiscal year 2002–03 saw new growth in DCC service lines, in particular in the area of support to deployed operations. As at March 31, 2003, three DCC employees were based in Bosnia-Herzegovina providing contract management and environmental support to the Canadian Forces. Opportunities in this area are expected to increase in the next fiscal year.

**Construction Procurement — Table 1**

Performance Indicator	Target	Results, Fiscal 2001–2002		Results, Fiscal 2002–2003		
		Number of Contracts	Actual % on Target	Number of Contracts	Actual % on Target	Median Number of Days to Award
Regular tender call	35 days	126	38.0%	96	37.5%	40
Tender boards	25 days	474	41.0%	351	45.3%	26
Quick response	14 days	295	33.0%	290	56.6%	14
Design-build	90 days	5	60.0%	8	37.5%	130

**Construction Procurement — Table 2**

Performance Indicator	Target	Results, Fiscal 2001–2002		Results, Fiscal 2002–2003		
		Number of Contracts	Actual % on Target	Number of Contracts	Actual % on Target	Median Number of Days to Award
SELECT	25 days	204	41.0%	194	42.3%	29
1-step proposal	50 days	41	29.0%	48	41.7%	55
2-step proposal	90 days	11	0.0%	19	31.6%	120
NAFTA	95 days	4	0.0%	No requests	N/A	N/A

DCC contracting staffers (from left to right)  
Brigitte Trau, Anne-Marie Schneider and Thuc  
Nguyen review documents prior to contract  
award.



If a structure cannot be totally reclaimed, there are always parts of it that can be re-used. DCC assesses each house and develops a list of the reusable or recyclable contents: everything from pipes to stoves to floorboards. Regardless of how the house is to be deconstructed, it is always the rule that hazardous material be removed.

The contractor who takes apart the house will then dispose of any contents that can be used again... and perhaps make a profit on the deal. And when the house is gone, contractors refill the hole and landscape the area.

The Operations Division is involved in projects that involve the decommissioning and clean up of buildings and sites that the Corporation helped build decades ago. One example of this is the Downsview consolidation project. In October 2002, the opening of the LCol George Taylor Denison III Armoury building was celebrated, marking the consolidation of 23 military units from the Toronto area in a 33,000 square metre facility. This project is one of the base consolidation projects that DCC worked on in the past year; another such project is the Winnipeg base consolidation project.

## CONTRACT MANAGEMENT SERVICES

One of DCC's core competencies is contract management. The Corporation provides many services to support the design, construction, renovation and maintenance of a wide variety of facilities for DND's infrastructure and environment program. Key contract management services include:

- contract administration;
- quality assurance;
- regular client reporting;
- co-ordination of expert services;
- monitoring of construction schedules;
- change management;
- certification of progress payments;
- certification of contract completion;
- document control;
- commissioning services;

- dispute resolution;
- monitoring of deficiencies and warranties; and
- resolution of contractor performance issues.

## ENVIRONMENTAL SERVICES

Since the early 1990s, DCC's core staff of environmental specialists has helped DND implement its environmental initiatives, and in particular its sustainable development strategy. The Corporation helps DND meet environmental performance targets, comply with regulatory requirements and manage due diligence and risk. Key environmental services include:

- environmental impact and site assessments;
- environmental site remediation;
- environmental support for project and program management;
- sustainable development strategy support services;
- policy, compliance and advisory services;
- site decommissioning services;
- facility deconstruction and demolition;
- firing range decommissioning;
- waste management auditing and planning;
- waste reduction planning;
- landfill inventories and investigations;
- hazardous waste management;
- underground storage tank removals;
- training and education;



**A memorandum of understanding was signed on October 9, 2002 between the Association of Consulting Engineers of Canada (ACEC), DND and DCC. This confirms the working relationship between ACEC and DCC in the Corporation's capacity as the contracting agency for Construction and Property Services at DND's Infrastructure and Environment Group. From left to right are Ross Nicholls, President of DCC, BGen Steve Irwin, Director General of Construction and Property Services, and Claude Paul Boivin, ACEC president.**

## **DCC at Work — Certified Project Managers**

Throughout all phases of the project delivery process, from planning to design to construction, DND project leaders demand skilled, competent support. To ensure DND has the level of support it requires, an increasing number of DCC project managers have become certified Project Management Professionals (or PMPs, for short).

PMP certification is becoming standard at DCC, and now some 15 of its staff have achieved it. At DCC, PMP candidates gather in “study groups” that meet weekly over lunch. They go over material, take turns reviewing sections, study practice tests and generally help each other through an exchange of ideas or lessons learned.

- ISO 14000 environmental management systems;
- environmental GIS applications;
- environmental support for property transactions and decommissioning;
- environmental monitoring and compliance auditing;
- designated substances inventories;
- environmental disclosure reporting; and
- environmental contracting and contract management.

### **FACILITIES MANAGEMENT SERVICES**

DCC contracts for and manages the delivery of facilities management services for DND, ensuring smooth operations and that DND buildings are efficiently and cost-effectively maintained. The Corporation's experience covers all areas related to facilities management, including mechanical, electrical, structural, environmental and building maintenance services. Key facilities management services include:

- turnkey support;
- renewal services;
- emergency response planning;
- environmental management reporting;
- design and construction of maintenance projects;
- energy management;
- fire safety management;
- building condition reporting; and
- project budget planning for re-capitalization projects.

### **TECHNICAL SUPPORT SERVICES**

DCC can provide its client a “one stop shop” because its in-house technical support complements its procurement, construction and contract management capabilities. Integration of service lines is a conscious business strategy of the Corporation in order to provide the most cost-effective service possible. Key technical support services include:

- energy performance contracting;
- preventative maintenance inspections, troubleshooting and analysis;
- commissioning resources;
- environmental technical support;
- facility condition reporting;
- quality surveys; and
- materials testing.

### **PROJECT MANAGEMENT SUPPORT**

DCC provides a range of fully integrated project management services, from identifying and analyzing problems, through to the planning, design and construction phases of a project. The Corporation recognizes the importance of meeting established standards. Its project managers are expected to become certified as Project Management Professionals. The Operations Division leads and coordinates its project management expertise, which ensures that employees are trained consistently across all locations. Key project management support services offered are:

- project identification and analysis;
- turnkey project management;
- communication;
- risk management;
- support to specific project management tasks;
- coordination of national initiatives; and
- program management.

One becomes a PMP by passing a rigorous exam process set out by the U.S.-based Project Management Institute, the world's largest not-for-profit project management professional association ([www.pmi.org](http://www.pmi.org)). The PMI certification program maintains ISO 9001 certification in quality management systems.

In fiscal 2002–03, the DCC National Operations Group secured a license from PMI to train PMPs. One of DCC's managers is a qualified instructor who can conduct the courses in-house for the Corporation's staff or for DND personnel.

### SUPPORT TO DEPLOYED OPERATIONS

An important part of DCC's mandate is to help DND to both meet its operational requirements and to comply with federal contracting policies. DCC takes the services it already provides at bases and wings and brings them to an operational theatre. Key support services for deployed operations are:

- procurement;
- contract management;
- environmental services; and
- project management support.

### TRACKING CLIENT SATISFACTION

DCC regularly tracks client satisfaction as one of its key performance indicators. Client groups within DND provide information through written questionnaires and through face-to-face interviews. During fiscal 2002–03, DCC sent out 737 surveys; 676 were returned. The types of projects surveyed included contract management, environmental and specialty services. The survey return rate was 92%. This return rate is an increase over a return rate of 86% from fiscal year 2001–02. DCC's goal is to collect 100% of responses. The improvement during last fiscal year was due to a concentrated effort to have more

interviews with the client at the site level. In the next fiscal year, this strategy will continue and will involve modifications to the process to enhance the level of detail in the information collected during the survey process.

Of the surveys returned, five responses, or 1% of the returns listed problems. As at fiscal year end, three of these issues had been resolved with two issues in the process of being resolved. Some of these problems were addressed by placing senior DCC staff on certain sites and by increasing project communications to varying levels within certain client groups. Overall, the rating of 99% client satisfaction can be attributed to the proactive measures DCC takes throughout various phases of each project. Such measures

include regular meetings with DND client groups at key project milestones to discuss performance issues.

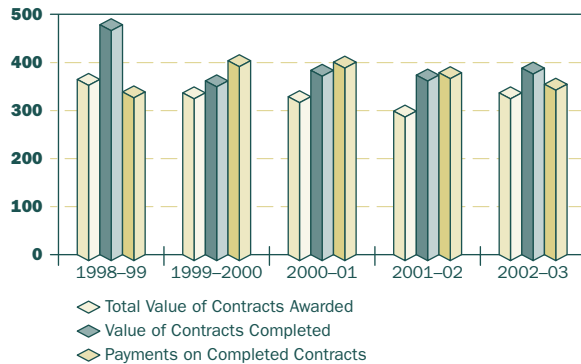


**At fiscal year end, DCC had three of its personnel stationed in Bosnia-Herzegovina. Pictured above is Paul Champagnie, DCC contract manager being recognized by Col. P.J. Atkinson, Commander Task Force Bosnia-Herzegovina, with a Commander's Commendation for his work in getting Camp Black Bear (Velika Kladusa) connected to commercial power.**

# Contract Services and Operational Highlights

**Figure 1 — Contract Values**

(\$ millions)

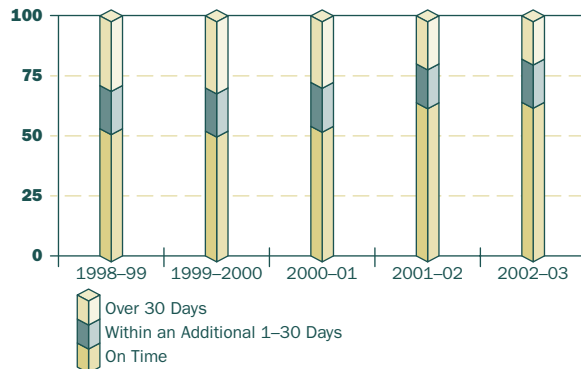


**Figure 2 — Number of Contracts Awarded and Completed**



**Figure 3 — Timeliness of Construction Contract Completions**

(% of jobs completed)

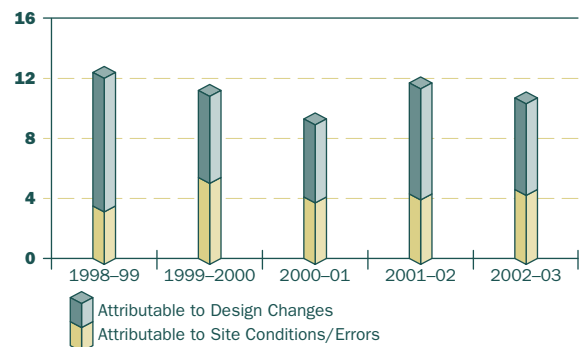


## TIMELINESS OF CONSTRUCTION CONTRACT COMPLETIONS

A key component of client satisfaction is schedule control. Consequently, DCC monitors timeliness of construction contract completions and works with the client to minimize schedule slippage. When it does occur, DCC ensures that DND knows the reasons. In 2002-03, 64% of completed construction contracts were finished by the pre-established completion date. Another 18% were completed within 1 to 30 days. Although there are no formal targets set for this indicator, DCC tracks this information to help keep the client informed.

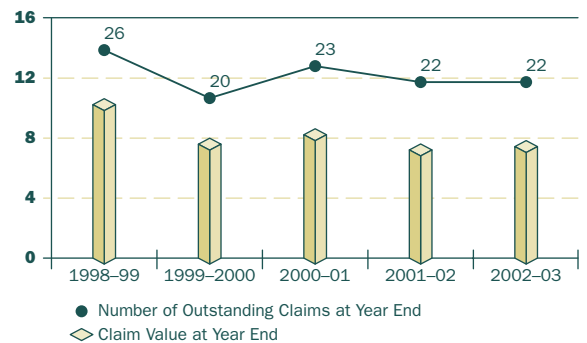
**Figure 4 — Change Order Values**

(% of total award value)



**Figure 5 — Contract Claims at Fiscal Year End**

(\$ million)



## CHANGE ORDERS

Changes can have a negative effect on a project's schedule and can result in cumulative impact costs. Consequently, DCC manages contracts in a way that attempts to minimize both the number and the dollar amount of contract changes. Figure 4 illustrates trends over the last five years. In 2002–03, on the basis of 885 construction contracts, 4.6% of cost growth was due to site conditions or to errors and omissions, and 6.1% was attributable to design changes.

## CONTRACT CLAIMS

A direct indication of DCC's efforts to protect the interests of the Crown can be found in the dollar value of contract claims before the Courts at any given time. A balance must be struck between treating contractors fairly and ensuring the government receives fair value for contracted commitments. The claim trend over the last several years as indicated in Figure 5, represents only contract claims filed in court.

In 2002–03 DCC closed nine claims. Two of these claims were dismissed or discontinued and seven were settled for a total value of \$285,250. Seven new claims were raised during the year. As at March 31, 2003, there were 22 claims outstanding for a total claim value of \$6,971,000.

**Table 3 — Contract Expenditures, 2002–03**

(all amounts reported in \$ thousands)

	Construction Contracts	Consultant Services	TOTAL
<b>Atlantic Region</b>			
Gagetown, NB	\$ 8,608	\$ 1,610	\$ 10,218
Goose Bay, NL	8,651	769	9,420
Gander, NL	1,467	192	1,659
Greenwood, NS	15,597	1,225	16,822
Halifax, NS	19,672	4,054	23,726
Others	517	141	658
<b>Subtotal</b>	<b>54,512</b>	<b>7,991</b>	<b>62,503</b>
<b>Central Region</b>			
Bagotville, QC	8,020	33	8,053
Borden, ON	8,751	763	9,514
Kingston, ON	9,457	2,903	12,360
London, ON	1,707	4,687	6,394
Montreal, QC	7,803	633	8,436
North Bay, ON	1,324	56	1,380
Petawawa, ON	10,194	969	11,163
Trenton, ON	5,957	361	6,318
Toronto, ON	11,328	2,448	13,776
Valcartier, QC	12,240	2,261	14,501
Ottawa, ON	4,192	790	4,982
<b>Subtotal</b>	<b>80,973</b>	<b>15,904</b>	<b>96,877</b>
<b>Western Region</b>			
Calgary, AB	5,845	355	6,200
Chilliwack, BC	603	110	713
Cold Lake, AB	20,796	799	21,595
Comox, BC	9,117	599	9,716
Edmonton, AB	14,489	1,139	15,628
Esquimalt, BC	10,354	1,488	11,842
Fleet Maintenance Facility, Esquimalt, BC	37,287	4,857	42,144
Moose Jaw, SK	2,411	167	2,578
Suffield, AB	8,010	499	8,509
Shilo, MB	3,998	901	4,899
Winnipeg, MB	5,422	711	6,133
Wainwright, AB	3,543	211	3,754
<b>Subtotal</b>	<b>121,875</b>	<b>11,836</b>	<b>133,711</b>
<b>Northern Canada</b>	<b>25,060</b>	<b>4,133</b>	<b>29,193</b>
<b>Canadian Forces</b>			
Housing Agency (CFHA)	24,283	—	24,283
<b>Head Office — Others</b>			
	3,854	2,455	6,309
<b>Totals</b>	<b>\$ 310,557</b>	<b>\$ 42,319</b>	<b>\$ 352,876</b>

# Organization and Governance

## Governance

Defence Construction Canada (DCC) is governed by a Board of Directors. The Governor-in-Council appoints the Board on the recommendation of the Minister of Public Works and Government Services, through whom DCC reports to Parliament. Directors bring a balance of public and private sector experience to the Board, which contributes to its effectiveness. The Corporation maintains this mix using a board profile, which DCC developed in accordance with guidance from the Privy Council Office. In keeping with DCC's mandate and key challenges, the directors come from senior management positions with knowledge of engineering, construction, law, finance, governance or management.

The Board's work complements that of senior management. This relationship allows the Board to consistently fulfill its duties as outlined in the *Defence Production Act*, the *Canada Business Corporations Act*, the *Financial Administration Act*, government guidelines for corporate governance and management of Crown corporations, and DCC's bylaws.

At the end of fiscal 2002–03, the Board of Directors consisted of six members, including the President and CEO and a separate Chair. The Board meets on a regular schedule, when the Chair may deem necessary.

The Board of Directors oversees the management of the Corporation to realize the best interests of the Corporation, shareholders and stakeholders. Stewardship of the Corporation is seen as the Board's key responsibility. In that role, the Board provides advice on current business affairs, vision and long-term direction. Specific tasks of the Board include the following:

- providing strategic advice and direction, particularly in relation to business planning;
- ensuring that the Corporation is meeting its public policy objectives;
- safeguarding the Corporation's resources through effective comptrollership;
- monitoring performance; and
- fostering communications with the Crown, particularly reporting.

To help the Board carry out its duties, the Audit Committee meets separately from the full Board to review the Corporation's financial statements, internal audit reports and the results of special examinations undertaken by the Office of the Auditor General of Canada, as required under the *Financial Administration Act*.

## Comptrollership

The Board, management and all DCC employees understand that the Corporation must be fully accountable to Canadians for its decisions and practices, and that these decisions and practices must be fully accessible to Canadians. Effective comptrollership ensures that the day-to-day control of DCC's operations falls well within broad government guidelines and expectations. These include

ensuring that DCC's corporate policies and procedures reflect sound, ethical and values-based business practices, and that they allow the Corporation to respond to challenges appropriately and quickly. The Corporation achieves comptrollership by adhering to its governing legislation, providing clear strategic direction and creating a corporate plan based on sound business planning. Elements of the effective comptrollership system include: performance measurement, succession planning, risk management, communications, and an audit regime that uses both the Auditor General and an independent, third-party, internal auditor who reports directly to the Board. Finally, the Corporation recognizes the need to base its decisions on good values and ethics.

## Corporate Stewardship

Throughout 2002–03, both the Board of Directors and senior management maintained their key governance and management responsibilities, as detailed by the government. They undertook the following governance and management initiatives in 2002–03.

- Strategic direction: The Board continued to monitor the Corporation's strategic situation and associated strategic responses. The principal activity of the past year was approving the 2003–07 Corporate Plan.
- Risk management: Based on previous board direction, the Corporation finalized a new risk management

framework to identify, quantify and mitigate the Corporation's key strategic and operational risks. The framework incorporates risk management into the strategic and corporate planning processes. Over the next fiscal year, the Board will monitor the development of the Corporation's risk profile. The primary responsibility for this initiative will rest with senior management, through the Risk Management Committee.

- Succession planning: The Board approved and promulgated a senior management succession plan for the Corporation. Senior managers are now applying this model to succession activities for key regional and site staff.
- Audit regime: Due to internal audits and staff reviews of practices, the Board remains confident that the Corporation has sufficient internal controls to maintain its comptrollership obligations.
- Communications: The Board maintains a policy of transparency of information, while recognizing the need to protect both personal and proprietary information. The Corporation works with its principal client to meet its obligations under access to information legislation. During 2002–03, a new procedure was developed to maintain the Minister's arm's-length relationship to public communications about DCC operations. In the past fiscal year, in addition to the Corporation's day-to-day communications activities, the Board and senior management sought opportunities to speak with senior government officials about the Corporation.



## DCC Board of Directors

(at March 31, 2003)

### Chair

#### **Mr. John D. McLure\***

JDM Consulting Inc. and  
Senior Associate, Hill and Knowlton  
Canada Limited, Ottawa, Ontario

### Board Members

#### **Mr. Jean-Claude Garneau\***

President, Excotech Inc.  
Montreal, Quebec

#### **Hon. Stewart McInnes, P.C., Q.C.**

Lawyer, Halifax, Nova Scotia

#### **Mr. Ross Nicholls, P.Eng\***

President and Chief Executive Officer  
Defence Construction (1951) Limited  
Ottawa, Ontario

#### **Mr. Michael G. Nurse**

Associate Deputy Minister, Public Works and Government  
Services Canada, Ottawa, Ontario

#### **Ms. Nancy M. Penner**

Counsel, Parlee McLaws LLP  
Calgary, Alberta

*\*Member of the Audit Committee*



## Overview of DCC Integrated Risk Management Framework

The Board and management of DCC share the aim of integrating risk management into the overall corporate planning process. As a key component

of governance, DCC continues to balance risks to the Corporation with its need to ensure a high level of operational support to the Department of National Defence and the Canadian Forces. In 2002–03, the Corporation developed a renewed Risk Management Framework that

- increases line managers' responsibility, authority and accountability for identifying, assessing and managing corporate and project-related risks;
- enhances decision making through the use of common risk language and procedures; and
- focuses efforts to allocate resources and manage risk on maintaining DCC's financial, operational and reputation "bottom lines."

This framework comprises the overall policy and procedures that allow the Board, management and all employees to effectively and efficiently manage risk. Under the new framework, the ongoing responsibilities for managing risk remain shared throughout the Corporation.

The Board provides the overall guidance for managing risks within DCC and periodically evaluates the effectiveness of the framework. DCC's internal auditor, responsible directly to the Audit Committee, reports on the performance of the framework. The CEO fosters a culture that values risk management as a decision-making tool that improves accountability; oversees the implementation of the framework; encourages an increase in risk

DCC Board of Directors, seated from left:  
Mr. Ross Nicholls, Mr. John D. McLure,  
Ms. Nancy M. Penner. Standing, from left:  
Mr. Jean-Claude Garneau, Mr. Michael G.  
Nurse, Mr. Brent DiBartolo (term ended in  
the third quarter of 2002–03), Hon. Stewart  
McInnes.



management capacity throughout the Corporation; oversees the development of the risk management strategy; and reports on risk management performance. The newly formed Risk Management Committee, composed of the President and all Vice-Presidents, prioritizes risk management activities, oversees incorporation of risk management activities into the Corporate Plan and subordinate business plans, and reviews projects or programs that pose high risks to the Corporation. Finally, the entire Management Group oversees the integration of risk management into the overall corporate governance structure, based on direction from the Risk Management Committee; provides managers and employees with training and development opportunities in risk management; designs and implements tools to improve the process; and allocates resources to manage risks, through the corporate and business planning processes.

In late 2002, the Risk Management Committee developed a renewed risk profile for the Corporation. As a result, DCC monitors key strategic risks within several broad categories deemed key to the success of the Corporation: support for government and client objectives; relevance of the Corporation's mandate; ability to serve clients; effectiveness of corporate management support and control systems; and effectiveness and efficiency of the Board. The Board and management have identified key areas within these strategic risk themes that require specific actions or regular monitoring. At this time, the Board and management agree that the Corporation is well able to control most identified risks, as their potential impact and probability are low.

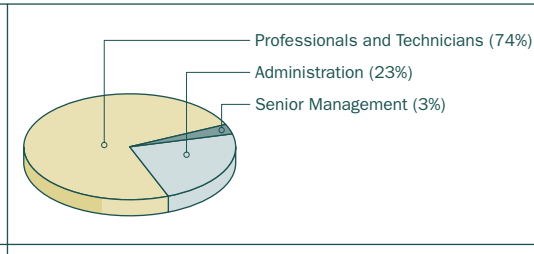
However, the Corporation continues to work on reducing risk even further. Using a prioritization matrix, DCC allocates resources to high-risk areas through the Corporate Plan and division business plans. Management informs the Board regularly about risk areas, DCC's exposure and current mitigation strategies.

Although new, the Corporation's Risk Management Framework has proven to be a worthwhile tool. While the Corporation's overall operational and administrative risks remain low, the risk profile is one source of information DCC uses to develop its long-term strategic plan. In the next year, the Risk Management Committee will validate the current risk profile and thoroughly review the steps needed to better integrate the risk management and annual planning cycles.

## Human Resources

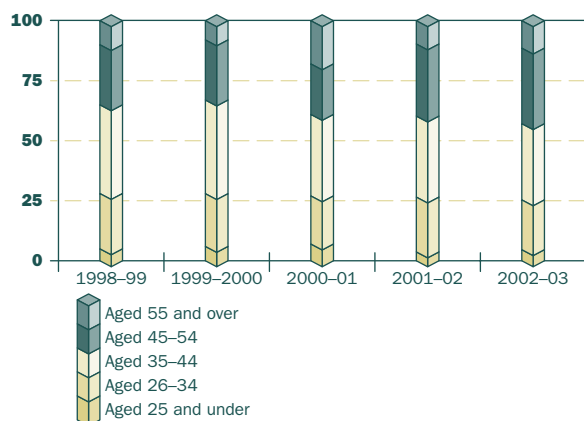
DCC acknowledges that its chief asset is people and that corporate successes are dependent on employee abilities and dedication. One of DCC's strengths is its dedicated workforce of professionals. The team consists of a mix of engineers, engineering technicians and technologists, environmental scientists, and experienced tradespeople. Other specialists in finance, human resources, information technology and administration support these professionals. At the end of this fiscal year, DCC employed 280 employees.

**Figure 6 — DCC Workforce**  
at March 31, 2003



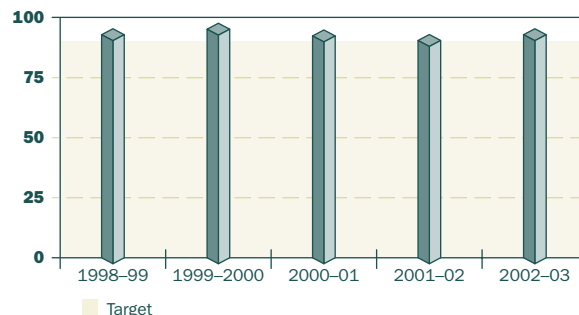
In fiscal year 2002–03, DCC recognized five employees for 20 years of service, four employees with 25 years of service, and, most notably, three employees with 30 years of service. Employees acknowledge that working for DCC is interesting, challenging, never boring, and that employees respect each other.

**Figure 7 — Employee Demographics**  
(%)



Recruitment practices are focused on engaging professionals who strive to maintain the Corporation's continued success, and who take pride in achieving their personal goals. DCC internal recruitment practises supported 41 employees along their career paths through promotions and transfers during the past year. Even though DCC's work environment is somewhat seasonal, the Corporation has consistently upheld a retention rate above 90% over several years.

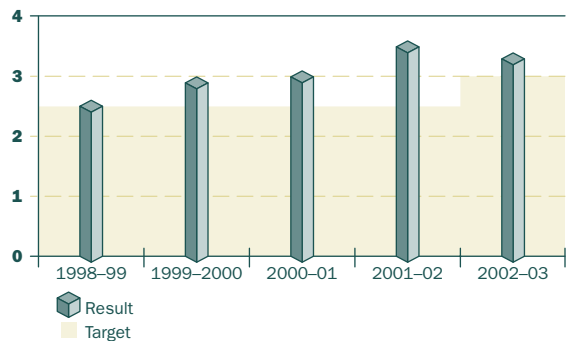
**Figure 8 — Employee Retention Rate**  
(%, Target = 90%)



DCC views the employee retention rate as a measure of employee satisfaction with DCC's working environment. As Figure 8 indicates, the retention rate increased to 93.2% in 2002–03 from 90.8% in fiscal year 2001–02. This can be attributed to the revision of the salary scale implemented in fiscal year 2002–03. This change was made so that DCC could remain competitive with the private and public sector for qualified individuals. Secondly, DCC service lines have diversified, and consequently, employees have more internal career opportunities available to them. In order to maintain DCC's attractive work environment, the human resources group promotes employee opportunities for training and lateral transitions within the Corporation.

## Staff Training and Development

**Figure 9 — Professional Development to Salary Cost Ratio**  
(%)



The employees of DCC form a specialized team, and consequently DCC encourages ongoing professional development and staff training. Figure 9 illustrates the financial commitment that DCC makes to this area.

DCC acknowledges that its ability to service its client is dependent on the skill sets of its employees. In recognition of this, in fiscal year 2002–03, DCC increased its target for training as a percentage of salary cost to 3% from 2.5%. In 2002–03, DCC achieved a result of 3.3%.



In December 2002, DCC mid-level managers gathered in Cornwall, Ontario for a three-day program to build their management skills. Attendees discussed ways to translate corporate performance objectives into smaller group goals and individual performance targets.

**Front row, left to right:** Russ Perrie, Josée Champagne, Anne-Marie Schneider, Neil Kellington, Stephanie Ryan. **Middle row, left to right:** Marc Brophy, Vic Sabramsky, Derek Lougher-Goodey, Les Latinecz, Richard Bélanger, Nick Monteiro, Dave Long, Alain Denis, Louis Brisson. **Back row:** Brian Roach, Mike MacIsaac, Brian Hughes, Steve Toth, Scott Hamilton, Mark Dalgard, Ryan Polkinghorne, Trevor Rodgers.

## National Awards 2002–2003

### President’s Award for outstanding contribution to the Corporation

Mr. Randy McGee, Area Engineer  
Edmonton, Alberta

### Customer Satisfaction Award for outstanding service to clients

Ms. Anne-Marie Schneider, Senior Contracting Officer  
Ottawa, Ontario

### Robert Graham Memorial Award for outstanding contribution to safety or the environment

Mr. Kristoffer Seiler, Environmental Coordinator  
Calgary, Alberta

### Service Innovation Award

Mr. Joel Spakowski,  
Contract Coordinator  
Chilliwack, British Columbia



## Senior Management Team

(Pictured above, from left to right)

### **Mr. Ross Nicholls, P.Eng**

President and Chief Executive Officer

### **Mr. Russell Perrie, P.Eng**

Vice-President, Operations and Chief Engineer

### **Mr. Angelo Ottoni, CA**

Vice-President, Corporate Services,  
Chief Financial Officer and Secretary-Treasurer

### **Mr. Ronald de Vries, P.Eng**

Vice-President, Contract and Client Services

### **Mr. David McCuaig, PMP**

Director, National Operations Group

### **Mr. Michael Darrow, P.Eng**

Director, Atlantic Region

### **Mr. Marc Lanteigne, Eng.**

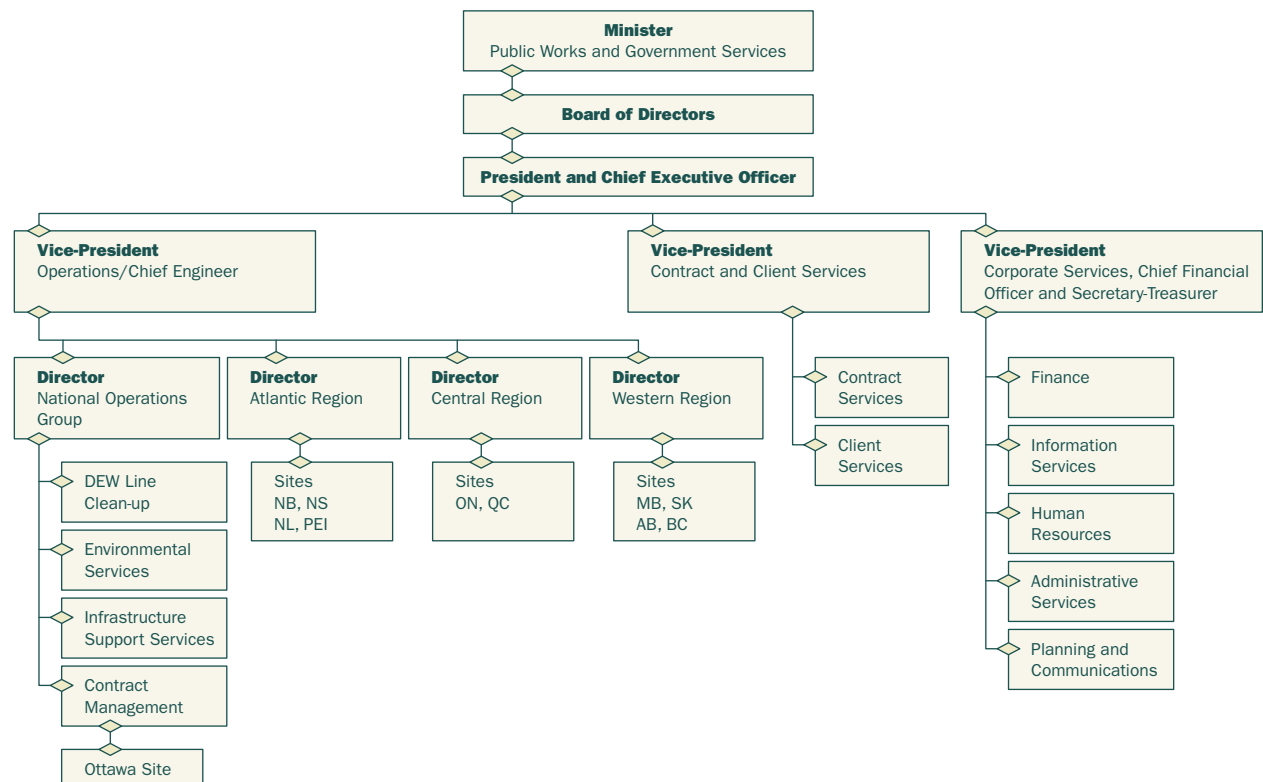
Director, Central Region

### **Mr. Steve Karpyschin, P.Eng**

Director, Western Region

DCC maintains a presence throughout Canada with three regional offices and 28 site offices located at Canadian Forces bases and wings. In addition, to manage the DEW Line Clean-Up project in the Arctic, DCC established smaller, remote offices in the Canadian North. Outside of Canada, DCC has one site office in Bosnia-Herzegovina, from which it supports the Canadian Forces deployed in Operation PALLADIUM.

**Figure 10 — Organizational Structure**



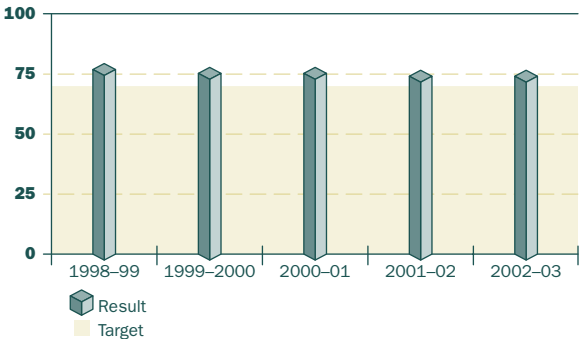
# Human Resources Management Measures

## UTILIZATION RATE

The utilization rate (see Figure 11) is an important performance indicator as well as a key financial management tool. It describes the amount of time, in terms of hours, spent on contract-related functions, and shows the client how much time DCC spends on its work. In fiscal 2002–03, the utilization rate was 73.3% and has remained consistent around this level over the past five years.

Figure 11 — Utilization Rate

(%, Target = 70%)



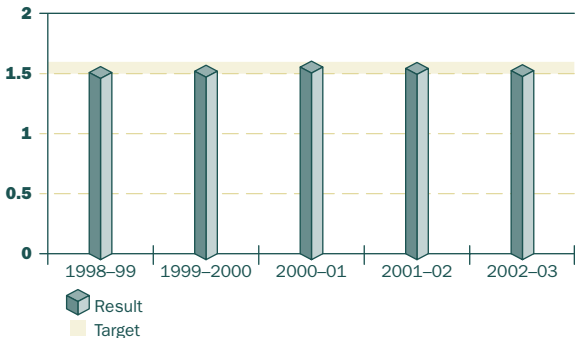
## DIRECT PERSONNEL EXPENSE MULTIPLIER

In the fiscal year ending March 31, 2003, the Corporation decided to change the method of reporting the results for this indicator. In the past, this was referred to as the “payroll multiplier” and represented the ratio of services revenue to project direct labour costs, including benefits, but excluding a mark-up factor to account for compensated absences, such as vacation, sick leave, holidays and professional development time. The direct personnel expense multiplier currently reported as a performance indicator takes the mark-up factor for compensated absences into consideration in determining the project direct personnel expense. This method of reporting is also more in line with industry practice. The results reported in Figure 12 for previous years have been restated to conform with this new method of reporting this indicator.

The direct personnel expense multiplier is the factor by which DCC multiplies project direct personnel expense in order to cover overhead costs. This multiplier is used to establish billing rates for DCC services. The target range for fiscal 2002–03 was 1.50 to 1.60. In 2002–03, the direct personnel expense multiplier was 1.55, remaining in the targeted range.

Figure 12 — Direct Personnel Expense Multiplier

(Target = 1.5-1.6)



# Management Discussion and Analysis

## Update on Strategic Initiatives for 2002–2003

In 2002–03, the Corporation's planning process was restructured into four strategic themes, fostering continuity in all future plans and reports while making it simpler to track corporate development. These strategic themes are **corporate governance and leadership, service delivery, managing stakeholder relationships, and corporate services and support**. Success in each of these themes supports the Corporation's overall strategy. Consequently, all initiatives in the Corporate Plan and business plans can be categorized within one of these areas. As new corporate-level documents are published, they will use this new thematic approach. For reporting purposes, initiatives in the 2002–03 Corporate Plan have been assigned to one of the four themes.

### INITIATIVES RELATED TO CORPORATE GOVERNANCE AND LEADERSHIP

Management recognizes that good corporate governance is an essential foundation of successful business, especially in the public sector, where the notion of public service demands accountability, fairness, trust and transparency of operations. The framework for DCC governance is set at the board level and the established principles are used at the management level. Corporate governance is linked to senior management leadership to emphasize how concepts such as stewardship, risk management and account-

ability to stakeholders are pushed down from the Board to management to employees. The Corporation already has a corporate governance framework, which the Board reviews annually and which management reviews during the strategic planning process.

The 2002–03 Corporate Plan identified several initiatives to improve stewardship. Firstly, DCC revised the **strategic planning process** to focus on meeting client requirements, the area stakeholders have identified as key to DCC success. Furthermore, DCC extended the planning process by including a wider variety of participants in planning working groups. This has resulted in a more comprehensive, relevant planning process that helps guide our activities at the strategic and operational levels.

Secondly, DCC developed a corporate **risk management framework** so that it can systematically review and evaluate business activities. Although DCC management continues to do business in its traditional “hands-on” style, which immediately brings senior expertise to bear on operational issues, the new framework formalizes the process for identifying risks and documenting the strategy used to mitigate potential impacts. Strategic risks to DCC have been linked to key strategic planning themes. The Corporation will make risk management decisions in the context of overall corporate planning, and will outline the necessary actions and resource allocations in the Corporate Plan or in the business plan of the appropriate business unit. The Corporation will review risk annually, through the corporate planning process. In addition, a Risk

Management Committee composed of the President and Vice-Presidents will regularly monitor the risk environment and take interim action, as required.

A third area of concentration in fiscal 2002–03 involved the **communication** of key corporate information to stakeholders — in this case, to DCC's client groups at DND. Corporate communications plays a critical role in showing stakeholders how DCC is serving their interests. It is important that stakeholders receive relevant and accurate information about corporate activity in a timely and meaningful way. Last year, new tools — including a corporate information kit, a bimonthly external newsletter and plans for an enhanced Web site ([www.dcc-cdc.gc.ca](http://www.dcc-cdc.gc.ca)) — were developed to share news and service line information.

Lastly, under the corporate governance and leadership theme, DCC advanced its new vision statement by announcing a new award for **innovation**. The award recognizes and rewards innovative practices that improve service to DND by improving internal processes or introducing new service lines. We hope that this award, plus encouragement and support from the management team, will make the DCC culture less risk averse and more receptive to innovation.

For 2003–04, DCC will continue its efforts to improve the **planning process**, by validating its conclusions about the client's needs and incorporating lessons learned into the

process. Similarly, efforts to improve the flow of corporate information to DND will continue through the **client services** function. Further improvements to the **corporate communications** output will include enhancing the DCC Web page that targets the general public and potential new employees. Throughout the year, DCC will continue to encourage **innovation** by its employees, and will continue to develop new ways to do things better, faster and differently.

#### INITIATIVES RELATED TO SERVICE DELIVERY

Given DCC's mission to deliver high-quality, timely and efficient services to DND, achieving excellence in service delivery remains at the forefront of DCC's corporate strategy. Over half a century of work experience with DND has given DCC in-depth knowledge of client requirements. Within this niche, the Corporation always strives for continuous improvement. DCC regularly undertakes projects to develop, maintain and enhance modes of service delivery.

The 2002–03 Corporate Plan identified several initiatives to improve DCC's service delivery for the benefit of DND. These initiatives related to the continuous improvement of **quality** throughout all of DCC's operations. The Operations Division developed a new series of operating procedures, which will help make service standards consistent. A standard methodology template, comprehensive staff training and a formal feedback process were developed to track performance in day-to-day operations and to identify areas for improvement. DCC is incorporating this new audit process into its system for evaluating the performance of site and regional management.

Finally, to ensure the client receives **best value** under the service billing regime, last year's plan committed DCC to a change in corporate pricing policy aimed at moving DCC from a "low cost" service provider position to the position of "best value" service provider in its niche. The Corporation would do this by basing both cost and revenue on competitive market forces rather than simply on the lowest cost option. The first step involved significantly adjusting employee salary ranges at the start of the fiscal year to address competitive disparity with public service compensation rates. Secondly, DCC decided to stop holding the corporate direct personnel expense mark-up factor to 1.5. The level of business activity allowed us to continue to use 1.5 for fiscal 2002–03 budgeting purposes. However, future budgets will allow that factor to rise if deemed necessary to maintain an adequate operating contingency fund to manage possible revenue downturns. The inherent level of uncertainty in forecasting revenue makes this change in policy and practice necessary. The amount of the operating contingency fund, and the accumulation or depletion of cash reserves, will vary from year to year, depending on management's evaluation of risk factors.

The primary service delivery initiative for 2003–04 is the establishment of a business tool kit to help develop employee skills and to support **communications** with the client. This kit will be an information hub containing all the support resources DCC employees need to interact with the client. The guidelines and materials in this kit will formalize DCC's service philosophy, which is that employees must maintain high levels of professionalism and accountability in all client interactions. At the same time, the materials

will encourage DCC employees to recognize new service opportunities and suggest ways to improve their work for the benefit of DND.

## INITIATIVES RELATED TO STAKEHOLDER RELATIONSHIPS

DCC needs to maintain positive relationships with government, its client, industry and professional associations so that it can operate effectively. While specific service delivery issues fell under the previous section, the planning aspects of the broader relationship with the client are considered in this section.

Managing the Corporation's relationship with its client was identified as being important enough to warrant the creation of a new senior management position. In 2002–03, DCC appointed a Vice-President, Contract and **Client Services**, and a Planning and **Communications** Officer to help develop a client services business plan and start implementing client service activities. A client services business plan has been finished and the first communications products have been issued for use throughout the Corporation.

To foster the client relationship, DCC is developing new ways to gauge and report **client satisfaction**. This task involves more than simply improving a form; the data collection process itself has to be changed. In fiscal year 2003–04, the Corporation will start collecting information in a more hands-on way, through face-to-face interviews



with senior regional and corporate management, once or twice a year. The effectiveness of this approach will be reviewed later in the coming year.

Building more meaningful relationships with other arms of government and industry remains an ongoing objective. In 2002–03, the President served on the Federal-Industry Real Property Advisory Committee (representing all federal government departments and industry associations) and on several senior project advisory committees, at the invitation of Public Works and Government Services Canada; made a presentation at the annual conference of the Canadian Construction Association; and signed a memorandum of understanding with the Association of Consulting Engineers of Canada. DCC worked closely with other industry organizations, including the Royal Architectural Institute of Canada, the Canadian Construction Association, the Association of Consulting Engineers and the Canadian Design-Build Institute. In addition, DCC employees were involved in relevant professional associations.

To further its commitment to building strong external relationships, DCC will maintain its involvement with **industry associations** in 2003–04. Notably, in the coming year, the Vice-President, Contract and Client Services, will serve as President of the Canadian Public Procurement Council, which represents the procurement interests of all three tiers of Canadian government. Throughout 2003–04, DCC will be open to opportunities to enhance its partnership with DND, and to create new ones within its mandate to deliver defence projects, including partnerships with elements of DND it has not worked with before.

## CORPORATE SERVICES INITIATIVES

DCC has well-established systems for managing its day-to-day operations, human resources, and financial and information systems. DCC's internal ability touches all aspects of the business and is the key to maintaining high-quality service to DND. Consequently, DCC strives to keep up to date with new business methods, regulatory practices and technology, which will ultimately enhance the quality of its services. Currently, the Corporation is updating its primary enterprise software management system, which should be finished in 2003–04.

The key initiative for 2002–03 involved management of information systems. DCC is continually monitoring trends in **e-commerce**, which it originally identified as a strategic initiative. The Corporation will now maintain an ongoing watch-and-wait position to ensure that it does not miss opportunities, but it will not try to lead the field in expensive technology development.

## Financial Performance

### FINANCIAL MANAGEMENT POLICY

The Corporation's financial management policy is based on a fundamental assumption that the Corporation is a going concern and its stated mandate will continue for the foreseeable future.

Until 1997, the Corporation operated on appropriations-based funding. Beginning in the fiscal year ended March 31, 1998, the Corporation has been operating on a fee-for-services basis. Since this date, the Corporation's financial management policy has been to generate sufficient cash to meet its anticipated operating and capital requirements and to settle its financial obligations as they become due.

In determining the amount of cash reserves carried for operating needs, the Corporation considers the operating risks inherent in its operations, particularly the risks associated with potential and unanticipated changes to the amount or timing of construction project expenditures on the part of its client, DND. In order to fulfill its mandate and remain ready and able to serve its client at all times, the Corporation must constantly react to changing business conditions and be able to financially support and sustain its operations when sudden or unanticipated business changes occur. As a result, the Corporation also allows for reasonable levels of operating contingencies in determining the amount of cash reserves to carry. Cash levels are constantly monitored and reviewed by management to determine their appropriateness. Any surpluses or shortfalls that may occur from time to time are taken into consideration in future business operating plans.

### FISCAL 2002-2003 COMPARED WITH FISCAL 2001-2002

(all dollar amounts reported in thousands unless otherwise indicated)

#### SERVICES REVENUE

	<b>2002-2003</b>		<b>2001-2002</b>		<b>Variance</b>
Construction contract management	\$ 14,840		\$ 11,823		\$ 3,017
Contracting	2,600		2,378		222
<b>Construction contract management and contracting services</b>	17,440	71%	14,201	71%	3,239
Environmental	2,557		2,627		(70)
Project management support	1,986		1,199		787
Energy performance	508		401		107
Commissioning	448		444		4
Facilities management	432		408		24
Facilities decommissioning	385		245		140
Design management	304		204		100
Other	362		323		39
<b>Related services</b>	6,982	29%	5,851	29%	1,131
	\$ 24,422	100%	\$ 20,052	100%	\$ 4,370

Overall, services revenue increased in the year ended March 31, 2003, by \$4,370 or approximately 22% over the previous fiscal year. This increase is attributable to a combination of an increase in average billing rates, which averaged approximately 12%; an increase in total billable hours of approximately 9%, due to increased business activity; and changes in staff mix of billable resources, which accounted for approximately 1% of the increase.

The relative percentages of total revenue generated from construction contract management and contracting services and related services remained constant at 71% and 29% respectively. This revenue mix approximates the Corporation's objective, which is to grow related services to at least 30% of overall service offerings. The sharp increase in project management support services of approximately 66% is attributable to the client's growing needs for project management support services and looking towards DCC to provide such support. Other related services remained at constant levels or showed moderate growth, with the exception of environmental services, which declined slightly. This decrease can be attributed to a reduction of work on the DEW Line environmental clean-up project.

#### INTEREST REVENUE

	<b>2002-03</b>	<b>2001-02</b>	<b>Variance</b>
	\$ 113	\$ 102	\$ 11

Interest revenue, which is generated from the Corporation's average current account bank balance, increased in the year ended March 31, 2003, by \$11 or approximately 11% over the previous fiscal year. This increase is attributable to higher interest rates and an increase in the average cash balances during the year ended March 31, 2003.

#### SALARIES AND EMPLOYEE BENEFITS

	<b>2002-03</b>	<b>2001-02</b>	<b>Variance</b>
Salaries	\$ 15,387	\$ 13,294	\$ 2,093
Benefits	3,887	3,348	539
	<u>\$ 19,274</u>	<u>\$ 16,642</u>	<u>\$ 2,632</u>

Salaries increased in the year ended March 31, 2003, by \$2,093 or approximately 16% over the previous fiscal year. This increase is primarily attributable to a combination of higher levels of staff, which accounted for approximately 9% of the increase, and pay raises averaging approximately 7%.

Employee benefits increased in the year ended March 31, 2003, by \$539 or approximately 16%. This increase is directly attributable to the similar percentage increase in salaries, as discussed on the previous page. As a percentage of salaries, employee benefits remained constant from year to year at approximately 25%, although there were some minor fluctuations as a percentage of salary in the various items comprising employee benefits. Particularly, some moderate increases in the cost of the Public Service Superannuation Pension Plan, Canada Pension Plan and group health insurance during the year ended March 31, 2003, were offset by minor decreases in employee future benefits and employment insurance costs, as compared to the previous fiscal year.

#### OPERATING AND ADMINISTRATIVE EXPENSES

	<b>2002-03</b>	<b>2001-02</b>	<b>Variance</b>
Telephone and communications	\$ 521	\$ 593	\$ (72)
Employee training and development	510	466	44
Rent	461	452	9
Travel	387	313	74
Professional services	369	263	106
Staff relocation	241	237	4
Other overhead expenses	987	945	42
	3,476	3,269	207
Reversal of legal reserve	—	(265)	265
	<u>\$ 3,476</u>	<u>\$ 3,004</u>	<u>\$ 472</u>

Operating and administrative expenses for the year ended March 31, 2003, increased by \$472 or approximately 16% over the previous fiscal year. Excluding the effects of the one-time reversal of the liability for potential legal claims of \$265 that occurred in the previous fiscal year, operating and administrative expenses show an increase of \$207 or approximately 6%.

During the year ended March 31, 2003, the Corporation allocated resources to areas that were critical in meeting the expectations of its clients while reducing the overall rate of expenditure growth. For example, as a result of improvements made to the Corporation's telecommunication lines and network connectivity, significant savings were realized in the overall costs of communications. The Corporation also continued the trend of expanding the knowledge base of its employees by increasing its spending on training and development. Expenses for professional services increased significantly, due primarily to increased spending on information technology consulting to support the Corporation's management information systems, increased spending on the revision of the Corporation's operations manual and consulting fees for the creation of the ISO contracting manual.

## LIQUIDITY AND CAPITAL RESOURCES

	<b>2002-03</b>	<b>2001-02</b>	<b>Variance</b>
Cash	\$ 4,232	\$ 2,259	\$ 1,973
Accounts receivable from related and other parties	\$ 4,266	\$ 3,708	\$ 558
Current liabilities	\$ 3,561	\$ 2,156	\$ 1,405

The Corporation's liquidity and capital resources position continues to be strong with cash and accounts receivable at March 31, 2003, exceeding current liabilities by \$4,937 and exceeding total liabilities by \$1,405.

The cash balance at March 31, 2003, compared to March 31, 2002, shows an increase of \$1,973. This results from several combined factors. There was an increase in cash generated from operations in the amount of approximately \$2,300 along with fluctuations in receivables and payables balances that, on a net basis, generated an additional \$600 in cash. These increases were offset by decreases in cash for spending on capital expenditures of \$904 and on severance and other benefit payments totalling approximately \$140.

The increase in accounts receivable from related and other parties of \$558 as at March 31, 2003, compared to the previous fiscal year, is primarily due to a combination of higher revenues in February and March 2003 as compared with February and March 2002, and a slight increase in the days sales outstanding, from 42 days at March 31, 2002, to 45 days at March 31, 2003.

The increase in current liabilities of \$1,405 as at March 31, 2003, compared to the previous fiscal year is attributable to a combination of higher business activity levels towards the end of the fiscal year, primarily for contractors that are paid by the Corporation on behalf of Public Works and Government Services; advances received by a client for payment of contractors; and the timing of incurrence and payment of certain professional fees.

The Corporation has no segregated cash reserves and cash in excess of short-term operational requirements is invested in accordance with the investment policy approved by the Board of Directors.

## EMPLOYEE FUTURE BENEFITS — ACCRUED SEVERANCE AND OTHER BENEFITS

	<b>2002-03</b>	<b>2001-02</b>	<b>Variance</b>
Accrued severance and other benefits	\$ 3,799	\$ 3,382	\$ 417
Less: current portion	267	199	68
Long-term portion	\$ 3,532	\$ 3,183	\$ 349

The Corporation records a liability for the estimated cost of severance including health care benefits for its retirees. This estimate is actuarially determined. The accrued severance and other benefits balance as at March 31, 2003, increased by \$417 or approximately 12% over the previous fiscal year. The balance increased by the amount of benefits accrued in the

current fiscal year of \$556 and decreased by the amount of benefits paid in the current fiscal year of \$139. This liability is primarily long term in nature and although the actuary projects a current payout amount, the exact timing of payments is not determinable. Although the Corporation has not specifically segregated funds for this obligation, it possesses sufficient capital resources to meet its severance and other benefit payment obligations as they become due.

### FISCAL 2002–2003 ACTUAL RESULTS COMPARED TO PLAN

(all dollar amounts reported in thousands unless otherwise indicated)

	Actual	Plan	Variance
<b>Revenue</b>			
Services	\$ 24,422	\$ 21,577	\$ 2,845
Interest	113	102	11
	24,535	21,679 <sup>(1)</sup>	2,856
<b>Expenses</b>			
Salaries and employee benefits	19,274	16,948	2,326
Operating and administrative	3,476	3,770 <sup>(1)</sup>	(294)
Amortization of capital assets	1,262	534	728
	24,012	21,252	2,760
<b>Net income</b>	\$ 523	\$ 427	\$ 96
<b>Capital expenditures</b>	\$ 904	\$ 575	\$ 329

Note (1) The Plan numbers have been restated to conform with the presentation adopted in the financial statements contained in this annual report. See below for details.

The 2002–03 to 2006–07 Corporate Plan Summary was tabled in the House of Commons in the summer of 2002. The table above indicates the Corporation's actual performance for fiscal 2002–03 compared to the projections in the Plan. Certain of the Plan numbers have been restated to conform with the presentation adopted in the Corporation's annual financial statements contained in this annual report, as follows:

	As per tabled Plan	Reclassification of reimbursed expenses	As per table above
Revenue	\$ 22,636	\$ (957)	\$ 21,679
Operating and administrative expenses	\$ 4,727	\$ (957)	\$ 3,770

Services revenue was \$2,845, or approximately 13%, higher than Plan. This variance is primarily attributable to higher business volumes.

Interest revenue, which is generated from the Corporation's average current account bank balance, was \$11, or 11%, higher than Plan. This variance was due to higher than expected average cash balances and interest rates.

Salaries and employee benefits were \$2,326, or 14%, higher than Plan. This increase is the direct result of the higher business volumes discussed above, which in turn resulted in higher than expected staff growth. A part of the increase was also attributable to higher than planned average salary increases.

Operating and administrative expenses were \$294, or 8%, lower than Plan. In spite of the increase in business activity, the Corporation was able to realize some operating efficiencies and cost reductions primarily in the areas of communications, professional services, rent, printing, office equipment and travel.

Amortization of capital assets was \$728, or 136%, higher than Plan. This large variance is due to the fact that effective April 1, 2002, the Corporation changed its estimate of the useful life of computer equipment and software from 5 to 3 years, and reduced the amortization period for leasehold improvements from 10 years to the initial term of the lease. This change in accounting estimates resulted in a one-time additional amortization charge of approximately \$665. Part of the increase was also due to the higher than Plan level of capital expenditures, as discussed below.

The variance in net income of \$96 is due to the combined effect of the individual variances described above.

Capital expenditures were \$329, or 57%, higher than Plan. This variance is due to several factors, including more spending on computer equipment and software due to higher than anticipated staff growth; increased spending on computer servers to improve network communications; higher spending on the upgrade of the Corporation's main business application, JD Edwards software; higher spending on leasehold improvements, furniture and equipment to accommodate the increased staff growth; and the buyout of previously leased office equipment.

## FIVE YEAR SUMMARY FINANCIAL INFORMATION

(in \$ thousands)

	2002-03	2001-02 <sup>(1)</sup>	2000-01 <sup>(1)</sup>	1999-00 <sup>(1)</sup>	1998-99 <sup>(1)</sup>
<b>Revenue</b>					
Services	\$ 24,422	\$ 20,052	\$ 19,410	\$ 17,362	\$ 15,006
Interest	113	102	171	288	107
	<b>24,535</b>	<b>20,154</b>	<b>19,581</b>	<b>17,650</b>	<b>15,113</b>
<b>Expenses</b>					
Salaries and employee benefits	19,274	16,642 <sup>(2)</sup>	16,346 <sup>(2)</sup>	13,369	11,825
Operating and administrative	3,476	3,004	3,256	2,819	2,490
Amortization of capital assets	1,262	436	525	540	553
	<b>24,012</b>	<b>20,082</b>	<b>20,127</b>	<b>16,728</b>	<b>14,868</b>
<b>Income (Loss) before rebate</b>	523	72	(546)	922	245
<b>Rebate</b>	—	—	(639)	—	—
<b>Net Income (Loss)</b>	\$ 523	\$ 72 <sup>(2)</sup>	\$ (1,185) <sup>(2)</sup>	\$ 922	\$ 245
<b>Surplus, beginning of year</b>	2,075	2,003 <sup>(2)</sup>	3,188	2,266	2,021
<b>Surplus, end of year</b>	<b>\$ 2,598</b>	<b>\$ 2,075<sup>(2)</sup></b>	<b>\$ 2,003<sup>(2)</sup></b>	<b>\$ 3,188</b>	<b>\$ 2,266</b>
<b>Assets</b>					
Cash and short term investments	\$ 4,232	\$ 2,259	\$ 3,741	\$ 4,004	\$ 2,970
Accounts receivable, related parties, prepaids and advances	4,570	3,908	2,830	3,491	4,032
Capital assets	889	1,247	1,098	817	806
	<b>\$ 9,691</b>	<b>\$ 7,414</b>	<b>\$ 7,669</b>	<b>\$ 8,312</b>	<b>\$ 7,808</b>
<b>Liabilities</b>					
Accounts payable, related parties and accrued liabilities	\$ 3,294	\$ 1,957	\$ 2,601	\$ 3,085	\$ 3,547
Provision for employee benefits	3,799	3,382 <sup>(2)</sup>	3,065 <sup>(2)</sup>	2,039	1,995
	<b>7,093</b>	<b>5,339</b>	<b>5,666</b>	<b>5,124</b>	<b>5,542</b>
<b>Capital Stock and Surplus</b>					
Common shares	0.032	0.032	0.032	0.032	0.032
Surplus	2,598	2,075 <sup>(2)</sup>	2,003 <sup>(2)</sup>	3,188	2,266
	<b>2,598</b>	<b>2,075</b>	<b>2,003</b>	<b>3,188</b>	<b>2,266</b>
	<b>\$ 9,691</b>	<b>\$ 7,414</b>	<b>\$ 7,669</b>	<b>\$ 8,312</b>	<b>\$ 7,808</b>
<b>Cash flows from (used in)</b>					
Operating activities	\$ 2,877	\$ (895)	\$ 586	\$ 1,587	\$ (146)
Acquisition of capital assets	(904)	(587)	(849)	(553)	(206)
	<b>1,973</b>	<b>(1,482)</b>	<b>(263)</b>	<b>1,034</b>	<b>(352)</b>
Cash, beginning of year	2,259	3,741	4,004	2,970	3,322
<b>Cash, end of year</b>	<b>\$ 4,232</b>	<b>\$ 2,259</b>	<b>\$ 3,741</b>	<b>\$ 4,004</b>	<b>\$ 2,970</b>

Notes: <sup>(1)</sup> Certain prior years' numbers have been reclassified to conform with the presentation adopted in fiscal years 2001-02 and/or 2002-2003. <sup>(2)</sup> Number has been restated to give retroactive effect to the change in accounting policy as explained in Note 3 to the financial statements.



## Future Outlook

### READY TO FACE NEW CHALLENGES — SUCCESS IN THE FUTURE

*(all dollar amounts reported in thousands unless otherwise indicated)*

Last year, Defence Construction Canada (DCC) reported on the confirmation of the Corporation's mandate by the Minister of Public Works and Government Services. The report also noted that the legislated mandate was, in fact, wider than had been used. Since that time, DCC has continued to be open to new opportunities that allow it to serve both DND and the Government of Canada as a whole. DCC's mandate is to support the global national defence role, and the Corporation realizes that various organizations share responsibility for this role with DND. Management continues to develop partnerships that allow a wider range of clients to use DCC's expertise in both construction and its new service lines, while ensuring the Corporation remains within the bounds set forth by the *Defence Production Act* and the Letters Patent. Where it makes sense for the Corporation, for a potential client and for the Government of Canada, DCC will accept new challenges. However, DCC remains cognizant of its long-standing relationship with DND and will ensure that DND's infrastructure, property management, environmental and project management needs remain a top priority. The Corporation is proud of its increasing role in providing value-added project management support and other services that help DND client groups complete high-quality construction projects.

Over the next several years, DCC will also focus its efforts inwards. It will continue to develop the thriving innovative and creative spirit among its employees, who have developed a number of value-added service lines over the past five years. Employees have said they are ready to take on new challenges, and both the Board and senior management aim to provide the conditions and tools to allow them to do so. The new DCC Innovation Fund has allocated a minimum of \$125 to fund employee-led proposals to improve efficiency or quality for the Corporation and its clients. The Corporation's significant investments in professional development will focus on several key areas, including professional certification in project and facilities management and in other technical skills required for upcoming work. As DCC develops new services and clients, senior management will ensure that risks are identified and properly addressed. Finally, the Board and senior management will continue to work together to maintain a strong governance framework. The Corporation aims to improve its record on official languages and employment equity. DCC is constantly seeking new ways to improve administrative efficiency and will finish implementing its Environmental Management Framework in the upcoming year.

## Program Forecast

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As announced in the last federal budget, DND's annual budget will rise modestly. As a result, the Corporation expects some moderate growth in its new construction and infrastructure maintenance program. Several large projects, such as the Fleet Maintenance Facility at CFB Esquimalt, British Columbia, and a new headquarters for the Princess Patricia's Canadian Light Infantry at CFB Shilo, Manitoba, will result in revenue growth over the short term. Over the next several years, the Corporation expects DND to invest a significant amount in recapitalizing or maintaining its existing infrastructure. In addition, the construction of new Reserve armouries should lead to some new revenue over the next several years. DCC will continue to communicate regularly with DND about the future outlook for DND's program, and will make the necessary administrative and resource adjustments to ensure DCC remains ready to support an expected increase in new project starts.

At the end of its 50th annual report, tabled last year, DCC concluded that the outlook for the Corporation was very positive. This remains true one year later. The Board, senior management and all employees continue to be ready to meet the challenges of the upcoming year and beyond.

# 2002–2003 Financial Statements

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# Management Responsibility Statement

The management of the Corporation is responsible for the performance of the duties delegated to it by the Board of Directors. These include the preparation of an Annual Report and the production of its contents, together with the financial statements. These statements, approved by the Board of Directors, were prepared in accordance with Canadian generally accepted accounting principles appropriate in the circumstances and consistently applied, after giving retroactive effect to the change in the method of accounting for employee future benefits as explained in note 3 to the financial statements. Financial and operating information appearing in the Annual Report is consistent with that contained in the financial statements.

Management relies on internal accounting control systems designed to provide reasonable assurance that relevant and reliable financial information is produced and that transactions comply with the relevant authorities.

Management also maintains financial and management control systems and practices designed to ensure the transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation. These systems and practices are also designed to ensure that assets are safeguarded and controlled and that the operations of the Corporation are carried out effectively. In addition, the Audit Committee, appointed by the Board of Directors, oversees the internal audit activities of the Corporation and performs other such functions as are assigned to it.

The Corporation's external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing the report thereon.



Ross Nicholls  
President and Chief Executive Officer



Angelo Ottoni  
Chief Financial Officer

May 9, 2003



Auditor General of Canada  
Vérificatrice générale du Canada

# Auditor's Report

To the Minister of Public Works and Government Services

I have audited the balance sheet of Defence Construction (1951) Limited as at March 31, 2003 and the statements of operations, surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied, after giving retroactive effect to the change in the method of accounting for employee future benefits as explained in note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation.

Shahid Minto, CA

Assistant Auditor General for the Auditor General of Canada

Ottawa, Canada

May 9, 2003

# Balance Sheet

## DEFENCE CONSTRUCTION (1951) LIMITED

as at March 31

	2003	2002 Restated (note 3)
<b>ASSETS</b>		
Current		
Cash	\$ 4,231,994	\$ 2,258,698
Due from related parties (note 6)	4,227,173	3,681,445
Prepays, advances and accounts receivable	342,717	226,868
	8,801,884	6,167,011
Capital assets (note 4)	889,559	1,247,054
	<u>\$ 9,691,443</u>	<u>\$ 7,414,065</u>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	\$ 3,104,901	\$ 1,829,368
Due to related parties (note 6)	189,283	127,716
Current portion — provision for employee future benefits (note 5)	267,267	199,000
	3,561,451	2,156,084
Provision for employee future benefits (note 5)	3,531,768	3,183,186
	<u>7,093,219</u>	<u>5,339,270</u>
<b>CAPITAL STOCK AND SURPLUS</b>		
Capital stock		
Authorized — 1,000 common shares of no par value		
Issued — 32 common shares	32	32
Surplus	2,598,192	2,704,763
	<u>2,598,224</u>	<u>2,074,795</u>
	<u>\$ 9,691,443</u>	<u>\$ 7,414,065</u>
Contingencies (note 9)		
(See accompanying notes)		

Approved by the Board:

  
Director

  
Director

# Statement of Operations

## DEFENCE CONSTRUCTION (1951) LIMITED

for the year ended March 31

	2003	2002 Restated (note 3)
Revenue		
Services (note 6)	\$ 24,422,217	\$ 20,051,955
Interest	113,334	102,184
	24,535,551	20,154,139
Expenses		
Salaries and employee benefits	19,274,616	16,641,586
Operating and administrative	3,475,692	3,004,121
Amortization of capital assets (note 4)	1,261,814	435,848
	24,012,122	20,081,555
Net Income	\$ 523,429	\$ 72,584

# Statement of Surplus

for the year ended March 31

	2003	2002 Restated (note 3)
Surplus at beginning of year	\$ 2,074,763	\$ 2,589,999
Change in accounting policy (note 3)	—	(587,820)
Surplus at beginning of year, restated	2,074,763	2,002,179
Net income	523,429	72,584
Surplus at end of year	\$ 2,598,192	\$ 2,074,763

(See accompanying notes)

# Statement of Cash Flows

## DEFENCE CONSTRUCTION (1951) LIMITED

for the year ended March 31

	2003	2002 Restated (note 3)
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>		
Net income	\$ 523,429	\$ 72,584
Items not requiring cash		
Provision for employee future benefits	556,369	504,165
Amortization	1,261,814	435,848
Loss on disposal of capital assets	—	2,109
Net increase (decrease) in non-cash working capital balances related to operations	675,524	(1,723,124)
	3,017,136	(708,418)
Employee severance and other benefits paid	(139,521)	(187,054)
	2,877,615	(895,472)
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Acquisition of capital assets	(904,319)	(586,842)
Increase (decrease) in cash during the year	1,973,296	(1,482,314)
Cash at beginning of the year	2,258,698	3,741,012
Cash at end of the year	\$ 4,231,994	\$ 2,258,698
(See accompanying notes)		



# Notes to Financial Statements

## DEFENCE CONSTRUCTION (1951) LIMITED

March 31

### 1. AUTHORITY AND OBJECTIVE

Defence Construction (1951) Limited was incorporated under the *Companies Act* in 1951 pursuant to the authority of the *Defence Production Act* and continued under the *Canada Business Corporations Act*. The Corporation is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. Since 1996, responsibility for the Corporation has rested with the Minister of Public Works and Government Services. The Corporation is not subject to income taxes.

The objective of the Corporation is principally to contract for and manage the architectural, engineering, construction and environmental services required to support the infrastructure management requirements of the Department of National Defence, pursuant to a Memorandum of Understanding with the Department.

Until 1997, the Department of National Defence provided the Corporation with funding for its net cost of operations and for the purchase of capital assets. Effective April 1, 1997, revenue is generated from fees charged for specific services provided.

### 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed in the preparation of these financial statements are summarized below.

#### Capital assets

Capital assets are comprised of leasehold improvements, equipment and computers (which includes hardware, purchased software and implementation costs). These assets are amortized on a straight-line basis as follows:

Equipment	5 years
Computers	3 years
Leasehold improvements	Initial lease term

#### Employee future benefits

- Non-pension benefits

Employees are entitled to specific severance and other non-pension benefits as provided for by conditions of employment. The liability for these benefits is recorded as the benefits accrue to employees. The cost of these benefits is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected salary escalation, retirement ages of employees and expected health care costs. The excess of any net actuarial gain (loss) over 10% of the benefit obligation is amortized over the average remaining service period of active employees.

- Pension benefits

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contribution to the Plan is currently based on a multiple of the employees' required contributions, and may change over time depending on the experience of the plan. These contributions represent the total pension obligations of the Corporation and are charged to income on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

#### Revenue

Revenue is recognized in the year the service is performed.

### Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

### 3. CHANGE IN ACCOUNTING POLICY

On April 1, 2000, the Corporation adopted the Canadian Institute of Chartered Accountants (CICA) standard relating to accounting for employee future benefits. Application of this standard resulted in a transitional obligation of \$646,602, which, based on the Corporation's initial election to apply the standard on a prospective basis, was being amortized against income over the expected average remaining service life of the employee group covered. Effective April 1, 2002, the Corporation elected to change this policy and apply the standard on a retroactive basis. Consequently, the financial statements for the year ended March 31, 2002 have been restated as follows:

	<b>2002</b> (Restated)	<b>2002</b>
Balance Sheet:		
Provision for employee future benefits (including current portion)	\$ 3,382,186	\$ 2,853,148
Surplus	2,074,763	2,603,801
Statement of Operations:		
Salaries and employee benefits	16,641,586	16,700,368
Net income	72,584	13,802
Statement of Surplus:		
Change in accounting policy	(587,820)	—
Statement of Cash Flows:		
Net income	72,584	13,802
Provision for employee future benefits	504,165	562,947
Notes to Financial Statements:		
Accrued severance benefits (note 5)	3,382,186	2,853,148
Current year expense (note 5)	504,165	562,947

The effect of this change on the current year's financial statements is a decrease in salaries and benefits and provision for employee future benefits of \$58,782.

### 4. CAPITAL ASSETS

		<b>2003</b>		<b>2002</b>
	Cost	Accumulated Amortization	Net	Net
Equipment	\$ 960,662	\$ 713,968	\$ 246,694	\$ 192,550
Computers	6,048,573	5,492,094	556,479	974,279
Leasehold Improvements	182,043	95,657	86,386	80,225
	<u>\$ 7,191,278</u>	<u>\$ 6,301,719</u>	<u>\$ 889,559</u>	<u>\$ 1,247,054</u>

Effective April 1, 2002, the Corporation changed the estimated service life of computer equipment from five to three years and the amortization period for leasehold improvements from 10 years to the initial term of the lease. This change in estimates has been applied prospectively and its impact on the fiscal year ended March 31, 2003 is an increase in amortization expense of \$665,394 and a decrease in net income of the same amount.

## 5. PROVISION FOR EMPLOYEE FUTURE BENEFITS

- Non-pension benefits

	<b>2003</b>	<b>2002</b> (Restated note 3)
Accrued severance and other benefits	\$ 3,799,035	\$ 3,382,186
Less: current portion	267,267	199,000
	<u>\$ 3,351,768</u>	<u>\$ 3,183,186</u>

The Corporation provides severance and other non-pension benefits to most of its employees. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. The projected obligation related to these benefits at March 31, 2003 is \$4,449,922 (2002 — \$3,622,789). The accrued benefit liability recognized in the balance sheet at March 31, 2003 related to these benefits is \$3,799,035 (2002 — \$3,382,186) and the current year's expense is \$556,369 (2002 — \$504,165). During the year, the Corporation paid benefits totaling \$139,521 (2002 — \$187,054).

The significant actuarial assumptions adopted in measuring the Corporation's severance and other non-pension benefits are as follows: the discount rate for projected benefits obligation is 6.50% (2002 — 6.00%); the average rate of general salary increases is 3.16% (2002 — 2.66%); the inflation rate is 2.66% (2002 — 2.16%); the average rate of extended health care cost increases is 4.66% (2002 — 4.16%); mortality rates are based on Group Annuity Mortality (GAM) for 1994 (2002 — GAM 1994); retirement age is 59 (2002 — 59).

- Pension benefits

The Public Service Superannuation Plan requires the Corporation to contribute at varying rates averaging 2.27 (2002 — 2.23) times the employees' contributions. The current year's contributions by the Corporation to the Plan were \$1,571,447 (2002 — \$1,318,402).

## 6. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business. The Corporation's services revenue is generated from services provided to the Department of National Defence. The Department of National Defence provides office space free of charge for some employees of the Corporation. Amounts due from and to related parties at the end of the year are as follows:

	<b>2003</b>	<b>2002</b>
Due from:		
Department of National Defence	\$ 3,544,773	\$ 3,535,844
Public Works and Government Services Canada	682,400	145,601
	<u>\$ 4,227,173</u>	<u>\$ 3,681,445</u>

Due to:

Department of National Defence	\$ 77,626	\$ 62,045
Public Works and Government Services Canada	38,416	65,671
Department of Justice	73,241	—
	<u>\$ 189,283</u>	<u>\$ 127,716</u>

## 7. LEASE COMMITMENTS

In addition to the free office space provided by the Department of National Defence, the Corporation leases extra accommodation for its operations. The future minimum annual lease payments are as follows:

Year ending March 31:

2004	\$ 489,783
2005	337,752
2006	101,996
2007	53,712
2008	8,952
	<u>\$ 992,195</u>

## 8. FINANCIAL INSTRUMENTS

Accounts receivable and accounts payable are incurred in the normal course of business and are primarily due on demand and non-interest bearing. The carrying amounts of each approximate fair value because of their short maturity. With the exception of amounts due from the Department of National Defence and other government departments, there is no concentration of accounts receivable with any one customer and, accordingly, no significant credit risk exists.

## 9. CONTINGENCIES

Letters of credit aggregating \$200,000 (2002 — \$200,000) in respect of contractual obligations are currently outstanding. The Corporation is currently involved in legal claims in respect of contracts totalling \$6,971,000 (2002 — \$6,687,000) and in respect of employment matters totalling \$75,000 (2002 — \$75,000). In the opinion of management and legal counsel, the position of the Corporation is defensible. However, the final outcome of such claims is not determinable. In accordance with the terms of an Annex to the Memorandum of Understanding between the Corporation and the Department of National Defence, the settlements resulting from the resolution of any existing and future legal claims in respect of contracts will be entirely funded by the Department, in the year of settlement. As a result of this Annex, and its assessment of risk, the Corporation does not consider it necessary to record any liabilities in its financial statements relating to potential losses on legal claims.

## 10. COMPARATIVE FIGURES

Certain prior year numbers have been reclassified to conform with the presentation adopted in the current year.