Defence Construction (1951) Limited
Corporate Plan Summary
2005–2006 to 2009–2010

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EXECUTIVE SUMMARY

The mission of Defence Construction Canada (DCC) is to provide high-quality, timely and efficient contracting, contract management and related services to support the Department of National Defence (DND) and the Canadian Forces (CF) in the long-term development and management of facilities infrastructure.

In pursuit of this mission, DCC has worked on a wide variety of projects so far in 2004–05, ranging from construction of new facilities for the Second Battalion Princess Patricia's Canadian Light Infantry in Shilo, Manitoba, to ongoing environmental remediation work in Goose Bay, Labrador. In fact, environmental work—including assessments and audits, unexploded ordnance clean-up and decommissioning, waste management programs, environmental management systems, hazardous material survey coordination and, particularly, remediation—is an area of increased focus for DND, and consequently, for DCC's service provision.

The Corporation is forecasting services revenue of approximately $33.3 million for the current year ending March 31, 2005, which represents an increase of approximately 13% from the previous year. The main reasons for this increase are rises in work volume and billable time. Total contract expenditures by the Department of National Defence for construction and environmental clean-up projects are forecasted to be approximately $450 million.

As DCC continues to meet rising work volumes, its employee base continues to grow. Staff strength is expected to be approximately 376 full-time equivalents for the current year ending March 31, 2005. This represents an increase of approximately 47 full-time equivalents from the previous year.

DCC's employees work in an evolving environment. For example, several current policy reviews within government aim to respond to recent issues related to financial management and accountability and to proper control of federal government spending. Decisions arising from these studies may affect DCC's longer-term business activity and governance model. The Corporation will implement any relevant recommendations arising from these studies.

In conducting its business, DCC focuses on its four strategic themes: corporate governance and leadership, service delivery, managing stakeholder relationships, and corporate services and support. All initiatives in the corporate plan can be defined under one of these themes. In the last year, the Corporation has undertaken initiatives under all four themes, including the following:

CORPORATE GOVERNANCE AND LEADERSHIP

Pursuant to direction from the Government, DCC completed several governance related initiatives during the first half of 2004-05. With respect to new procedures for the appointment of the Chair, President and CEO of Crown corporations, DCC established a nominating committee which meets on a regular basis with respect to its responsibilities of identifying and recommending future appointments to the Board of Directors. The selection criteria for the Chair and the President and Chief Executive Officer were updated as was the profile of the Board of Directors to ensure that these continue to be aligned with the current business environment and the governance priorities of the Government. As well, the Board reviewed and endorsed a new code of business conduct for DCC in response to new governance priorities issued by the Government. Creating a learning environment with its associated culture, framework and systems is a major leadership issue. The development of such a framework is expected to be complete by the end of 2004–05, incorporating definitions of competencies and links to career progression. Specific training in areas of corporate interest (such as leadership, ethics and values) will be carried out over the next several years.

Service Delivery

As part of its process of continuous improvement of service quality, the corporation has initiated a review of its service delivery model. The first phase, already underway, is comprised of an in-depth consultation and review process. At the end of the second quarter of 2004–05, DCC finished evaluating the elements of its new business tool kit and the ways employees are using them, and it also reviewed the effectiveness of a revised system for monitoring client satisfaction. Functional training modules will be developed to enhance service delivery once the learning framework is implemented.

Managing Stakeholder Relationships

In 2004–05, the Corporation continued to focus on encouraging its employees to become involved with their industries and to keep up to date on industry trends. Approximately 10% of all DCC employees are involved with their industry association. In addition, many employees sit on external committees and working groups.

Corporate Services and Support

In 2004–05, DCC identified new management performance measures and began reporting them quarterly. As part of an ongoing strategic review of its information services (IS) capacity, the Corporation looked inward to determine how the IS group should respond to routine operational requirements, defined the guiding principles of IS support, and engaged an independent consultant to assess DCC's current IS systems and infrastructure.

Over the planning period, a number of factors could affect the Corporation's work. These factors include the current internal review of defence policy, continuing resource constraints at DND, emerging threats to Canadian security, an expected period of down-time in the international arena, and high levels of activity in residential construction across Canada. DCC's efforts in 2004–05 will help the Corporation work in this evolving environment with confidence and clarity.

CORPORATE PROFILE

MISSION

The mission of Defence Construction Canada (DCC) is to provide high-quality, timely and efficient contracting, contract management and related services to support the Department of National Defence (DND) and the Canadian Forces (CF) in the long-term development and management of facilities infrastructure, and to provide support for the timely delivery of defined projects or supplies for other government departments and agencies in accordance with its mandate.

VISION

Defence Construction Canada's vision is to be the leading provider of innovative solutions that add value for its client, foster growth in its employees and make meaningful contributions to its industry.

VALUES

DEDICATION

DCC is dedicated to supporting the infrastructure requirements of DND. 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.

MANDATE AND PUBLIC POLICY ROLE

The Corporation, known as Defence Construction Canada under the Federal Identity Program, is accountable to Parliament through the Minister of Public Works and Government Services. DCC was founded in 1951 pursuant to the *Defence Production Act*, was incorporated in accordance with the *Companies Act* of 1934 and was granted continuance under the *Canada Business Corporations Act* of 1978. The Corporation's mandate, in accordance with its letters patent, is to provide procurement, construction, professional, and operations and maintenance services in support of the defence of Canada. The prime, but not only, beneficiaries of DCC services have always been DND and the CF. The Corporation is an agent of the Crown and is subject to those portions of the *Financial Administration Act* pertaining to Crown corporations.

DCC plays an important role in implementing government procurement policy and strives to maximize access to government business opportunities and to encourage competition. It does so by using MERX, Canada's official public sector electronic tendering service. Since the Corporation publicly tenders 99% of all contracts, DCC helps maintain a level playing field for Canadian businesses. DCC complies fully with domestic and international trade agreements, such as the Internal Agreement on Trade and the North American Free Trade Agreement, and has taken these agreements into account in its procurement processes.

DCC also supports federal policy objectives in regard to the *Official Languages Act*. Given the wide geographic distribution of DCC field offices, as well as the very specialized technical skills required for many positions within the Corporation, it remains a challenge to recruit and retain qualified bilingual personnel. The Corporation is striving to maintain appropriate levels of service to the public in both official languages by initiating surveys, in certain locations, to validate the demand for services in both official languages. Progress has been made, and continues, to meet the language requirements for members of the executive, and to ensure that DCC employees can be supervised in the language of their choice.

DCC complies with all legislation and regulations related to protecting the environment and Canadian heritage, such as the Treasury Board's Heritage Building Policy and the *Canadian Environmental Protection Act, Canadian Environmental Assessment Act, Fisheries Act, and the Species at Risk Act*. Recent projects involving such considerations included the DEW Line Clean-up Project, historical restoration work at the Citadel in Quebec City and archaeological work at the Royal Military College in Kingston, Ontario.

CORPORATE OBJECTIVES

As a Crown corporation, DCC aims to achieve the following corporate objectives related to governance and leadership, service delivery, stakeholder relationships, and corporate services and support:

1. to implement management practices that encourage value-added, innovative service delivery;
2. to ensure the long-term viability of the Corporation through prudent financial management and the provision of efficient and effective services for DND;
3. to manage industry, organizational and contractual relationships in an ethical, fair and professional manner;
4. to maintain the flexibility of structure, policies and systems necessary to accomplish the corporate mission in the face of changing circumstances and needs;
5. to conduct operations in a way that helps protect the natural environment;
6. to maintain human resources management practices that advocate and advance the well-being of employees, including their personal and professional development;
7. to adhere to all statutory requirements and public policy regulations and guidelines; and
8. to make decisions and manage risks in the best interests of the Crown.

HISTORY

DCC was created in 1951 to respond to the Government of Canada's need for increased national defence infrastructure. Since that time, DCC has played a major role in projects that have helped shape Canadian history: the construction of the Distant Early Warning (DEW) line across the Arctic in response to Cold War threats; the rapid expansion of military bases across Canada; and the development of military infrastructure in France and Germany, as part of Canada's commitment to the North Atlantic Treaty Organization (NATO).

Based on DCC's expertise in delivering defence projects, other public organizations have asked the Corporation to help manage construction programs, such as the construction of the Trans-Canada Pipeline and the 1967 World Exposition (Expo 67). DCC has also supported Canada's strategic defence policy objectives by helping carry out international aid efforts, such as the construction of hydroelectric developments in South Asia and schools in the West Indies. The Corporation is currently providing support to Foreign Affairs Canada in its infrastructure requirements in Afghanistan.

More recently, DCC has been closely involved in DND's programs to rationalize, consolidate and relocate operating units and to decommission redundant facilities. In addition, the Corporation has responded to increases in demand for other infrastructure-related services by developing and offering expertise in a number of disciplines, including environmental and facilities management. Since 2000 DCC has provided contracting and project management support to CF deployed operations in Bosnia–Herzegovina and in Kabul, Afghanistan.

DCC'S PRIMARY CLIENT

Operationally and administratively, DCC deals with many organizations within DND. The Infrastructure and Environment Group (IE) of National Defence Headquarters (NDHQ) is the principal point of contact for DND's centrally managed capital construction program and environmental programs. Since the chiefs of the maritime, land and air staffs are responsible for construction and maintenance programs at their own facilities, DCC also has significant dealings with their organizations, primarily at the base/wing/station level. Finally, DCC also contracts for and delivers consulting, construction and environmental services on behalf of a number of smaller organizations within DND, including the Canadian Forces Personnel Support Agency (CFPSA), the Canadian Forces Housing Agency (CFHA), Defence Research and Development Canada (DRDC), the national level joint engineering operations staff (J3 Engineer) and NATO Forces with establishments in Canada. As other government departments and agencies assume roles in Canada's changing defence environment, DCC will respond to requests for support within the scope of its mandate.

SERVICES

As a procurement and contract management agency, DCC serves as the intermediary between its client on one side, and consultants and contractors on the other. Private sector firms carry out the actual project work. The following are the Corporation's principal activities:

PROCUREMENT of professional services, construction services, maintenance services and goods including procurement and solicitation planning, preparation of tender documents, solicitation, evaluation and award, market assessment and bidability reviews;

CONTRACT MANAGEMENT and 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, including environmental assessments and audits, technical support for environmental remediation, unexploded ordnance clean-up and decommissioning, waste management programs, environmental management systems and hazardous material survey coordination;

FACILITIES MANAGEMENT, including building condition reports, life safety system management, maintenance contract management, utilities management and re-capitalization planning;

TECHNICAL SUPPORT SERVICES, including firing range inspection, facility inspection, commissioning, constructability reviews, design coordination, shop drawing reviews, building energy performance services and geographic information services (GIS);

PROJECT MANAGEMENT SUPPORT, including the control of scope, cost and schedule, as well as program planning and preparation of scope documents, such as terms of reference and statements of requirement; and

SUPPORT TO DEPLOYED OPERATIONS that offer procurement, quality assurance and contract administration for CF overseas missions.

CORPORATE FUNDING AND EQUITY STRUCTURE

DCC delivers its services on a cost-recovery basis and does not rely on any government appropriations. 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.

Governance

Since DCC is a Crown corporation, a Board of Directors, appointed by the Governor-in-Council on the recommendation of the Minister of Public Works and Government Services, governs DCC. The Board's profile reflects public and private sector experience, including engineering and construction, law, finance and federal public sector policy expertise.

Success Factors

Five characteristics of DCC's services allow the Corporation to consistently deliver quality service to DND operations. These factors have a direct impact on the viability of the Corporation.

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

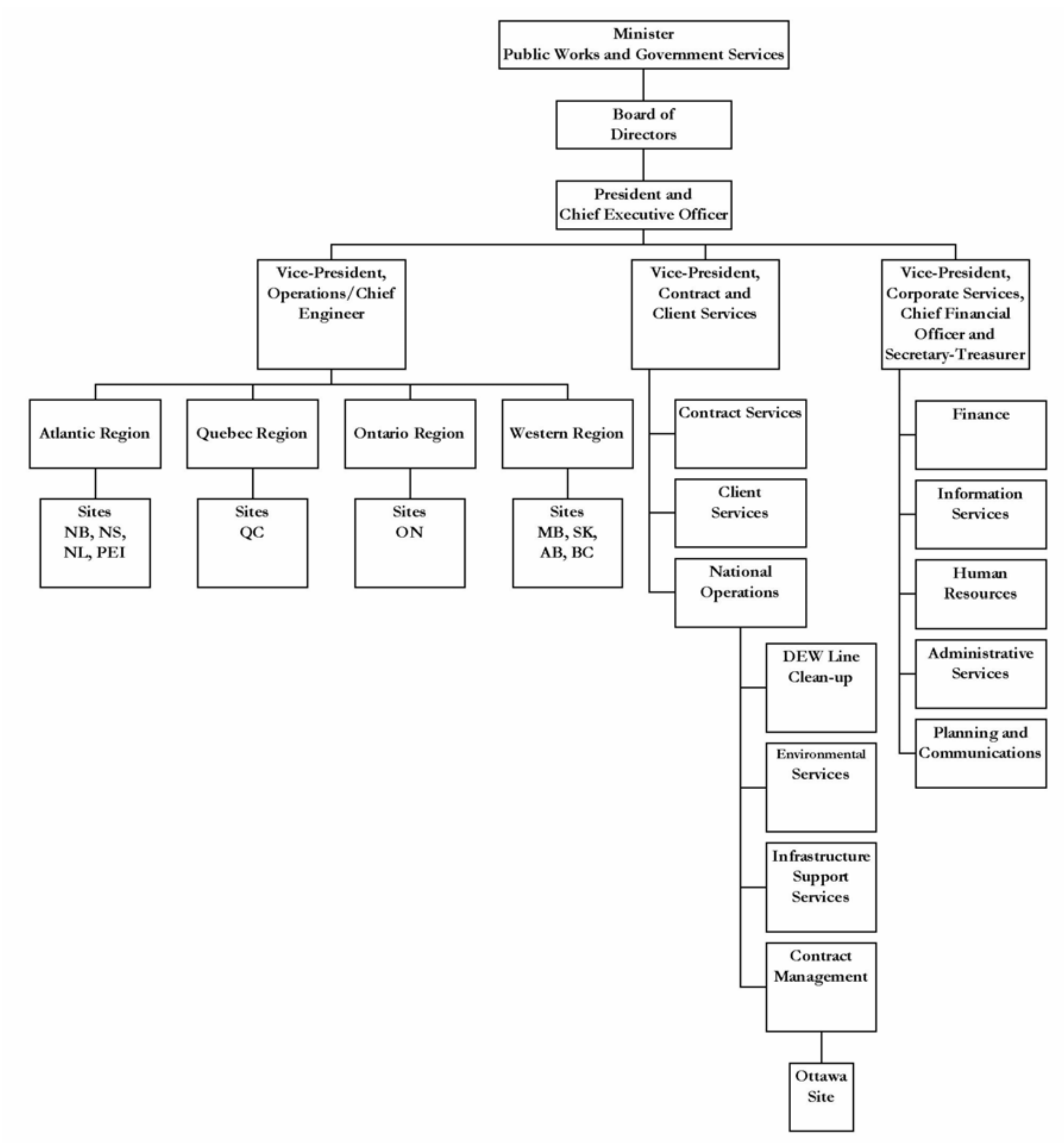
Service Standing midway between the public and private sectors, DCC knows how the construction industry and the government work. This knowledge allows DCC to effectively communicate requirements to both the client and external service providers.

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.

Flexibility As a Crown corporation, DCC can manage its staff and administer projects with efficiency and flexibility equal to that of the private sector.

Value DCC seeks cost-effective solutions to DND's technical needs and maintains low overhead costs in providing its services.

ORGANIZATIONAL STRUCTURE



DCC's executive consists of the President and Chief Executive Officer; the Vice-President, Operations, and Chief Engineer; the Vice-President, Corporate Services, who is also the Chief Financial Officer and Secretary-Treasurer; and the Vice-President, Contract and Client Services. DCC's head office, which includes contract services, corporate services and the national operations group, is in Ottawa. The operations division includes site offices at all active CF establishments in Canada, which are managed by four regional offices (Atlantic, Quebec, Ontario and West). In addition, DCC maintains seasonal remote offices in the Arctic, as required for the DEW Line Clean-up Project. As part of its support to CF deployed operations, the Corporation establishes site offices as required on location; for instance, in Bosnia–Herzegovina and Afghanistan.

STRATEGIC ISSUES

DCC'S PRIMARY CLIENT
THE DEPARTMENT OF NATIONAL DEFENCE

The CF and DND continue to manage and respond to changes and trends in the Canadian business environment and on the international security front. These factors include an increased focus on managing public resources efficiently, the potential for increasingly complex military operations and emerging threats to Canadians' security. DND continues to face challenges in maintaining operational commitments in the face of ongoing resource constraints, and so it is always looking to improve efficiency. The recommendations made in the *Report on Administrative Efficiency* remain current, and DCC stands ready to support DND in relation to any of these recommendations. Spending on environmental projects—such as projects at Valcartier, Quebec, and Goose Bay, Newfoundland and Labrador, as well as the clean-up of unexploded ordnance along the Ottawa River in Ontario—is expected to increase. Over the past several years, DCC's environmental expertise has grown to meet these client requirements, and the Corporation is prepared to respond to all future client requirements in this area. As well, the results of the current internal review of defence policy, which is expected to be completed in 2005, could affect DND's infrastructure plans and spending. Overall program expenditures on construction and environmental projects are forecasted to be approximately $450 million. The CF expects a period of down time in the international arena in the coming year. For DCC, this will likely mean that the client will require less support overseas during this period.

CANADIAN POLICY ENVIRONMENT

Several current policy reviews within government aim to respond to recent issues related to financial management and accountability and to proper control of federal government spending. Decisions arising from these studies may affect DCC's longer-term business activity and governance model. At the mid-point of 2004–05, these studies included a major review of federal government procurement policy, a review of the *Financial Administration Act* and a review of the accountability framework for the governance of Crown corporations. The latter, undertaken by Treasury Board Secretariat, is aimed at strengthening the oversight and accountability framework for Crown corporations. The Corporation will implement any recommendations arising from these studies that affect DCC. However, the Corporation is confident in and proud of its solid track record to date regarding it corporate performance and record of accountability, which the findings of regular internal and external audits have reinforced.

ENVIRONMENTAL POLICY AND REGULATION

"Green" construction is also becoming more important. In keeping with this priority, the client is becoming more focused on meeting environmental policy and regulatory requirements. In some cases, the client is requesting that DCC personnel have specific credentials, such as the Leadership in Energy and Environmental Design (LEED) certification. DCC must ensure that its employees are adequately trained and experienced in this field.

Demographics

DCC shares the federal government's commitment to building and maintaining the capacity of the public service and to achieving effective ethical leadership and performance within a quality work environment. Corporation employees stay informed of trends in these areas and closely monitor trends in human resources management in the public service. Personnel issues that remain a constant challenge for DCC include finding qualified personnel in remote areas, and finding personnel with the appropriate linguistic skills and the unique combination of skills required to maintain and enhance DCC's capacity as the Corporation's services become more and more specialized. In addition, the client is feeling pressure on its own human resources as it goes through a period of growth and regeneration, and it may find itself having to turn more and more to DCC for support in managing and maintaining its infrastructure. DCC will have to be prepared to respond, when and where required.

Ethics and Integrity

Ethics and integrity, the backbones of DCC's culture, have always been a priority for the Corporation and the way it conducts business. Recently, public and private sector organizations have faced demands for greater transparency in their governance structures and practices, and in the way they operate and report on performance. One new initiative arising from this movement is the Government of Canada's guidelines for proactive disclosure. In keeping with these guidelines, DCC now publicly posts details of all DND contract awards on its Web site. The Corporation will continue to monitor changes in government policy and will modify its business procedures as required. For example, last year the Government of Canada issued a new values and ethics code for the public service. DCC responded by re-evaluating and updating its own code of business conduct, integrating values, ethics, hospitality and conflict of interest guidelines into a single code for the Corporation.

The Construction Industry and the Economy

All regions of Canada continue to experience high levels of activity in residential construction. Often, the small and medium-sized contractors that serve this sector have as much work as they can handle. This situation is having some impact on DCC's business, particularly on the Corporation's contract work with the Canadian Forces Housing Agency (CFHA), where market conditions have created a shortage of contractors serving this market niche.

DCC's Western Region, in particular, is experiencing significant change. The global increase in oil prices has resulted in a boom in the oil and gas industry. Consequently, this sector is competing with DCC for technical staff. Increased engineering and construction activity in preparation for the Vancouver 2010 Olympics is also affecting staffing and capacity in this region. DCC must take these factors into consideration in its human resources planning.

OBJECTIVES, INITIATIVES AND PERFORMANCE MEASURES

REVIEW OF PLANNING APPROACH

In conducting its business, DCC must remain fully cognizant of its eight corporate objectives (see page 8 for list). The eight objectives, singly or in combination, are the pillars of DCC's four strategic themes. These strategic themes are **corporate governance and leadership**, **service delivery**, **managing stakeholder relationships,** and **corporate services and support**. All initiatives in the corporate plan can be defined under one of these themes and are designed to advance one or more of the eight objectives. Performance measures are used to demonstrate the Corporation's success. In most cases, DCC evaluates performance against a target or benchmark. In a few cases where there are no specific numerical measures, DCC makes a qualitative analysis. The Corporation's planning cycle is based on a fiscal year from April 1 to March 31.

CORPORATE GOVERNANCE AND LEADERSHIP

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. Given DCC's role as a Crown corporation, ensuring ethical and appropriate business practices remains at the forefront of DCC's strategic priorities. Led by the Privy Council Office and Treasury Board Secretariat, DCC supports a number of governance-based initiatives designed to ensure continuing good management and ethical business practices. DCC is proud of its governance record over the years and will continue to demonstrate leadership in this area.

The Corporation already has a corporate governance framework, which is reviewed each year by the Board of Directors, and by management during the strategic planning process. Additionally, the Board completed several other endeavours in the first half of 2004–05 related to governance. It established a nominating committee, which meets on a regular basis and reports on new appointments and reappointments to the Board. The profile of the Board was revisited to ensure it remains current with today's business environment, and selection criteria for the Chair and Chief Executive Officer were updated. A close eye is kept on new governance initiatives underway within the Canadian federal government and to that end, the Board reviewed and endorsed a new code of business conduct for DCC.

Governance concepts such as stewardship, risk management and accountability to stakeholders are pushed from the Board down to management, and then to employees at the service delivery level.

CORPORATE OBJECTIVES RELATED TO CORPORATE GOVERNANCE AND LEADERSHIP

1. To make decisions and manage risks in the best interests of the Crown;
2. To adhere to all statutory requirements and public policy regulations and guidelines;
3. To maintain the flexibility of structure, policies and systems necessary to accomplish the corporate mission in the face of changing circumstances and needs;
4. To implement management practices that encourage value-added, innovative service delivery; and,
5. To conduct operations in a way that helps protect the natural environment.

Tracking Past Performance
Corporate Governance and Leadership Initiatives: 2004–2005

Ensuring the presence of sound values and ethics in the workplace is essential for the viability of DCC's business. Over the last half century, these tenets have permeated the employee culture at DCC. As the Corporation has expanded gradually over the years, new employees were introduced to the integrity of DCC work practises on a more measured basis, in keeping with business volume.

Recently, the workforce has almost doubled, and new employees need to be brought up to speed quickly on the DCC way of doing business. Unlike the DCC of a decade ago, a significant portion of new staff has not had long-term exposure to the culture, history and practices of the Corporation to fully appreciate the philosophical basis of the operation. DCC is aware that a strong and knowledgeable team who knows its scope of authority is a major factor in its ability to provide leadership for the Corporation. Consequently, staff training and development in both the technical aspects of the job and in corporate governance is a priority at all levels.

Although DCC has always put a lot of energy and resources into developing its staff, it decided last year, **to create a more formal framework for staff training and professional development.** This initiative will span several years, given its scope and its potential to influence the individual employee's "way of life" at DCC. By the end of the second quarter of 2004–05, an independent outside party had collected candid and constructive feedback from all employees. This company-wide survey was designed to determine whether employees have the training, mentoring opportunities and educational support they need to do the best job they can. The recommendations based on the survey will help senior management decide how to formalize the Corporation's staff training and development framework. The final framework concept is expected to be defined and approved by year-end.

Corporate Governance and Leadership Initiatives: 2005–2006

The overall status of human resources influences many areas: people, leadership, culture, ethics, values, individual mobility and career path development, to name just a few. Each of these factors can affect many aspects of DCC's business, from the client's confidence that DCC can put the right people in place to do the job when needed, to DCC's reputation among current and potential employees as a progressive employer. DCC views the calibre of these factors as strategically important to the Corporation's viability.

Ultimately, DCC wants to guarantee that it has the human resources capacity to meet internal and external requirements, now and over the long term. In 2005–06, the Corporation will remain committed to nurturing the competency base of its staff and its employees' way of life on the job. Building on the results of the 2004–05 training and development initiative, DCC intends to take this strategic treatment of its human resources capacity to the next phase. The Corporation will provide the environment, resources and executive support that business units need to implement the staff training and development framework initiative, as recommended at the end of 2004–05.

Performance Indicators: 2004–2005 Results to Date

Environmental and Safety Incidents

DCC reports on environmental and safety incidents that occur at its sites. At of the end of the second quarter, there were two new environmental incidents to report, neither of which was attributable to DCC work practises. These incidents resulted in no negative environmental impact. As part of its continuous improvement process, these cases were documented and reported on to staff in an environmental lessons–learned forum.

The management of occupational health and safety remains a key concern of the Board and the Environmental, Health and Safety Committee. The goal is to have no incidents occur. For reporting purposes, the Corporation tracks the number of incidents that result in lost work time. In the first of half of 2004–05, three incidents amounted to 36 hours of lost work time.

Percentage of Contracts Tendered Competitively

Each year, DCC strives to tender 99% of all contracts through a competitive process. This statistic does not include consultant contacts awarded to firms using the PWGSC–operated SELECT system (an electronic source list). Single selections are not considered to be competitive selections.

DCC monitors this number to determine how well the Corporation's public competitive tender process encourages open and fair access for business. This year, DCC formally reported these data for the first time. By the end of the second quarter, DCC had awarded 471 contracts (excluding SELECT contracts). Of those, 98% of all eligible contracts were publicly tendered. The remaining nine were directed to a firm without competition because they met one of the following criteria established by the federal government: an emergency situation exists; the contract's value is less than certain dollar amounts set by the Treasury Board; it is not in the public interest to tender the contract; or only one contractor is capable of performing the work.

Audit Activity

At the beginning of 2004–05, DCC completed the outstanding recommendations from the audit of contracting services undertaken last year. The audit recommended that the Corporation update the contracting services manual and the training program. Both were completed in the first quarter.

Performance Indicators and Targets: 2005–2006

	Performance Indicator	Target: 2005–06
Corporate governance and leadership performance indicators	Environmental incidents	No incidents
	Safety incidents	No incidents
	Percentage of contracts tendered competitively*	99%
	Report on the Corporation's audit activity and results	No significant deficiencies

*Does not include contracts awarded through Public Works and Government Services Canada's SELECT system.

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. The Corporation continuously strives to improve its service delivery on each successive project and to complement the knowledge of client requirements it has gained over the past half century.

Corporate Objectives Related to Service Delivery

1. To manage industry, organizational and contractual relationships in an ethical, fair and professional manner.
2. To implement management practices that encourage value-added, innovative service delivery.
3. To conduct operations in a way that helps protect the natural environment.

Tracking Past Performance
Service Delivery Initiatives: 2004–2005

DCC has witnessed much growth over the last few years, especially in 2003–04, when revenues increased by 29%. Validating the way the Corporation delivers services is key to ensuring success, especially during periods of growth. DCC wants to manage growth seamlessly, with no negative impacts on the client. To that end, in 2004–05, two service delivery areas received special attention.

Whether in the midst of strong economic times or times of change, the Corporation needs **to maintain an effective business strategy**. As part of this commitment, it must ensure that employees who regularly interact with the client have the skills and tools they need to do their jobs. Over the past several years, DCC has been working hard to better its communications and information capacity, both internally and externally.

In 2004–05, DCC launched its business tool kit. At the end of the second quarter, DCC finished evaluating and assessing the tools currently in the kit and the ways employees are using them. The Corporation is continuously expanding the kit's content and will use the analysis of the evaluation data to further enhance the kit by year-end. Additionally, DCC committed to reviewing the effectiveness of the revised system for monitoring client satisfaction and make any needed refinements. This system originally surveyed clients twice a year, but feedback showed that annual surveys would suit their requirements better. DCC adjusted the system accordingly.

On a much larger scale, when DCC looked at the way it delivers services, it saw potential advantages in leveraging resources, professional expertise and business line growth along functional lines rather than through a regional management structure. To that end, the Corporation made a commitment in 2004–05 **to review its service delivery model**. This initiative, which will unfold over several years, began in the first two quarters of the year with an in-depth consultation and review process. Key representatives from across the Corporation provided input into the initiative.

These consultations were supplemented further with input from an international expert in matrix management. DCC expects to establish a service delivery framework by year-end. The revised model will reflect clients' evolving service requirements and DCC's expertise and capabilities. Pilot management frameworks are being developed within several service lines in which service-line leaders have been appointed.

SERVICE DELIVERY PERFORMANCE INDICATORS: 2003–2004

CLIENT SATISFACTION

	RESULTS: 2003–04			RESULTS: 2004–05	
Indicator	Target	Actual To End of Second Quarter	Actual Year-End	Target	Actual To End of Second Quarter
Client satisfaction	95%	94%	96.9%	95%	97%

DCC regularly tracks client satisfaction as one of its key performance indicators. Over the past several years, the operations division has worked to develop a meaningful and relevant method for collecting client feedback. DCC personnel interview clients individually, in person, once a year. Each client has the opportunity to comment on the service DCC provided on all projects that the client was involved in. Overall, the data and feedback show that DND is satisfied with the quality of DCC service delivery. At the end of the second quarter of 2004–05, DCC's client satisfaction rating was 97%.

This number is derived from limited data since Regions are permitted to conduct client satisfaction reviews on a flexible schedule that reflects the progress of project work in each region and the client's schedule. Only one Region completed its client satisfaction surveys in the first half of 2004–05, while the other regions opted to do them in the second half of the year.

DCC considers all feedback received during this process and takes action accordingly. Each year a variety of feedback is received. Overall, surveys say that DCC construction contracting meets expectations across the board, but the client did suggest that DCC could improve its knowledge of contracting within environmental services. DCC plans to do this by continuing to develop environmental coordinators' contracting knowledge, and to consider placing a person in contracting services with an environmental services background. DCC is exceeding DND expectations in project management, range and training area (RTA) inspections, and commissioning.

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 contractors and consultants, this measure is a key performance indicator. DCC intentionally sets aggressive targets for the timeliness of construction and consultant procurement because DND values expediency. Each target represents a reasonable period from the time DCC receives the notice of proposed procurement from the client to the time that DCC awards the contract to the contractor or consultant. Targets do not include delays resulting from amendments, budget issues or bid anomalies.

Reporting is based on the median number of days it takes to award a contract in each of the categories. During the procurement process, unforeseen circumstances or market factors often cause delays. DCC believes that reporting the median number of days for each category provides an objective measure of performance. The following two tables show DCC's progress at the end of the second quarter of 2004–05 for timeliness of construction and consultant procurement. Note that, a limited number of design-build contracts have suffered significant delays for specific project reasons beyond the Corporation's control. As such, the results were not considered significant for reporting purposes,

DCC recognizes the time and effort that industry expends on preparing and submitting tenders. Consequently, to reduce the risk of a failed tender, DCC screens all projects for bidability. By the end of the second quarter, 96% of DCC tender calls resulted in the award of a contract. This is slightly less than last year, when 97.3% of all tenders resulted in a contract award. The most frequent reason why tenders do not result in contracts is that the price exceeds approved budget amounts. This year, this has been especially the case in Alberta. There, the economy is booming, contractor prices are currently high across the board and, in many cases, exceed the budgeted amount for the project.

Construction Procurement

		Results: 2003–04				Results: 2004–05		
		To End of Second Quarter		Year End		To End of Second Quarter		
Indicator	Target	Actual Median Number of Days to Award	Number of Contracts	Actual Median Number of Days to Award	Number of Contracts	Target	Actual Median Number of Days to Award	Number of Contracts
Regular tender call	35 days	42 days	67	41 days	137	35 days	34 days	63
Tender boards	25 days	26 days	214	25 days	467	25 days	27 days	221
Quick response	14 days	15 days	103	14 days	310	14 days	14 days	83
Design-build	120 days	193 days	4	144 days	11	120 days	N/A	2

Consultant Procurement

		Results: 2003–04				Results: 2004–05		
		To End of Second Quarter		Year-End		To End of Second Quarter		
Indicator	Target	Actual Median Number of Days to Award	Number of Contracts	Actual Median Number of Days to Award	Number of Contracts	Target	Actual Median Number of Days to Award	Number of Contracts
SELECT	25 days	30 days	85	27 days	213	25 days	27 days	73
One-step proposal	60 days	57 days	28	57 days	76	60 days	52 days	50
Two-step proposal	120 days	116 days	9	124 days	20	120 days	124 days	3

Timeliness of Construction Contract Completion

	Results: 2003–04		Results: 2004–05
	To End of Second Quarter	Year End	To End of Second Quarter
Total completed on time	61.4%	64.8%	66.0%
Total completed within one to 30 days after deadline	20.9%	20.3%	14.0%
Total completed later than 30 days after deadline	17.7%	14.9%	20.0%

Schedule control is critical to client satisfaction. DCC monitors the timeliness of construction contract completions and works with the client to minimize slippage. When it does occur, DCC ensures that DND knows the reasons. Although formal targets are not set for this indicator, DCC tracks this information to keep the client informed of overall schedule performance.

Another issue critical to the client is the quality of the work performed. In some cases, the quality of the finished product delivered to the client is less than what was expected, even though the finished job meets the technical specifications of the original proposal. This feedback on third-party performance is another element discussed during the client satisfaction process. Complaints often arise due to factors beyond the Corporation's control.

CONTRACT COST GROWTH

	RESULTS: 2003–04		RESULTS: 2004–05
	To End of Second Quarter	Year End	To End of Second Quarter
Site conditions and refinements	6.2%	5.7%	4.9%
Design changes	5.6%	6.5%	7.4%
Total	11.8%	12.2%	12.3%

Changes can have a negative effect on a project's schedule and can result in cumulative cost impacts. Consequently, DCC manages contracts in a way designed to minimize both the number and the cost of contract changes. Although DCC considers this percentage of changes to be in line with industry standards, it has not been able to identify a reliable source of benchmarking information.

PERFORMANCE INDICATORS AND TARGETS: 2005–2006

The following table lists DCC's performance indicators and targets for service delivery in 2005–06. Traditionally, management has set the target length of time to put contracts in place as the ideal duration of the procurement process. DCC will continue to analyze the delivery of contracts that exceed the target timeframes to determine the cause of the delays and any corrective action that may be required.

SERVICE DELIVERY PERFORMANCE INDICATORS	PERFORMANCE INDICATOR		TARGET: 2005–06
	Client satisfaction		95.0%
	Timeliness of construction contracting	Regular tender call	35 days
		Tender boards	25 days
		Quick response tenders	14 days
	Timeliness of consultant procurement	SELECT	25 days
		One-step proposals	60 days
		Two-step proposals	120 days

Note: that Design-Build has been removed as a performance indicator as there are not a sufficient number to serve as a valid indicator.

SERVICE DELIVERY INITIATIVES: 2005–2006

The **service delivery review** will take place over several years. This initiative will enter its second phase in 2005–06, when the Corporation will commit to a model based on the 2004–05 reviews and consultations. Since fundamental changes of this nature can have a profound cultural impact, DCC will implement them gradually and then assess them halfway through the year. At the end of 2005–06, a further assessment will determine the future implementation rate.

Managing Stakeholder Relationships

DCC needs to maintain positive relationships with government, its client, industry and professional associations to operate effectively. The quality of these relationships can have a major impact on business outcomes. This section covers the broader strategic aspects of corporate social performance involving those groups affected by DCC's corporate objectives, and not specifically the client-DCC service delivery relationship.

Corporate Objective Related to Managing Stakeholder Relationships

1. To manage industry, organizational and contractual relationships in an ethical, fair and professional manner.

Tracking Past Performance
Managing Stakeholder Relationships: 2004–2005

DCC believes strongly in supporting and participating in its industry and communities. Consequently, maintaining positive and transparent relationships with its stakeholders remains a strategic priority. In 2004–05, the Corporation continued to focus on encouraging its employees to become involved with their industries and to keep up to date on industry trends. In addition, the Corporation remained open to any opportunities where DCC participation would enhance a sense of community and partnership with DND and relevant industry associations.

Approximately 10% of all DCC employees are involved in some way with their relevant industry association. The nature of these organizations reflects the skill base of the Corporation, and includes engineering, technical, scientific and administrative organizations. Examples of technical and engineering organizations include Construction Specifications Canada (CSC), the Canadian Public Procurement Council, the Royal Architectural Institute of Canada, the Association of Consulting Engineers of Canada and the Canadian Design-Build Institute. Also, growing numbers of employees across the country have attained certification with the Project Management Institute (PMI) and the Canadian Green Building Council (CaGBC). Some of the administrative organizations include the Human Resources Professionals Association of Ontario (HRPAO), the Information Systems Audit and Control Association (ISACA), and the International Association of Business Communicators (IABC).

In addition, throughout the Corporation, employees sit on committees and working groups within various construction associations, Government of Canada departments and provincial governments. Some examples of these are Environment Canada's Federal Prairie Water Committee, Public Works and Government Services Canada's Sustainable Buildings Task Group and Treasury Board Secretariat's Internet Advisory Committee.

Performance Indicators and Targets: 2005–2006

In 2005–06, the Corporation will continue to collect detailed information from all regions and sites on efforts to maintain stakeholder relationships, and will continue to provide this information in its plan. While no specific targets will be established, reporting this information will enable the Corporation to provide its stakeholders with a clearer picture of DCC's efforts to maintain effective liaison with its industry and government partners.

Stakeholder Relationship Performance Indicator	Performance Indicator	Target: 2005–06
	Evaluation of DCC corporate social performance in support of corporate objectives	Text-based reporting

Corporate Services and Support

DCC has well-established systems for managing its day-to-day operations, human resources, and financial and information systems. DCC's internal administrative ability touches all aspects of the business and is the key to success in maintaining high-quality service to DND. Consequently, DCC strives to keep up to date with new business methods, regulatory practices and technology, all of which affect the quality of its service delivery.

Corporate Objectives Related to Corporate Services and Support

1. To maintain the flexibility of structure, policies and systems necessary to accomplish the corporate mission in the face of changing circumstances and needs.
2. To maintain human resources management practices that advocate and advance the well-being of employees, as well as their personal and professional development.
3. To adhere to all statutory requirements and public policy regulations and guidelines.
4. To make decisions and manage risks in the best interests of the Crown.

Tracking Past Performance
Corporate Services and Support Initiatives 2004–2005

The corporate services division is comprised of five branches within DCC: finance, information services (IS), human resources and administrative services, and planning and communications. Like other business units, it strives to improve continuously so that, in the end, the client can benefit from its cost-efficient and streamlined operations.

In 2004–05, DCC committed to two initiatives under the theme of corporate services and support. First, in the vein of continuous improvement, the Corporate Services Division started **to identify new management performance measures** throughout its groups. The Division has established these measures and is already reporting them quarterly in its annual business plan.

Second, DCC decided **to conduct a strategic review of its information services (IS) capacity**. With growth in staff and increasingly diverse service lines, the Corporation needs to know that it is on the right technology path to meet the demands of future operations. As a first stage, DCC looked inward to determine how the IS group should respond to routine operational requirements, and defined the guiding principles of IS support. In the second phase, the Corporation has engaged an independent consultant to fully assess DCC's current technology systems and infrastructure and to provide a roadmap for future IS investments and developments. A clear picture of the Corporation's IS status and future enhancements required should emerge by the end of 2004–05.

Corporate Service and Support Initiatives 2005–2006

Contractors, consultants, the client and employees all want to conduct business with DCC easily and efficiently. Most often, this means using technology to facilitate business processes. This may entail, among other things, giving the public, contractors and consultants limited access to electronic information on tender calls and contract data; permitting full electronic bidding; providing integrated DND/DCC network access; and giving the DCC site employee of the future increased mobility. Users will drive the application requirements for each of these developments. However, the IS team, with the help of its consultant, **will initiate the migration of DCC's technology environment** in a direction that will support the various future business scenarios. Implementing the technology roadmap will take several years and will require ongoing future course corrections.

Corporate Services and Support Performance Indicators: 2003–2004

To track the performance of its business operations and corporate support functions, DCC has established three main indicators: the utilization rate, the direct personnel expense multiplier (DPEM) and the employee retention rate.

Utilization Rate

Results: 2003–04			Results: 2004–05	
Target	Actual (to End of Second Quarter)	Actual (Year-End)	Target	Actual (to End of Second Quarter)
70.0%	72.3%	73.4%	70.0%	71.0%

The utilization rate describes the hours DCC spends on contract-related functions and demonstrates to DND the amount of time DCC spends on client-related work. The target utilization rate in 2003–04 and 2004–05 was 70%. As the above results show, DCC exceeded its utilization rate target in 2003–04 and continued to do so during the first half of 2003–04, indicating that it continues to provide highly efficient service. The slight decrease in the actual utilization rate in the current year at the end of the second quarter as compared to the same time last year is not considered significant.

Direct Personnel Expense Multiplier

Results: 2003–04			Results: 2004–05	
Target	Actual (to End of Second Quarter)	Actual (Year-End)	Target	Actual (to End of Second Quarter)
1.50–1.60	1.51	1.53	1.50–1.60	1.48

The DPEM is the factor by which DCC multiplies direct project personnel expenses to cover overhead costs. Direct project personnel expenses include salary costs and a mark-up factor to account for benefits and compensated absences, such as vacation, sick days, holidays and professional development time. This multiplier is used to establish billing rates for DCC services. Fluctuations in the actual multiplier from period to period are due to the timing of billings on certain fixed-fee projects, as well as to the method of financial planning, in accordance with DCC's financial management policy. This planning allows for adequate operating contingency funds to account for unexpected fluctuations in the client's construction program.

The target range for 2003–04 and 2004–05 was 1.50 to 1.60. The DPEM for the first half of 2004–05 was lower than the DPEM in 2003–04, falling below the targeted range. The main reason for this was that payroll costs were high due to an increase in employees' vacation and sick leave hours during the first half of the year. It is expected that the amount of employee leave will decrease in the second half of the year and that the DPEM will be within the targeted range by year-end.

Employee Retention Rate

Results: 2003–04			Results: 2004–05	
Target	Actual (to End of Second Quarter)	Actual (Year-End)	Target	Actual (to End of Second Quarter)
90.0%	96.6%	95.7%	90%	97.3%

DCC regularly reviews the percentage of employees who voluntarily leave the Corporation for other career opportunities. Monitoring this percentage, along with the reasons that individuals chose to leave, allows senior managers to assess where the Corporation stands on labour trends in relation to similar organizations. DCC also uses the employee retention rate to measure employee satisfaction with DCC's working environment. Some employee turnover is expected and is regarded as healthy, since it allows the Corporation to replenish its skill base and to rejuvenate its employee population. The Corporation expects to retain 90% of its employees each year. Both last year and in the current year to date, DCC has surpassed this target. By the end of the second quarter of 2004–05, 2.7% of DCC's employees had decided to leave voluntarily to pursue other career options. This high retention rate is an indication of the quality of DCC's working environment and employees' satisfaction with that environment.

PROFESSIONAL DEVELOPMENT TO SALARY COST RATIO

RESULTS: 2003–04			Results: 2003–04	
Target	Actual (to End of Second Quarter)	Actual (Year-End)	Target	Actual (to End of Second Quarter)
3.0%	3.1%	3.1%	3.0%	1.48%

DCC acknowledges that its ability to serve its client depends on the skill set of its employees. In recognition of this, DCC has set an expenditure target for training and professional development relative to total salary costs. In 2003–04, this target was 3% of salary cost, which DCC believes to be indicative of a supportive work environment. This year, each department budgeted 2% of salary cost per employee for training and allocated the remaining 1% to the DCC-wide training and development initiative. At the end of the second quarter, DCC had spent a total of 1.48% of salary cost per employee in both areas combined, significantly less than it spent last year and below the target. Some funding for the corporate initiative has to be reallocated, and DCC expects to incur the full target cost by year-end.

PERFORMANCE INDICATORS AND TARGETS: 2005–2006

In 2005–06, DCC will continue to report on its existing performance indicators. The table below lists the corporate services and support performance indicator targets for 2005–06.

	PERFORMANCE INDICATOR	TARGET: 2005–06
CORPORATE SERVICES AND SUPPORT PERFORMANCE INDICATORS	Utilization rate (percentage of employee hours spent on client contract work)	70.0%
	Direct personnel expense multiplier (ratio of services revenue to direct payroll costs, including benefits and compensated absences)	1.5–1.6
	Employee retention rate	90.0%
	Professional development-to-salary cost ratio	3.0%

FINANCIAL MANAGEMENT

FINANCIAL MANAGEMENT POLICY

The Corporation's financial management policy is based on a fundamental assumption that the Corporation is a going concern and that its stated mandate will continue in the future. The Corporation operates on a fee-for-services basis. Its financial management policy is 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, DCC also considers the planning and operating risk inherent in its operations, particularly the risk associated with potential and unanticipated changes to the amount or timing of construction project expenditures by DND. In preparing its financial plan, the Corporation has allowed for reasonable levels of contingencies in its financial projections to ensure that it can continue to fulfill its mandate and serve its client in an effective and timely manner. Cash levels are constantly monitored and any surpluses or shortfalls that may occur from time to time during certain operating periods are taken into account in planning future operating plans and budgets.

YEARS ENDING MARCH 31, 2004 TO MARCH 31, 2010

APPENDIX A
STATEMENT OF OPERATIONS

The Corporation is forecasting services revenue of approximately $33.3 million for the current year ending March 31, 2005, which represents an increase of approximately 13% from the previous year. Approximately 11% of this increase is attributable to increases in work volume and billable time and approximately 2% is due to billing rate increases.

For the year ending March 31, 2006, services revenue is expected to increase by approximately 6% to $35.4 million. Approximately 5% of this increase is expected to reflect an increase in billable time and 1% to an increase in billable rates. The planned 1% increase in billing rates is less than the planned overall increase in salaries and benefits discussed below. The billing rates increase has been minimized in order to return to DND surpluses not required for operating purposes, as discussed below.

For future plan years, revenue is projected to increase year-over-year by rates varying from 3% to 4% in line with expected increases in salaries and benefits. Business volumes are assumed to remain constant over this period.

Interest income, which is generated from cash reserves, is forecasted to total approximately $80,000 for the current year ending March 31, 2005, which is a decrease of approximately 36% over the previous year. This decrease is primarily the result of the combination of lower average cash balances throughout the year, primarily due to the decrease in the volume of advance payments received in prior years from Public Works and Government Services (PWGSC) for project work in the National Capital Region, and an increase in the days-sales outstanding.

For the year ending March 31, 2006, interest income is expected to decrease to approximately $71,000 representing a decrease of approximately 11% from the previous year and is in anticipation of lower cash balances based on the planned loss as discussed below. It has been assumed that interest rates will remain at current levels. For future years, interest income has been projected to fluctuate based on anticipated cash levels with no projected change in interest rates. Temporary cash surpluses are invested in accordance with the Corporation's investment policies, as approved by the Board of Directors.

Salaries and benefits expense is forecasted to total approximately $27.5 million for the current year ending March 31, 2005, representing an increase of approximately 14% over the previous year. This increase comprises approximately 4% for wage increases and approximately 10% for staff increases related to higher levels of activity as evidenced in the increase in services revenues discussed above.

For the year ending March 31, 2006, salaries and benefits expense is projected to total approximately $30.0 million, representing an increase of approximately 9% over the previous year. This increase comprises approximately 5% due to a combination of increases to wages and benefits offset partially by a reduction in certain one time severance payments made in the current year, and approximately 4% for staff increases related to the anticipated increase in services revenue discussed above. For future years, the Corporation's financial forecasts assume an increase in salaries and benefits of approximately 3% year-over-year, with staff strength assumed to remain constant over this period.

Operating and administrative expenses are forecasted to total $4.5 million for the current year ending March 31, 2005, representing an increase of approximately 2% over the previous year. Higher spending on rent, client services and training and development costs were offset by lower spending on employee relocation costs, professional fees and head office relocation costs producing an overall increase of 2% which can be attributable primarily to inflationary increases.

For the year ending March 31, 2006, operating and administrative expenses are projected to be approximately $5.3 million, representing an increase of approximately18% from the previous year. This increase is due to a combination of inflationary increases and higher projected spending on certain items such as staff relocations, telecommunication costs, office rent, employee training and development, business travel and professional fees, which are partially tied to the anticipated growth in head count and business activity and partially the result of activities relating to corporate strategic plan initiatives highlighted in this corporate plan. For future years, operating and administrative expenses have been projected to increase by approximately 2% year-over-year, primarily to cover projected inflation increases.

Amortization of capital assets is forecasted to total $818,000 in the current year ending March 31, 2005, representing a decrease of approximately 1% from the previous year. This decrease is related to the lower levels of capital expenditures forecasted for the current year over the previous year as discussed later in this section under the heading "Capital Budgets."

For the year ending March 31, 2006, amortization of capital assets is expected to total approximately $821,000, which represents an increase of less than 1% from the previous year. Amortization expense shows a slight increase even though capital expenditures are projected to be approximately 11% lower in the year ending March 31, 2006, compared to the current year forecast. This is because the amount of amortization expense from year to year is affected by capital expenditure levels of previous years as well.

Projections for capital expenditures, highlighted in Appendices E and F, will affect the fluctuation in amortization over the remaining years of the plan.

Net income is forecasted to be approximately $590,000 for the current year ending March 31, 2005, representing an increase of approximately 114% over the previous year. This increase is largely the result of higher business volume and billable time in the current year, which generated a higher net margin.

For the year ending March 31, 2006, a loss of $658,000 has been planned in order to return anticipated operating surpluses, largely from the net income forecasted for the current year, that are not considered necessary for operating purposes, back to the Corporation's client, DND. This is in keeping with the Corporation's financial management policy previously discussed.

Appendix B
Balance Sheet

As noted earlier, in determining the amount of cash reserves carried for operating and capital needs, the Corporation considers the planning risk inherent in its operations and thus has allowed for a reasonable level of contingency. Currently, the Corporation's liquidity and capital resources position is strong and is projected to remain that way for the planning period. There are no restrictions on the use of the Corporation's funds and no legal or statutory obligations to segregate funds for any current or future liabilities, including future benefits for employees. As such, the Corporation does not have any segregated or restricted funds, and cash in excess of short-term operational and capital requirements is invested in accordance with the investment policy approved by the Board of Directors.

Amounts due from related parties are expected to increase during the plan years partially in direct proportion to the fluctuations in revenue from year to year and partially in anticipation of an increase in the average days -sales outstanding in anticipation of certain changes to the current processes used for payment of the Corporation's invoices by DND.

Capital assets for the current year ending March 31, 2005, are expected to increase by approximately 7%. This increase is directly tied to the forecasted capital expenditures for the current year as discussed below under the heading "Capital Budgets". For the remaining plan years, the fluctuations in capital assets from year to year are directly tied to the levels of capital spending, as highlighted in Appendices E and F.

Accounts payable and accrued liabilities for the current year ending March 31, 2005, are expected to increase by approximately 2% and to increase a further 3% in the year ending March 31, 2006. These fluctuations, and those of the subsequent plan years, are for the most part tied to the changes in the level of operating expenditures from year to year.

The provision for employee future benefits represents the Corporation's liability for the estimated cost of severance for its employees, as well as health care benefits for its retirees. This amount is actuarially determined. The provision for employee future benefits, including the current portion, is expected to total $5.2 million at March 31, 2005, representing an increase of 16% over the previous year. For the year ending March 31, 2006, the provision is expected to increase by a further 11%. For the remaining plan years, the amount is expected to increase year over year by rates varying from 6% to 8%. The liability for accrued severance benefits is largely long term. Although the actuary projects a current payout amount for each year, the exact timing of payouts is not determinable. The Corporation is under no obligation to segregate funds for this liability and does not do so. However, the Corporation's financial management policy and planning ensures that sufficient funds are available to meet future benefit payments for employees as they become due.

Appendix C
Statement of Cash Flows

The statement of cash flows details the sources and uses of cash and the net change in the Corporation's cash balance from year to year. Non-cash expenses included in earnings, such as amortization and the provision for employee benefits, are added back, and cash disbursements not included in earnings, such as payments for capital expenditures and future benefits for employees, are subtracted, to arrive at the net change in cash during the course of each fiscal year.

Appendix D
Staff Strength

Staff strength, which is presented on a full-time-equivalent basis, is expected to be approximately 376 for the current year ending March 31, 2005. This represents an increase of approximately 47 full-time equivalents from the previous year and is due to the increase in work volume and level of business activity forecasted for the current year.

The full-time equivalent staff strength for the year ending March 31, 2006, is projected to be approximately 396, representing an increase of 20 full-time equivalents over the current year's projection. This increase is due to the projected increases in work volume and business activity. Staff strength has been assumed to remain constant for the remaining years of the plan.

Appendices E and F
Capital Budgets

Capital expenditures for the current year ending March 31, 2005, are currently forecasted to be $915,000 representing a decrease of approximately 34% over the previous year. This decrease is primarily related to the fact that in the previous year, there were capital expenditures of approximately $732,000 for fit-up costs associated with the head office move to new office space, which occurred in February 2004. When excluding this one-time item, capital expenditures would show an increase of approximately 39% over the previous year. This is due primarily to higher levels of spending on computer equipment and software and on furniture and equipment to support the Corporation's growing level of employees and business activity. In addition, an upgrade of the Corporation's main computer system, the IBM AS400, is planned for the current year.

For the year ending March 31, 2006, capital expenditures are projected to be $810,000, representing a decrease of 11% over the forecast for the current year. The anticipated expenditures for the year ending March 31, 2006 will primarily relate to ongoing requirements to purchase new computer equipment and software for new employees, updates to certain application and network software, replacement of older computer equipment, systems and software to deliver training and development programs to employees and additional office furniture and equipment required as a result of anticipated employee growth.

Increased spending is projected in the fiscal years ending March 31, 2009, and March 31, 2010, in anticipation of upgrades to the Corporation's computer systems and software applications.

APPENDIX G
OPERATING BUDGET FOR THE YEAR ENDING MARCH 31, 2005

This schedule compares estimated operating results to planned results for the current year ending March 31, 2005. Services revenue is expected to be approximately 8% above plan. The increase is related to a higher than anticipated levels of business volume based on project spending by DND. Interest revenue is expected to be approximately 32% below plan due primarily to lower average cash balances as explained above.

Salary and benefit costs are expected to be approximately 8% above plan. The increase is due to higher than anticipated employee levels as a result of the higher volume of work as previously discussed.

Operating and administrative expenses are expected to be approximately 4% above plan. The increase is due to the higher than anticipated level of business activity and the higher than expected legal fees relating to employee matters.

Amortization of capital assets is expected to be approximately 6% below plan and is the result of the lower than anticipated level of capital expenditures in the current year.

Net income is forecasted to be approximately 194% above plan and is largely the result of higher than anticipated business volume and billable time which is expected to generate approximately $389,000 higher net margin than planned.

Appendix A

Defence Construction (1951) Limited

Statement of Operations

For the years ending March 31, 2004 to March 31, 2010
(in $ thousands)

	Actual March 31/04	Estimated March 31/05	Planned March 31/06	Planned March 31/07	Planned March 31/08	Planned March 31/09	Planned March 31/10
Revenue							
Service	$ 29,417	$ 33,296	$ 35,380	$ 36,795	$ 37,899	$ 39,036	$ 40,207
Interest	126	80	71	79	86	94	90
	29,543	**33,376**	**35,451**	**36,874**	**37,986**	**39,130**	**40,298**
Expenses							
Salaries and benefits	24,009	27,472	29,972	30,871	31,797	32,751	33,733
Amortization of capital assets	830	818	821	911	954	1,231	1,349
Operating and administrative expenses	4,428	4,496	5,316	4,997	5,097	5,199	5,303
	29,267	**32,786**	**36,109**	**36,780**	**37,848**	**39,181**	**40,386**
Net Income (Loss)	**$ 276**	**$ 590**	**$ (658)**	**$ 94**	**$ 137**	**$ (51)**	**$ (88)**
Surplus, beginning of the year	2,598	2,874	3,464	2,806	2,900	3,037	2,987
Surplus, end of the year	**$ 2,874**	**$ 3,464**	**$ 2,806**	**$ 2,900**	**$ 3,037**	**$ 2,987**	**$ 2,899**

Appendix B

March 31, 2004 to March 31, 2010

(in $ thousands)

	Actual March 31/04	Estimated March 31/05	Planned March 31/06	Planned March 31/07	Planned March 31/08	Planned March 31/09	Planned March 31/10
Assets							
Current:							
Cash	$ 4,307	$ 4,781	$ 3,926	$ 4,323	$ 4,705	$ 4,522	$ 4,814
Due from related parties	4,961	5,720	6,569	6,766	6,969	7,178	7,394
Prepaids, advances and accounts receivable	345	390	415	432	444	458	472
	9,613	10,891	10,910	11,521	12,119	12,158	12,679
Capital Assets	1,444	1,541	1,530	1,503	1,534	1,938	1,824
	11,057	**$ 12,432**	**$ 12,440**	**$ 13,024**	**$ 13,653**	**$ 14,096**	**$ 14,503**
Liabilities							
Current:							
Accounts payable and accrued liabilities	$ 3,329	$ 3,396	$ 3,497	$ 3,532	$ 3,568	$ 3,603	$ 3,639
Due to related parties	326	326	326	326	326	326	326
Current portion - provision for employee benefits	609	627	760	783	806	830	855
	4,264	4,349	4,583	4,641	4,700	4,760	4,821
Provision for employee future benefits	3,919	4,619	5,050	5,482	5,916	6,349	6,784
	8,183	**8,968**	**9,634**	**10,124**	**10,616**	**11,109**	**11,605**
Capital Stock and Surplus							
Capital Stock							
Authorized - 1,000 shares at no par value							
Issued - 32 shares	-	-	-	-	-	-	-
Surplus	2,874	3,464	2,806	2,900	3,037	2,987	2,899
	2,874	**3,464**	**2,806**	**2,900**	**3,037**	**2,987**	**2,899**
	$ 11,057	**$ 12,432**	**$ 12,440**	**$ 13,024**	**$ 13,653**	**$ 14,096**	**$ 14,503**

Appendix C

Defence Construction (1951) Limited

Statement of Cash Flows

For the years ending March 31, 2004 to March 31, 2010
(in $ thousands)

	Actual March 31/04	Estimated March 31/05	Planned March 31/06	Planned March 31/07	Planned March 31/08	Planned March 31/09	Planned March 31/10
Operating Activities							
Net income	$ 276	$ 590	$ (658)	$ 94	$ 137	$ (51)	$ (88)
Items not requiring cash							
Provision for employee benefits	840	1,168	1,191	1,215	1,239	1,264	1,290
Amortization	830	818	821	911	954	1,231	1,349
Loss on disposal of capital assets	7						
Net increase (decrease) in non-cash working capital balances related to operations	(375)	(738)	(772)	(179)	(181)	(187)	(193)
	1,578	1,838	583	2,042	2,150	2,258	2,358
Financing Activities							
Employee benefits paid	(111)	(450)	(627)	(760)	(783)	(806)	(830)
	$ 1,467	$ 1,388	$ (44)	$ 1,282	$ 1,367	$ 1,451	$ 1,527
Investing Activities							
Acquisition of capital assets	(1,392)	(915)	(810)	(885)	(985)	(1,635)	(1,235)
Increase (decrease) in cash during year	75	474	(855)	397	382	(184)	292
Cash at beginning of year	4,232	4,307	4,781	3,926	4,323	4,705	4,522
Cash at end of year	**$ 4,307**	**$ 4,781**	**$ 3,926**	**$ 4,323**	**$ 4,705**	**$ 4,522**	**$ 4,814**

Appendix D

Defence Construction (1951) Limited

Staff Strength

For the years ending March 31, 2004 to March 31, 2010

	Actual March 31/04	Estimated March 31/05	Planned March 31/06	Planned March 31/07	Planned March 31/08	Planned March 31/09	Planned March 31/10
Employees based on full-time equivalents	329	376	396	396	396	396	396

Appendix E

Defence Construction (1951) Limited

Capital Budget

For the year ending March 31, 2005

(in $ thousands)

	Estimated Actual March 31/05	Planned March 31/05	Variance
Office furniture and equipment	$ 212	$ 208	$ (4)
Computer systems hardware and software	681	768	87
Leasehold improvements	22	20	(2)
	$ **915**	**$ 996**	**$ 81**

Appendix F

Defence Construction (1951) Limited

Capital Budget

For the years ending March 31, 2004 to March 31, 2010

(in $ thousands)

	Actual March 31/04	Estimated March 31/05	Planned March 31/06	Planned March 31/07	Planned March 31/08	Planned March 31/09	Planned March 31/10
Office furniture and equipment	$ 149	$ 212	$ 176	$ 180	$ 190	$ 200	$ 125
Computer systems hardware and software	511	681	624	695	775	1,425	1,100
Leasehold improvements	732	22	10	10	20	10	10
	$ 1,392	**$ 915**	**$ 810**	**$ 885**	**$ 985**	**$ 1,635**	**$ 1,235**

Appendix G

Defence Construction (1951) Limited

Operating Budget

For the year ending March 31, 2005

(in $ thousands)

	Plan March 31/05	Estimated Actual March 31/05	Variance
Revenue			
Services	$ 30,761	$ 33,296	$ 2,535
Interest	118	80	(38)
	30,879	**33,376**	**2,497**
Expenses			
Salaries and benefits	25,463	27,472	2,009
Amortization of capital assets	873	818	(55)
Operating and administrative expenses	4,342	4,496	154
	30,678	**32,786**	**2,108**
Net Income	**$ 201**	**$ 590**	**$ 389**