

DEFENCE CONSTRUCTION CANADA

2018–2019  
2022–2023

# CORPORATE PLAN SUMMARY

INCLUDING THE OPERATING AND  
CAPITAL BUDGETS FOR 2018–2019





# AN INTRODUCTION TO DEFENCE CONSTRUCTION CANADA

Defence Construction Canada (DCC) is a unique organization in many ways—its business model combines the best characteristics from both the private and public sector. To draw a comparison, DCC's everyday operations are similar to those of a civil engineering consultancy firm. However, as a Crown corporation, it is governed by Part X of Schedule III to the *Financial Administration Act*. Its key Client-Partners are the Assistant Deputy Minister Infrastructure and Environment (ADM IE) Group at the Department of National Defence (DND) and the Communications Security Establishment (CSE). The Corporation also provides services to Shared Services Canada relating to the expansion of the electronic data centre at CFB Borden. DCC employees do not do the hands-on, hammer-and-nails construction work at the job site. Instead, as part of an organization that is at arm's length from government, DCC employees manage the procurement process, from awarding tenders to managing the contracts at the job site.

Once a Client-Partner decides to initiate a project, it contacts DCC to procure and manage the associated project contracts on its behalf. These projects range from traditional ones to innovative ones, from control towers to dockyards, from hangars to tank maintenance facilities, from community centres to accommodation facilities, and from roads to sewer and water systems. Some projects may simply involve

maintenance work. Others are more complex with high security requirements.

DCC has site offices at all active Canadian Armed Forces (CAF) establishments in Canada and abroad, as required. Its Head Office is in Ottawa and it maintains five regional offices (Atlantic, Quebec, Ontario, Western and National Capital Region), as well as 31 site offices located at Canadian Armed Forces (CAF) bases, wings, and area support units. The Corporation currently employs about 900 people.

As a Crown corporation, DCC complies with Government of Canada legislation, such as the *Financial Administration Act*, *Official Languages Act*, *Access to Information Act* and *Employment Equity Act*, to name a few. The Corporation also complies with trade agreements, such as the North American Free Trade Agreement. It has the flexibility to increase or decrease its workforce, depending on project volume. The Corporation earns revenue on a fee-for-service basis and receives no government appropriations. DCC operates as a lean and efficient organization, and its billing rates are almost half those of comparable North American private sector engineering firms, according to Deltek's *38th Annual Clarity Architecture and Engineering Industry Study*. DCC's way of doing business is a hybrid of the best characteristics of public and private organizations.



**COVER PHOTO:** Left to right: Samir Chemrouk, Julie Morneau, Vanessa Vinette and Josée Turgeon are members of Quebec Operational Group's Real Property Management Team. The team helped prepare the master plan for the Quebec Region and provided a detailed, high-priority analysis for housing the headquarters of the 35 Canadian Brigade Group in Quebec City, Quebec.

# TABLE OF CONTENTS

## 02—EXECUTIVE SUMMARY

## 08—PLANNING HIGHLIGHTS

## 10—STRATEGIC PLAN OVERVIEW 2018–2019 TO 2022–2023

## 13—DEFENCE INFRASTRUCTURE AND ENVIRONMENT PROJECTS

## 20—PLANNING ENVIRONMENT AND STRATEGIC ISSUES

21—The Department of National Defence

21—Defence Renewal: Infrastructure and Environment

22—The Canadian Construction Industry

## 24—RISK MANAGEMENT

## 26—BUSINESS STRATEGY

## 28—STRATEGIC INITIATIVES AND PERFORMANCE

29—Planning Theme: Business Management

32—Planning Theme: Service Delivery

35—Planning Theme: People

38—Planning Theme: Leadership and Governance

## 42—FINANCIAL PLAN


## 57—APPENDIX I

## 64—APPENDIX II



# EXECUTIVE SUMMARY

**LEFT TO RIGHT:** Craig Mercer, Site Manager, Doug Thompson, Coordinator, Commissioning, and Scott Nason, Coordinator, Construction Services, inspect a 1-km training road at 5th CDSB Gagetown. The road—part of the new Explosive Ordnance Disposal-Expedient Route Opening Capability project—will be used to train military personnel.



**For the 2018–19 to 2022–23 planning period, Defence Construction Canada (DCC) will continue to make positive contributions to Canada’s security and defence, the environment, and economic growth, and to keeping Canada’s government open and transparent.**

The objectives and priorities that DCC set for itself in its *Corporate Plan 2017–2018 to 2021–2022* are proceeding as expected. This includes the volume of forecasted infrastructure work, financial projections, anticipated progress on internal initiatives, and collaboration with industry. The overall trends in DCC’s operating environment are expected to remain consistent throughout the planning period.

## BUSINESS VOLUME

DCC expects contract expenditures to remain in the range of \$1 billion through the planning period. Current contract expenditures in 2017–18 include money from the Federal Infrastructure Investments Program (FIIP) and money allocated to infrastructure in Budget 2016, in addition to DND’s regular infrastructure and environment program. FIIP is due to conclude by the end of the fiscal year. By then, DCC expects that its FIIP-related contract expenditures will total \$238 million for the year. Over three years, DCC will have spent an estimated \$427 million of DND’s total FIIP budget of \$452 million. The Corporation expects to carry over about \$10 million of contract expenditure from Budget 2016 spending into 2018–19.

DND projects completed under FIIP so far in 2017–18 include the Peace Training Support Centre in Kingston, Ontario; the Cold Lake,

Alberta health care facility; and repairs to the caisson in Esquimalt, British Columbia. Expenditures under the 2016 Budget include such projects as fire suppression systems upgrades, road works and armoury repairs.

DND released its new Defence Policy: Strong, Secure, Engaged in June 2017. In it, DND describes its approach to modernizing its infrastructure through disposal of underused or obsolete buildings, and improving buildings on bases and wings, including housing for Canadian Armed Forces personnel. This approach contributes to DCC’s stable level of expenditures forecasted through the planning period.

According to BuildForce Canada, for every \$1 million spent on non-residential construction in Canada annually, about four direct full-time equivalent jobs are created. Each year, DCC helps create an estimated 4,000 jobs for Canadians.

## DEFENCE INFRASTRUCTURE PROJECTS

DCC is working on projects in support of DND’s Defence Energy and Environment Strategy (DEES). DND’s environmental goals related to infrastructure include improving energy efficiency, conducting sustainable operations and building sustainable real property.

DND aims to reduce the greenhouse gas emissions of its real property portfolio by 40% by 2025. DCC expects to support this effort throughout the planning period. DCC has 11 employees across Canada who are working with the bases and wings to develop initiatives and projects that result in the reduction of energy consumption.

Already, DCC is helping bases and wings nationwide improve their energy efficiency, with about 10 energy performance contracts (EPCs) in progress so far in 2017–18. The total investment in EPCs is expected to be between \$100 million and \$150 million over the planning period, with an estimated 20 contracts valued at approximately \$5 to \$25 million each. Some of these upgrades will be taking place at military installations in Greenwood, Nova Scotia; Bagotville, Quebec; Trenton, Ontario; Petawawa, Ontario; Cold Lake, Alberta; and Esquimalt, British Columbia.

DCC is supporting the following DND green infrastructure initiatives:

- the accelerated assessment program—a national assessment of suspected contaminated sites—under which DND will spend \$16 million to assess suspected sites related to former military operations and sites on active bases;
- the \$239-million site remediation at 5 Wing Goose Bay—one of the largest contaminated site clean-ups ever undertaken by DND—due to be completed in 2020;
- the ongoing Unexploded Explosive Ordnance (UXO) and Legacy Sites Program at DND sites across Canada, at an estimated cost of \$15 million; and
- the \$100-million program to clean up Esquimalt Harbour.

Other major infrastructure projects include the following:

- the \$82-million transportation, electrical and mechanical engineering accommodation building in Bagotville, Quebec;
- the House 5 Combat Engineer Regiment in Valcartier, Quebec;
- the new Jetty NJ in Halifax, Nova Scotia, and the A/B Jetty in Esquimalt, British Columbia;
- the Fleet Maintenance Facility Cape Breton Shop Consolidation Project in Esquimalt, British Columbia; and,
- the new naval facility in Nanisivik, Nunavut, 700 kilometres north of the Arctic Circle.

DCC's work in contracting for and managing public-private partnership (P3) contracts is a Canadian defence procurement success story. These include contracts for the maintenance of the

Communications Security Establishment Long-Term Accommodation Facility in Ottawa, Ontario, as well as for the design, building, financing, operations and maintenance of the Shared Services Data Centre at Canadian Forces Base (CFB) Borden.

Over its history, DCC has often supported Canada's defence and security needs by providing its expertise to Canadian Armed Forces (CAF) deployed operations. Currently, DCC is providing such support on four construction projects at the Operational Support Hub—South West Asia. DCC's work in Latvia includes supporting the infrastructure requirements for Enhanced Forward Presence and Operation Reassurance.

## A SUSTAINABLE FINANCIAL POSITION

DCC's source of revenue is its Client-Partners. The Corporation invoices its Client-Partners for its services monthly and does not receive any appropriations from the Government of Canada. Six months into 2017–18, DCC's services revenue is \$48.7 million. The Corporation expects to achieve \$100.3 million in services revenue by the end of 2017–18, down slightly from its forecasted target of \$105.9 million.

Over the past several years, DCC's cash and investment balance has exceeded its targets because of additional revenue due to higher-than-planned work volume, combined with workflow optimization efforts. At the end of 2016–17, DCC paid a dividend of \$8.5 million to the Receiver General of Canada. DCC will manage its cash and investment levels through the management of its billing rates and ongoing fixed-fee and time-based arrangements.

The Corporation reviews its billing rates annually to ensure a sustainable financial position. These billing rates are communicated to its Client-Partners. Billing rate increases are projected to be 4.5% for the next year of the Plan, they will increase to 5.25% for the following two years, and will decrease to 4.5% and 4.0%, respectively, in the final two years of the Plan.

Services revenue is anticipated to increase over the planning period as the Corporation returns to a slightly better than break-even cash flow in 2019–20.



The Corporation returns to a positive net income in 2021–22.

DCC's current cash management approach is to maintain its cash and investments levels at \$21 million to \$24 million to provide sufficient working capital and meet long-term obligations as they come due. The Corporation anticipates cash and investments of \$28 million to be appropriate for the cash management target range of \$25 million to \$28 million in 2022–23 due to its increasing monthly expenditures combined with increasing long-term employee benefits liability. As at September 30, 2017, DCC's cash and investments level was approximately \$24.6 million. Cash and investments will decrease to a low of \$17.1 million in 2019–20, and gradually increase to \$28 million in 2022–23.

## A HEALTHY, INCLUSIVE AND RESPECTFUL WORKPLACE

DCC is committed to continuing to build a diverse public service and to celebrating the social and cultural diversity of its workforce.

DCC received the 2017 Outstanding Commitment to Employment Equity Award from Employment and Social Development Canada. This award recognizes employers' employment equity efforts, which include removing barriers for members of the four designated groups.

At September 30, 2017, DCC had 924 full-time equivalent (FTE) employees: 137 in the Atlantic Region, 152 in the Quebec Region, 209 in the Ontario Region, 125 in the National Capital Region, 72 at Head Office in Ottawa and 229 in the Western Region. Due to DCC's varying work volumes, typical of the construction industry, staff numbers at the sites fluctuate.

Based on its five-year work volume forecasts, DCC expects the number of FTEs to increase by 4% in 2018–19 and remain at the same level in 2019–20. The number of FTEs is expected to increase slightly by 1.5% in 2020–21 and to increase by 1% in 2021–22. The Corporation has mechanisms to manage the impact of fluctuating work volumes on its employees. These include sound hiring practices, the ability to deploy people across five service lines, and human

resources policies designed to make DCC an employer of choice.

DCC employees are part of the Public Service Pension Plan. However, DCC has its own compensation policy and structure, as well as its own employee benefits plan, all modelled on the best elements of the public and private sector. DCC's sick leave policy is in step with modern practices, and DCC's workplace wellness and mental health activities are focused on preventative measures that help to reduce employees' health risk factors. Compensation practices are managed and monitored to ensure fair value to the Crown.

DCC human resources policies and practices support a barrier-free work environment for all employees and specifically include measures to accommodate those with physical and mental health challenges. In 2017–18, DCC has developed its Duty to Accommodate Policy that replaces the Modified Work Policy.

## KEY STRATEGIC INITIATIVES

DCC has 14 strategic initiatives planned for 2018–19, most of which continue work from the last fiscal year. Those ongoing initiatives relate to supporting Canada's defence infrastructure renewal and DND's environmental objectives; progressing on e-procurement; maintaining a healthy and inclusive workplace through the implementation of a human resources strategic plan; improving information technology (IT) and information management; enhancing fraud awareness and prevention measures; and strengthening relationships with Client-Partner leadership.

DCC's new initiatives include the following: responding to recommendations arising out of the Audit of Business Continuity Planning and the Audit on Onboarding: The First 24 Months; and, developing innovative procurement and delivery options for various Client-Partner requirements.

## FRAUD AWARENESS, DETECTION AND PREVENTION

DCC takes the risk of fraud very seriously, especially since it conducts its procurement in an industry known for incidents of fraud. In its 2016 Special

Examination, the Auditor General of Canada found that there were no significant deficiencies in any area examined, including fraud detection and prevention.

DCC has strong fraud prevention measures already in place, all part of its Integrity Management Framework. DCC was an early adopter of the government-wide integrity regime which ensures that it conducts business with ethical suppliers.

Existing fraud prevention measures include: well established internal and external financial management controls, regular monitoring, and employee education that include how to identify red flags and how to respond appropriately to any suspected fraud activity.

The Special Examination Report recommended that DCC better define fraud risks and put in place the systems and processes needed to assess, monitor and address them. DCC agreed with the recommendation and has an action plan in place to address this recommendation.

DCC is adopting the use of digital analytics that can better detect patterns of suspicious procurement activity. The Corporation has developed new training for its procurement staffers based on resources from the Competition Bureau. Staffers must take this training to receive their delegated signing authority. DCC will also explore joint initiatives with external stakeholders to increase fraud awareness in the bidding community.

## A SECURE DIGITAL WORKPLACE

DCC is making a much-needed investment over the planning period to upgrade its IT infrastructure. This is due to the universal threat of cyber attacks, the Government of Canada's requirement for increased security measures and the need to modernize its IT infrastructure.

Compared to 2016–17, the IT budget increased by about \$2 million in 2017–18, and the IT budget is expected to remain at this level for the first three years of the planning period. In the last two years of the planning period, DCC expects expenditures to drop slightly, once infrastructure development is complete.

According to Gartner, an IT consultancy firm, organizations should spend between 4% and 9% of their revenue on IT systems. As at September 30, 2017, DCC's IT expenditures are 5.12% of revenue for the first half of 2017–18, well within the normal industry range.

## OPENNESS AND TRANSPARENCY

Ethics and integrity remain key concerns in the awarding and management of both public and private sector contracts in the construction industry. Industry favours greater transparency and wants to ensure that procurement processes are neither too restrictive nor so onerous that they discourage contractors and consultants from bidding on opportunities. During the first six months of 2017–18, DCC awarded 97% of all its contracts through public opportunities and had an average of 4.3 bidders per contract. DCC believes it has struck the appropriate balance between diligent oversight and efficiency with its Corporate Integrity Management Framework.

In the second half of 2017–18, DCC completed the alignment and implementation of its travel, hospitality, conference and event expenditure policies, guidelines and practices with those of Treasury Board of Canada Secretariat. On its website, DCC discloses the travel and hospitality expenses of the Chair of its Board of Directors, all members of the Board of Directors, and its CEO and vice-presidents.

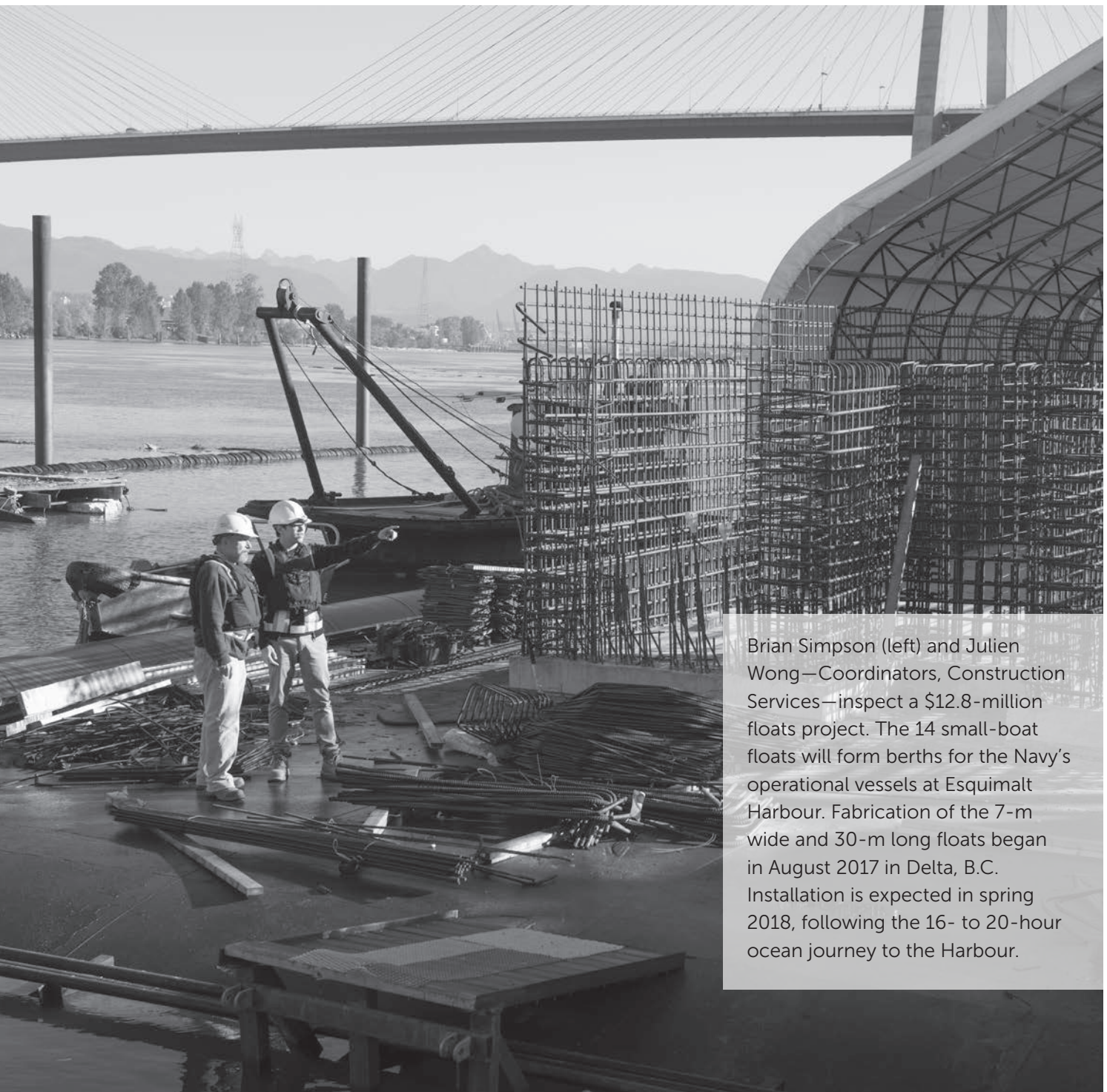
## THE INFRASTRUCTURE AND ENVIRONMENT INDUSTRY

Since its inception, DCC has maintained close ties with industry. This involvement helps keep DCC informed of new trends and developments in industry practices; provides opportunities for DCC to be an industry leader; and strengthens DCC's collaborative relationships with key industry organizations. Examples of these organizations include the Canadian Construction Association, the Royal Architectural Institute of Canada, the Association of Consulting Engineering Companies, the Institute for BIM in Canada, the Lean Construction Institute—Canada and Canadian Construction Innovations. For the fourth year in a row, DCC received the National Procurement Institute's Achievement of Excellence in Procurement Award.



In the first half of 2017–18, the Corporation demonstrated its commitment to prompt payment. Together with the Canadian Construction Association (CCA) and Public Services and Procurement Canada (PSPC), DCC formed the Government-Industry Working Group on Prompt Payment to help improve the timeliness of payments to industry. DCC and PSPC agreed to publicly disclose payments to prime contractors so that subcontractors know when they can expect payment.

The Corporation hopes such public disclosure will make payments to construction contractors, tradespeople and suppliers fairer, and will help strengthen the Canadian industry.



Brian Simpson (left) and Julien Wong—Coordinators, Construction Services—inspect a \$12.8-million floats project. The 14 small-boat floats will form berths for the Navy's operational vessels at Esquimalt Harbour. Fabrication of the 7-m wide and 30-m long floats began in August 2017 in Delta, B.C. Installation is expected in spring 2018, following the 16- to 20-hour ocean journey to the Harbour.



# PLANNING HIGHLIGHTS

**\$100** million



DCC'S FORECASTED SERVICES REVENUE  
FOR 2017–18

**\$225** million

THE AMOUNT OF DND  
INVESTMENT IN GREEN  
INFRASTRUCTURE  
PROJECTS BY 2020 TO  
REDUCE ITS CARBON  
FOOTPRINT







# \$1 BILLION

DCC'S FORECASTED RANGE OF CONTRACT EXPENDITURES  
FOR EACH YEAR OF THE PLANNING PERIOD

# 4,000

THE ESTIMATED NUMBER OF JOBS DCC  
CREATES FOR CANADIANS BY AWARDING  
ABOUT 2,000 CONTRACTS WORTH  
\$1 BILLION PER YEAR

# 248,000



THE NUMBER OF NEW WORKERS NEEDED BY  
THE CANADIAN CONSTRUCTION INDUSTRY BY  
2026, TO REPLACE RETIRING WORKERS


SOURCE: BUILDFORCE CANADA



DEFENCE CONSTRUCTION CANADA

# STRATEGIC PLAN OVERVIEW

2018–2019 TO 2022–2023

A black and white portrait of Veronica Mendoza, a woman with dark, curly hair, smiling. She is wearing a white top with a decorative pattern and a dark jacket. The portrait is set against a light gray background.

DCC Contract Services employees—including Veronica Mendoza, Team Leader, Contract Services, at CFB Halifax, Nova Scotia—provide high-quality, timely and efficient procurement services to DND/CAF to support defence projects in Canada and abroad.

## GOVERNMENT OF CANADA KEY PRIORITIES SUPPORTED BY DCC

SECURITY AND DEFENCE	ENVIRONMENT	ECONOMIC GROWTH	OPENNESS AND TRANSPARENCY
<ul style="list-style-type: none"> <li>Defence Policy: Strong, Secure, Engaged</li> <li>Support for Canada's North</li> <li>Support for Canada abroad</li> </ul>	<ul style="list-style-type: none"> <li>Canada's commitment to a clean environment</li> <li>Helping DND/CAF meet environmental requirements</li> <li>Greenhouse gas reduction</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable economic growth</li> <li>Opportunities for Canadians</li> <li>Investment in infrastructure</li> <li>Innovation</li> </ul>	<ul style="list-style-type: none"> <li>Modernization of the procurement process</li> <li>Focus on results</li> <li>Prudence in handling public funds</li> <li>Commitment to social and cultural diversity and inclusion</li> </ul>

## MISSION

To provide timely, effective and efficient project delivery and full lifecycle support for infrastructure and environmental assets required for the defence of Canada

## VISION

To be a knowledgeable, ethical and innovative leader, and employer of choice, valued by the Government of Canada and industry

## VALUES

<b>Dedication:</b> DCC is dedicated to supporting defence infrastructure and environmental requirements. For over 65 years, DCC employees have dependably and diligently carried out that mission for Client-Partners.	<b>Collaboration:</b> DCC is committed to developing collaborative relationships with Client-Partners, industry, employees and other stakeholders. Together, we leverage our shared expertise toward our common goals.	<b>Competence:</b> DCC offers a dynamic and inclusive working environment in which the experience, expertise and diversity of employees enable the development of innovative solutions for Client-Partner needs.	<b>Fairness:</b> DCC deals with Client-Partners, industry, employees and other stakeholders in a fair and ethical manner, advocating mutual respect and professionalism.
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## STRATEGIC OBJECTIVES AND OUTCOMES

PLANNING THEME	BUSINESS MANAGEMENT	SERVICE DELIVERY	PEOPLE	LEADERSHIP AND GOVERNANCE
<b>STRATEGIC OBJECTIVE</b>	To develop and maintain responsive, integrated business management structures, tools, teams and practices	To meet Client-Partner requirements and to demonstrate value for money	To recruit, develop, support and retain a competent, engaged and diverse workforce	To provide strong leadership and be responsive to Government of Canada requirements
<b>STRATEGIC OUTCOMES</b>	<ul style="list-style-type: none"> <li>Business infrastructure and corporate frameworks ensure effective and efficient service delivery and strong resource management</li> <li>Corporate assets are safeguarded by sound internal control systems and practices, and management oversight and audit</li> </ul>	<ul style="list-style-type: none"> <li>Service lines deliver efficient and effective quality services throughout the asset lifecycle</li> <li>Relationships are collaborative through mutually-aligned objectives and information sharing</li> <li>Leverage industry capacity and innovation</li> </ul>	<ul style="list-style-type: none"> <li>A healthy, inclusive and respectful workplace</li> <li>A productive and results-oriented workforce</li> <li>A culture of innovation</li> <li>Positive employee engagement</li> </ul>	<ul style="list-style-type: none"> <li>A risk-based decision-making culture</li> <li>High ethical standards, openness and transparency in the management of its business affairs</li> <li>Demonstrate value, integrity and innovation to stakeholders and Client-Partners</li> <li>Respect government policies and practices</li> </ul>
<b>2018–2019 CORPORATE PLAN INITIATIVES</b>	<ul style="list-style-type: none"> <li>Implement the new Information Technology Strategy</li> <li>Respond to recommendations arising out of Audit of Business Continuity Planning</li> <li>Improve the information management system</li> </ul>	<ul style="list-style-type: none"> <li>Support DND in its IE transformation and program delivery</li> <li>Support DND's greening defence initiatives</li> <li>Consult with industry to expand the scope of e-procurement to include architecture and engineering services</li> <li>Develop innovative procurement and delivery options</li> </ul>	<ul style="list-style-type: none"> <li>Implement the new Human Resources Strategic Plan</li> <li>Implement the Diversity and Inclusion Strategy and the Workplace Wellness and Mental Health Strategy</li> <li>Respond to employee engagement survey results</li> <li>Respond to recommendations arising out of the Audit on Onboarding: The First 24 Months</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen collaborative relationships with Client-Partner leadership</li> <li>Respond to recommendations arising out of the Office of the Auditor General's Special Examination of DCC</li> <li>Support ongoing integrity programs, with a focus on fraud awareness, detection and prevention</li> </ul>
<b>KEY PERFORMANCE INDICATORS</b>	<ul style="list-style-type: none"> <li>Operational results and performance measures</li> <li>Financial results consistent with corporate Financial Management Policy</li> </ul>	<ul style="list-style-type: none"> <li>Service delivery rating</li> <li>Procurement results</li> <li>Contract management results</li> </ul>	<ul style="list-style-type: none"> <li>Investment in training and development</li> <li>Innovation results</li> <li>Employee retention rate</li> <li>Employment diversity results</li> <li>Leadership Development Program results</li> </ul>	<ul style="list-style-type: none"> <li>Corporate reporting results, including timeliness of submissions</li> <li>Overall business performance results</li> <li>DCC Code of Business Conduct results</li> <li>DCC Procurement Code of Conduct results</li> <li>Environmental, safety and security results</li> </ul>





# DEFENCE INFRASTRUCTURE AND ENVIRONMENT PROJECTS



DCC manages the contracts for health care facilities that provide integrated medical, dental, physiotherapy and mental health services to CAF personnel. In line with a new health care model, the new buildings—such as the Health Care Centre at CFB Borden, pictured—will help members more easily access the care they need.

## CANADIAN ARMY



### NORTH PARK ARMOURY REHABILITATION AND FIT-UP

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**LOCATION:** Halifax, Nova Scotia  
**PROJECT COST:** \$115 million  
**COMPLETION DATE:** 2025

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The North Park Armoury is a federally designated heritage building and National Historic Site of Canada. This rehabilitation and fit-up project will provide facilities to meet the operational requirements of two Canadian Army Reserve units, the CFB Halifax Base Clothing Stores Detachment and two cadet units. DCC has contracted for the first phase of the project (rehabilitation of the west wall), valued at \$7.9 million with a completion date of October 2019.



### HOUSE 5 COMBAT ENGINEER REGIMENT

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**LOCATION:** Valcartier Garrison, Quebec  
**PROJECT COST:** \$84 million  
**COMPLETION DATE:** 2020

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DCC is managing the construction contract for a new 20,850-square-metre facility that will house 5 Combat Engineer Regiment—the highest-value contract ever awarded at Valcartier Garrison. The design-submission-construction contract was awarded in May 2017 with an anticipated completion date of 2020. The contract includes the renovation of two existing temporary shelters and demolition of an outdated building.

## ROYAL CANADIAN NAVY



### JETTY NJ

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**LOCATION:** CFB Halifax, Nova Scotia  
**PROJECT COST:** \$83 million  
**COMPLETION DATE:** January 2019

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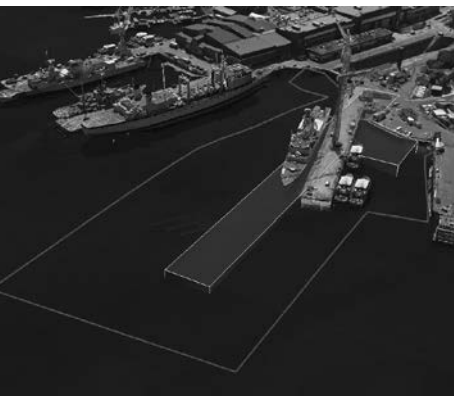
DCC is contracting and managing the construction of this new jetty, which will provide full-service berthing for the new Canadian Arctic and Offshore Patrol Ships and for advanced logistical support carriers. The new 247-metre by 29-metre concrete jetty will replace two deteriorating timber jetties in Halifax Harbour.



## FLEET MAINTENANCE FACILITY CAPE BRETON, PHASE V

**LOCATION:** CFB Esquimalt, British Columbia  
**PROJECT COST:** \$197 million  
**COMPLETION DATE:** Fall 2018

Over the past 15 years, DCC has been delivering the five phases of this project, which consolidates and modernizes the industrial facilities at CFB Esquimalt's dockyard. Phase V is the last phase and it will involve continued efforts to replace outdated and deficient industrial facilities. It is expected to be completed by fall 2018.



## A/B JETTY RECAPITALIZATION

**LOCATION:** CFB Esquimalt, British Columbia  
**PROJECT COST:** \$743 million  
**COMPLETION DATE:** 2024

This \$743-million project to replace aging 70-year-old jetties consists of three contracts. The first contract valued at \$55.5 million was awarded on January 11, 2017. This portion of the multi-year project involves extending the utility corridor, dredging the seabed, demolishing B Jetty, preparing the site, building a new seawall and relocating several elements of the Oily Water Waste Treatment Plant.

## ROYAL CANADIAN AIR FORCE



## TRANSPORTATION, ELECTRICAL AND MECHANICAL ENGINEERING ACCOMMODATION

**LOCATION:** CFB Bagotville, Quebec  
**PROJECT COST:** \$82 million  
**COMPLETION DATE:** 2020

DCC is providing contract management for a new facility to house the Transportation, Electrical and Mechanical Engineering sections. The project includes the demolition of four outdated buildings, and project planning, environmental, technical, procurement and contract management services.





## RECAPITALIZE WEST RAMP

**LOCATION:** CFB Trenton, Ontario  
**PROJECT COST:** \$26 million  
**COMPLETION DATE:** January 2019

DCC is managing the construction contract that involves reconstruction of the West Apron and portions of Runway 06-24, Taxiway Foxtrot and Taxiway Papa, including drainage and lighting systems. The project is being phased over three project sites to allow for continued use of the existing airfield. The completed apron will also provide access to the new Hangar 6.

## DEPLOYED OPERATIONS



**LOCATIONS:** Latvia and Kuwait  
**PROJECT COST:** \$18 million  
**COMPLETION DATE:** Ongoing

DCC's work in Latvia includes supporting the infrastructure requirements for the Enhanced Forward Presence. DCC is currently managing the construction of the Unit Medical Station and will contract the build of the Task Force Headquarters Building. DCC is providing support on four construction projects at the Operational Support Hub—Kuwait. Contract work consists of building a vehicle wash ramp, a generator pad, and a petroleum, lubricants and oil storage area.

## NORTHERN SUPPORT



### FACILITIES MAINTENANCE AND SUPPORT SERVICES

**LOCATIONS:** Inuvik, Northwest Territories, and Rankin Inlet and Iqaluit, Nunavut  
**PROJECT COST:** \$80 million  
**COMPLETION DATE:** 2021

DCC opened a new office in Yellowknife in November 2017 to support CAF infrastructure requirements in the North. DCC will manage a five-year facilities maintenance and support services contract covering 80 buildings in forward-operating locations and communities. The Corporation will also handle various capital construction, minor new construction, maintenance and repair, and environmental projects.



## NANISIVIK NAVAL FACILITY

**LOCATION:** Nanisivik, Nunavut

**PROJECT COST:** \$56 million

**COMPLETION DATE:** September 2018

DCC is contracting and managing construction of the Nanisivik Naval Facility on the north shore of Baffin Island. The \$56-million facility will serve as a docking and refuelling station for military, civilian and Government of Canada vessels during the northern shipping season. It is expected to be ready to support Arctic and Offshore Patrol Ships in 2018.

## ENVIRONMENTAL CLEAN-UP



### ESQUIMALT HARBOUR REMEDIATION PROGRAM (EHRP)

**LOCATION:** CFB Esquimalt, British Columbia

**PROJECT COST:** \$100 million

**COMPLETION DATE:** 2019–20

The environmental remediation of contaminated sediments in Esquimalt Harbour is a DND priority. DCC is collaborating with Public Services and Procurement Canada to support extensive remediation of the seabed, which involves dredging these areas to remove contaminated sediments, then capping the areas with clean fill. This will considerably reduce the exposure of marine life to contaminated sediments and provide a diverse habitat for marine communities.



### GOOSE BAY REMEDIATION

**LOCATION:** Goose Bay, Newfoundland and Labrador

**PROJECT COST:** \$239 million

**COMPLETION DATE:** 2020

DCC is committed to operating in ways that conserve resources and protect the environment. It is helping manage one of the largest environmental clean-ups ever undertaken by DND—reducing or eliminating the potential risks of contaminated areas at 5 Wing Goose Bay. Most of the contamination can be attributed to past storage and handling of materials such as hydrocarbons, heavy metals, polychlorinated biphenyls (PCBs), pesticides, and household and commercial waste. By the project's completion in 2020, more than 50 contracts will have been awarded to address more than 100 individual contamination sites.



## UXO AND LEGACY SITES PROGRAM

**LOCATIONS:** Sites across Canada

**PROJECT COST:** \$15 million

**COMPLETION DATE:** Ongoing

DCC helps DND manage public safety on properties that may contain unexploded explosive ordnance (UXO). DCC provides planning, procurement, technical and contract management services for UXO projects on active and inactive (legacy) military sites across Canada. DND has identified more than 1,000 locations with potential UXO impact. These sites are in varying stages of remediation, with many supported by DCC's in-house teams of contract managers, geophysicists, UXO technicians and geographic information system (GIS) specialists.

## MILITARY PERSONNEL SUPPORT



### ACADEMIC AND TRAINING CAPABILITIES IMPROVEMENT

**LOCATION:** Saint-Jean Garrison, Quebec

**PROJECT COST:** \$67 million

**COMPLETION DATE:** 2019

This project is to build a new 17,870-square-metre training facility for the Canadian Forces Leadership and Recruit School (CFLRS) at Saint-Jean Garrison. The new building will contain classrooms, offices and drill halls to provide practical instruction and training to CFLRS units. The contract involves the demolition of a temporary building and two non-operational buildings dating back to 1942.



### HEALTH SERVICES CENTRES

**LOCATION:** Saint-Jean, Quebec; Petawawa, Ontario; Shilo, Manitoba; Cold Lake, Alberta; Edmonton, Alberta

**PROJECT COST:** \$153 million

**COMPLETION DATE:** 2018–19

DCC is managing the contracts for health care facilities that will provide integrated medical, dental, physiotherapy and mental health services to meet the current and future needs of CAF personnel. In line with a new healthcare model, the new buildings will help to ensure that members can easily access the care they need.





## CANADIAN FORCES HOUSING AGENCY

**LOCATION:** Sites across Canada  
**PROJECT COST:** \$80 million annually  
**COMPLETION DATE:** Ongoing

The Canadian Forces Housing Agency (CFHA) maintains, manages and allocates residential housing units for DND. DCC contracts for and manages the construction and maintenance of accommodations for Canadian Armed Forces members and their families at military bases and wings across Canada.

## PUBLIC-PRIVATE PARTNERSHIPS



### CSE LONG-TERM ACCOMMODATION FACILITY

**LOCATION:** Ottawa, Ontario  
**PROJECT COST:** \$4.1 billion  
**COMPLETION DATE:** 2040 (Contract)

Built as a public-private partnership (P3), the \$4.1-billion CSE Long-Term Accommodation Facility spans over 72,000 square metres. The associated design-build-finance-maintain contract includes unique security, infrastructure and financing arrangements. DCC is involved with the operations and maintenance of the facility as part of the 30-year contract.



### SHARED SERVICES DATA CENTRE

**LOCATION:** CFB Borden, Ontario  
**PROJECT COST:** \$330 million  
**COMPLETION DATE:** 2041 (Contract)

The expansion of Shared Services Canada's enterprise data centre will help to modernize and standardize federal IT infrastructure. DCC's second P3 procurement, this \$330-million contract was announced in May 2016. As part of a consortium, DCC will support the design, building, financing, operations and maintenance of the data centre for 25 years. The first of four phases of the new facility was completed in fall 2017.

# PLANNING ENVIRONMENT AND STRATEGIC ISSUES

DCC Coordinator, Construction Services Christopher Langstone at the construction site of the new Tactical Armoured Patrol Vehicle (TAPV) facility at CFB/ASU Edmonton. A \$37-million, modified design-build project, the 10,000-m<sup>2</sup> building will be used to maintain and store the new TAPV, Armoured Engineering Vehicle and Armoured Recovery Vehicle fleets at the base.

## THE DEPARTMENT OF NATIONAL DEFENCE

**Strategic issues that emerge from DCC's planning environment typically relate to the operating conditions of its Client-Partners and the business outlook for the architecture, engineering and construction industry.**

DCC's planning context mirrors that of its primary Client-Partner, the Assistant Deputy Minister Infrastructure and Environment (ADM IE) Group at the Department of National Defence (DND). The ADM IE Group provides IE functional leadership and services to enable effective, efficient and sustainable management of DND's infrastructure and environment in support of Canadian Armed Forces (CAF) missions and DND programs.

DCC is committed to supporting DND in its defence strategy by, for example, meeting infrastructure support requirements under the National Shipbuilding Strategy (NSS). The NSS includes the Royal Canadian Navy's Arctic and Offshore Patrol Ship project and relates to marine projects such as the Nanisivik Naval Facility in Nunavut; the Jetty NJ in Halifax, Nova Scotia; and the A/B Jetty in Esquimalt, British Columbia.

For each fiscal year from 2017–18 to 2022–23, DND IE-related capital program expenditures are expected to be approximately \$1 billion. The volume of DND's program workload is volatile and can be affected by a variety of circumstances, including changes to DND's internal approval process for projects or any change in Canada's defence budget.

## DEFENCE RENEWAL: INFRASTRUCTURE AND ENVIRONMENT

DND manages the largest infrastructure portfolio in the federal government, including over 20,000 buildings, 5,500 kilometers of roads and 3,000 kilometers of water works. This infrastructure portfolio is worth roughly \$26 billion and the maintenance, operation and infrastructure workforce accounts for about 10 percent of the defence budget in any given year. The effective management of infrastructure enables the Canadian Armed Forces operations, whether it be the bases and installations where the military train, prepare for and execute their important missions, the vast support network required to maintain and operate equipment, or housing for military personnel and their families.

DND released a new Defence Policy in June 2017 called Strong, Secure, Engaged. In it, DND describes its approach to modernizing its infrastructure through disposal of underused or obsolete buildings, and improving buildings on bases and wings, including housing for Canadian Armed Forces personnel. Complementary to this, in October 2017, DND released its Defence Energy and Environment Strategy. The Department's environmental goals related to infrastructure include improving energy efficiency, conducting sustainable operations and building sustainable real property.

## CANADIAN ARCTIC SOVEREIGNTY

The areas in and around the Northwest Passage are periodically experiencing unusually mild



weather, allowing foreign ships to use this passage more frequently. Consequently, the Government of Canada is firmly exercising Canada's sovereignty over Arctic land and waters. Growing shipping traffic may also increase demand for search and rescue ships, especially if accidents occur. The Canadian government is building a naval facility in Nanisivik, 700 kilometres north of the Arctic Circle in Nunavut. The project is scheduled for completion in 2018. DCC stands ready to support any infrastructure or environmental project arising from the Government of Canada's focus on surveillance and control of this important Canadian region.

### CANADA'S INTERNATIONAL ROLE

In addition to working in Canada's Far North, DCC has deployed personnel alongside the CAF over the years. In Latvia, DCC's work includes supporting the infrastructure requirements for Enhanced Forward Presence and Operation REASSURANCE. Also, DCC has deployed employees on an ongoing basis to the Operational Support Hub—Kuwait. Potentially, DCC may support its Client-Partner with Operational Support Hubs in future locations such as Africa or Central America, as required.

New conflicts are always emerging across the globe. Whether by supporting peacekeeping operations or by helping Canada support the United Nations as it works to respond more quickly to emerging and escalating conflicts, DCC stands ready to deploy in theatre or as required during the coming planning period.

### INFORMATION TECHNOLOGY AND CYBER SECURITY

Information technology applications are advancing rapidly in the construction industry and throughout Canadian workplaces. DCC must continue to keep up to date with the technology innovations affecting its employees, industry partners and Client-Partners. These innovations range from digital-first workplaces and client service environments to building information modelling and e-procurement.

At the same time as information technology is advancing, so is the potential for threats to critical high-tech systems. According to *The Global Risks Report 2017*, 12th edition, published by the World

Economic Forum, cyber attacks are one of the highest security risks for North America. The Report identified specifically the proliferation of ransomware. This is a type of malware that encrypts files on a computer and then displays a ransom note on the victim's screen. It demands payment to be made in order to retrieve the user's data or the computer will be wiped clean. This is a key reason why DCC must implement a new strategy for its internal IT systems, one of its corporate initiatives for the planning period.

## THE CANADIAN CONSTRUCTION INDUSTRY

Private sector consultants and contractors perform the work covered by the contracts that DCC administers on its Client-Partners' behalf. Not only does DCC maintain close ties with industry, but it also gauges the impact that industry changes and trends could have on its business. The Canadian construction industry is becoming more complex, with fewer construction firms, more foreign ownership, more service-integrated firms, quicker adoption of technology and greater third-party, private sector involvement in activities traditionally done by construction business owners.

### CONSTRUCTION LABOUR MARKET AND INVESTMENT

Construction employment in Canada currently stands at just over 1.37 million Canadians or approximately 7 per cent of Canada's workforce, according to the Canadian Construction Association.

The Canadian construction market faces workforce challenges. According to BuildForce Canada, the industry will need 248,000 new workers by 2026, just to replace those who have retired. Many large construction projects are being carried out in remote areas, where younger people are less likely to relocate. DCC needs to be an employer of choice in a competitive labour market, as well as a preferred business partner for industry contractors and consultants.

Mergers and acquisitions are happening among small and medium-sized enterprises, decreasing the pool of independently-owned contractors eligible to bid on contracts. Governments at the federal, provincial and municipal levels are all facing challenging

financial realities related to aging infrastructure. Public-private partnerships (P3s) are increasingly seen as an economical and efficient way to navigate these challenges.

## INNOVATION

The construction industry is innovating in response to increasing and changing client demands, the pressure of global competition, and reduced human resources capacity. Procurement and project delivery methods are evolving, and clients are relying on the private sector to provide more deliverables. For example, the Government of Canada is considering full lifecycle cost procurement strategies that include long-term facility maintenance and repairs.

E-procurement methods and practices are quickly becoming an industry standard in many jurisdictions. This continues to influence DCC's e-procurement. In addition, new advanced building materials—such as self-repairing concrete, ultra-strong nanomaterial that could replace steel, construction 3D printing, and new solar panel materials that could change the way buildings are heated and cooled—are also altering the construction industry. DCC strives to keep current with all types of innovations that could have an impact on its business. DCC is a founding member of Canadian Construction Innovations, an institute established by the Canadian Construction Association to instill a culture of innovation in the Canadian construction industry.



The e-Procurement Initiating Team received the 2017 DCC Innovation Award for developing and implementing an open, secure, fair and transparent option for administering DCC's tender calls and contract awards.

# RISK MANAGEMENT



Carrie Seman is the Team Leader, Programs, at 15 Wing Moose Jaw, Saskatchewan. DCC employees at the Moose Jaw site office provide infrastructure support to the Royal Canadian Air Force aircrew training and support programs, including the 431 Air Demonstration Squadron—Snowbirds, Canada's military aerobatics flight demonstration team.



**A key aspect of DCC's corporate governance is its ability to manage all forms of risk and liability. Under the direction of the Board of Directors, senior management established a comprehensive Corporate Risk Management Framework. The framework is based on methodology used by similar government organizations.**

DCC's Corporate Risk Management Framework details the comprehensive level of oversight and accountability for corporate risks from the Board of Directors, down through the Executive Management Group, to senior managers and to all DCC employees.

The DCC Corporate Risk Management Framework ensures that management's direction on risk is clearly communicated, understood and applied throughout DCC; that risk management is integrated into DCC's decision-making and planning tools; and that there is a consistent means

to effectively and regularly apply risk management to corporate and project-related activities.

DCC classifies risks based on the likelihood of a risk occurring, and its impact or consequences. The Corporation's classified risk response strategies are as follows: high (mitigate), medium (monitor) and low (accept).

Project risk assessments are based on the Project Complexity Risk Assessment (PCRA) process approved by Treasury Board of Canada Secretariat, and on the reputational risk DCC will face if the related contracts are improperly procured and managed, or if the work is not delivered on time and on budget.

Although many external factors outside DCC's control will affect project delivery time, DCC is seen as the key delivery agent for these projects and it faces reputational risk if the requirements are not met.

# BUSINESS STRATEGY

Technical Specialist, Project Management Olakunle Fajimi and his team in the National Capital Region provided detailed planning, communications and logistics services for the move of close to 1,800 DND personnel to the Carling Campus in Ottawa, Ontario.

## PLANNING THEMES, OUTCOMES, INITIATIVES AND PERFORMANCE MEASURES

**DCC has a clear and consistent approach to its business, being always ready to provide timely, knowledgeable, effective and efficient service to its Client-Partners. The needs of DCC's defence and security Client-Partners define the Corporation's destiny, and it is DCC's mission to tactically deploy its services to meet those needs.**

Each fall, DCC holds a strategic planning session that includes a strengths, weaknesses, opportunities and threats (SWOT) analysis. Subsequently, this leads to a review of the Corporate Risk Register, enabling risk-based decision-making as part of a principles-based service delivery approach. The Board of Directors, the Executive Team, the Senior Management Group, Client-Partners and industry representatives provide input to the review, based on consultations with their stakeholders.

DCC has built its business strategy on four planning themes: Business Management, Service Delivery, People, and Leadership and Governance. DCC's strategic priorities under those themes are to have robust business management tools, meet Client-Partner requirements, engage the workforce and demonstrate strong leadership.

DCC ensures performance through a deliverology approach to monitoring its business. Specific, measurable, achievable, relevant, and timely strategic objectives and outcomes provide focus for each theme, aligned with DCC's mission. DCC expects that these objectives will not change during the 2018–19 to 2022–23 planning period. With qualitative and quantitative key performance indicators in place for each of them, DCC can gauge the health of any aspect of its business. Rigorous and regular data collection, monitoring and reporting, and continuous improvement, are part of daily work at DCC.

Although DCC's business strategy has remained consistent over the decades, the operating environment changes and influences the specific supporting activities DCC pursues each year. Nonetheless, the initiatives DCC undertakes typically relate to managing its human, capital or financial resources, in areas such as employee engagement, IT security and reduction of business costs. Details on the specific objectives of each initiative for the current fiscal year are noted in the following discussion section under the corresponding planning theme.

For a quick overview of DCC's planning themes, outcomes, initiatives and performance measures, refer to the one-page chart on page 11.



# STRATEGIC INITIATIVES AND PERFORMANCE

Eric Service, Team Leader, Construction Services (left) with Shawn Burns, Manager, Real Property Operations Support, observe an equipment test in the Static Dynamic Test Facility at the CFB Esquimalt Fleet Maintenance Facility (FMF). Over the past 15 years, DCC has been delivering the five phases of the FMF project, which consolidates and modernizes the industrial facilities at the Esquimalt dockyard.



Four themes guide DCC's strategic planning approach, and each has a set of strategic objectives, outcomes and performance measures associated with it. The themes of Business Management, Service Delivery, People, and Leadership and Governance provide a way to organize DCC's path toward fulfilling its mission. At the annual planning session, the Senior Management Group bases its discussion on these themes. That discussion, together with an analysis of the current operating environment, helps DCC identify a way forward for the Corporation for the next fiscal year. The following section presents the details of that path for 2018–19. For a quick summary of this section, see the Strategic Plan Overview chart on page 11.

## PLANNING THEME: BUSINESS MANAGEMENT

To deliver value to Canadians, DCC must run a successful business. To do that effectively, business units need a corporate infrastructure and systems. The objective is to develop and maintain responsive, integrated business management structures, tools, teams and practices. Two outcomes define DCC's success under this planning theme.

- **Business infrastructure and corporate frameworks ensure effective and efficient service delivery and strong resource management.**

DCC needs up-to-date, reliable, accurate and efficient systems to manage its business. This infrastructure relates to business planning, operations policy and procedures, human resources, corporate security, administrative services, finance, information technology (IT),

and communications. Resource management includes management of staff, materials, money and assets.

- **Corporate assets are safeguarded by sound internal control systems and practices, and management oversight and audit.**

This outcome reflects DCC's value and integrity of work. The Corporation's well-established control systems have been proven reliable. The Auditor General of Canada found no significant deficiencies in its 2016 Special Examination of DCC.

## STATUS: BUSINESS MANAGEMENT INITIATIVES, 2017–2018

DCC is making a much-needed investment over the planning period to upgrade its IT infrastructure and is updating its IT Strategy. It is doing so to respond to the universal threat of cyber attacks, the Government of Canada's requirement for increased security measures, and the need to modernize the Corporation's IT infrastructure. DCC is eager to provide a digital-first environment that allows for modern, efficient business practices that make it easy for employees to get the job done. This updated IT Strategy will give senior management a roadmap for the corporate IT vision.

DCC is on track to finish updating the IT Strategy by the end of the fiscal year. It has already completed a business impact assessment, a vision, and elements of an implementation plan to move DCC's IT from an internal server system to a cloud system. To improve access to employee data, DCC delivered an online system in June 2017 that tracks individual employees' training history.

In response to a recommendation in the Special Examination, DCC committed to improving the filing structure for electronic document management. The Corporation easily addressed that issue early in the fiscal year; however, the initiative evolved into something more complex. A gap analysis showed that although there were some weaknesses in the filing structure, difficulties with electronic document management related more to user behaviour. The original gap related to electronic document management became more broadly defined as information management. A 12-member committee of system users is working to train all users, remediate issues as they appear and regularly verify the system. Additionally, training on DCC's information management practices was delivered in the first six months of 2017–18.

### **BUSINESS MANAGEMENT INITIATIVES, 2018–2019**

For 2018–19, DCC has committed to three initiatives in this category. Two continue work that began in 2017–18:

- implement the new IT Strategy; and
- improve the information management system.

The IT Strategy, which has a five-year shelf life, will include a multi-year implementation plan for the future of DCC's enterprise resource planning system, business intelligence capability and collaborative workspaces. Improvements to the information management system include providing user training for electronic document management, remediating technology issues, streamlining business processes, and developing policy and governance related to information management.

In a new initiative, DCC will respond to its internal auditor's recommendations related to business continuity planning, allowing the Corporation to better prepare for disruptive events. This audit assessed the adequacy of the management control framework for maintaining and updating DCC's business continuity plan. Recommendations included doing a business impact analysis, holding regular team meetings and conducting a comprehensive review of the plan. DCC will act on all of these

recommendations. The initial work will be completed in the next fiscal year with ongoing implementation throughout the planning period.

### **BUSINESS MANAGEMENT: KEY PERFORMANCE INDICATORS**

#### **Operational Results and Performance Measures**

DCC has a comprehensive Corporate Performance Management Framework that defines appropriate performance measures at the corporate strategic planning level and at the business planning level. The Strategic Plan Overview chart on page 11 summarizes the corporate key performance indicators. At the business planning level, approximately 35 tactical indicators cover activities such as service costs, timeliness of procurement, quality, timing of accounts receivable and contractor performance. DCC monitors these on a quarterly basis.

#### **Employee Utilization Rate**

At the corporate level, the Corporation provides sound business management by maintaining low internal overhead costs, keeping costs to DND low and meeting the terms of its own Financial Management Policy. As it is a service organization, DCC's largest overhead cost is employee salaries. The Corporation sets a target to recover 70% of employee salaries through its monthly invoices to its Client-Partners. For the year-to-date period of 2017–18, the Corporation achieved a utilization rate of 71.9%, a decrease from the rate of 74.5%. This decrease was due to lower activity levels, resulting from changes to the Client-Partners' funding processes, the delayed roll-out of ADM IE's new enterprise system for generating purchase orders, timing of project completion, and the near completion of Federal Infrastructure Investments Program projects at the end of 2016–17.

#### **Costs of Services to DND**

The indicator of overall costs of DCC services to DND reflects how much of DND's infrastructure and environment (IE) program budget is spent on DCC's services. Typically, DCC expects these costs to fall in the range of 10% to 15% of DND's IE program budget. For 2016–17, the cost of service delivery was 9.3%. DCC forecasts that costs of services to DND will be about 10% at the end of 2017–18.



## Financial Results

DCC expects to achieve financial results each year that are consistent with its Financial Management Policy. The objective is to generate and maintain sufficient cash to meet the Corporation's anticipated operating and capital requirements, to settle financial obligations as they become due, and to meet contingencies that may arise. DCC's cash management approach is to maintain its cash and investments levels at \$21 million to \$24 million. As at September 30, 2017, DCC's cash and investments level was approximately \$24.6 million.



**LEFT TO RIGHT:** Michael Taylor, Azfar Buksh, Samantha Dien-Taday and Mousumi Mukherjee at CFB/ASU Edmonton, Alberta. DCC's Project and Program Management Services team advises on matters such as infrastructure requirements, program planning, and schedule and document control.

## PLANNING THEME: SERVICE DELIVERY

Being able to provide innovative, cost-effective and efficient solutions is key to DCC's viability as an organization. The objective of this theme is to meet Client-Partner requirements and to demonstrate value for money.

Three outcomes define DCC's success under this planning theme.

- **Service lines deliver efficient and effective quality services throughout the asset lifecycle.**  
A matrix organization, a principles-based operating model, a risk-based decision-making approach and a results-oriented culture give DCC the flexibility that its Client-Partners need to build and maintain their holdings.
- **DCC sustains collaborative relationships through mutually-aligned objectives and information sharing.**  
The fulfillment of DCC's mission relies on the quality of its relationships with its defence and security Client-Partners. Planning jointly, sharing information, developing new support services and exchanging lessons learned are all examples of activities that DCC undertakes to contribute to a mutually beneficial relationship.
- **DCC leverages industry capacity and innovation.**  
For over 65 years, DCC has been involved with industry associations. DCC strives to be a bridge between industry and DND/CAF to help them achieve mutual goals and to foster innovative practices.

### STATUS: SERVICE DELIVERY INITIATIVES, 2017–2018

For the 2017–18 planning period, there are four initiatives under the Service Delivery theme. Three of them were also key initiatives in the preceding planning period: support defence infrastructure renewal; expand the scope of e-procurement beyond construction services; and help Client-Partners and industry as new security directives are implemented. Also, the Corporation added a new initiative: support DND in meeting its environmental objectives.

DCC continues to aid the defence infrastructure renewal initiative by supporting the following activities: developing portfolio and real property management plans; developing and implementing a procurement strategy to enhance the delivery of infrastructure maintenance services; and improving real property project delivery, a task that includes developing a preferred procurement methodology. Specifically, DCC is supporting work for the Infrastructure Environment Business Modernization (IEBM) project. This project will create a centralized hub for all of DND's records for real property maintenance, portfolio and investment planning, spatial integration, and reporting. The term for IEBM has evolved and it is now known as Infrastructure and Environment Reporting and Integration System (IERIS).

DCC is successfully delivering the remaining projects funded under the Federal Infrastructure Investments Program to DND, as well as the additional projects funded under Budget 2016 infrastructure investment. By fiscal year-end, DCC expects that its FIIP-related contract expenditures will total \$238 million. DCC expects to carry over about \$10 to \$20 million in spending to 2018–19.

E-procurement is now available for construction contracts worth up to \$10 million, and DCC plans to expand e-procurement to goods and services contracts. In 2018–19, DCC plans to start consulting the architecture and engineering industry to expand e-procurement to professional services.

The initiative to support Client-Partner security requirements is complete. Prime contractors and their sub-contractors need security clearances from the Canadian and International Industrial Security Directorate before being awarded a job. A new unit in DCC's National Capital Region office facilitates pre-screening of contracting and consulting firms' applications for these clearances. It has shortened the wait time from six months to four for Level 1 clearances, and from 12 months to nine months for Level 2 clearances.

DCC also helps its Client-Partners meet the requirements of the Defence Energy and Environment Strategy. This strategy is designed to help DND improve energy efficiency, conduct sustainable

operations, green its procurement processes and build sustainable real property.

DCC is tendering energy performance contracts on behalf of DND valued at \$100 to \$150 million over the planning period, which are expected to decrease DND's greenhouse gas emissions by 17%. Future work could include supporting the demolition and/or remediation of buildings as DND tries to lower its carbon footprint, and supporting the Halifax central heating plant as a potential P3 contract.

## SERVICE DELIVERY INITIATIVES, 2018–2019

For the 2018–19 planning period, the Senior Management Group has identified four initiatives under the Service Delivery theme. Three will continue from the previous year:

- support DND in its IE transformation and program delivery;
- support DND's greening defence initiatives; and
- consult with industry to expand the scope of e-procurement to architectural and engineering services.

There is also one new initiative: develop innovative procurement and delivery options. A consideration with this initiative is the development of a procurement tool to support businesses owned by Indigenous Peoples. This will help increase the diversity of bidders on government contracts. The scope of all of these initiatives will carry on throughout the planning period. The level of focus and impact of each initiative annually is dependent on the direction of Client-Partner requirements in each of the areas of IE program delivery, greening defence and procurement.

## SERVICE DELIVERY: KEY PERFORMANCE INDICATORS

### Service Delivery Rating

As a service delivery organization, DCC wants to ensure its Client-Partners are satisfied with the quality of its work. Consequently, the Corporation seeks feedback through a service delivery rating system.

DCC administers its work with DND/CAF through service level arrangements (SLAs). Each SLA may comprise many projects, and there is one primary DND representative for each SLA. DCC interviews

these representatives individually each year. Each representative has the opportunity to comment on the service DCC provided on all projects in which he or she was involved.

The representatives rate DCC's performance on a scale from one to five, with a score of three indicating that DCC "met expectations" and a score of four or five indicating that the Corporation "surpassed expectations." Scores are weighted according to the value of each SLA. DCC defines satisfied clients as those who provide an overall rating of three or higher.

In 2016–17, DCC conducted 94 service delivery assessments. The Corporation's target is to have 95% of assessments result in an overall rating of three or higher. DCC has met or exceeded that target for each of the past five fiscal years, with a rating of 97% in 2016–17. Of those 94 assessments, 91 indicated that DCC met or exceeded service delivery standards, and three resulted a less-than-satisfactory score for DCC. Typically, issues relate to specific incidents that fall into one of several categories, such as communications issues, administrative problems or staffing concerns. DCC is responsive to all concerns about its service and addresses each in a timely manner.

## Procurement Results

In 2016–17, DCC awarded 1,949 contracts valued at a total of \$833 million. For the first six months of 2017–18, DCC awarded 875 contracts for a total value of \$382.7 million. DCC predicts that it will award 1,850 contracts with a total value of about \$800 million by the end of 2017–18. Through its competitive and open procurement processes, DCC encourages competition and fair value.

**Procurement award success:** DCC wants Client-Partners to have a timely procurement experience and does not want to waste industry's time with false starts, as this reduces competition. DCC works with Client-Partners to make each procurement as viable as possible. The goal is that a minimum of 95% of all procurements result in a contract. During the first six months of 2017–18, DCC awarded contracts for 96.7% of its requested procurements.



DCC's Contract Management service line measures its on-time completion rate for construction contracts, with a business performance target of having 85% of all contracts completed by the date scheduled for occupancy and readiness for intended use. Of the 277 construction contracts completed during the first six months of 2017–18, DCC completed 92.8% on time.

**Public access to business opportunities:** DCC wants to encourage competition and ensure that all enterprises have an equal opportunity to bid on contracts. The goal is to award a minimum of 98% of DCC contracts through public opportunities. During the first six months of 2017–18, DCC awarded 97% of all contracts through public opportunities. This is slightly beneath DCC's target due to a few large directed contracts from Client-Partners for specialized support in Canada's Far North. DCC conducts procurement in an industry known for incidents of fraud. All successful bidders are verified against DCC's Procurement Code of Conduct before contract award. This reduces the risk of working with non-compliant companies.

**Procurement competition:** DCC wants industry to view it as a knowledgeable and fair company to work with, so that as many bidders as possible compete for work. This helps ensure the Corporation gets the best value possible. The Corporation tracks the number of bidders per procurement, one indication of its reputation among contractors and consultants.

The goal is to have an average of four bidders per procurement. During the first six months of 2017–18, DCC had an average of 4.3 bidders per procurement.

**Recognition:** DCC works regularly with local and national associations to help develop national standards and to keep up with industry trends, such as e-procurement. In the first half of 2017–18, DCC received the National Procurement Institute's Achievement of Excellence in Procurement Award, which honours excellence in public procurement. This is the fourth year in a row that DCC has won this award.

### Service Line Performance Results

DCC's Corporate Performance Management Framework provides guidance on developing, measuring, and reporting key performance indicators (KPIs) and business performance indicators (BPIs). The Corporation evaluates service line performance quarterly based on the BPIs. These tactical indicators include timeliness of tenders and awards, number of change orders and amendments, and timeliness of construction completions. DCC monitors these quarterly and reports on them at the senior management level. It uses this information to foster continuous improvement and to update Client-Partners on project progress. In the first half of 2017–18, DCC completed these quarterly reports and reviews according to the terms of its Corporate Performance Management Framework.

## PLANNING THEME: PEOPLE

Since the Corporation is a knowledge-based professional services organization, its primary value is vested in its people. The objective of this theme is to recruit, develop, support and retain a competent, engaged and diverse workforce.

Four outcomes define DCC's success under this planning theme.

- **DCC provides a healthy, inclusive and respectful workplace.**

Hallmarks of DCC's workplace include a commitment to diversity and inclusion, workplace wellness, fair compensation and benefits, pay equity, and corporate social responsibility.

- **DCC's culture promotes a productive and results-oriented workforce.**

Employees are part of a stimulating environment that offers professional development opportunities, collaboration and leadership experiences, knowledge retention and transfer activities, and workforce and succession planning exercises.

- **DCC encourages and fosters a culture of innovation.**

DCC wants its employees across the country to develop more efficient ways of working—the essence of innovation. Innovation in day-to-day operations will lead to resource savings and more efficient service delivery.

- **DCC achieves positive employee engagement and is seen as an employer of choice.**

The unique DCC culture is a combination of team awareness, collegiality, ingenuity and patriotism, and it attracts people who have these attributes and who are results oriented. DCC strives to keep employee engagement high through initiatives that appeal to the hearts and minds of its employees.

### STATUS: PEOPLE INITIATIVES, 2017–2018

In the 2017–18 planning period, several initiatives support DCC's workplace culture. DCC is doing significant work to promote diversity and inclusion,

workplace wellness, mental health, and a respectful workplace. Specifically, the Corporation released its Diversity and Inclusion Strategy and its Workplace Wellness and Mental Health Strategy at the end of 2016–17. Both have three-year implementation plans that are well underway in 2017–18. Work completed to date includes completing the strategies and action plans; training DCC leaders in bias awareness and gender-based analysis for improved decision-making; providing mental health and wellness training (*The Working Mind* and *The Elephant in the Room*); and developing criteria for a national recognition award to promote diversity and inclusion in the workplace. Both of these strategies are components of the larger, five-year Human Resources Strategic Plan under development in this fiscal year, which is expected to be completed in the first half of 2018–19.

An employee engagement survey was done in fall 2017 and its results will help DCC to assess the perceptions its people hold and to ensure its employees think of DCC as an employer of choice. Results will be available in the second half of 2017–18.

### PEOPLE INITIATIVES, 2018–2019

In the 2018–19 planning period, four initiatives will support DCC's workplace culture. Work continues on the following initiatives in the next year:

- complete and implement the new Human Resources Strategic Plan;
- implement the Diversity and Inclusion Strategy and the Workplace Wellness and Mental Health Strategy; and,
- respond to employee engagement survey results.

There is also one new initiative: respond to recommendations arising out of the Audit on Onboarding: The First 24 Months.

The objective of an onboarding program is to provide the basic tools for employees to successfully transition into their new positions and become productive contributors to the organization. The objective of the audit was to ensure that the onboarding program is in place, adequately supported, up-to-date and effectively implemented, and that it meets the needs of new employees.

These initiatives are a mixture of one-year and multi-year efforts to ensure DCC is able to attract and retain a skilled workforce and is seen as an employer of choice among its stakeholders. While the response to the Audit on Onboarding will be addressed within the fiscal year, its work will have a positive impact throughout the planning period on the new-employee experience. The updated Human Resources Strategic Plan will unfold over five years; the phases of its diversity and inclusion, and mental health and workplace wellness components will continue to unfold over three of those years. Pending the nature of the feedback from the employee engagement survey, DCC anticipates that the nature of its response to employees will be a mixture of tactical activities to longer-range initiatives, as required.

### **PEOPLE: KEY PERFORMANCE INDICATORS** **Investment in Training and Development**

DCC's ability to serve DND is heavily dependent on the skills of its employees. Maintaining a skilled and professional workforce is a key corporate objective. In 2016–17, spending on professional development as a percentage of base salary costs was 4.0%, meeting DCC's target for spending on training and development. This target includes spending on both internal and external costs related to training and development.

Year-to-date expenditures for the six-month period ended September 30, 2017, were 3.4%, compared to 4.0% for the comparable period in 2016–17. This amount is slightly lower due to the scheduling of training in the first half of the year.

The amount spent on training and development fluctuates from quarter to quarter, and year to year. It depends on the effort required to develop and maintain internal courses, and the timing of professional development activities in various regions. DCC expects that the amount spent on professional development will also meet the 4.0% target at the end of 2017–18.

### **Innovation Results**

The innoviCulture program is DCC's means of encouraging and tracking innovation in the workplace. In February 2017, DCC's innoviCulture

committee developed a new online module called the inCubator. This system will track ideas submitted by employees as they move through the evaluation process and into implementation. The committee initially aimed to have 5% of all employees use this system. As at September 30, 2017, approximately 10% of employees are using the inCubator. Most of the idea submissions relate to administrative process improvements. In the second half of the year, the innoviCulture committee will review its progress and re-evaluate its strategy.

### **Employee Wellness**

DCC is strongly committed to creating a workplace that encourages its employees to incorporate self-care and mental health and wellness into their daily routines and that promotes work-life balance. The Corporation is focused on preventive measures that reduce employees' health risk factors. DCC demonstrates this commitment by providing financial assistance for, as well as access to, such benefits and resources as lifestyle modification programs, fitness memberships and programs, an employee assistance program, flexible working arrangements, and compressed workweeks. At the same time, DCC's health and wellness program can accommodate employees with physical or mental health challenges.

In 2016–17, DCC reported an average of 43.6 sick leave hours (5.81 days) per full-time equivalent (FTE). In the first half of 2017–18, DCC reported an average of 21.2 sick leave hours (2.8 days) per FTE, compared with 19 hours (2.5 days) for the same period in 2016–17. In the coming planning period, the implementation of DCC's Workplace Wellness and Mental Health Strategy should make a positive contribution to sick-leave management.

### **Employee Retention Rate**

DCC regularly reviews the percentage of employees who voluntarily leave the Corporation for other career opportunities. Monitoring this percentage allows senior managers to analyze the Corporation's performance in the context of relevant labour market trends.

In 2016–17, DCC's retention rate was 94.4%, higher than its annual target of 90%. For the six-month period ended September 30, 2017, DCC's retention



rate stood at 97.1%, which is slightly lower than the 97.7% rate that it reported for the same six-month period in 2016–17.

**Diversity and Employment Equity**

Under the *Employment Equity Act*, federally regulated employers, such as DCC, analyze their workforce to determine the degree of under-representation of designated groups in each occupational group. Each employer reports annually on its progress in achieving a workforce that is representative of the designated groups.

DCC received the 2017 Outstanding Commitment to Employment Equity Award on October 5, 2017. The award recognizes the efforts of employers that implement employment equity, a task that includes removing barriers for members of the four designated groups. These employers fall under the Legislated Employment Equity Program and the Federal Contractors Program. DCC was one of two Crown corporations to receive the award.

DCC was singled out for unique initiatives that support employment equity. These include the library of competency-based interview questions all hiring managers use, targeted recruitment efforts for members of employment equity groups, and the Harvard ManageMentor diversity training program all employees can access.

DCC has built its employment equity program on a solid foundation. Diversity and inclusion is a strategic initiative in the Corporate Plan, DCC has secured strong senior- and executive-level support for

the program, and it has developed a Diversity and Inclusion Strategy and Action Plan.

**See Table 1**

**Gender-Based Analysis**

DCC supports the Government of Canada’s commitment to gender-based analysis (GBA). In the first half of 2017–18, DCC senior managers received GBA training. In the planning period, DCC will support its Client-Partner as requested in regard to the Department’s GBA requirements for operational procurement and project planning.

**Leadership and Development Results**

DCC’s Leadership Development Program (LDP) grooms high-potential employees to be the DCC leaders of tomorrow. To keep the Corporation viable, DCC must consistently cultivate quality leadership. It strives to foster the performance, competencies and skills of strong leaders.

The LDP consists of a series of online modules, combined with an in-person forum held once every two years. Participating employees are expected to complete the LDP within five years. To be considered on track to complete the program, they are expected to complete at least six of the online modules in one fiscal year. At the end of 2016–17, 69% of enrolled employees were considered to be on track to finish the program. At the end of the first half of 2017–18, 64% of the 168 employees enrolled in the LDP were on track to complete the program within the five-year window. This compares to 51% of eligible employees for the same time period in 2016–17.

**DIVERSITY OF DCC EMPLOYEE POPULATION**

As at September 30, 2017

Designated Group	Percentage of Total Employee Population	Percentage of Senior Management Population
Women	41.7%	35.3%
Persons with Disabilities	2.9%	11.8%
Indigenous Peoples	4.4%	0.0%
Visible Minorities	10.6%	5.9%

Table 1

## PLANNING THEME: LEADERSHIP AND GOVERNANCE

Vision, capability and stewardship practices are all critical to DCC's success in fulfilling its mission. The objective is to provide strong leadership and be responsive to Government of Canada requirements.

There are four strategic outcomes under this planning theme.

- DCC maintains a risk-based decision-making culture.**  
 To be efficient, comply with Government of Canada requirements and meet urgent needs, DCC uses a risk-based decision-making process. This allows the Corporation to carry out the complex and specialized defence construction projects that DND/CAF requires.
- DCC demonstrates high ethical standards, openness and transparency in the management of its business affairs.**  
 DCC seeks to operate in an ethical, transparent and responsible manner, and to ensure appropriate oversight of its daily operations.
- DCC demonstrates value, integrity and innovation to stakeholders and Client-Partners.**  
 DCC wants to ensure that it maintains a credible reputation among its stakeholders.
- DCC respects government policies and practices.**  
 DCC abides by Government of Canada regulatory and policy requirements, including policies related to diversity and inclusion; official languages; environmental stewardship; health and safety; security; access to information; and financial administration and reporting.

## STATUS: LEADERSHIP AND GOVERNANCE INITIATIVES, 2017–2018

For the 2017–18 planning period, the Senior Management Group identified three initiatives under the Leadership and Governance theme. DCC will continue to demonstrate value, integrity and innovation to stakeholders and Client-Partners by building working relationships; it will respond to recommendations arising out of the Office of the Auditor General's Special Examination of DCC; and it

will support ongoing integrity programs, with a focus on fraud awareness, detection and prevention.

DCC continued to maintain relationships with its stakeholders, some of whom have gone through multiple staffing transitions over the last year. DCC is able to provide corporate memory and stability in these situations.

DCC's President and Chief Executive Officer—together with the Chair of DCC's Board of Directors and DCC's Chief Procurement Officer—appeared at the Standing Committee on Public Accounts to respond to questions from the committee on DCC's action plan for addressing the results of the 2016 Special Examination. The Office of the Auditor General found no significant deficiencies in the Special Examination.

DCC's response to the Special Examination includes streamlining DCC's system for online document management; maintaining a standard frequency for internal service line verifications; and completing an online register and archive for tracking employee training. Context for these initiatives can be found under the Business Management theme.

DCC is examining the use of forensic digital analytics and software to spot trends and patterns that typically indicate procurement fraud and collusion. The Corporation has developed new training for its procurement staffers based on resources from the Competition Bureau. Staffers must take this training to receive their delegated signing authority. DCC and the Canadian Construction Association are also going to develop a memorandum of understanding with Public Services and Procurement Canada for a fraud detection and integrity program.

DCC finished aligning its travel, hospitality, conference and event expenditure policies, guidelines and practices with those of Treasury Board of Canada Secretariat, in a manner consistent with its legal obligations as a Crown corporation. Reporting on annual expenditures for travel, hospitality and conferences can be found on page 56.

## LEADERSHIP AND GOVERNANCE INITIATIVES, 2018–2019

For the 2018–19 planning period, the Senior Management Group identifies three initiatives under the Leadership and Governance theme that continue from last year:

- DCC will strengthen collaborative relationships with Client-Partner leadership;
- respond to recommendations arising out of the Office of the Auditor General's Special Examination of DCC; and
- support ongoing integrity programs, with a focus on fraud awareness, detection and prevention.

DCC's stable, long-term relationship with DND allows the Corporation to serve as the corporate memory for its client groups, who often undergo frequent staff changes in key positions. DCC's mandate must be promoted regularly to new staffers, so that DND can leverage DCC's expertise fully. DCC's senior management will continue to be very active in engaging its Client-Partner leadership as staffing changes occur each year of the upcoming planning period.

Throughout the planning period, DCC will apply continuous improvement measures to its already robust fraud awareness, detection and prevention activities. The application of digital analytics to detect incidents of fraud and collusion in procurement will continue as the technology evolves, as well as continued education and awareness activities among procurement staffers.

## LEADERSHIP AND GOVERNANCE: KEY PERFORMANCE INDICATORS

### Corporate Reporting Results

Reports that the Corporation produces to meet legislative requirements include the Annual Report, the Corporate Plan Summary, the Quarterly Financial Reports, and the annual reports on the administration of the *Access to Information Act* and the *Privacy Act*. DCC also provides reports to other government entities, such as Employment and Social Development Canada (ESDC). The Corporation's success in meeting these reporting requirements—including timeliness of submissions, as well as the results contained in these reports—reflects DCC's success in meeting the objectives

of the Leadership and Governance theme. As at September 30, 2017, DCC had met all of its submission requirements.

Separate from DCC corporate reporting requirements, DCC receives a variety of inquiries from its government stakeholders each year. These include order paper questions, constituent inquiries and ministerial questions, to name a few. DCC responds to all requests in a timely manner. In 2016–17, DCC responded to 63 inquiries. The volume of these requests fluctuates, depending on the current business environment. During the first six months of 2017–18, DCC received and responded to 20 requests. DCC stands ready to respond to these inquiries in a timely manner.

### Overall Business Performance Results

DCC's business results have been positive in an environment of fluctuating Client-Partner program volume and evolving business circumstances.

### Legal Claims

In accordance with the memorandum of understanding between DCC and DND, DND accepts the legal and financial risks associated with claims resulting from third-party contracts put in place by DCC. Thus, the financial risk associated with settling these contractual claims does not have any financial impact on DCC. As a result, the Corporation does not consider it necessary to record any provision in its financial statements relating to legal claims.

In 2016–17, DCC was involved in one legal claim filed by a third party pursuant to the *Access to Information Act*, regarding access to records that belonged to another third party. The Federal Court of Appeal heard the matter and rendered a decision on June 22, 2017.

### DCC Code of Business Conduct Results

The Code of Business Conduct (the Code) is a key document that supports DCC's strategic objectives of integrity and ethical business conduct. DCC employees are to perform their duties and arrange their private affairs so that public confidence and trust in the integrity, objectivity and impartiality of DCC are preserved and enhanced.



DCC's enforcement of and adherence to the Code is an example of its management integrity and leadership. The Corporation requires all of its employees to review the Code each fall. As of the last review in fall 2017, 100% of DCC employees met this requirement.

### **DCC Procurement Code of Conduct Results**

DCC's Procurement Code of Conduct (PCC) ensures that DCC's contractors and consultants meet the expected integrity requirements for doing business with the Government of Canada. DCC aims to verify all firms before awarding contracts to ensure that all contractors and consultants comply with the PCC. In the first half of 2017–18, DCC verified 100% of the successful bidders on contracts, as per its procurement process. DCC ensured no contracts were awarded to non-compliant firms.

The Government of Canada updated its Integrity Regime on July 3, 2015, and again in April 2016. DCC aligned its PCC with the changes made to the Government of Canada's Integrity Regime.

### **Environmental Results**

DCC tracks environmental incidents resulting from DCC personnel actions and reports them to its Board of Directors. Incidents that involve third-party contracted activities are also recorded. DCC strives to have zero incidents due to the actions of DCC personnel.

For the six-month period ended September 30, 2017, there were no worksite environmental incidents resulting from DCC personnel actions to report. This result maintains the record of zero incidents over the past several years.

### **Health and Safety Results**

Under its Corporate Health and Safety Program, DCC tracks, reports on and follows up on hazardous occurrences, accidents and safety incidents involving its employees that result in lost work time. Annually,

DCC reports the number, severity and outcome of these events to ESDC.

DCC strives to have no lost-time safety accidents or incidents. For the six-month period ended September 30, 2017, there were five DCC employee incidents, which resulted in three days of lost time. In 2016–17, there were three incidents, which accounted for a total of 13 days of lost time.

### **Security Results**

DCC adheres to the Policy on Government Security to protect government information and assets from compromise. In its Corporate Security Policy, DCC refers to industrial security requirements and corporate security requirements.

"Industrial security requirements" are the security requirements that a Client-Partner has for one of its projects. Client-Partners communicate these requirements to DCC during the procurement phase of a project. DCC ensures that these requirements are met and managed appropriately. The Corporation tracks all instances of non-compliance.

When there is an incident of non-compliance, DCC ensures that corrective actions are implemented. DCC coordinates all efforts with applicable stakeholders, such as the deputy security officer, the Canadian and International Industrial Security Directorate, and/or other local security authorities, as appropriate.

"Corporate security requirements" are DCC's internal security requirements for its corporate information, assets and employees. DCC reviews and manages all incidents, and takes required corrective measures.

DCC strives to have no compromises of either corporate or industrial security requirements. In the first half of 2017–18, there was one corporate security incident and five industrial security incidents, with no compromise in security.



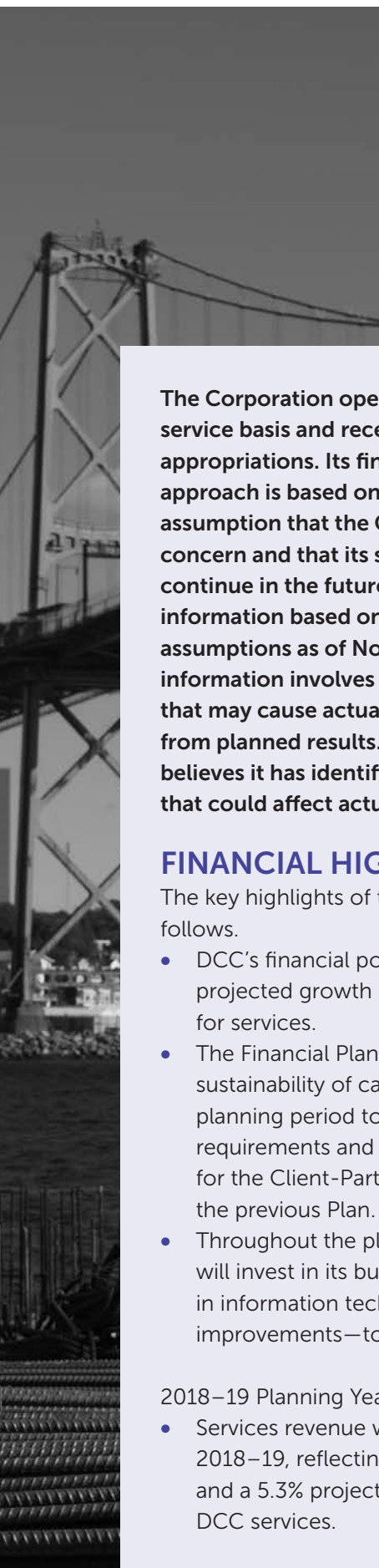
Nathan Stewart, Coordinator, Construction Services (left) and Site Manager Craig Mercer are shown at the Live Fire Training Tower at 5th CDSB Gagetown. This 3-1/2-storey tower helps firefighters train to fight roof, room and building breaches. Similar structures have been built at other bases in Canada.

# FINANCIAL PLAN



Erin MacDonald, Coordinator, Environmental Services, and Matthew Mackenzie, Coordinator, Contract Services, are part of the DCC team managing the construction of Jetty NJ in Halifax Harbour. The new jetty, which will provide full-service berthing for the Canadian Arctic and Offshore Patrol Ships, will replace two deteriorating timber jetties.





**The Corporation operates on a fee-for-service basis and receives no government appropriations. Its financial management approach is based on the fundamental assumption that the Corporation is a going concern and that its stated mandate will continue in the future. This Plan contains information based on the most current assumptions as of November 28, 2017. Such information involves known and unknown risks that may cause actual results to differ materially from planned results. DCC senior management believes it has identified any material risk factors that could affect actual results at this time.**

## FINANCIAL HIGHLIGHTS

The key highlights of the Financial Plan are as follows.

- DCC's financial position remains strong due to projected growth in Client-Partners' demand for services.
- The Financial Plan demonstrates a return to sustainability of cash flows at the end of the planning period to meet DCC's operational requirements and keeps billing rate increases for the Client-Partner consistent with those in the previous Plan.
- Throughout the planning period, DCC will invest in its business—particularly in information technology and process improvements—to improve efficiency.

### 2018–19 Planning Year

- Services revenue will increase by 9.8% in 2018–19, reflecting a 4.5% billing rate increase and a 5.3% projected increase in demand for DCC services.

- Salaries and benefits will increase by 6.6% in 2018–19. This increase will have three elements: a 3.1% increase in salaries and benefits, due to anticipated higher demand for DCC services, net of utilization gains; a 1% economic increase; and a 2.5% average merit-based salary increase.
- The gross margin on services revenue is expected to increase to 35% in 2018–19 from a projected 33.8% in 2017–18.
- Depreciation of property, plant and equipment expense will increase by 247% in 2018–19 due to DCC's adoption of International Financial Reporting Standard 16, Leases. As a result of this change in accounting standards, DCC will add \$9.5 million in right of use (RoU) assets and lease obligations related to DCC's office space to its Statement of Financial Position. The resulting depreciation of the RoU assets accounts for the increase in depreciation expense, offset by a reduction in operating and administrative expenses by the same amount.
- The loss at the end of 2018–19 is projected to be \$5.6 million, which is consistent with the prior year's Corporate Plan and is part of DCC's plan to gradually return to a cash flow break-even level in 2021–22.
- Cash and investments are anticipated to total \$19.1 million at March 31, 2019, below the target range of \$21 million to \$24 million.
- The Corporation continues investing in the modernization of its information technology (IT) capability. As at September 30, 2017, IT expenditures are 5.12% of revenue for the first half of 2017–18.

## 2019–20 to 2022–23 Planning Years

- Revenue is anticipated to increase over the planning period as the Corporation returns to a slightly better than break-even cash flow in 2019–20.
- Billing rate increases will continue at 4.5% for the next year of the Plan, they will increase to 5.25% for the following two years, and will decrease to 4.5% and 4.0%, respectively, in the final two years of the Plan.
- Compensation increases are assumed to remain consistent during the planning period.
- Gross margin is anticipated to increase every year of the Plan and end at 38% in 2022–23.

- The Corporation returns to a positive net income in 2021–22.
- Cash and investments will decrease to a low of \$17.1 million in 2019–20 and gradually increase to \$28 million in 2022–23. The Corporation anticipates cash and investments will return to the normal range of \$28 million to be appropriate for the cash management approach range of \$25 million to \$28 million.

**KEY ASSUMPTIONS**

The following table summarizes the key assumptions in this Plan, compared to those in the prior year's Plan.

**REVENUE ASSUMPTIONS**

Revenue assumptions in the 2018–19 to 2022–23 Corporate Plan

	Estimated	Planned				
	March 31/18	March 31/19	March 31/20	March 31/21	March 31/22	March 31/23
Volume change	2.5%	5.3%	0.00%	1.50%	1.25%	1.25%
Billing rate change	4.5%	4.5%	5.25%	5.25%	4.50%	4.00%
<b>Total anticipated increase or decrease</b>	<b>7.0%</b>	<b>9.8%</b>	<b>5.25%</b>	<b>6.75%</b>	<b>5.75%</b>	<b>5.25%</b>

Revenue assumptions in the 2017–18 to 2021–22 Corporate Plan

	Planned				
	March 31/18	March 31/19	March 31/20	March 31/21	March 31/22
Volume change	5.7%	-3.5%	1.00%	-4.0%	-0.5%
Billing rate change	4.5%	5.5%	5.25%	5.0%	5.0%
<b>Total anticipated increase or decrease</b>	<b>10.2%</b>	<b>2.0%</b>	<b>6.25%</b>	<b>1.0%</b>	<b>4.5%</b>

## COMPENSATION ASSUMPTIONS

Compensation assumptions in the 2018–19 to 2022–23 Corporate Plan

	Estimated	Planned				
	March 31/18	March 31/19	March 31/20	March 31/21	March 31/22	March 31/23
Salary increases						
Economic increase	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Merit-based salary increases	2.4%	2.5%	2.5%	2.5%	2.5%	2.5%
<b>Total salary increase assumption</b>	<b>3.4%</b>	<b>3.5%</b>	<b>3.5%</b>	<b>3.5%</b>	<b>3.5%</b>	<b>3.5%</b>

Compensation assumptions in the 2017–18 to 2021–22 Corporate Plan

	Planned				
	March 31/18	March 31/19	March 31/20	March 31/21	March 31/22
Salary increases					
Economic increase	1.0%	1.0%	1.0%	1.0%	1.0%
Merit-based salary increases	2.5%	2.5%	2.5%	2.5%	2.5%
<b>Total salary increase assumption</b>	<b>3.5%</b>	<b>3.5%</b>	<b>3.5%</b>	<b>3.5%</b>	<b>3.5%</b>

## FINANCIAL PROJECTIONS

The financial projections below reflect the Corporation's anticipated gradual return to a slightly better than break-even financial position over the planning period. Previous to this planning period, losses occurred from 2012–13 to 2017–18 for two reasons. First, DCC committed to reducing the cost of DCC services to DND for 2012–13 to 2014–15 as part of its own contribution to the Deficit Reduction Action Plan. Second, the Corporation froze its billing rate. Together, the five-year billing rate freeze and DCC's optimized business practices saved DND \$9.4 million. The billing rate freeze was also intended to reduce the amount of cash held by the Corporation to the targeted levels.

This financial projection reflects the Corporation's intention to return to a sustainable financial position towards the end of the planning period. As a result, DCC plans to increase billing rates by 4.5% in the first year of the Plan and will continue to increase

them so that the Corporation can achieve a slightly better than break-even gross margin. Operating expenses include investments planned in the first two years to modernize the Corporation's information technology (IT) infrastructure by making operational improvements and improving network security. These investments in IT will reduce the requirement for capital investments in the future.

These projections currently reflect the current most-likely scenario for demand from the Corporation's Client-Partners and related spending requirements to meet operational needs. In line with the cash management approach, the Corporation has projected losses from 2018–19 to 2020–21 as DCC gradually increases its billing rate, which will result in a return to a slightly better than break-even operating position at the end of the Plan. The Corporation expects to return to a positive cash flow in the fourth year of the Plan, in order to meet its operating and cash management targets.



## FINANCIAL STATEMENTS

### STATEMENT OF FINANCIAL POSITION

For the years ending March 31, 2017, to March 31, 2023

	Corporate							
	Actual	Plan	Estimated	Planned				
(in \$ thousands)	2017	2018	2018	2019	2020	2021	2022	2023
<b>Assets</b>								
Cash	\$ 7,022	\$ 5,672	\$ 5,576	\$ 4,928	\$ 5,051	\$ 5,957	\$10,465	\$15,975
Investments	3,100	2,700	2,000	2,700	2,500	2,500	500	500
Trade receivables	18,596	19,194	19,672	19,011	19,628	21,360	22,212	22,982
Other receivables	2,124	2,000	2,000	2,000	1,850	1,800	1,750	1,700
Prepays and other current assets	1,951	1,830	2,088	2,293	2,413	2,576	2,724	2,867
<b>Current assets</b>	<b>32,793</b>	<b>31,396</b>	<b>31,336</b>	<b>30,932</b>	<b>31,442</b>	<b>34,193</b>	<b>37,651</b>	<b>44,024</b>
Investments	17,130	12,820	13,520	11,520	9,500	9,500	11,500	11,500
Property, plant and equipment	2,242	3,101	2,323	11,677	12,030	9,136	6,017	3,176
Assets under finance lease	309	285	275	285	315	365	415	450
Intangible assets	398	342	356	321	286	256	226	206
<b>Non-current assets</b>	<b>20,079</b>	<b>16,548</b>	<b>16,474</b>	<b>23,803</b>	<b>22,131</b>	<b>19,257</b>	<b>18,158</b>	<b>15,332</b>
<b>Total assets</b>	<b>\$52,872</b>	<b>\$47,944</b>	<b>\$47,810</b>	<b>\$54,735</b>	<b>\$53,573</b>	<b>\$53,450</b>	<b>\$55,809</b>	<b>\$59,356</b>
<b>Liabilities and equity</b>								
Trade and other payables	\$13,349	\$12,362	\$12,242	\$12,609	\$12,996	\$13,393	\$13,801	\$13,380
Current portion: Finance lease obligation	95	107	107	3,797	3,031	3,155	3,155	756
Current portion: Employee benefits	2,277	950	2,300	2,300	2,325	2,350	2,375	2,400
<b>Current liabilities</b>	<b>15,721</b>	<b>13,419</b>	<b>14,649</b>	<b>18,706</b>	<b>18,352</b>	<b>18,898</b>	<b>19,331</b>	<b>16,536</b>
Lease obligation	219	285	270	5,702	6,814	4,061	1,045	401
Employee benefits	20,433	23,529	22,510	25,510	27,985	30,460	32,935	35,410
<b>Non-current liabilities</b>	<b>20,652</b>	<b>23,814</b>	<b>22,780</b>	<b>31,212</b>	<b>34,799</b>	<b>34,521</b>	<b>33,980</b>	<b>35,811</b>
<b>Total liabilities</b>	<b>36,373</b>	<b>37,233</b>	<b>37,429</b>	<b>49,918</b>	<b>53,151</b>	<b>53,419</b>	<b>53,311</b>	<b>52,347</b>
Authorized: 1,000 shares at no par value								
Issued: 32 shares	—	—	—	—	—	—	—	—
Retained earnings	16,499	10,711	10,381	4,817	422	31	2,498	7,009
<b>Total equity</b>	<b>16,499</b>	<b>10,711</b>	<b>10,381</b>	<b>4,817</b>	<b>422</b>	<b>31</b>	<b>2,498</b>	<b>7,009</b>
<b>Total liabilities and equity</b>	<b>\$52,872</b>	<b>\$47,944</b>	<b>\$47,810</b>	<b>\$54,735</b>	<b>\$53,573</b>	<b>\$53,450</b>	<b>\$55,809</b>	<b>\$59,356</b>

## STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the years ending March 31, 2017, to March 31, 2023

	Corporate			Planned				
	Actual	Plan	Estimated					
(in \$ thousands)	2017	2018	2018	2019	2020	2021	2022	2023
Services revenue	\$ 93,711	\$105,908	\$100,289	\$ 110,144	\$ 115,927	\$ 123,752	\$130,868	\$ 137,739
Travel and disbursement revenue	2,234	2,051	2,139	2,106	2,127	2,148	2,170	2,192
Investment revenue	740	475	523	500	380	330	340	350
<b>Total revenue</b>	<b>96,685</b>	<b>108,434</b>	<b>102,951</b>	<b>112,750</b>	<b>118,434</b>	<b>126,230</b>	<b>133,378</b>	<b>140,281</b>
Salaries and employee benefits	91,337	99,991	95,293	101,547	105,102	109,893	114,712	119,746
Operating and administrative expenses	7,709	11,323	10,171	10,571	10,678	9,786	9,385	9,480
Travel and disbursement expenses	2,234	2,051	2,139	2,106	2,127	2,148	2,170	2,192
Depreciation of property, plant and equipment	982	1,055	1,053	3,655	4,507	4,394	4,244	3,967
Depreciation of assets under finance lease	106	180	180	180	160	150	150	145
Amortization of intangible assets	236	215	208	135	135	130	130	120
Finance costs	8	28	25	120	120	120	120	120
<b>Total expenses</b>	<b>102,612</b>	<b>114,843</b>	<b>109,069</b>	<b>118,314</b>	<b>122,829</b>	<b>126,621</b>	<b>130,911</b>	<b>135,770</b>
Gain (loss) for the year	(5,927)	(6,409)	(6,118)	(5,564)	(4,395)	(391)	2,467	4,511
Other comprehensive income								
Actuarial gain on employee benefit obligations	371	—	—	—	—	—	—	—
<b>Total comprehensive income (loss)</b>	<b>\$ (5,556)</b>	<b>\$ (6,409)</b>	<b>\$ (6,118)</b>	<b>\$ (5,564)</b>	<b>\$ (4,395)</b>	<b>\$ (391)</b>	<b>\$ 2,467</b>	<b>\$ 4,511</b>

## STATEMENT OF CHANGES IN EQUITY

For the years ending March 31, 2017, to March 31, 2023

	Actual	Corporate Plan	Estimated	Planned				
(in \$ thousands)	2017	2018	2018	2019	2020	2021	2022	2023
Opening retained earnings	\$ 30,555	\$ 17,120	\$ 16,499	\$ 10,381	\$ 4,817	\$ 422	\$ 31	\$ 2,498
Gain (loss) for the year	(5,927)	(6,409)	(6,118)	(5,564)	(4,395)	(391)	2,467	4,511
Dividend paid	(8,500)	—	—	—	—	—	—	—
Actuarial gain on employee benefit obligations	371	—	—	—	—	—	—	—
<b>Ending retained earnings</b>	<b>\$16,499</b>	<b>\$ 10,711</b>	<b>\$ 10,381</b>	<b>\$ 4,817</b>	<b>\$ 422</b>	<b>\$ 31</b>	<b>\$ 2,498</b>	<b>\$ 7,009</b>

## STATEMENT OF CASH FLOWS

For the years ending March 31, 2017, to March 31, 2023

	Actual	Corporate Plan	Estimated	Planned				
(in \$ thousands)	2017	2018	2018	2019	2020	2021	2022	2023
<b>Cash flows from (used in) operating activities</b>								
Loss for the year	\$ (5,927)	\$ (6,409)	\$ (6,118)	\$ (5,564)	\$ (4,395)	\$ (391)	\$ 2,467	\$ 4,511
<b>Adjustments to reconcile profit for the year to cash provided by operating activities</b>								
Depreciation of property, plant and equipment	982	1,055	1,053	3,655	4,507	4,394	4,244	3,967
Depreciation of assets under finance lease	106	180	180	180	160	150	150	145
Amortization of intangible assets	236	215	208	135	135	130	130	120
Amortization of investment premiums	119	130	130	130	135	140	145	150
Loss on sale of property, plant and equipment	21	—	—	—	—	—	—	—
Loss on disposal of assets under finance lease	1	—	—	—	—	—	—	—



## STATEMENT OF CASH FLOWS (CONT'D)

For the years ending March 31, 2017, to March 31, 2023

	Actual	Corporate Plan	Estimated	Planned				
(in \$ thousands)	2017	2018	2018	2019	2020	2021	2022	2023
Increase (decrease) in non-working capital balances related to operating activities	3,172	285	(96)	3,824	2,299	1,052	1,959	1,216
Net cash flows provided by (used in) operating activities	(1,290)	(4,544)	(4,643)	2,360	2,841	5,475	9,095	10,109
<b>Cash flows from (used in) investing activities</b>								
Disposition (acquisition) of investments	(559)	4,360	4,580	1,170	2,085	(140)	(145)	(150)
Acquisition of property, plant and equipment	(862)	(1,833)	(1,134)	(1,625)	(1,625)	(1,125)	(1,125)	(1,125)
Acquisition of intangible assets	(33)	(100)	(166)	(100)	(100)	(100)	(100)	(100)
Net cash flows from (used in) investing activities	(1,454)	2,427	3,280	(555)	360	(1,365)	(1,370)	(1,375)
<b>Cash flows used in financing activities</b>								
Repayment of finance lease obligations	(112)	(152)	(83)	(2,453)	(3,078)	(3,204)	(3,217)	(3,224)
Dividend paid	(8,500)	—	—	—	—	—	—	—
Net cash flows used in financial activities	(8,612)	(152)	(83)	(2,453)	(3,078)	(3,204)	(3,217)	(3,224)
Increase (decrease) in cash during the period	(11,356)	(2,269)	(1,446)	(648)	123	906	4,508	5,510
Cash at the beginning of the period	18,378	7,941	7,022	5,576	4,928	5,051	5,957	10,465
Cash at the end of the period	\$ 7,022	\$ 5,672	\$ 5,576	\$ 4,928	\$ 5,051	\$ 5,957	\$10,465	\$15,975

## 2017–18 CORPORATE PLAN VERSUS 2017–18 ESTIMATED RESULTS

### STATEMENT OF FINANCIAL POSITION

In the Statement of Financial Position, for the 2017–18 Corporate Plan compared to the estimated amounts to the end of 2017–18; there are no significant variances. The Corporation is on track to meet the Plan forecasts, assuming it collects accounts receivable as anticipated and pays accounts payable at the appropriate time.

### STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

Services revenue for 2017–18 is estimated to be \$100.3 million, compared to the forecasted amount of \$105.9 million, a decrease of \$5.6 million or 5.3% less than Plan. The decrease from Plan was a result of the Client-Partner initiating projects later in the year than anticipated.

The delayed start of certain projects also affected salaries and benefits. Salaries and benefits are expected to total \$95.3 million, a decrease of \$4.7 million or 4.7% from Plan. Salaries and benefits did not decrease as fast as revenue because the utilization rate also decreased slightly during the delayed period.

Operating expenses are estimated to be \$1.2 million lower than Plan, mainly because the planning and procurement phase of the IT modernization project is taking longer than anticipated, in order to ensure

a successful transition. This careful planning has resulted in expenses related to implementing the IT plan being shifted to 2018–19 and 2019–20.

Depreciation and amortization are expected to be consistent with Plan.

The Corporation is estimating a comprehensive loss of \$6.1 million, compared to a planned comprehensive loss of \$6.4 million in the Corporate Plan for the fiscal year ending March 31, 2018. Despite lower-than-anticipated revenue, the loss is lower than Plan due to the delay in costs related to IT modernization.

### CAPITAL BUDGET

See Table 2

Overall, capital expenditures for 2017–18 are estimated to be 52% below Plan. The savings relate to computer systems and hardware, intangible assets, and office furniture and equipment. Computer systems hardware spending decreased for two reasons: the low number of new devices required, as staffing levels did not increase; and the fact that investments in cyber security hardware forecasted for 2017–18 in the Corporate Plan were completed in 2016–17. The requirement for new intangible assets is not being estimated for the year, resulting in net savings. The decrease in office furniture and equipment spending from Plan is due to the fact that DCC saved money and avoided costs by increasing the density of accommodations at Head Office.

### CAPITAL BUDGET

For the year ending March 31, 2018

(in \$ thousands)	Estimated	Planned	Variance
Computer systems hardware	\$630	\$1,042	\$ (412)
Intangible assets	—	100	(100)
Office furniture and equipment	261	781	(520)
Leasehold improvements	38	10	28
	<b>\$929</b>	<b>\$1,933</b>	<b>\$(1,004)</b>

Table 2

## 2018–19 TO 2022–23 PLANNING PERIODS

### SERVICES REVENUE

For the period ending March 31, 2018, services revenue is estimated to be \$100.3 million, representing an increase of approximately \$6.6 million or 7% over the previous fiscal year. The increase in services revenue from 2016–17 to 2017–18 is due mainly to the billing rate increase of 4.5% and to an increase of 2.5% in Client-Partners' demand for services.

For 2018–19, the Corporation forecasts that demand for DCC's services will be higher than it was in the 2017–18 fiscal year. This increase in service demand from DCC's Client-Partners, combined with the anticipated billing rate increase, will lead to a rise in services revenue of \$9.9 million or 10% to \$110.1 million over the estimate for the year ended March 31, 2018.

The Corporation is anticipating an increase in billing rates of 4.5% in 2018–19. The five-year billing rate freeze from 2012–13 to 2016–17 reduced the gross margin from 38.6% at the beginning of the freeze period to 30.8% in 2016–17. Reducing the gross margin from 2012–13 to 2016–17 and declaring a dividend

of \$8.5 million in 2016–17 allowed the Corporation to reduce its cash to an appropriate operating level. However, higher margins will be required in the future to maintain a sustainable financial position and to allow the Corporation to return to a slightly better than break-even operating position. The Corporation estimates that the gross margin required for sustainability at the projected revenue levels discussed earlier is approximately 38%, which it expects to achieve by 2022–23. DCC's Client-Partner representatives are aware of the planned billing rate increases and will incorporate them into their annual project budget plans.

The table below illustrates the impact of the billing rate freeze on the gross margin percentage, profit and loss, retained earnings, and the cash and investment balance for the fiscal years 2013–14 to 2022–23.

#### See Table 3

For the remaining years of the planning period, the Corporation is forecasting a modest increase in volume. The anticipated billing rate rises are shown in the table below.

#### See Table 4

	Actual				Forecast	Planned				
	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23
Billing rate increase	0.00%	0.00%	0.00%	0.00%	4.50%	4.50%	5.25%	5.25%	4.50%	4.00%
Gross margin percentage	36.24%	32.87%	31.20%	30.82%	33.79%	34.95%	36.03%	37.08%	37.68%	37.97%
<i>(in \$ thousands)</i>										
Profit (loss)	\$1,189	(\$5,834)	(\$451)	(\$5,556)	(\$6,118)	(\$5,564)	(\$4,395)	(\$391)	\$2,467	\$4,511
Retained earnings	\$36,840	\$31,006	\$30,555	\$16,499	\$10,381	\$4,817	\$422	\$31	\$2,498	\$7,009
Cash and investments	\$39,988	\$38,886	\$38,168	\$27,252	\$21,096	\$19,148	\$17,051	\$17,956	\$22,465	\$27,975

Table 3

	Estimated	Planned				
	March 31/18	March 31/19	March 31/20	March 31/21	March 31/22	March 31/23
Volume change	2.5%	5.3%	0.0%	1.5%	1.25%	1.25%
Billing rate change	4.5%	4.5%	5.25%	5.25%	4.50%	4.00%
<b>Total anticipated increase</b>	<b>7.0%</b>	<b>9.8%</b>	<b>5.25%</b>	<b>6.75%</b>	<b>5.75%</b>	<b>5.25%</b>

Table 4



## INVESTMENT REVENUE

Investment revenue is generated from cash reserves held in bank accounts and from the Corporation's investment portfolio. During the planning period, the investment revenue will fluctuate in relation to the cash reserves and investments.

## SALARIES AND EMPLOYEE BENEFITS

For the period ending March 31, 2018, salaries and employee benefits are forecasted to total an estimated \$95.3 million, representing an increase of approximately \$4.0 million or 4.3% over the previous fiscal year. The increase in salaries and benefits from 2016–17 to 2017–18 is due mainly to salary increases of 3.4% and to a 0.9% rise in demand from the Client-Partner and other changes due to salary mix and efficiency difference. Revenue increased faster than salaries and benefits because many new hires in the past year started at the lower end of the salary ranges. Gross margins rose due to lower labour costs.

In 2018–19, salaries are anticipated to increase by \$6.3 million or 6.6%; of that increase, 1 percentage point is due to the economic increase, 2.5 percentage points is due to merit-based salary increases and 3.1 percentage points relates to increased Client-Partner demand for services. The increase in salaries of 6.6% is lower than the anticipated increase in revenue of 10%, because billing rates will increase faster than salaries and employee benefits will, leading to an increasing gross margin. For the five years of the Plan, DCC plans to increase billing rates more quickly than or at the rate of salaries, in order to increase the gross margin required to achieve a break-even position.

## See Table 5

For the remainder of the planning period, the Corporation has assumed that the annual economic increase, based on an estimate of the change in the consumer price index (CPI) year over year, will be 1.0%. This assumption may be affected by a difference in the actual CPI change. Merit-based salary increases are forecasted to remain constant at 2.5% over the planning period, based on historical trends.

## OPERATING AND ADMINISTRATIVE EXPENSES

For the period ending March 31, 2018, operating and administrative expenses are forecasted to total an estimated \$10.2 million, representing an increase of approximately \$2.5 million or 32% over the previous fiscal year. This increase is due mainly to the following factors:

- an increase in professional services costs of \$1.2 million, mainly related to the implementation of the cyber security elements of the IT Strategy;
- an increase in software maintenance costs of \$459,000 to support enterprise storage and productivity improvements;
- an increase in employee development costs of \$474,000, due to increases in training initiatives; and
- an increase in rent of \$178,000.

For 2018–19, the Corporation has forecasted operating and administrative expenses of \$10.6 million, an increase in operating expenses of 4% over the estimate for 2017–18. This amount does not include \$2.2 million in rent expenses included

	Estimated	Planned				
	March 31/18	March 31/19	March 31/20	March 31/21	March 31/22	March 31/23
Salary increases						
Economic increase	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Merit-based salary increases	2.4%	2.5%	2.5%	2.5%	2.5%	2.5%
Salary increases due to higher revenue	2.5%	5.3%	0.0%	1.5%	1.3%	1.3%
Other changes due to salary mix and efficiency difference	-1.6%	-2.2%	0.0%	-0.4%	-0.4%	-0.4%
<b>Total salary increase assumption</b>	<b>4.3%</b>	<b>6.6%</b>	<b>3.5%</b>	<b>4.6%</b>	<b>4.4%</b>	<b>4.4%</b>

Table 5

in the 2017–18 expenses, as a portion of those rent expenses will be accounted for as depreciation expense in the 2018–19 period, due to changes related to International Financial Reporting Standards. If these rent expenses had been included in operating and administrative expenses for 2018–19, the effective increase in operating and administrative expenses would have been 25.5%.

The actual increase in operating and administrative expenses is due to continued significant investments in IT infrastructure. DCC is making these investments due to the universal threat of cyber attacks, the Government of Canada's requirement for increased security measures, and the need to modernize DCC's IT infrastructure.

The Corporation is continuing to modernize its data centre management by moving to a platform-as-a-service (PaaS) model. This transition will increase operational efficiency and network security by transforming the IT service from a reactive model to a proactive delivery model to meet the Corporation's operational requirements. DCC began investing in the PaaS model in 2017–18 and will continue to do so into 2020–21. The PaaS replaces ongoing capital upgrades to DCC's data centre, thereby decreasing future capital costs and depreciation expense.

In 2019–20, the Corporation's operating and administrative expenses are forecasted to increase by 1%, reflecting the continued implementation of the PaaS model. In 2020–21, these expenses are anticipated to decrease by 8.4%, as a result of operational savings from the IT implementation. In the final year of the Plan, operating and administrative expenses are expected to increase by 1%, due to inflation.

## DEPRECIATION AND AMORTIZATION

Depreciation and amortization—including depreciation of property, plant and equipment; depreciation of assets under finance lease; and amortization of intangible assets—are forecasted to total \$1.4 million in the year ending March 31, 2018, representing an increase of approximately 8.8% from the previous fiscal year. This increase is related to higher capital expenditures in the prior fiscal year, mainly related to computer hardware for cyber security.

For the year ending March 31, 2019, depreciation and amortization are expected to total approximately \$4.0 million, representing an increase of approximately 176% from the current fiscal year forecast. This increase is mainly due to the effects of transitioning to IFRS 16, Leases. As of 2018–19, the Corporation will capitalize all of its leases currently classified as operating leases and convert them to finance leases. This change will increase the quantity of depreciable RoU assets (i.e., office leases), which will increase the depreciation expense and decrease operating and administrative expenses related to rental costs.

Future annual projections of capital expenditures, highlighted under Capital Budgets, will also affect the fluctuation in depreciation and amortization over the remaining years of the Plan.

## PROFIT AND LOSS AND TOTAL COMPREHENSIVE INCOME (LOSS)

For the five-year planning period, the Corporation is planning a gradual return to profitability. It aims to achieve a slightly better than break-even position, as per its cash management approach.

A loss of \$6.1 million, or 6.1% of services revenue, is forecasted for the year ending March 31, 2018, compared with a loss of \$5.9 million or 6.3% of services revenue in the previous fiscal year. As a percentage of services revenue, the loss is decreasing and will continue to decrease until the end of the planning period. The Corporation is expecting to be break-even and cash flow positive in 2021–22.

The estimated total comprehensive loss for 2017–18 will increase by \$562,000 in comparison to the previous year, mainly due to the gain of \$371,000 related to the change in the liability for employee benefits recognized in 2016–17 and to higher expenses related to the IT investment.

For the year ending March 31, 2019, a total comprehensive loss of \$5.6 million or 5.1% of services revenue is projected, which represents an increase of about 9% from the expected total comprehensive loss for the current fiscal year. The total comprehensive loss in 2018–19 is due to increased investments in IT, as noted earlier, and to the fact that DCC's gross

margin is too low to allow the Corporation to break even. Losses will continue until 2020–21, as the Corporation increases billing rates to re-establish the gross margin required to achieve a slightly better than break-even position. The Corporation expects to move above a break-even position in the fourth year of the Plan, with a total comprehensive income of \$2.5 million.

### CASH AND INVESTMENTS

Currently, the Corporation's liquidity and capital resources position, represented by its cash and investments balances, is strong and meets its operating needs. Cash and investments are forecasted to be \$21 million at March 31, 2018. Cash and investments will continue to decrease in the later years of the Plan, as the Corporation gradually adjusts its gross margin to a sustainable break-even level. Cash and investments are expected to total \$28 million at the end of the planning period.

### TRADE RECEIVABLES

Trade receivables are expected to vary during the planning years in direct proportion to the fluctuations in services revenue from year to year.

### PROPERTY, PLANT AND EQUIPMENT, ASSETS UNDER FINANCE LEASE, AND INTANGIBLE ASSETS

The amount for property, plant and equipment represents the net book value of purchased computer equipment, office furniture and equipment, and leasehold improvements. The figure for assets under finance lease represents the net book value of copiers and printers purchased under finance leases. The amount for intangible assets represents the net book value of purchased software licences for desktop computers and for the enterprise resource planning system.

The value of property, plant and equipment, assets under finance lease, and intangible assets for the current year ending March 31, 2018, is expected to remain virtually the same as that in the previous fiscal year. That is so because the value of equipment purchased, mainly for IT cyber security, will be equivalent to the amount of depreciation for the year. For the year ending March 31, 2019, the value of property, plant and equipment, assets under finance

lease, and intangible assets is expected to increase by 316%. The increase in the value of fixed assets is due to the adoption of IFRS 16, Leases, which will add \$11.4 million in RoU assets for office space to the balance sheet. The increase in RoU assets will be offset by an equivalent finance lease obligation and will not require a cash payment when DCC adopts the IFRS 16 standard.

These fluctuations, and those for the remaining Plan years, are directly tied to projected levels of capital spending, as highlighted in the Capital Budgets section, and to the amortization amount from year to year, based on the Corporation's amortization policies, as described in its Annual Report.

### TRADE AND OTHER PAYABLES

Trade and other payables for the year ending March 31, 2018, are expected to decrease by 8% from the year ending March 31, 2017. These fluctuations, and those of the subsequent Plan years, are largely tied to changes in operating expenditures from year to year and to the anticipated timing of payments to creditors.

### EMPLOYEE BENEFITS

The figure for employee benefits represents the Corporation's liability for the estimated costs of severance for its employees and health care benefits for its retirees. This amount is actuarially determined and fluctuates from year to year based on a number of factors, including staff changes and the actuarial assumptions used. Employee benefits, including the current portion, are expected to total \$25 million at March 31, 2018, representing an increase of approximately 9% over the figure in the previous fiscal year, due to the accrual of benefits. For the remaining Plan years, the amount is expected to increase year over year by rates varying from 7% to 12%. 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 ensure that sufficient funds are available to meet future benefit payments for employees as they become due. The assumptions the actuary uses to calculate these benefits are summarized in the Corporation's Annual Report.



## FINANCE LEASE OBLIGATION

The finance lease obligation is expected to increase by \$9.5 million in 2018–19 due to the adoption of IFRS 16, Leases, as stated above. It is expected to fluctuate over the planning period due to anticipated changes in business activity, and to additional payments for and renewals of leases for copiers and office space.

## STAFF STRENGTH

See Table 6

Staff strength, presented on an FTE basis, is projected to be 925 for the current year ending March 31, 2018. This figure represents an increase of approximately 3% from the previous fiscal year. Staff levels are expected to rise to support the increases in work volume forecasted for the current year.

FTE staff strength for the remaining planning years is expected to fluctuate due to varying work volumes.

## CAPITAL BUDGET

See Table 7

The Corporation is expecting capital expenditures for the fiscal year ending March 31, 2018, to be \$929,000, an increase of \$34,000 or 4% from the previous fiscal year. The increase is mainly due to higher spending on office furniture and equipment to accommodate more staff at Head Office.

For the 2018–19 planning period and beyond, the Corporation will need to continue to replace computer hardware and intangible assets at the end of their lifecycles, as well as to meet additional operational requirements. Continued improvements to the Corporation's enterprise resource planning and electronic document management systems are also forecasted over the planning period, as part of the increase in intangible assets. The costs of computer hardware will fluctuate over the planning period because the Corporation's data centre is

## STAFF STRENGTH

For the years ending March 31, 2017, to March 31, 2023

	Actual	Estimated	Planned				
	2017	2018	2019	2020	2021	2022	2023
Employees based on full-time equivalents (FTEs)	899	925	960	960	974	987	999

Table 6

## CAPITAL BUDGET

For the years ending March 31, 2017, to March 31, 2023

(in \$ thousands)	Actual	Estimated	Planned				
	2017	2018	2019	2020	2021	2022	2023
Office furniture and equipment	\$ 175	\$ 261	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150
Computer systems hardware	687	630	1,400	1,400	900	900	900
Leasehold improvements	—	38	75	75	75	75	75
Intangible assets	33	—	100	100	100	100	100
RoU assets: Office space	—	—	11,384	3,235	375	—	—
	\$ 895	\$ 929	\$13,109	\$4,960	\$1,600	\$ 1,225	\$ 1,225

Table 7

moving to a PaaS model, which will reduce capital requirements; that reduction will be offset by an increase in operating costs in 2018–19 and beyond. The adoption of IFRS 16, Leases, will also increase capital assets.

During the planning period, the Corporation also expects to replace office furniture and equipment, and to renovate leased offices as required to meet operational needs. In 2018–19, the Corporation is planning to move the National Capital Region office closer to the relocated DND facility in Ottawa.

In the capital budget, DCC forecasts that the replacement rate will remain steady year over year, but it may need to be adjusted if Client-Partner demands

change. None of the costs incorporated in the capital budget this year were part of the previous year's operating budget. DCC's financial policies clearly define capital expenditures and operating expenses.

### REPORT ON ANNUAL EXPENDITURES FOR TRAVEL, HOSPITALITY AND CONFERENCES

The Corporation's total annual expenditures on travel, hospitality and conference fees are disclosed on DCC's website. The increase in hospitality expenditures from 2016–17 to 2017–18 results from a change in classification of certain training expenses. In 2016–17, the cost of hospitality for training events held by DCC was included in training expenses. For 2017–18, those expenses are now included in hospitality. The following table provides a summary.

(in \$ thousands)	Actual	Forecast	Planned				
	2016–17	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23
Travel	\$529	\$554	\$582	\$588	\$594	\$600	\$606
Hospitality	\$ 31	\$238	\$267	\$270	\$272	\$275	\$278
Conferences	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

# CORPORATE PROFILE

## MANDATE

The principal mandate of Defence Construction Canada (DCC) is to meet the infrastructure and environmental needs of the Department of National Defence and the Canadian Armed Forces (DND/CAF) by providing quality services. DCC's mission is to provide timely, effective and efficient project delivery and full lifecycle support for infrastructure and environmental assets required for the defence of Canada.

DCC is an agent of the Crown incorporated for the purpose of carrying out the procurement for and delivering of defence infrastructure projects. The *Defence Production Act* defines a defence contract as a contract with an agent of Her Majesty that in any way relates to defence projects or to the designing, manufacturing, producing, constructing, finishing, assembling, transporting, repairing, maintaining, servicing or storing of or dealing in defence projects.

DCC is permitted to perform and/or contract out real property duties—in particular, to manufacture or otherwise produce, finish, assemble, process, develop, repair, maintain or service defence supplies; or to manage and operate facilities; and to arrange for the performance of professional or commercial services.

The *Defence Production Act* also mandates DCC to do all such things that are incidental to, or necessary to, or expedient for, the matters referred to in the above paragraphs, with respect to the procurement, construction, or disposal of defence projects.

DCC's Letters Patent permit DCC to take on, lease, or in exchange, procure, purchase or otherwise acquire, construct, alter, renovate, add to, improve, and to

hold, manage, maintain, operate, supervise, repair, heat, lease, sell, salvage, realize or otherwise dispose of real and personal property—and in particular, lands and buildings.

DCC is governed by the provisions of Part X of the *Financial Administration Act*. DCC's Board of Directors adheres to the governance, planning, reporting and audit practices established in that legislation. DCC's Board of Directors is accountable to Parliament through the Minister of Public Services and Procurement for the conduct of its affairs.

## RELATIONSHIP WITH DND/CAF

DCC and DND have worked together for more than 65 years. During that time, DCC has acquired specialized expertise and accumulated a large knowledge base related to Canada's military construction, and associated infrastructure and environment services, at home and abroad, including knowledge related to its support of the CAF missions in Afghanistan, Kuwait and Latvia, and to DCC's work in Canada's Far North.

DCC has two primary Client-Partners: the Infrastructure and Environment (IE) community at DND; and the Communications Security Establishment. The Corporation also provides services to Shared Services Canada relating to the expansion of the data centre at CFB Borden.

With a single custodian for portfolio management at the national level, the regional Real Property Operations offices manage the infrastructure requirements at the base and wing level. Also included in the infrastructure portfolio are real property operations for the Canadian Forces Housing Agency and Defence Research and Development



Canada. DCC supports CAF operations as requested by the Canadian Joint Operations Command.

Since 1951, the working relationship between DND and DCC has been defined in a continuous series of memoranda of understanding (MOUs). The MOUs describe the operational, administrative and financial framework within which the two organizations do business. The Corporation also has an MOU with Shared Services Canada relating to the data centre at CFB Borden. Additionally, DCC supports the country's North Atlantic Treaty Organization allies with training programs and facilities in Canada. DCC will respond to requests for support within the scope of its mandate from other organizations within DND.

## OPERATING STRUCTURE

DCC maintains site offices at all active CAF establishments in Canada and abroad, as required, and its Head Office is located in Ottawa. The Corporation maintains five regional offices (Atlantic, Quebec, Ontario, Western and National Capital Region), as well as 31 site offices located at CAF bases, wings and area support units. In addition, DCC maintains a temporary remote unit in Nanisivik, as required for the Nanisivik Naval Facility Infrastructure project in Nunavut. As well as working in Canada's Far North, DCC has deployed personnel alongside the CAF over the years. In the past year, DCC has deployed employees to Iraq in support of Operation Impact. Following the work in Iraq, the DCC team supported three additional projects at the Operational Support Hub in Kuwait. The success of this work in Iraq and Kuwait led to additional overseas work in Latvia supporting the CAF infrastructure requirements for Enhanced Forward Presence and Operation REASSURANCE.

### Business Model

Operating on a fee-for-service basis, DCC does not receive any appropriations from the Government of Canada. It generates revenue through fees charged to its Client-Partners for infrastructure and environmental support services linked to the full lifecycle management of Crown assets of which DND/CAF is the custodian. Private sector contractors and consultants perform the actual work to execute the contracts that DCC manages. As part of an organization that is at arm's length from government,

DCC employees manage the procurement process, from awarding tenders to managing the contracts at the job site.

## CORPORATE PERFORMANCE MANAGEMENT

Measuring performance is key to running efficient operations within DCC. DCC's Corporate Performance Management Framework (CPMF) was developed to ensure that the Corporation defines appropriate performance measures that support the effective management of corporate resources in achieving planned results; that systems, procedures and processes used to collect, analyze and report performance measurements are adequate and functioning as intended; and that senior management receives timely information to monitor performance against planned results.

The main purpose of the CPMF is to provide a structure for DCC's performance management practices. DCC's Operations Coordination Team (OCT) leads and coordinates the implementation of the corporate performance management (CPM) cycle. Each member of the Executive Management Group has specific metrics that they are accountable for managing. The team reports statistics to DCC's vice-presidents and president for review and assessment. Through this structure, CPM leadership is clearly established with and directly linked to the Corporation's executives.

DCC uses two sets of performance indicators to measure success. Key performance indicators (KPIs) measure DCC's success in meeting high-level strategic objectives, such as leadership and governance. Executive management is accountable for the KPIs, and KPI results are published externally in the Annual Report and the Corporate Plan Summary. Business performance indicators (BPIs) measure DCC's success in meeting more tactical objectives, such as the timeliness of contract completions and scheduling of internal service line verifications. The Senior Management Team is accountable for the BPIs, and BPI results are published internally.

The CPM cycle takes place over 24 consecutive months, across three fiscal years. It is rolled out in two phases: strategic planning (10 months) and monitoring (14 months). During the strategic

planning phase, DCC defines and implements the Corporation's strategy, a task that includes reviewing the KPIs. Two documents are produced further to this phase: the Corporate Plan, which focuses on strategy; and the Operations Business Plan, which is an operational response to the Corporate Plan. During the monitoring phase, DCC reports on its performance results, then develops and implements optimization measures to improve them. Various internal documents are produced to report on the results, such as the monthly Executive Management Group operations reports. DCC also reports on these results externally, in the Annual Report and the Quarterly Financial Reports, as well as in the Corporate Plan.

## LEGISLATIVE POWERS AND OBLIGATIONS

### LEGISLATIVE FRAMEWORK

Defence Construction (1951) Limited was created pursuant to the *Defence Production Act* for the specific purpose of procuring and delivering defence infrastructure projects. It was incorporated pursuant to the *Companies Act* of 1934 and was granted continuance under the *Canada Business Corporations Act* of 1978. Its year end is March 31. When the Federal Identity Program came into effect, the Corporation became known as Defence Construction Canada or, simply, DCC. The Corporation is listed in Schedule III to the *Financial Administration Act*. Like most Crown corporations, DCC is governed by the provisions of Part X of the *Financial Administration Act*. DCC adheres to the governance, planning, reporting and audit practices established in Part X of that legislation. DCC is accountable for the conduct of its affairs to Parliament through the Minister of Public Services and Procurement.

### PUBLIC POLICY ROLE

Crown corporations are important instruments of public policy and DCC plays a role in advancing a number of the government's objectives. DCC contributes to the results of DND/CAF in the defence of Canada by supporting CAF operations, in Canada and overseas, in the areas of construction, maintenance, facility operation and specialized professional services to support project and program delivery.

The Corporation contributes to Canada's long-term environmental sustainability by supporting DND's efforts to reduce greenhouse gas emissions, solid and hazardous wastes, and energy consumption associated with its infrastructure holdings. DCC supports DND's sustainable building targets by implementing green procurement practices. Furthermore, DCC complies with legislation and regulations related to protecting the environment, including the *Canadian Environmental Protection Act*, *Canadian Environmental Assessment Act*, *Fisheries Act* and *Species at Risk Act*. The Corporation's Environmental Management Framework ensures that DCC incorporates environmental considerations into its business and administrative activities.

DCC contributes to the security of Canada by ensuring adherence to the Policy on Government Security. It does so by ensuring that security requirements identified by DND are managed during the procurement and implementation stages of each contract, with the goal of protecting sensitive or classified information and assets. The Corporation also supports DND's implementation of and industry's compliance with security requirements by pre-screening contracting and consulting firms' applications for security clearances. Prime contractors and their sub-contractors need security clearances from the Canadian and International Industrial Security Directorate before being awarded a job.

DCC follows the principles of prudent stewardship of public funds, and the effective, efficient and economical use of public resources, and acts at all times with the highest standards of integrity, fiscal prudence, accountability, transparency, and values and ethics. In 2016–17, DCC finished aligning its policies, guidelines and practices with Treasury Board of Canada Secretariat policies, directives and related instruments on travel, hospitality, conference and event expenditures.

Also, DCC plays a role in meeting the government's policy objective to create a fair and secure marketplace by respecting internal and international trade agreements, using sound procurement practices, and ensuring competition by providing wide access to government business opportunities.

The benefactors of these business opportunities are the Canadian architectural, engineering and construction industries. These industries compete for government contracts through DCC and they rely on DCC to ensure that the procurement process is transparent and fair. In recent years, DCC contract expenditures on behalf of DND have been valued at approximately \$800 million to \$1 billion annually. As the conduit for these opportunities, DCC helps to stimulate the Canadian economy and create jobs for Canadians.

Although not directly subject to the Treasury Board of Canada Secretariat's Policy on Communications and Federal Identity, which came into effect in May 2016, DCC's internal and external communications activities are conducted in the spirit and intent of this policy. Typically DCC's advertising expenditures relate to operational business needs and are non-partisan in nature. Examples of typical advertising expenditures include notices for employee recruitment or for project procurement.

### CONTRACTING POLICIES

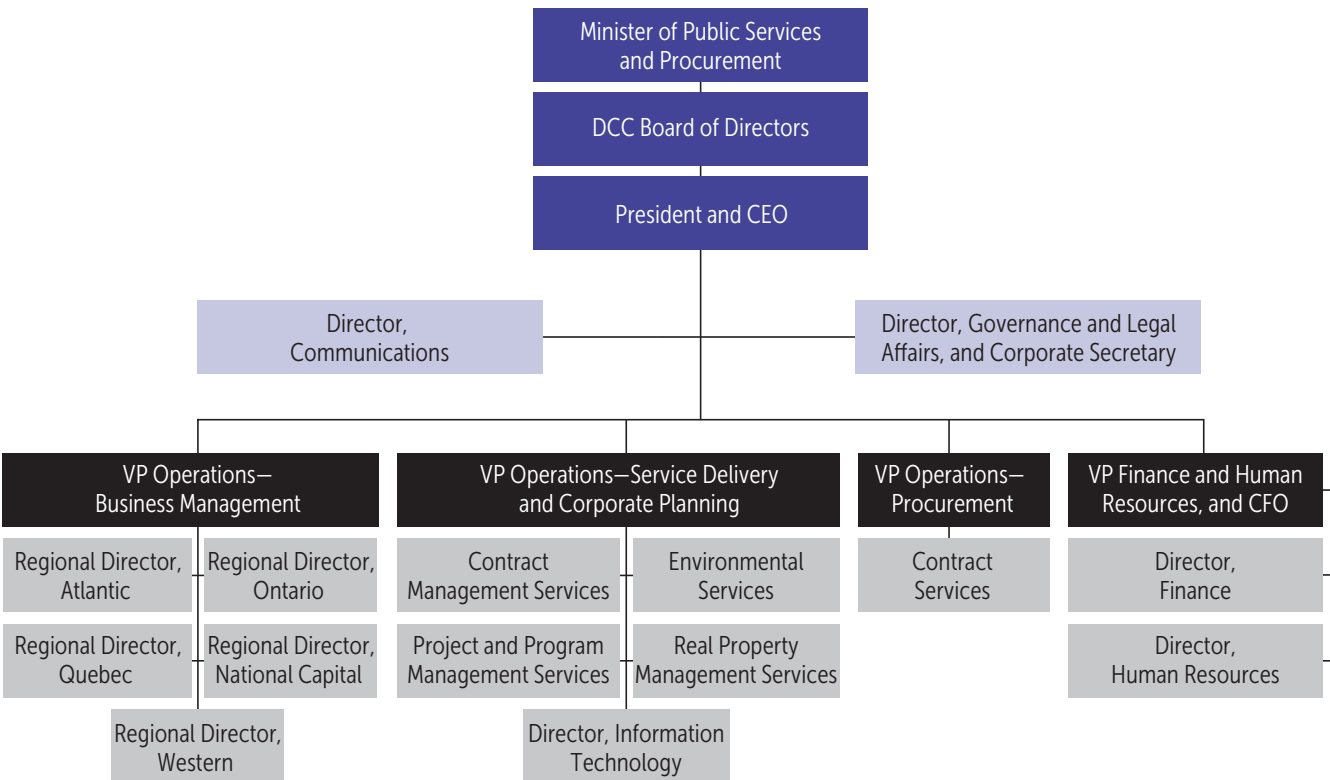
DCC is committed to ensuring security for Canadians, and open, efficient and fair processes for procuring and managing projects, and it complies fully with Government of Canada contracting regulations. DCC's Procurement Code of Conduct (PCC)

ensures that DCC's contractors and consultants meet the expected integrity requirements for doing business with the Government of Canada. The PCC brings together in one concise document the ethical responsibilities of contractors who offer goods and services to the Corporation. DCC has a memorandum of understanding with Public Services and Procurement Canada (PSPC) to carry out integrity verifications on winning bidders. This leverages PSPC's resources and avoids duplication of effort, as it means DCC does not need to create its own database. These verifications involve searching a database of provincial records and other publicly available data to see whether the firms or any of their officers have been convicted of fraud or related offences.

In January 2017, DCC completed its review of the PCC to ensure it is aligned with the changes made to the Government of Canada's Integrity Regime.

DCC's procurement practices enhance access, competition and fairness. That results in best value or, if appropriate, the optimal balance of overall benefits to the Crown and the Canadian people, while meeting the essential operational requirements of DCC's Client-Partners.

# CORPORATE GOVERNANCE AND STRUCTURE



## ETHICAL BUSINESS CONDUCT

DCC operates in an industry known for incidents of fraud. Internal controls are often a first line of defence against wrongdoing, corrupt conduct or fraudulent activities. DCC has systems and practices to ensure that the Corporation conducts all business with high ethical standards and integrity, and to assist the Board in its responsibilities. For example, the Board monitors DCC's frameworks and policies related to values and ethics, including DCC's Integrity Management Framework, which comprises DCC's Code of Business Conduct for employees and Procurement Code of Conduct (PCC) for suppliers.

DCC's employees are aware of expectations placed on them in such areas as ethics, conflict of interest, disclosure of wrongdoing, and compliance with legislation and governmental policies. In addition to complying with the *Public Servants Disclosure Protection Act*, DCC has its own Code of Business Conduct for employees. DCC's Board of Directors monitors compliance with the Code, as well as policies and legislation related to business and employee conduct, through regular reports.

Each year, DCC employees are required to review their obligations under the Code and to reply to an annual electronic reminder of their responsibilities. This electronic system ensures that DCC keeps accurate records of responses and follows up appropriately. New employees must pass an online test on the Code shortly after they are hired. The President reports to the Board on Code compliance matters as they arise and provides an annual update as well. In this way, the Board ensures that DCC maintains its good practices regarding programs and policies related to values and ethics. In 2016–17, all DCC personnel responded to the annual request for review and all new hires completed the required test.

Board members comply with the *Conflict of Interest Act* and with the Treasury Board of Canada Secretariat's guidelines for the functioning of an effective board. DCC's Board has its own Board Code of Conduct, which outlines the standards of conduct that members of DCC's Board are expected to follow in the exercise of their duties. This Board Code of Conduct requires each board member to sign a declaration regarding the Act and their Code, which



ensures they are aware of the requirements of the Act and Code, and confirms they will continue to comply with them. In September 2017, all board members signed the declaration.

DCC's Procurement Code of Conduct (PCC) sets out expectations for contractor conduct to ensure integrity in defence infrastructure contracts and outlines the ethical responsibilities of contractors who offer goods and services to the Corporation. It ensures transparency, accountability and the highest standards of ethical conduct in DCC's procurement of goods and services. Suppliers are to comply with DCC's PCC not only during the procurement process, but also as they carry out their work. To make expectations clear, PCC clauses have been incorporated into DCC's contract documentation. The Board receives regular reports from the President and CEO on matters arising out of the PCC and on compliance with DCC's Integrity Management Framework. This ensures that DCC is able to maintain its best practices regarding integrity, ethics and values.

## BOARD OF DIRECTORS

DCC has a comprehensive Corporate Governance Framework that provides an overview of the corporate governance structure, principles and practices for DCC's Board of Directors. This is a key tool for the Board, as it defines board accountabilities and responsibilities, identifies key roles, and provides guidance.

DCC's Board of Directors is accountable to Parliament, through the Minister of Public Services and Procurement for the conduct of its affairs. Members of DCC's Board of Directors sign an annual declaration regarding their obligations under the *Conflict of Interest Act* and the Board's Code of Conduct.

DCC's Board of Directors participates in the Government of Canada's new approach to Governor in Council appointments, which ensures open, transparent and merit-based appointments to commissions, boards, Crown corporations, agencies and tribunals across the country.

The Chair of DCC's Board of Directors, and the President and CEO, are appointed by the Governor in Council to hold office for such term as the Governor in Council may determine. Other members are appointed by the Minister of Public Services and Procurement, with the approval of the Governor in Council. As Directors of a Crown corporation and pursuant to the *Financial Administration Act*, members of DCC's Board hold office at the pleasure of the Governor in Council, usually for a minimum of four years, after which time they may remain as board members until successors are appointed, should they wish to do so.

The Chair of the Board is a separate position from that of the President and CEO, and the Board is able to conduct its business independently of DCC management. The Chair is responsible for the effective functioning of the Board as it carries out its duties and responsibilities. The Board is responsible for the management of the business, activities and other affairs of the Corporation, pursuant to the *Financial Administration Act*, and provides oversight on matters such as strategic planning, corporate risk management and internal controls.

Along with the requirements set out in the *Financial Administration Act*, the Board has articulated its duties and responsibilities in a Board Charter. This document outlines how board members are expected to oversee the Corporation, and it is regularly reviewed to ensure that it remains appropriate.

## BOARD AND COMMITTEE STRUCTURE

To help it fulfill its oversight functions, the Board relies on two committees: the Audit Committee, and the Governance and Human Resources Committee, each of which has its own charter.

The Audit Committee assists the Board in its oversight responsibilities. It oversees DCC management's maintenance of appropriate financial and management controls, ensures that DCC's assets are safeguarded, and ensures that DCC's transactions are in accordance with the appropriate legislation and policies. The Committee also oversees matters related to financial reporting, and the Office of the

Auditor General's annual financial audits and special examinations, as well as DCC's internal audits. Pursuant to the *Financial Administration Act*, all members of the Audit Committee are independent of DCC management, in that no officers or employees of DCC are members of the Committee. As per the Treasury Board of Canada Secretariat's *Guidelines for Audit Committees of Crown Corporations and Other Public Enterprises*, the Chair of this committee is a financial expert who holds a recognized accounting designation, and members are financially literate.

The mandate of the Governance and Human Resources Committee encompasses three main areas: governance, human resources and nominations for Governor in Council appointments. The Committee develops DCC's approach to corporate governance, evaluates DCC's corporate governance practices including its Code of Business Conduct for employees, to ensure they reflect current best practices, and assesses the Board's effectiveness.

Regarding human resources matters, the Committee ensures that DCC's human resources policies are appropriate for the Corporation and that related processes are in place. It also oversees the performance management process for DCC's President and CEO, pursuant to the Privy Council Office's Performance Management Program, and ensures that DCC has an appropriate succession plan in place for its corporate officers.

## EXECUTIVE MANAGEMENT STRUCTURE

The President and CEO is accountable to the Board of Directors for the overall management and performance of the Corporation. DCC's President reports to the Chair of the Board. The Executive Management Team—made up of the President and CEO and four vice-presidents—is located at DCC's Head Office in Ottawa. In addition to their day-to-day interactions, they meet regularly as the Executive Management Group, supported by the Corporate Secretary, to review strategic, operational, financial, and human resources matters for the Corporation.

Three vice-presidents, operations, are responsible for DCC service delivery, corporate planning, business management and procurement activities. The Vice-President, Operations—Business Management is responsible for business management in all regions. The Vice-President, Operations—Service Delivery and Corporate Planning is responsible for service delivery for the Contract Management Services, Environmental Services, Project and Program Management Services, and Real Property Management Services service lines, as well as corporate planning activities that support the strategic initiatives set out in DCC's Corporate Plan. This Vice-President also acts as the Corporate Security Officer.

The Vice-President, Operations—Procurement is accountable for the leadership and oversight of the procurement function across the Corporation. The Vice-President, Finance and Human Resources and Chief Financial Officer is responsible for the financial affairs of the Corporation and the executive leadership for DCC's finance and human resources function.

Members of the Senior Management Team include regional directors, the national service line leaders for Contract Management and Real Property Management Services, and Contract Services; and directors. Regional directors manage activities in the Western, Ontario, National Capital, Quebec and Atlantic regions through regional offices located in Edmonton, Kingston, Ottawa, Montréal and Halifax, respectively. Directors of communications, finance, governance and legal affairs, human resources, and information technology are accountable for the corporate strategic leadership and management of their respective function and group.

The Corporate Secretary is responsible for governance-related matters; ensures that DCC complies with all relevant legislation, regulations and government policies; supports the Board of Directors; and communicates with the Corporation's stakeholders.

# CASH MANAGEMENT APPROACH

DCC's Financial Management Policy is to generate and maintain sufficient cash reserves to meet the Corporation's anticipated operating and capital requirements, to settle its financial obligations as they become due, and to meet contingencies that may arise.

The Corporation operates on a fee-for-service basis and receives no cash funding through government appropriations, nor does it maintain or have access to any lines of credit or other sources of borrowings. Thus, the Corporation's cash is generated solely from fees collected from its Client-Partners for services provided.

The intent of the Corporation is to operate on a slightly better than break-even basis. The Corporation sets billing rates based on expected program and operating costs. However, unexpected increases in program services provided to Client-Partners, as well as DCC's success in achieving its own operating efficiencies, can result in margins that exceed initial targets. Cash levels are constantly monitored, and any cash surpluses judged to exceed operating requirements are reduced through future operating plans and budgets, particularly through the setting of billing rates for services provided and/or through the extraordinary payment of a dividend to the Government of Canada.

In preparing its operating plans, the Corporation prudently allows for reasonable levels of cash reserves in its financial projections to ensure that it can continue to fulfill its mandate and serve its Client-Partners in an effective and timely

manner. The objective of the cash management approach is to keep sufficient cash reserves available—recognizing the potential for short-term interruptions in collections of receivables—to meet its obligations. Potential obligations considered in the cash management approach include salaries, benefits and other current operating costs for a period of 60 to 90 days; payments of long-term employee benefits, which include employee sick leave costs, and health and life insurance benefits for DCC retirees; and other areas, which could include costs associated with personnel adjustments, relocation costs and additional capital costs to comply with new Government of Canada directives.

## CASH REQUIREMENTS AND USES

The Corporation considers several factors in determining the amount of cash reserves to maintain, including the planning and operating risks inherent in its operations. In particular, the risks associated with potential and unanticipated changes to the amount or timing of DND's construction project expenditures directly affect the amount or timing of DCC services and the cash generated.

The current cash reserve level that DCC management deems necessary is between \$21 million and \$25 million. These amounts will change over time as DCC's financial position changes by the end of the planning period. The following factors help DCC determine adequate cash reserves.

Working capital: DCC typically has \$12 million to \$13 million in trade payables, which it has to manage on a timely basis.

Payroll: The Corporation's monthly payroll costs will reach \$9.9 million monthly by the end of the planning period. The cash reserves should be sufficient to cover approximately three months of payroll. This is seen as an appropriate amount for a viable business to have on hand.

Receivables collection risk: Although DCC has a secure client base from which it regularly collects receivables, several things can affect the timing of those collections. Routine delays in Client-Partner approvals and processing of invoices can sometimes affect collections of some receivables. Greater risks occur in the situations described below, which DCC manages through sufficient cash planning.

Election periods: During a writ period, DND relies on special funding mechanisms (warrants), which allow payments to continue in a 45-day cycle. There can be uncertainty about the timing of these mechanisms. DND's ability to pay receivables could easily be affected for a single cycle, which is equivalent to half of the 90-day payroll coverage period.

Forecast uncertainty: DCC has not received a firm forecast of expected infrastructure program expenditures for 2018–19 and beyond. This uncertainty increases the risk of material fluctuations in demand for DCC services, which could require unanticipated investments to add or reduce resources. Such costs might include recruiting, relocation and training expenses—or, conversely, severance and other termination costs. DCC self-funds such costs and must keep sufficient cash reserves on hand.

Long-term obligations: DCC must fund over \$24.8 million in employee future benefits, including retirement, health and sick leave benefits. These obligations are expected to grow to \$37.8 million over the next five years. The Corporation must also fulfill other commitments, such as paying for facility leases. DCC cannot predict with certainty when it may be required to pay for these liabilities and must ensure that sufficient cash is available for these purposes.

Capital expenditures: DCC must self-fund all capital expenditures, such as the costs of modernizing its information management systems.

It is unlikely that all of these financial contingencies would occur at the same time. If they did, the Corporation's current reserves would be grossly inadequate. To mitigate this financial risk, DCC conducts prudent forward planning of its resource levels and ongoing active business operations to help ensure that it can meet its obligations. This is another element of DCC's risk management program.

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.

DCC is adopting a new proactive approach to its ongoing fee arrangements to ensure that it manages cash levels going forward.

Traditionally, DCC establishes fee arrangements with Client-Partners at the start of each fiscal year through several hundred service level arrangements (SLAs). There are two types of fee arrangements: fixed fee and time based.

Client-Partner representatives have been reluctant to revisit these arrangements during the year due to the administrative burden and costs involved in potentially amending these many arrangements, as well as the fact that amendments could create uncertainty around billing rates.

With the increase in volume of services delivered through a relatively small number of fixed-fee arrangements (versus the more common time-based arrangements), there is an opportunity to address this in a less disruptive way by taking different approaches for each type of arrangement. DCC will continue to review its monthly cash, break-even profit and gross margin results when deciding actions to take regarding its cash level.



Fixed-fee arrangements: There is a relatively small number of these arrangements (90 out of 550 in 2016–17); however, they represent approximately 50% of services revenue. Going forward, when DCC approaches its planned operating target for the year, the Corporation will lower the gross margin on its fixed-fee arrangements by lowering the payroll gross-up factor (fixed-fee multiplier) to reduce the amount of cash generated by the additional revenue dollars. Changes can be made quickly with little disruption to the processes in place, while minimizing the administrative burden and costs to DCC and the Client-Partner.

Time-based arrangements: DCC will maintain consistent billing rates for time-based arrangements

during the year. This will help Client-Partner representatives avoid the administrative burden, costs and uncertainty associated with amending this type of SLA during the year. DCC's approach of freezing billing rates for the past four years has allowed the Corporation to maintain a stable fee arrangement environment and to achieve a manageable gross margin that is close to the required break-even point. For each subsequent year, when setting billing rates for time-based arrangements, DCC will establish a higher or lower billing rate, based on all of the relevant factors, to achieve its target results. The factors considered will include the prior year's actual results, the current year program forecast from the Client-Partner, and the gross margin required to fund the operating and capital requirements of the Corporation.