

## Section 9E: Use of the Defence Production Revolving Fund and Loan Account

9E.1 (1996-12-02) Under the *Defence Production Act*, section 16 in particular, the Minister of Public Works and Government Services (PWGSC) is authorized to acquire, utilize, store, maintain, transport, sell, exchange or otherwise dispose of defence supplies, services, projects, real or personal property. The Minister is also empowered to authorize loans or advances and loan guarantees. Expenditures incurred pursuant to the above authority are to be expended from the Consolidated Revenue Fund (CRF).

### Program Description

9E.2 (1994-06-23) The Defence Production Loan Account (DPLA) provides PWGSC with an account to make loans or advances to aid in defence procurement such as working capital loans or advance payments on contracts and to make payment for such.

9E.3 (1994-06-23) Although the *Adjustment of Accounts Act* of 1980 eliminated the term Defence Production Revolving Fund (DPRF) from the *Defence Production Act*, PWGSC was advised by Treasury Board (TB) that it may continue to designate and operate the DPRF for other than loan transactions. Thus the DPRF provides PWGSC with a budgetary account to purchase defence supplies, to make payment for such and to get reimbursed out of an appropriation of a client (e.g. Department of National Defence [DND]) or by an agent of Her Majesty or by an associated government. The DPRF can be used for the following purposes:

- (a) to finance the stockpiling of "essential" materiel or defence supplies;
- (b) to advance production of defence supplies/materiel to permit workload smoothing of defence industrial facilities; and
- (c) to temporarily fund the acquisition of defence supplies to meet urgent requirements pending appropriation of funds to finance unplanned requirements.

*As stated in the Defence Production Act, associated governments are the governments of the British Commonwealth and of the North Atlantic Treaty Organization (NATO), or the government of any other country designated by the Governor in Council as being a country the defence of which is vital to Canada.*

9E.4 (1994-06-23) The DPRF was established for interim financing purposes as it has to be reimbursed by a client or an associated government or whoever receives the finished product. As such, the DPRF can be used to make initial payments and subsequently recover such payments from the client. It is simply a temporary accommodation and it would be illegal and improper to use it for a permanent commitment of any kind. Although the use of the DPRF requires that money expended will be reimbursed at the time delivery is made to the client, such use does not preclude the making of progress payments to suppliers and the interim recovery of these progress payments from the client.

9E.5 (1994-06-23) Expenditures charged to the DPRF may be used for the following purposes:

- (a) stockpiling of materials or substances, such as steel and oil, designated by the Governor in Council as essential to the needs of the community. In such cases:
  - (i) an Order-in-Council is required;
  - (ii) a client appropriation is not immediately required for stockpiling essential materials, but the cost of materials used must be recovered from the appropriation of the client.

- (b) stockpiling of defence supplies which the Minister deems it advisable to maintain. (Certain defence supplies such as ammunition.) In such cases:
    - (i) an Order-in-Council is not required;
    - (ii) although an appropriation is not immediately required for stockpiling defence supplies, DND must reimburse the DPRF from an appropriation when the finished goods are delivered to DND.
  - (c) acquisition, storage or maintenance of defence supplies. In such cases:
    - (i) an Order-in-Council is not normally required;
    - (ii) a client appropriation is required.
- 9E.6 (1994-06-23) Loans or advances charged to the DPLA may be used for any purpose other than for capital assistance. When loans are involved:
- (a) an Order-in-Council is not required;
  - (b) although an appropriation by the client is not immediately required, the liability for any loss must ultimately be covered from the appropriation of the client.
- 9E.7 (1994-06-23) Losses sustained pursuant to a loan or an advance made against the DPLA can only be credited pursuant to an appropriation by Parliament.

### **Utilization of the DPRF and the DPLA by the Canadian Commercial Corporation**

- 9E.8 (1994-06-23) Canadian Commercial Corporation (CCC) has the power, by virtue of section 31 of the *Defence Production Act* to enter into contracts to which the *Defence Production Act* applies utilizing the DPRF or the DPLA provided that the Minister has authorized CCC to act on the Minister's behalf under section 6 of the *Defence Production Act*.

### **Limitation**

- 9E.9 (1994-06-23) In accordance with section 19 of the *Defence Production Act*, the aggregate of expenditures charged to the DPRF and the DPLA shall not at any time exceed the receipts shown therein by more than \$100 million.
- 9E.10 (1994-06-23) Financial control of the DPRF and the DPLA is the responsibility of the Finance Sector.

### **Planning**

- 9E.11 (1994-06-23) Sectors/regions must ensure that utilization of the DPRF and the DPLA are in accordance with the *Defence Production Act*. More specifically, pursuant to section 19 of the *Defence Production Act*, sectors/regions must ensure that proposed expenditures are recoverable from an appropriation or are to be paid by an agent of Her Majesty or by an associated government.
- 9E.12 (1994-06-23) Sectors/regions must ensure that requisitions from clients or agents of Her Majesty and/or contracts, formal agreements or bona fide obligations from foreign governments have been received providing commitment authority for recovery of funds to be expended.
- 9E.13 (1994-06-23) The DPRF must not be used to circumvent Parliamentary Control of defence spending. As set forth in section 17 of the *Defence Production Act*, the Fund was established

"...to pay the cost of acquisition, storage or maintenance of defence supplies requisitioned for payment out of an appropriation...." As a direct consequence of this section, no requisition for defence supplies is acceptable which contemplates the use of the DPRF to supplement that appropriation. Similarly, in accordance with section 30 of the *Financial Administration Act*, the DPRF is not to be used to preclude the lapse of funds.

- 9E.14 (1994-06-23) When recommending the use of the DPRF, the sector/region recommendation will have to be supported by an assessment of the following factors which may change from time to time:
- (a) stockpiling: determine if the material in question involves stockpiling of essential materials to be designated by the Governor in Council or stockpiling of defence supplies deemed necessary by the Minister;
  - (b) conservation and coordination of defence industrial facilities: the Minister may determine that stockpiling of defence supplies is required to conserve and coordinate certain defence industrial facilities particularly where a facility may be functioning on a cyclical basis that results in disruptive fluctuations in workload, manpower, output and quality. The use of a stockpile over a planned period of time (e.g. two to five years) not only permits workload smoothing to eliminate the excesses of attempting to meet variations in the size and timing of demands but allows PWGSC to plan for the provision and sourcing of defence requirements for periods longer than one year;
  - (c) economic considerations: better price considerations may be forthcoming as a result of using the DPRF. If price considerations are a factor, the basis of such assessment should be established using a present value or constant dollar approach, i.e. by removing the inflation factor when determining gain. To facilitate this approach, Request for Proposals should request price information on two bases in order to properly assess the economics of purchasing requirements individually or annually, as opposed to purchasing for the purposes of stockpiling. The economics of stockpiling should also take into consideration the additional costs of holding inventory such as storage and handling charges;
  - (d) Canadian industrial benefits: in the case of procurement from a foreign contractor, any offsets that accrue to Canada should be assessed in support of the recommendation for the use of the DPRF;
  - (e) administrative convenience: in certain cases, the use of the DPRF will facilitate the procurement function by reducing the number of contracts required. This is a particularly important factor for consideration when projects are jointly funded by more than one client or government.

## **Inventory Control**

- 9E.15 (1994-06-23) When the DPRF is used for stockpiling, in accordance with section 15 of the *Defence Production Act*, the responsibility for inventory control and carrying out the physical inventory rests with PWGSC. Therefore, at the fiscal year's end, any residual inventories of stockpiled defence supplies or materials essential to the need of the community will appear on the DPRF annual financial statements.

## **Procurement Actions**

- 9E.21 (1994-06-23) In addition to the issuance of a "supplies contract" for the acquisition of the goods or services, the contracting officer must prepare a "recovery contract" to recover the costs incurred on behalf of the client. The definition of these two types of contracts is as follows:
- (a) recovery contract - this is a contract to reimburse the Revolving Fund for the total value

of the supplies procured on behalf of the client or foreign government. If more than one client is contributing to the total cost, e.g., Canada, the United States of America and Great Britain, then a separate contract is required for each client's share of the total cost. The recovery contract is the authority for CCSD to recover the costs incurred on behalf of the client.

- (b) supplies contract - this is a contract to cover the supply of goods or services called for in the requisition. The total of all supplies contracts must not exceed the total value authorized by the Contract Demand.