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AIM

1. The purpose of this service paper is to explore the widespread misuse of High Priority Requisitions (HPRs) for low priority material in the Royal Canadian Navy (RCN) support chain. Specifically, this paper will discuss the use of HPRs for material that is either a Category 3 Operational Deficiency (OPDEF or CAT 3 OPDEF) or are without an OPDEF but are considered urgent in nature. This paper will conclude with a series of recommendations that can be pursued without a full supply chain audit. Future areas of study are recommended in an Assistant Deputy Minister (Material) (ADM (Mat)) led integrated environmental service supply chain audit to identify and rectify bottlenecks.

INTRODUCTION

2. The current practice of HPRs to satisfy routine demands, both within the fleet itself and amongst Fleet Maintenance Facilities (FMFs), is corrupting the supply system. Furthermore, this same mistreatment exemplifies a fundamental lack of confidence in the supply chain system by its most important stakeholders: the end-users or customers of the supply pipeline. Using HPRs to satisfy low priority requests are not the only side effect of this lack of confidence. Hoarding bench-stock, moving items without authority and back-door deals are techniques used regularly by end-users to get the materiel they need to do work. According to the Canadian Defence Policy, *Strong, Secure, Engaged*, DND will possess a “modern business of defence [that] maximizes operational output and ensures that every defence dollar is put to the best use in

achieving our objective.”¹ This direction to modernize the business of defence and pursue fiscal responsibility must be applied to the case of low priority HPRs.

3. This paper will explore three themes in the discussion section. First, there will be a detailed exploration of the direction issued in the Supply Administration Manual (SAM), the Naval Order (NAVORD) governing how HPRs are to be processed in the RCN and the corresponding practises within the Formations. Second, this discussion will address the confusing “fog” surrounding low priority HPRs and why the issue is so complicated that it is rarely communicated clearly to higher commanders and staff. Finally, a brief summary of current performance measures, also known as Key Performance Indicators (KPIs), will be explored with a particular focus on the analysis they do and do not provide.

DISCUSSION

The Supply Administration Manual, NAVORD 3250-5 and In-Practise

4. The SAM dictates three Material Priority Codes (MPCs) based on the timeline that the part is needed, referred to as the Required Delivery Date (RDD). The three MPCs are as follows: MPC 1 is for operationally critical material required within six days, MPC 2 is for essential material that would significantly impact operations or exercises, required within six to 14 days, and MPC 3 is for routine system replenishment typically required within 15 to 30 days.² It is essential to note that “only MPC 1 material is authorized premium transportation if the RDD is

¹ Her Majesty the Queen of Canada as represented by the Minister of National Defence, *Strong, Secure, Engaged*, (Ottawa: National Defence, 2017), 74.

² Department of National Defence, A-LM-007-009/AG-001, *Supply Administration Manual* (Ottawa: DND Canada, 2017), 85.

going to be or is expected to be violated.”³ MPC 2 and MPC 3 are not entitled to premium transportation in accordance with the SAM, issued under the authority of ADM(Mat).

5. NAVORD 3250-5 is issued under the authority of the Commander of the RCN. The RCN operating environment has unique support challenges. Warehouse space onboard is limited and often there are 10 to 14 days between port visits for re-supply. It should also be noted that a limited number of maritime air assets are available to conduct resupply runs in some cases but do have finite reach and lift capacities. NAVORD 3250-5 directs how RCN units are to manage HPRs. The category of the MPC, according to the NAVORD, is directly correlated to the category of the Operational Deficiency, or OPDEF. While, OPDEF Category 1⁴ and 2⁵ are directed to be addressed as MPC 1, it is the final category, Category 3 (CAT 3) that is addressed differently. An OPDEF Cat 3 occurs when the Material Baseline Standard (MBS) is breached for units such that there will be a *limited* impact on current or imminent operations and a loss of redundancy.⁶

6. Though premium transportation, according to the SAM, is authorized for MPC 1 material, the NAVORD permits premium transportation to be paid for by the unit, at the discretion of the Commanding Officer, for MPC 2 and MPC 3 material. The NAVORD also directs that in the event the RDD is in jeopardy, Base Transportation shall “utilize whichever

³ Department of National Defence, A-LM-007-009/AG-001, *Supply Administration Manual* (Ottawa: DND Canada, 2017), 85.

⁴ CAT 1 is defects that are assessed to have a severe impact on current or imminent operations. (NAVORD 3250-7)

⁵ CAT 2 is defects that are assessed to have an impact on current or imminent operations, yet are not severe enough to prevent sailing. (NAVORD 3250-7)

⁶ Department of National Defence, *NAVORD 3250-7 Royal Canadian Navy Operational Deficiency Process* (Ottawa: DND Canada, 2016), 5-6.

mode of transport ensures the RDD is not breached.”⁷ The NAVORD does not specify if the Chain of Command for Base Transport, normally Base Logistics, is responsible to fund the more expedient modes of transportation. Without specification about where the funding should come from in the NAVORD itself, the unit would be the default source for funding. The result is that OPDEF CAT 3 materiel is moved via premium transportation despite not being MPC 1.

7. According to the NAVORD, this premium transportation loophole applies to not only CAT 3 OPDEFs but also “urgent” requirements without an OPDEF. These urgent, non-OPDEF needs also fall into the MPC 2 and MPC 3 loophole in the RCN direction.

8. The result of the authorization to use a unit budget to pay for premium shipping has resulted in widespread misuse of the supply line. However, in accordance with the SAM, this type of material is not, in fact, designated as a “true” HPR. This means that external agencies, such as Director Maritime Procurement (D Mar P), prioritize these requests lower than MPC 1, or “true”, HPRs. Despite local RCN units paying for premium shipping to move these parts, external parties do not consider them HPRs.

9. At the tactical level, the premium shipping loophole and the current status of the supply chain results in most requirements, despite their actual priority, being designated as HPRs. According to MARPAC HPR Status reports for 26 Jan 18 and 23 Jan 18, MARPAC alone has between 168 and 177 outstanding HPRs.⁸ These outstanding requirements are further

⁷ Department of National Defence, *NAVORD 3250-5 Royal Canadian Navy High Priority Requisition Policy* (Ottawa: DND Canada, 2014), 10.

⁸ Department of National Defence, *MARPAC HPR Status Report* (Victoria: DND Canada, 2018).

exacerbated by parts that are Nil National Stock (NNS)⁹. This can occur for a variety of reasons, including life-cycled equipment, third party contract interest and industry competition.

According to the SAM, units are to plan their materiel requirements ahead of corrective and preventative maintenance. In the event there are NNS parts for scheduled work or anticipated repairs, units are to email D Mar P's Expediting desk. The intent behind this guidance is to identify NNS requests early to ensure the procurement can occur.

10. For a number of reasons, including capacity issues and changing priorities, there is no visibility on if these NNS items are identified to D Mar P nor whether these same items become low-priority HPRs. The intent of the SAM is to address HPRs as exceptions to the system. The reality at the tactical level is that often half of low-priority HPRs are also NNS. The tactical level ends up paying for premium shipping out of their local budget by moving the remaining parts that are low priority as HPRs if there is even stock. Literally, the general comment is "HPR everything."

11. As the issues in the supply chain get worse the side effects, such as low priority HPRs, become rampant. Senior commanders are engaged to move low priority items that remain outstanding for so long that they become high priority requisitions. The result is that confidence in the supply system is further eroded without an opportunity to ask for resources to assess and resolve the issues.

⁹ Nil National Stock means that there is no stock available other than that currently in accounts for local units.

The Fog of the HPR process

12. HPRs for low priority material remain hidden in a fog of complicated processes, the absence of technological integration across multiple logistical systems and applications, and the complex network of stakeholders. As a result, it is very challenging to provide commanders any clarity on the issue. Within the greater context of the supply process, HPRs, particularly those for low priority material, should be exceptions to the process. In practise, shipment of HPRs consumes already limited resources that should otherwise be invested in modernization and integration. Currently, HPRs identify inefficiencies in the supply chain and yet there are no efforts being made to resolve the underlying issues.

13. An example of the fog of HPRs is the various reporting tools used to capture these requisitions. There is no integration between systems and stakeholders operate in stovepipes with archaic manually created reports. When an HPR is initiated, the requisition is initiated in Defence Resource Management Information System (DRMIS) and an unclassified message is released. All HPRs are tracked by the coastal HPR cells, including those initiated by the FMFs for ships in refit. Daily, the HPR cells generate a 59-page PDF file for all Formation HPRs. The report is both long and complex.

14. For deployed units, HPRs are tracked and co-ordinated by the Joint/Maritime Logistics Operations Centre (JLOC/MLOC) which manually generates an excel spreadsheet to merge the information for HPRs belonging to deployed units with the movement data. The movement data is held in a separate database called National Movement and Distribution System (NMDS) and is integrated with civilian entities such as FEDEX and DHL. The lack of consolidated reporting

mechanisms between DRMIS and NMDS complicate the provision of accurate situational awareness on outstanding HPRs.

15. In May 2015, the Commander of the RCN directed that the RCN “take action to demonstrate concrete and sustainable action with respect to materiel management and enhancing command level engagement.”¹⁰ This is referred to as the Material Accountability Action Plan (MAAP) for the RCN and yet, low priority HPRs remains an issue. The reporting system alone remains with independent entities that make visibility exceptionally challenging.

Key Performance Indicators

16. With the direction for increased engagement in MAAP, Director Naval Logistics (D Nav Log) directed reporting requirements for KPIs to improve the RCN supply chain. The key indicators included items such as “Serviceable Stock No Location”¹¹ and “Outstanding Returns Work Orders Complete.”¹² These types of performance measures look into the material side of DRMIS and pull out key information regarding bottlenecks.

17. Integrated into the annual unit’s Logistics Readiness Inspection (LRI) and directed in the MAAP, the KPIs do assist to some degree in providing more clarity into the issues. According to the direction in the MAAP, “KPIs will allow early identification of problem trends at the lowest

¹⁰ Department of National Defence, *Material Accountability Action Plan* (Ottawa: DND Canada, 2015), 2.

¹¹ Serviceable Stock No Location means a requested serviceable part is onboard the ship but has not yet been receipted to the warehouse for issuance to the customer.

¹² Outstanding Returns Work Order Complete means the broken part, for which a replacement has been issued and repair complete, has not yet been returned to the pipeline for repair.

level and enable L1 oversight on those that are RCN wide.”¹³ While ships can use KPIs to determine areas for improvement, they do not, for example, identify outstanding HPRs, or NNS which have operational and strategic level implications for the RCN supply chain. Since KPIs add no value to the addressing of HPRs, KPIs are not integrated in either of the reports from JLOC/MLOC or the HPR cells.

Operational Effect

18. The misuse of HPRs for low priority materiel requests has an operational impact for the RCN support footprint in joint operations. While HPRs for low priority material indicate a loss of confidence in the system, as discussed, they are also inefficient. However, at the operational level these issues become exponentially worse when RCN units integrate into joint operations. According to the Logistics Deployed Support Naval Logistics Publication, “For joint operations, CJOC J4 Movement and J3 Desk Officer (not MLOC or JLOC) approve the mode of materiel movement.”¹⁴ In joint operations, RCN units may find that they are not permitted to use premium transportation because this is not supported by Canadian Joint Operational Command (CJOC). Furthermore, in the joint support structure, the Joint Task Forces Support Centre (JTFSC) receipts all materiel. The manning at the JTFSC may not be adequate to support a high number of low priority HPRs. Most importantly, at the planning level, it would be challenging to justify an increase in manning to support requests for not “true” HPRs.

¹³ MAAP

¹⁴ Department of National Defence, *Logistics Deployed Support Naval Logistics Publication – 4.0* (Ottawa: DND Canada, 2015), 26.

CONCLUSION

19. HPRs for low priority material are inefficient and detrimental to the RCN Supply Chain. This paper has explored the RCN loophole of using premium shipping for low priority HPRs, the lack of integration between information systems and the key performance indicators in place that do not analyze HPRs. The resultant effects keep commanders unaware of the true symptoms of the disease creating these low priority HPRs and creates significant concern for support in joint operations. In accordance with the direction to modernize in SSE, through increased integration and agility within the RCN supply chain, these problems can be addressed.

RECOMMENDATION

20. The following recommendations are focused on the operational level and the policy for the RCN supply chain.

21. The lens of analysis must be changed; rather than thinking of the supply chain as engineering and supply working separately, at the highest level, the entire supply chain must be viewed as a combined function of both fields. At the tactical level, integration can be achieved by including engineering representation in the Forward Logistics Site (FLS) teams supporting ships from ashore. At the corporate level, this includes photos available in the cataloguing system. These are small measures that can alleviate some of the lost confidence in the supply chain. At the operational level, shared KPIs and an integrated, efficient, automated report generator will provide stakeholders with the current and relevant operational picture.

22. In contrast however, at the policy level, the category of the OPDEF needs to be de-linked from the MPC of the HPR. Using HPRs for Cat 3 or urgent requirements is a work-around developed by the RCN but, in doing so, continues to hide the issues in the supply chain. As discussed, they are inefficient and hinder the system.

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