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## ISSCF AND IMPROVING FUTURE CAPABILITIES

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## **ISSCF AND IMPROVING FUTURE CAPABILITIES**

### **AIM**

1. As a cost saving measure the Department of National Defence (DND) directed a new strategy to support major capital acquisitions called the In Service Support Contracting Framework (ISSCF). This concept was intended to reduce costs in DND and improve the support provided to major capital equipment, thus improving the operational readiness of platforms in the Canadian Armed Forces (CAF). This service paper will explore some of the fundamental assumptions made by DND regarding ISSCF and provide recommendations to the department on how best to proceed in the future to ensure support to our future capabilities is both optimized and economically cost effective.

### **INTRODUCTION**

2. The ISSCF is the Government of Canada's strategy to support and maintain capital assets after they have been procured. Resulting from budget constraints, it was determined that the most effective way to maintain CAF platforms would be to contract this service with private industry. DND promulgated its strategic policy on this matter in DAOD 3022-0 (Procurement of In Service Support for CF Platforms). The intent of this DAOD was to mandate the use of ISSCF for all future procurement of CAF platforms. As a result, when the National Shipbuilding Procurement Strategy (NSPS) was announced by the Harper government, ADM(Mat) and Director General Maritime Engineering Management (DGMEPM) used the ISSCF in its plan to support future projects – specifically, the Joint Support Ship (JSS) and the Arctic Offshore Patrol Vessels (AOPS). As the first two projects to be built under the umbrella of NSPS, it was decided that ISSCF would be the method to best support these two platforms. Subsequent to the decision

being made to utilize contractors to support AOPS and JSS, DAOD 3022-0 has been cancelled until a streamlined DOAD can be published. Although, the exact reasons as to the cancellation of DAOD 3022-0 have not been publicly documented discussions with key personnel in ADM(Mat) have disclosed that it was to ensure that the process contained in the DAOD governing ISSCF is less prescriptive. That is, the former DAOD mandated that ISSCF be used to support all future platforms while, the new DAOD will essentially enable the project to determine how to support the platform, i.e. use ISS or use existing DND resources.

3. ADM(Mat) decided to award one contract to support both classes of ship given that AOPS and JSS would primarily be commercial builds and would therefore utilize many of the same systems and spare parts. It was decided that one contractor would be able to support both platforms and this option was discussed with, and agreed upon by industry. As such, the AOPS/JSS ISS (AJISS) project was stood up to implement this concept.<sup>1</sup> Currently, the concept of support for AJISS is still in draft form and different options on how best to leverage support from a contractor for AJISS are being explored. ISSCF is a relatively new approach to supporting platforms and the Royal Canadian Navy (RCN)'s only experience with this concept is with the support to the Minor Coastal Defence Vessels (MCDVs).

## **DISCUSSION**

4. The paper will discuss some fundamental concepts behind ISSCF. When ISSCF was first developed, it was based on the idea that the contract to build the ships would also include supporting the ships for the next thirty years. In theory, this concept of ISS would have ensured a superiorly built product for the CAF. For example, when a company builds a platform and

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<sup>1</sup> Canada. Department of National Defence. AOPS AND JSS COMBINED CONCEPT OF IN-SERVICE SUPPORT. December 2014

understands it has an obligation to support that platform, it will construct a superior product. When engineering a product, companies can easily calculate data which determines common failure rates for systems and for parts that support those systems. They do this to maximize their profitability. Companies will have data which can predict that a pump will fail three times in five years based on normal usage, then based on profit margins the company can then select which quality of part they wish to install in a system. For example, certain pumps may fail three times in five years, but if higher quality pumps are procured by the builder, the pump may only fail three times in ten years. Overlaying this idea on the initial way ISSCF was supposed to be implemented, i.e. that the contractor support the platform it builds, then companies would utilize superior quality parts to reduce the long term maintenance costs that the contractor would be responsible for. Conversely, if a company is not responsible for a platform after its construction, they will likely install the lowest cost pump to ensure maximum profitability.

5. However, at some point after this initial concept of ISS was postulated, a fundamental shift in policy was made to ISSCF. It is unknown exactly who made the decision, however, it was decided to sever the procurement/build contract from the support contract – in hindsight, this was a critical mistake. It is believed that this change is a result of recommendations made by the Office of the Auditor General (OAG) in 2011 when it conducted a review of “Maintaining and Repairing Military Equipment in National Defence”. The report found that ADM(Mat) was unable to provide relevant and important information and data about their projects and that “budget restrictions, shortages of qualified maintenance personnel, problems with spare parts supply, and aging equipment were having detrimental impacts on the Canadian Forces’ ability to

meet equipment readiness standards.”<sup>2</sup> It is believed that, as a result of this OAG report, that senior leadership within DND directed the de-linking of procurement from the support phase of shipbuilding.

6. It is also believed, although impossible to prove, that there was an underlying belief that awarding a contract to the builder of a ship and then supporting the ship for thirty years would violate fairness aspects of government contracting. Companies who did not possess the capability to build ships, yet possessed the capability to support them with maintenance and the provisions of parts could be unfairly excluded from bidding for a build and support contract. While the fact that there are not a lot of companies within Canada who could compete for a contract of this nature, the severing of the procurement and the support phase has serious ramifications regarding the quality of the platforms as stated above. Now that the contractor responsible for the build is not liable to support, the quality of the platform will be inferior and thus long term supportability costs for DND will drastically increase.

7. Another assumption embedded within ISSCF is that a contractor is more effective and efficient in providing support than current DND resources. Again, the assumption that DND is not adequately able to support its platforms is not entirely accurate. There have been multiple analyses completed by ADM(Mat) and DGMEPM which have all determined that DGMEPM is understaffed to support its current workload. The premise of ISSCF is that a contractor will remove some of the existing workload from DGMEPM staff, thus making them more capable of delivering on their remaining tasks. This will undoubtedly be the case. However, it comes with a significant cost. The cost referred to is the actual monetary cost of a contractor providing the

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<sup>2</sup> Office of the Auditor General. “2011 Fall report of the Auditor General of Canada”, accessed 07 February 2016. [http://www.oag-bvg.gc.ca/internet/English/parl\\_oag\\_201111\\_05\\_e\\_35937.html](http://www.oag-bvg.gc.ca/internet/English/parl_oag_201111_05_e_35937.html)

service vice the staff in DND continuing to provide this service. Specifically, if adequate resources were provided to DGMEPM, they would be more than capable to support AOPS and JSS in the future. Instead of trying to offload work to a contractor, DGMEPM should be focusing on securing the resources required to support its initiatives. Although extremely difficult in DND's current climate of zero growth, the cost of outsourcing should be articulated to the government and high level decision makers so that they are able to make informed decisions regarding the government's resources.

8. ISS is not a new term and in fact is similar to Alternative Service Delivery (ASD). This buzzword was popular nearly a decade ago and many believed military services, specifically logistics services, could be outsourced. For example, the administration of postings used to be completed by RMS clerks and delivered by military personnel. During a time of budget cuts and personnel reductions it was thought that this administrative task could be more economically conducted by a service provider. As such, Royal LePage Relocation Services was awarded a contract to administer all aspects of postings and associated moves. As a result, the military was able to offload numerous positions associated with the overhead to run this administrative function. However, if a very basic utility analysis is conducted, one can determine that outsourcing this service was not only less effective, but more financially costly.

9. To illustrate the above point, there are approximately twenty four CAF bases/locations which would require some sort of posting support which is currently provided by Brookfield Relocation Services. Each location would require, on average, approximately five personnel to administer posting files on behalf of DND as well as a central coordinating office that employed even more staff. It is also determined that the average salary for these individuals would be

approximately 65,000 per annum.<sup>3</sup> Therefore, one can easily compute the cost associated with provided this simple service to DND by multiplying the bases by personnel by salary – this amount is \$7.8 million. Recently obtained data through the Access to Information process indicates that DND pays more than \$30 million per annum to Brookfield Relocation Service for them to administer our relocation program and does not include the actual monetary value of the benefits provided to posted members who are relocated. As is clearly demonstrated in this business case, the cost of outsourcing this simple service is far more costly than if DND had retained the capability to administer the posting files on their own. The government wanted to look like it was saving money through positions, but the associated increase in cost to continue the service seems not to have made a difference. We also see the downside of outsourcing this service to a company because we have many issues with the administration of postings files. The inability of the contractor to deliver has resulted in numerous Director Compensation Benefits Administration (DCBA) adjudications whereby members can appeal decisions made by Brookfield Relocation. We then see an increase in grievances resulting from postings. The mismanagement of this service by Brookfield has therefore created a requirement for extra resources internal to DND to address the resulting adjudications and grievances, which may not have been necessary if DND had retained complete control over this service. As Brookfield Relocation has a contract, they rigidly stick to this contract and it limits their flexibility to make decisions on issues which are not always covered in policy. If DND retained this function, it would have this flexibility and in theory would further reduce this resources requirement. To extrapolate this example to ISSCF to the procurement of platforms, DND should understand that although it does not currently have the required resources to support what is being asked of DGMEPM, the solution is not as simple and outsourcing it. If a comprehensive business

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<sup>3</sup> It is assumed that these numbers have erred on the side of caution.



analysis was conducted, the results would demonstrate that increasing DGMEPM positions to meet the demands of supporting platforms would be far less costly than outsourcing it to industry.

10. The case above illustrates that outsourcing does not necessary provide a real cost saving or improved quality of service. In addition to the real cost associated with ISSCF and as a result of severing the procurement and support phase of the contract, the CAF will undoubtedly receive inferior quality products. Understanding these concepts is fundamental in constructing the AJISS going forward. Specifically, the initial contact award should not be a lengthy contract. As with most complicated platforms, there will likely not be a significant need for maintenance or spare parts during the first five years of the life cycle. As such, any analysis within the first five years should not be used to predict the next 25 years of the life cycle of the equipment, common sense dictates that breakdown will occur more frequently as equipment ages; in fact, most commercial warranties bank on this fact. The analysis of success of the selected contractor should be based from year 5-10 as this will be a better indicator for future performance as the work will be more indicative of normal operations, vice during the first five years and the anticipated lack of support given it is new, and relatively maintenance free, equipment.

11. Finally, with the above mentioned aspects of ISSCF, the award of a contact to support AOPS and JSS does not preclude DND from conducting an independent business case on the “full” cost of implementing ISSCF. If, as my simple example demonstrated, ISS is in fact more costly, DND should attempt to build its internal capacity to support future projects vice using the ISSCF route. Also, if the functional analysis of year 5-10 does not demonstrate improved readiness indicators for our platforms, then DND can simply alter course and start to support its platforms again. For example, there is no reason why DND cannot return to administering

posting files again and not renew the contract with Brookfield if it so chooses, although the cost of re-training many of its RMS clerks would still require consideration as would the potential impact on the RMS Strategic Intake Plan (SIP).

## **CONCLUSION**

12. Initially, the concept of ISSCF was implemented as it was hoped that it would improve the quality of the product being received from contractors. However, as a result of perceived fairness concerns as well as the observations brought forward by the OAG in 2011, the build and support aspects of the contract award were severed from each other. Now dealing with the challenges of implementing a cost effective solution to support AOPS and JSS, decision makers within ADM(Mat) are beginning to understand that making ISSCF mandatory was too prescriptive and all suitable options should be carefully considered when deciding how to support platforms in the future. In order to best understand how to utilize ISS to its full potential, a comprehensive analysis of any past outsourcing lessons learned, i.e. lesson learned from support MCDVs should be immediately undertaken. As part of this analysis, a complete business case should be completed in order to determine the long term advantages and disadvantages of using ISS vice supporting platforms using resources internal to DND.

13. There exist many assumptions about ISSCF which are fundamentally flawed, firstly that it is more cost effective to use contractors in supporting DND's major capital platforms. In order to better shape decision makers on the issue at hand, it is recommended that these pertinent facts be articulated to high level leadership in the hopes of shaping future policies regarding ISSCF. Further, it is recommended that ADM(Mat) conduct a comprehensive business case on an ISSCF based off past utilization and future predictions of overall cost to outsource vice overall cost to

provide internally. To articulate that DND is experiencing funding issues, and therefore must use ISSCF, which is actually more expensive is political rhetoric and incorrect.

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