

Canadian Joint Strike Fighter

Understanding the cost of delivering capability

The challenge

In 2010 the federal Government of Canada considered the acquisition of the F-35 "Next Generation Fighter" to replace their aging fleet of CF-18s. Delivery was anticipated for 2019.

In the 2012 Spring Report, the Canadian Auditor General recommended the refinement of the Canadian program estimates of the Joint Strike Fighters' full life cycle costs. The Treasury Board Secretariat commissioned an independent review by KPMG in Canada to develop a Life Cycle Costing Framework that could be used by the Department.

The approach

KPMG in Canada deployed an international team of Life Cycle Costing experts. They assisted the Canadian Government to attain greater confidence around the degree of cost certainty of the program to replace the CF-18s with the F-35 Joint Strike Fighter.

The KPMG Life Cycle Costing Framework developed to support the independent review also needed to be used and applied by officials within the Department of National Defense, and at Ministerial level. KPMG in Canada took a principle based approach to the development of the Framework based on Canadian guidance and requirements. These were underpinned by the incorporation of international leading practices, which KPMG in Canada drew from its support to comparable large-scale military programs and other government initiatives in many other countries.

KPMG in Canada drew on past experience to determine an appropriate design. The design segmented the life of the Joint Strike Fighter into key phases and sub-activities. In taking this approach, the Canadian Department of

National Defense was then able to apply Life Cycle Cost analysis to any stage within the defined program phases, allowing for changes, which more accurately reflected step improvements in the fidelity of estimates and the inclusion of actual data as it became available.

The results

The ultimate purpose of the development of the Life Cycle Costing Framework was to inform robust decision-making for the future of the Joint Strike Fighter Program. The newly developed Life Cycle Costing Framework facilitates accountability, traceability, transparency and consistency for the Next Generation Fighter program in Canada. This, in turn supports robust decision-making at Program, Departmental and Ministerial levels.

“ Due to the complex and sensitive nature of the services requested, KPMG established a local team supported by international specialists with extensive experience in defense capital acquisition/procurement, life cycle costing and integrated logistic support.”

Ken Drover
Global Defense Lead Partner
Global Defense Network



“ Guided by Government policies and international best practices, KPMG designed a best-practices guide (the Framework) to inform the development of full life cycle cost estimates for the Next Generation Fighter Capability (NGFC) program. ”

Public Works and Government Services, Canada

Lessons learned

- **Estimate and communicate the degree of uncertainty:** Life Cycle Costing is fundamentally a forecasting activity and is therefore imprecise and uncertain due to the unforeseen impact of various potential future events. The level of uncertainty in early project phases is significantly higher than the cost uncertainty level in later project phases.
- **Understand what is being costed:** Developing a clear understanding of the purpose of the Life Cycle Costing Framework is a key design consideration as it supports the required information for decisionmaking. Projects must go back to the original documentation and maintain awareness of what is being costed in order to avoid 'group think'. Life Cycle Costing estimates are driven by the decisions which are required to be made.
- **Cost the project:** Life cycle costing is a tool to inform better budgeting based on clearly documented assumptions. As budgets and assumptions change there must be a clearly documented evidence trail of outputs, their impact on the LCC model and its underlying assumptions.
- **Independent cost estimation:** Cost estimation must be completed independently, with impartiality, and must clearly document all assumptions. The 'Cost Estimator' must have access to the same information as the program, but the cost model developed must be designed independently.
- **Understand cost certainty from the program's outset:** Application of independent advice from the program's outset facilitates an early understanding of cost certainty.

Contact us

Brian Bost

Partner-in-charge Risk Consulting

KPMG in Canada

T: +1 613 212 2898

E: bbost@kpmg.ca

Ken Drover

Global Defense Lead Partner

Global Defense Network

T: +61 3 9288 6623

E: kdrover@kpmg.com.au

Chaturika Bandara

Associate Director,

Global Defense

T: +61 3 9838 4431

E: cbandara@kpmg.com.au

kpmg.com/socialmedia



kpmg.com/app



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2016 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

Designed by Evalueserve. Publication name: Canadian Joint Strike Fighter. Publication number: 133111-G. Publication date: February 2016