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• (1100)

[*English*]

The Chair (Mr. Kelly McCauley (Edmonton West, CPC)): Good morning everyone.

We have meeting number 37 of the House of Commons Standing Committee on Government Operations and Estimates, a.k.a. the mighty OGGO.

Today we have witnesses from the Office of the Parliamentary Budget Officer. George Martin was famously the fifth Beatle; I think the PBO is the twelfth OGGO member. It's wonderful to have the four of you with us.

Today we have Mr. Yves Giroux, the Parliamentary Budget Officer; Carleigh Busby, adviser-analyst; and Albert Kho, analyst.

Welcome, Albert, to your first OGGO, I think.

We welcome back Mr. Christopher Penney, adviser-analyst.

Mr. Giroux, I believe you have an opening statement.

Mr. Yves Giroux (Parliamentary Budget Officer, Office of the Parliamentary Budget Officer): Good morning, Mr. Chair and members of the committee. Thank you for the invitation to appear before you today.

We are pleased to be here to present the findings of our report entitled "The Life Cycle Cost of the Canadian Surface Combatants: A Fiscal Analysis", which we were honoured to prepare at the request of this committee.

With me today I have the lead adviser and analysts for the report, Christopher Penney, Carleigh Busby and Albert Kho.

Consistent with the PBO's legislated mandate, at the request of this committee, my office prepared an independent cost analysis of the Canadian surface combatant program, including estimates for the development, acquisition, operations and sustainment, and disposal phases of the fleet's life cycle.

[*Translation*]

The total life cycle cost of the Canadian surface combatant program, or CSC, is estimated to be \$306 billion, with an estimated \$4.3 billion for the development phase, \$80.2 billion for the acquisition phase, \$219.8 billion for the operations and sustainment phase, and \$1.7 billion for the disposal phase.

Our latest estimate of \$84.5 billion for the development and acquisition phases represents a 9% increase over the \$77 billion cost estimate presented in our 2021 report. This increased cost is reflec-

tive of changes to protect assumptions and timelines, including an increase in the planned weight of the vessel and a later delivery schedule.

We would be pleased to respond to any questions you may have regarding this report or other work of the Parliamentary Budget Office.

[*English*]

The Chair: Thank you, Mr. Giroux,

We'll start with six minutes for Mrs. Kusie, please.

Mrs. Stephanie Kusie (Calgary Midnapore, CPC): Thank you, Chair.

Thank you very much to the PBO and his officers for being here this week on such short notice. It's truly appreciated.

As we go into this week and next week, which is our break week, it's a time, as we consider the significance of Remembrance Day, to think about the capacity of our armed forces and our military. What concerns me the most regarding this study—recognizing that I am new to the committee—is what these delays mean for our capacity as a nation to protect ourselves from a domestic standpoint, but also what we can offer the world, as we've seen most recently with the war in Ukraine. When I think about this study, this is my concern.

As the shadow minister for the Treasury Board, I'm always concerned about funds being used with the greatest of care and giving the most scrutiny for the Canadian taxpayer. It gets to the point where, if you need a roll of toilet paper, you need a roll of toilet paper, and you're willing to pay \$10 even though you would rather pay \$5.

I come here today with concern with the delays in procurement in regard to our capacity as a nation for both protecting ourselves in a domestic capacity as well as our ability to contribute to the world stage.

We've heard consistently from our Prime Minister that Canada is "back". I think we've seen repeatedly that this is not the case. It's certainly not the case with the capacity we have to protect ourselves as well as helping the world.

Also, we see a time where enlistment for the armed forces is suffering significantly. I have here an article from the Canadian Press. It indicates:

Recruitment cratered during the first year of COVID-19 as the military shuttered recruiting and training centres. The result: only 2,000 people were enrolled in 2020-21—less than half of what was needed.

...the military is getting about half the number of applicants it needs per month to meet the goal of adding 5,900 members this year.

The shortfall is expected to exacerbate the current personnel shortage, with about one in 10 of the military's 100,000 positions unfilled.

I also believe it is a result, frankly, of Canadians being hesitant to put their lives at risk for their nation without being properly equipped to do so.

I'll point to other nations that have had significantly more success in doing that; in particular, if we do a comparison to the U.S. and the procurement process for the Constellation FFG-62 ships.

I come here today certainly concerned about the significant increase—a 9% increase over the \$77-billion estimate—to \$84 billion, acknowledging that the \$60-billion budget initially set in 2017 was not enough.

Please, can you enlighten the committee, as far as you can, on the fundamental reason for these delays? I'm always worried about the money, but I'm more concerned about what this means for our protection domestically and our ability to contribute internationally at a time when the world increasingly needs it.

• (1105)

Mr. Yves Giroux: That's an interesting question. We looked at the impact of the delays on the cost of the program, and we found that every year of a delay, roughly speaking, adds about \$2.5 billion to the total cost of the acquisition phase—development and acquisition.

However, with regard to the causes of the delays themselves, we don't have a clear answer to that. We focused on the costs and we rely on data that is provided to us by DND. We don't have a clear answer as to the causes of the delays.

I think that DND officials or the minister would be in a much better position to explain in greater detail the causes for these multiple delays.

Mrs. Stephanie Kusie: Building on that, based upon your assessment of the costing, can you see any way that these delays could be mitigated? That's based upon your evaluation of the costing.

Mr. Yves Giroux: One way of shortening the delays or stopping them would probably be to buy off-the-shelf ships—ships that have already been designed and built elsewhere. It would be taking the same types of ships and minimizing the Canadianization or the number of adjustments to existing ship designs.

We could take something that already exists elsewhere. However, that would also mean forgoing some specifications that the Royal Canadian Navy might deem necessary or essential, or sometimes desirable. That's up to the Royal Navy to decide whether that would be a feasible approach.

• (1110)

Mrs. Stephanie Kusie: In your assessment, do you believe that these changes in cost are coming more from changes made by the government, or are they necessary changes from the contractor?

The Chair: I'm afraid I'm going to have to interrupt you, because you have about five seconds.

You can perhaps continue in the next round or provide it in writing. Thanks very much.

Mr. Kusmierczyk, you have six minutes, please.

Mr. Irek Kusmierczyk (Windsor—Tecumseh, Lib.): Thank you, Mr. Chair.

Thank you very much, Mr. Giroux, for coming here once again and providing your testimony and insights.

When you look at the overall life-cycle cost of this project, \$306 billion, that number is obviously eye-watering, no matter how you look at it.

At the same time, can you explain the actual life cycle of this project? This is not a one-time, one-year expense. This is over a period of time. Can you tell us how many years that life cycle encompasses?

Mr. Yves Giroux: The life-cycle costs span a period of 65 years. They start from when the design of the program started, so the development phase. These costs end when the last ship is finally disposed of and dismantled, with the resulting steel sent for recycling, if it's feasible at that time.

They span a very long period and include every cost, as I mentioned—from the development phase, which includes the design and project management; to, of course, the acquisition, so building and purchasing the ships; and their operation and maintenance over their expected lifetime of 30 years, including a mid-life refit and the disposal of the ships. They span a very long period of time.

Mr. Irek Kusmierczyk: You mentioned that there's a 30-year operations time frame. What goes into calculating the actual operations? Where does that number come from—the 30 years?

Mr. Yves Giroux: It comes from the expected lifetime of the ships, which is based on DND information as well as the lifetime of similar ships built and in operation elsewhere. The operations and maintenance costs include personnel, so the crew that will be on the ships, the fuel to propel the ships, lubricants, munitions and arms systems, as well as the mid-life refit of the ships.

Mr. Irek Kusmierczyk: In the defence industry, when you have the expected lifespan of a piece of equipment, is that equipment typically retired at that lifespan? Do you normally see in defence, for example, that the lifespan is extended beyond the expected life cycle?

Mr. Yves Giroux: It's usually built with a certain lifespan in mind. They're built towards lasting about 30 years. Of course, depending on their usage over time, they can last longer or for a shorter period of time. Their lifespan can be extended with significant maintenance or expenditures when they're nearing the end of their useful lifespan.

Mr. Irek Kusmierczyk: There is even a possibility that this could be extended beyond a 65-year life-cycle time frame. Is that correct?

Mr. Yves Giroux: Yes. It's quite possible that the ships themselves could last more than 30 years, if, for example, they're used less than we anticipate them to be used, or there is significantly more investment towards the end of their 30-year lifespan to extend their useful life.

Mr. Irek Kusmierczyk: Is it reasonable to say, as well, that if you purchase or design a warship made for Canada, that the chances of extending the life cycle are probably better than if you took a ship off the shelf that isn't made for a Canadian environment? Is that reasonable?

Mr. Yves Giroux: I wouldn't make that assumption right off the bat. I think we would need to look at what alternative designs were to be used.

Where they are used will matter a lot. However, I don't think it would make a big difference whether they're made in Canada or abroad, if they're made to the same specifications.

Mr. Irek Kusmierczyk: Okay.

You mentioned, for example, that the costs in general increase about \$2.5 billion for every one year of delay.

Could the Department of National Defence find ways to move the timelines up, in your estimation? Are there additional things that could be done to keep those costs in line as well? Do you have any recommendations in this report on both of those things?

• (1115)

Mr. Yves Giroux: It's difficult to determine that, because we don't have a clear understanding of what causes the delays. It could be design refinements. It could be specifications that change. It could also be the shipyards that are not fully ready to build these ships and require changes to what the department has in mind.

Without having a clear idea as to the root causes of the delays, it's more difficult to make recommendations as to how to avoid further delays.

Mr. Irek Kusmierczyk: We've seen, for example, COVID causing delays in other projects. Is it fair to say that the COVID pandemic and some of the issues with the supply chain and labour shortages had an impact on the delays on this project? Is that fair to say?

Mr. Yves Giroux: It's quite possible because we have taken data from DND and COVID delays presumably have been incorporated into the latest estimates. It's quite possible.

Mr. Irek Kusmierczyk: Thank you very much.

The Chair: Thank you, sir.

Ms. Vignola, you have six minutes, please.

[Translation]

Mrs. Julie Vignola (Beauport—Limoulu, BQ): Thank you, Mr. Chair.

I'd like to welcome the witnesses and thank them for being with us.

Even before your report was released, Allan Williams, a former assistant deputy minister at the Department of Defence, warned that the costs of this program alone exceed the total funding available within the Department of National Defence to acquire and maintain capital equipment for the combined army, navy and air force, with the risk that the purchase of these ships will come at the expense of other acquisition projects, thereby mortgaging military operations.

What do you think about it?

Allan Williams added that it would be foolish not to start the process again, since Canada can't afford to buy these 15 surface combatants.

What do you think of his analysis?

Mr. Yves Giroux: I think these are very legitimate concerns. In fact, the cost of acquisition and development is not considered likely to exceed \$84 billion. So there may be some tough decisions to be made. There could be painful trade-offs over the acquisition of major pieces of equipment such as fighter jets, the cost of which hasn't yet been determined, and other types of equipment such as tanks, which will have to be purchased or replaced in the coming years.

We also know, given what we know about the current budget of the Department of National Defence and the combatants, that maintenance and operating costs are likely to consume well over half of the budget. It is likely to be three quarters of the Royal Canadian Navy's budget, if not more.

If the 15 combatants alone consume a very large portion of the Royal Navy's operating budget, there won't be much left for other ships and other types of defence operations.

So I think Mr. Williams has raised some very legitimate concerns.

Mrs. Julie Vignola: Thank you, Mr. Giroux.

We have a columnist in Quebec named Pierre-Yves McSween. A question he often asks is, "Do we really need it?"

Does Canada really need 15 surface combatants?

Mr. Yves Giroux: Military strategists, government officials and the Minister of National Defence would probably be in a better position than I to answer this question. That said, given that Canada is the second-largest country in the world and is bordered by three oceans, the fact that we need ships to protect and defend our coasts seems obvious. However, do we need the current or proposed combination? Military experts are in a better position to answer that question.

Mrs. Julie Vignola: Fine, thank you.

Suppose tomorrow morning the surface combatant program is dropped. What economic impact would this have on the regions involved in developing and building the program, and on Canada as a whole?

Mr. Yves Giroux: This would obviously have a negative impact on the shipyards responsible for developing and building the vessels. It would have a negative impact on jobs and economic benefits. It would also negatively affect our defence capability, the military capability of the country. That suggests that if we were to abandon the program, we would probably have to replace it with something else.

• (1120)

Mrs. Julie Vignola: Okay.

Page 3 of the report talks about the life cycle stages. Ideally, when should the development phase and the acquisition phase be restarted so that the end of operations is consistent with the start of operations for the next fleet?

Over a 65-year cycle, at what point, approximately, is the development process restarted?

Mr. Christopher Penney (Advisor-Analyst, Office of the Parliamentary Budget Officer): I'm sorry, but I'm going to answer in English.

[English]

National Defence officials we spoke to said we would have to start a new procurement program pretty much from the time these ships entered the water, in order to assure there is no further gap.

[Translation]

Mrs. Julie Vignola: Okay.

So, if I understand correctly, development costs will have to be added to the operating costs in order to be ready to replace the vessels at the end of their lives and to avoid a shortfall of a few years.

Mr. Christopher Penney: In principle, yes, but that would be under another program. So it's not part of our estimate.

Mrs. Julie Vignola: Thank you.

How many people do you think each vessel will need per shift to be able to operate?

Mr. Yves Giroux: It is estimated that there are approximately 200 crew members in total. In terms of the number of people per shift, it depends on how things are organized within the crews and the Royal Canadian Navy. However, it's estimated to be about 200.

Since no one is revolting, I gather that my answer is correct.

[English]

The Chair: I'm afraid that's your time, Ms. Vignola.

Go ahead, Mr. Johns.

Mr. Gord Johns (Courtenay—Alberni, NDP): Thank you.

Thank you again for being here and for the important work you all do.

I was just at the Mount Arrowsmith Legion in my riding on Friday. I got to be there for the flag-raising on another poppy campaign, and I thanked the men and women who serve in our military and RCMP, and the veterans there, as well. I ran into our base commander from CFB Nanoose Bay. He highlighted how important it is that they have the right equipment to do their job.

I looked at your report and did some numbers on it. It's 12.5% over one year. That's way beyond the rate of inflation. Can you explain what the different costs are that have made it even more than what everything else going up, when you look at your analysis?

Mr. Yves Giroux: You mentioned inflation, which is running at 7% or 8% in this country. It is obviously an important contributor to increased costs.

Also, every time you delay the program by a year, it adds costs because you have to maintain project management for an additional year. It also means that, not only is the first ship coming into service delayed, but all the other ships are delayed as well. In fact, the one-year delay in having the first ship translates into up to four years' delay in getting the last 10 ships. A one-year delay at the beginning of the period means a four-year delay for the last 10 ships, which significantly adds to the cost.

Mr. Gord Johns: I appreciate that you cited our having three coastlines—the longest coastline in the world. It's critical that we have the right equipment for our men and women. I didn't have a chance to say, on record, how much I appreciate their sacrifice and service to our country.

At the same time, we need to make sure we're looking at these costs, which have skyrocketed since the initial time frame. The life-cycle costs of this project continue to expand. Upon hearing that the latest estimate exceeds \$300 billion, many Canadians are thinking about what could have been achieved if some of that total were put towards other urgent needs, such as our health care system, including mental health, climate action or the housing crisis.

Since the project's original budget was set in 2008, how much of the increased cost could have been avoided and how might those increases have been mitigated?

• (1125)

Mr. Yves Giroux: That's a difficult question to answer because I don't know whether the original cost was, in fact, a solid estimate at that time. Assuming it was a very solid cost estimate, making the decision early and starting early with the development and acquisition of these ships would certainly have been a good way to avoid incurring these ever-increasing additional costs due to delays.

As I said before, the delays might have been totally justified. They may have been justified by design changes necessary to meet the Royal Canadian Navy's needs, or they could be things deemed to be desirable, as opposed to indispensable. For these reasons, the reasons behind the delays are probably better explained by National Defence.

Mr. Gord Johns: Speaking of DND, what information did DND provide to your office in terms of assisting with the report, and did DND withhold any information? If so, what impact did that have on your report?

Mr. Albert Kho (Analyst, Office of the Parliamentary Budget Officer): No, we can say that DND has been forthcoming with all the information that has been requested. We have been notified that there are delays to procurement, specific to certain ships. That can be detailed as needed. The specifications other than that have not changed at this time.

Mr. Gord Johns: Do you disagree with any of the information that they provided? If so, why?

Mr. Albert Kho: We don't have any disagreements because we're agnostic about the reasons. We take the data as given, and we provide a cost estimate, as per our mandate.

Mr. Gord Johns: What level of confidence do you have in this latest estimate? If you look at this project again in a year, do you expect the costs will have increased further? I understand that with inflation it's pretty hard to gauge where we're going right now, but....

Mr. Yves Giroux: We're confident that the cost is an accurate cost as of now, but if we look at this in a year from now, I'm confident that the costs will have gone up, especially if there are further delays, as has been the experience so far.

Mr. Gord Johns: Can you explain the difference between DND's and the PBO's cost estimates for this project?

Mr. Yves Giroux: It's hard for us to determine exactly what the source of the difference is because we don't have a very clear window as to how DND determined its cost estimate. The most recent one that it released publicly is a couple of years old, so it's very difficult to determine why DND's cost estimate is so much lower than ours. Time is an important factor, contributing to the difference. Besides that, DND is in a good position to determine what's different between its cost estimate and ours, because our methodology is very well known to DND. It's pretty open and transparent, but we don't have the same window into DND's methodology.

Mr. Gord Johns: Superb. Thank you.

The Chair: Thanks, Mr. Johns. You're right on time.

Mrs. Block, you have five minutes, please.

Mrs. Kelly Block (Carlton Trail—Eagle Creek, CPC): Thank you very much, Mr. Chair.

I echo my colleagues' comments in welcoming you here today. It's an important study, one that I understand—certainly on this project—has been ongoing. I do appreciate the report that you presented last week.

There is a lot of information here, a lot to try to wrap your head around when it comes to understanding the life-cycle costs of our

Canadian surface combatants. You've given us a life-cycle cost that is stretched over 65 years. It's my understanding that, back in 2013, the Auditor General provided a life-cycle cost that was around the \$90-billion-plus range. Now, we're looking at that having tripled.

The development and acquisition phase has gone from \$26 billion to \$84.5 billion. That's my understanding from what I've read.

Of the 65 years, could you describe for me what the actual development and acquisition phase is? I see what you've estimated for time for the disposal phase. We know what the operational phase is, so what exactly should a standard development and acquisition phase be, if there is one? What should that be? What's the industry standard around the world?

Mr. Christopher Penney: It's very country-dependent, based on my experience.

If we look at the United States, usually the development phase would last between five and seven years for a surface combatant. Then, of course, there is acquisition. It depends on how long the production run is.

● (1130)

Mrs. Kelly Block: Okay, thank you.

I want to talk about some costs that were not included in your report. That would have to do with the taxes and the HST.

Can you explain the issue with the taxes and why the Department of National Defence refused to include or did not include that?

Mr. Yves Giroux: When looking at typical Government of Canada contracts, HST or sales taxes, provincial sales taxes, are always included in contracts. The Government of Canada will pay the applicable provincial sales tax, HST and GST. There's no reason to believe it will be different this time, but DND made that an important point of disagreement between their estimates and ours. For that reason, and to ensure comparability between the numbers DND has put out and hopefully will put out in the future, and ours, we decided not to include provincial sales taxes or HST to ensure comparability for parliamentarians.

I see no obvious reasons why DND will be exempted from sales taxes, but maybe they will enter into agreements with provinces to exempt them from sales taxes. For that reason, and to avoid making that an issue as opposed to the real and central point of the life-cycle costs of \$306 billion, we decided to exclude sales taxes to ensure comparability and to avoid a side discussion that is not central to the point of the surface combatant.

Mrs. Kelly Block: Thank you very much.

I want to go back and give you the opportunity to answer the question that my colleague asked in regard to where the increases in costs are coming from. Are they coming more from changes made by the government or from necessary changes that have been made by the contractors?

Mr. Christopher Penney: We can only speculate. We certainly had discussions with officials from National Defence, but I wouldn't say that we're at liberty to discuss what they told us. I think probably National Defence is best suited to give you that answer.

Thank you.

Mrs. Kelly Block: Okay.

I will cede my time.

The Chair: Thank you, Mrs. Block.

Mr. Bains, I believe you're up for five minutes.

Mr. Parm Bains (Steveston—Richmond East, Lib.): Thank you, Mr. Chair.

Thank you to our witnesses for joining us again here today.

The Canadian surface combatant project is the main component of the national shipbuilding strategy. Of course, it's a very important part of our marine sector here in British Columbia. Could you elaborate on the benefits to the Canadian economy of building our ships domestically?

Mr. Yves Giroux: Sure. We talk about the costs a lot and the costs of building the ships, but the focus of the report was indeed on the costs. We have not quantified the benefits for the Canadian economy or specific shipyards of the Canadian surface combatant, because that was not the scope of the report. However, it's clear that there are, and will be, benefits for the Canadian economy, notably economic benefits through jobs and expertise.

We often hear that there is an imperative to have a Canadian domestic capacity to build these ships for national security reasons. That is also hard to quantify. Because the scope of the report was to focus on the costs and the life-cycle costs, we indeed focused on that and not directly on the economic benefits or the intangible national security benefits.

Mr. Parm Bains: Thank you.

I think you touched on this slightly, but I note that this report does not go into international comparisons. Previous reports have made some comparisons with international examples. Some commentators have noted how difficult it can be to make accurate international costs, because we just don't have the same level of insight into the costing by foreign governments.

Can you speak to this challenge and to what the limitations are to making accurate cost comparisons?

• (1135)

Mr. Yves Giroux: That's a good point. In fact, when trying to have cost comparisons, usually navies around the world and national defence or defence ministries don't tend to be very open and transparent about all the costs they incur when they acquire and operate surface combatants or warships.

However, there is information that's available from a variety of shipyards and also from other navies, notably the U.S., the United Kingdom and Australia. For example, we have costing for the United States Constellation-class frigates. The Congressional Budget Office, our counterpart in the U.S., has estimated a cost of about \$12.3 billion for 10 ships, in 2020 dollars.

In current-year Canadian dollars, that would be about \$16 billion to \$17 billion for 10 ships. They're not identical to the surface combatants, and it's only the acquisition cost. It does not include the life-cycle costs, the disposal costs or the development of the program. However, it gives you an idea of costs that are incurred by allied navies elsewhere.

Mr. Parm Bains: Thank you for that.

On page 9, the report includes a section on costs that are excluded from the estimate, such as the cost of "civilian personnel associated with the service combatant". Does this indicate that the salaries of the military personnel are included in the operations and sustainment estimates?

Mr. Christopher Penney: Yes. All of the salaries of military personnel are included in the ops and sustainment phase.

Mr. Parm Bains: Okay.

The report then factors into the estimates "several docking periods" for each vessel. Has the PBO broken down the cost of the docking period?

Mr. Christopher Penney: With regard to operations and sustainment costs, and in particular maintenance, there are three lines of maintenance: on board, alongside and depot level. This docking period refers to the depot level maintenance. Those costs are calculated for the entirety of its life cycle and then spread over its life, so that you can have the inflation applied to properly account for the real cost.

Mr. Parm Bains: Mr. Chair, do I have more time?

The Chair: You have 11 seconds.

Mr. Parm Bains: Again, thank you to our witnesses for providing all of that information. I'll leave it at that.

The Chair: Thanks, Mr. Bains.

Ms. Vignola, you have two and a half minutes, please.

[Translation]

Mrs. Julie Vignola: On page 2 of your report, under "Background", it says that costs aren't indexed.

What would they be, approximately, if they had been?

Mr. Yves Giroux: It's hard to give you a quick cost estimate.

Actually, the amounts are indexed. These costs are based on the assumption that inflation will continue according to our office's projections. So the question you're asking would be what the costs would be if they were put in today's dollars, in real dollars. I don't have those numbers off the top of my head. What you see is the total ongoing costs through the end of the program.

Mrs. Julie Vignola: So inflation is calculated as an average.

Mr. Yves Giroux: Exactly. It's based on inflation forecasts, but over such a long period of time, forecasts are difficult.

Mrs. Julie Vignola: We hope not to go back to the inflation rates of the 1980s.

Earlier, Mr. Bains talked about what was included in the operating costs, specifically the salaries of the military. Is the cost of uniforms, food on the ship, training, and so on, included? Is that all included?

Mr. Yves Giroux: Yes, those costs are included.

What isn't included is the cost of supervision at National Defence headquarters, for example. It's assumed that these costs would be incurred anyway, whether there are combatants or not. These costs would be negligible compared to other operating costs.

Food and uniform costs are included, as well as benefits for sailors on the ships.

• (1140)

Mrs. Julie Vignola: Is it possible to predict the long-term economic benefits of a project like the surface combatants?

What are the direct and indirect costs associated with it?

[*English*]

The Chair: I'm afraid unless you can answer that in four seconds, you'll have to provide it in writing to us.

Mr. Johns, go ahead for two and a half minutes, please.

Mr. Gord Johns: This project is expected to represent the largest expenditure in Canadian history. The publicly available information about the project's gender-based analysis plus focuses on the design of the ships. Can you speak about how the economic benefits might be distributed and whether the project is likely to improve economic equity for historically disadvantaged groups?

Mr. Yves Giroux: That's not something we have considered. We would need to make assumptions as to who will be employed in the shipyards that will be building the ships, as well as the military personnel who will be on board the ships, and it would be difficult to make these assumptions in 2022 for a program that will span 65 years. We can assume that the composition of navy personnel on board these ships, for example, will remain predominately male, but beyond that, whether females will make up an ever-increasing part to the point where there will be parity and whether it will include other traditionally disadvantaged groups in Canadian society is very difficult to estimate. I think Department of National Defence officials would be in a better position to answer that type of question, taking into account their own plan for inclusion and recruitment purposes.

Mr. Gord Johns: Okay.

This project is expected to be the largest expenditure in history. We talked about that. Has your office conducted an analysis of the local economic benefits that might be generated over the lifetime of the project? Also, when you're calculating that, are you keeping wages stagnant or will they meet the rate of inflation? We know that our military men and women are highly underpaid and their wages are not increasing with the rate of inflation, which is equally disturbing.

Mr. Yves Giroux: We have made the assumption that, going forward, wages will follow inflation. Inflation over such a long period is difficult to predict accurately, so doing so relies on hypothesis and assumptions. Regardless of what inflation is, we have made the assumption that wages will be growing at the same rate as inflation.

Mr. Gord Johns: That's excellent. Thank you.

The Chair: Thank you very much.

Mr. Barrett, go ahead, please, for five minutes.

Mr. Michael Barrett (Leeds—Grenville—Thousand Islands and Rideau Lakes, CPC): Good morning. Thanks very much for your work and for taking our questions this morning.

You mentioned that three-quarters of the navy budget will be consumed by these costs going forward. To be clear, that's the navy budget, not the budget of the Canadian Armed Forces. What is that budget today?

Mr. Yves Giroux: Thank you for giving me the opportunity to clarify that point. We have estimated in-house that the navy's operations budget is about \$4.5 billion per year. If we bring in the CSC, the Canadian surface combatants, operations and maintenance budget in current-year dollars—so the cost that will be incurred in years and decades to come on a comparable basis in 2022 dollars—that would eat up about \$3.8 billion of the \$4.5 billion. The CSC operating budget will be a significant portion of the navy's operating budget. However, that does not take into account the fact that the navy's budget may very well increase over time to accommodate the increase in costs due to the CSC. If we were to accommodate the CSC operating budget right now to make it fit within the navy's current budget, something would have to give, obviously.

• (1145)

Mr. Michael Barrett: A \$3.8-billion upward adjustment would be required to maintain the status quo if the CSC were brought online with the navy, based on those numbers.

Mr. Yves Giroux: Not necessarily, because the surface combatants are replacing existing ships. I don't know off the top of my head what these current ships cost to operate and maintain on an annual basis, so it would not necessarily mean an upward adjustment of that magnitude. There's a difference there that could need to be made up, or the navy could make different choices with respect to other types of operations that it could decide to lower or to slow down in order to accommodate the CSC within the current budget.

Mr. Michael Barrett: I appreciate that you don't have that. Is that a calculation that's been completed and that you have, or no?

Mr. Christopher Penney: Actually, I can speak to the current estimated operating costs for the Halifax-class fleet. It's between \$800 million and \$1 billion. When we say \$3.8 billion, that's incremental. It would be the difference between the two.

Mr. Michael Barrett: Would that be—I'm not writing these down as you say them—a \$2.8-billion upward adjustment that would be required?

Mr. Christopher Penney: Roughly, yes.

Mr. Michael Barrett: Okay.

I'm quite sure my math teacher is very proud of me.

Voices: Oh, oh!

Mr. Michael Barrett: When was the last time the projected weight of these these ships was updated?

Mr. Albert Kho: We can speak to the fact that the 2021 report had the lightship weight at 7,800 metric tons. That has not changed in this report, so it would be in 2021.

Mr. Michael Barrett: Okay.

Has DND released their life-cycle projections?

Mr. Yves Giroux: No. In fact, they've never released such a life-cycle cost.

Mr. Michael Barrett: Is that something that's been requested?

Mr. Yves Giroux: My understanding is that it's a requirement from Treasury Board. Treasury Board policy states that life-cycle costs have to be considered when considering the acquisition of a major procurement. To my knowledge, they've never been released. They may have been calculated but never released.

Mr. Michael Barrett: Okay.

What is the new added cost per year for delay based on today's inflation? If I understand correctly, it was previously \$2 billion.

Mr. Albert Kho: That's correct. In the previous report, it was an estimated \$2.1 billion. With some adjustments for inflation included, it's now \$2.5 billion, as was quoted earlier.

Mr. Michael Barrett: Okay.

I think that actually exhausts my questions, Mr. Chair. Thank you.

The Chair: Thanks, Mr. Barrett.

Mr. Jowhari, you have five minutes, please.

Mr. Majid Jowhari (Richmond Hill, Lib.): Thank you, Chair.

Thank you to our witnesses for doing the work that you do and for how quickly you make yourselves available to this committee.

Mr. Giroux, I believe I'm the last person asking questions today. As so many numbers have been thrown out, I'm going to quickly go through them. In 2008 we heard \$26 billion. In 2013 we heard something around \$90 billion. In 2020-21 we heard from DND roughly anywhere between \$56 billion and \$60 billion. Now we've come in and put a number of \$306 billion.

As a Canadian, especially during these times.... People are asking questions. Where are these numbers coming from? Are they compatible? Did the \$26 billion grow to \$90 billion, drop to \$56 billion,

and then grow to now \$306 billion? I mean, we throw billions of dollars here and there as if they're just numbers. Can you help us put into perspective what these numbers actually mean?

As a follow-up to that, you broke down the costs, or at least that's the first time I've seen the costs broken down, on development, acquisition, operation and disposal. Perhaps you could draw a parallel between those numbers and where they fit into this life cycle so that at least Canadians could have an understanding of where these numbers are coming from and how it relates to the life cycle you've put together.

Mr. Yves Giroux: I think that's an interesting question.

Our role is to help you—parliamentarians—and Canadians make sense of all these numbers by providing you with independent, non-partisan cost estimates of proposals that are before you, and that's what we did.

There are a number of numbers that have been used or quoted publicly over time, as you mentioned. There was the first initial estimate by DND. Then there was an Auditor General report where the Auditor General at the time looked at the life-cycle costs. Then we published our own cost estimate of just the development and acquisition, and last week we included not only the development and acquisition of these ships but also their operations, their maintenance and, finally, their disposal when they are no longer suitable for use by the navy.

That's why it can be a bit confusing. That's also why the report we released last week breaks down each of the four phases. The development phase is when DND works on the design and has project management to determine what would be the best ships to meet its needs. Acquisition is an estimate of the cost of building and purchasing the ships. Operations and maintenance is keeping the ships at sea with the required personnel. Disposal is tearing down the ships and safely disposing of the resulting materials.

● (1150)

Mr. Majid Jowhari: Thank you.

Is it fair to say that the latest estimate we have from DND—which is roughly around \$60 billion and dated back two years—is equivalent to the development as well as the acquisition, which in your report is about \$84 billion? We see almost a convergence of the DND and the PBO as they relate to the development and acquisition, although there's still a gap of \$20 billion.

Mr. Yves Giroux: Yes, you're right that the \$60 billion that you quoted from DND is equivalent to our \$84.5 billion, but I would not qualify that as convergence. There's still a significant gap.

Mr. Majid Jowhari: There's still a big gap. I want to acknowledge that. Thank you.

In your response to one of my colleagues on the committee, you mentioned that we could consider “off the shelf”. Just for clarification, these are off-the-shelf designs you're talking about, because I don't think any country has 54 ships ready and we're just going to.... Okay.

When it comes to off-the-shelf design, can you quickly tell us—and if we run out of time, can you make a submission on—what the impact of that would be on the acquisition, which I believe would be the building? I don't think, then, the operation and the disposal will much change. Really, if there is any difference that comes in, it is going to come on the acquisition side.

Mr. Yves Giroux: Yes. We can probably provide the committee with that type of information in writing, although operations and maintenance would be highly dependent on the size of the ships and also their use. Are they at sea for the majority of the year or for a very small minority of the time? Operations and maintenance depend, to a certain extent, on the design chosen but also on the actual use of the ships.

Mr. Majid Jowhari: Thank you, Mr. Chair.

I know you gave me another 10 seconds. I appreciate that.

The Chair: I gave you an extra 30 seconds.

We have a couple of extra minutes before we excuse our witnesses. With the committee's indulgence, I will use the chair's prerogative and ask a couple of questions, if you do not mind.

First of all, thanks for appearing today.

I'm curious. With regard to the lightship weight, which was provided in 2021, when was the last time DND updated the LSW? Was it in 2021, or are you working off a previous estimate of your own?

Mr. Christopher Penney: When we started the latest research for this report, we requested the information from DND regarding whether there had been any changes in terms of the design, the weight or anything like that. The answer was that, no, it is still using the same planning assumptions as we had in the previous report, so that is still the 7,800-tonne lightship weight.

The Chair: Do you know what year DND last updated the LSW, then, that it is providing to you?

Mr. Christopher Penney: It was certainly by 2020, although I suspect it's possible that DND has internal figures that are just not official yet.

The Chair: Has DND ever provided to the PBO its life-cycle costs?

Mr. Christopher Penney: Not the life-cycle costs, no. Just the development and acquisition phase costs.

The Chair: I understand that, under the Treasury Board framework, it's required, but are you aware if DND has actually developed...?

• (1155)

Mr. Christopher Penney: They certainly do have internal estimates of these.

The Chair: Wonderful.

I'll ask my very last question, and then we'll get you out of here on time.

You're basing this cost, as you have in previous studies, on the Arleigh Burke class in the States. How much of the Constellation class—which was the newer, more up-to-date one—costing have you applied to this program?

Mr. Christopher Penney: The Constellation class doesn't play into this estimate. We took a similar approach to what the Congressional Budget Office used to estimate the Constellation class, so we used the same base data they did, but that's the FREMM, not the Constellation class.

The Chair: Wonderful.

Thank you very much, again. I appreciate everything you do. It's wonderful to see you. We'll see you back for the supplementary (B)s, hopefully, in a couple of weeks.

Committee, I understand the whips have agreed that we will not be sitting Thursday because of the fall economic statement. My understanding is that Paul will try to move the Thursday witnesses to our next ArriveCAN meeting, which is the 17th, if I'm correct.

Wonderful. There's nothing else. The meeting is adjourned. Thanks, everyone.

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