



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

43rd PARLIAMENT, 2nd SESSION

Standing Committee on Public Accounts

EVIDENCE

NUMBER 033

Tuesday, May 25, 2021

Chair: Mrs. Kelly Block



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• (1105)

[English]

The Chair (Mrs. Kelly Block (Carlton Trail—Eagle Creek, CPC)): I call this meeting to order.

Welcome, colleagues, to meeting number 33 of the Standing Committee on Public Accounts. The committee is meeting in public today and is being televised.

Pursuant to Standing Order 108(3)(g), the committee is meeting today to study report 2, “National Shipbuilding Strategy”, of the 2021 reports 1 to 5 of the Auditor General of Canada. Today's meeting is taking place in a hybrid format, pursuant to the House order of January 25, 2021; therefore, members may be attending in person in the room and remotely using the Zoom application.

I would like to extend a special welcome to my colleagues, Mr. Paul-Hus and Mr. Van Bynen, who are not regular members on the committee. We appreciate having you join us today.

I have a few reminders for our participants. Interpretation services are available for this meeting. You have the choice at the bottom of your screen of floor, English or French audio. Before speaking, click on the microphone icon to activate your mike. When you are done speaking, please put your mike on mute to minimize any interference. When speaking, please speak slowly and clearly. Unless there are exceptional circumstances, the use of a headset with a boom microphone is mandatory for everyone participating remotely. Should any technical challenges arise, please advise the chair. Please note that we may need to suspend for a few minutes, as we want to ensure that all members are able to participate fully.

Now I'd like to welcome our witnesses, and we have quite a list.

Joining us today from the Office of the Auditor General are Casey Thomas, assistant auditor general; Nicholas Swales, principal; and Chantal Thibaudeau, director.

From the Department of Fisheries and Oceans we have Timothy Sargent, deputy minister, and Andy Smith, deputy commissioner of shipbuilding and materiel for the Canadian Coast Guard.

From the Department of Industry we have Simon Kennedy, deputy minister, and Mary Gregory, associate assistant deputy minister.

From the Department of National Defence we have Jody Thomas, deputy minister; Vice-Admiral Craig Baines, commander of the Royal Canadian Navy—he hails from Saskatchewan, so I'm

very glad to see him on our panel today—and Troy Crosby, assistant deputy minister of the materiel group.

From the Department of Public Works and Government Services we have Bill Matthews, deputy minister; Simon Page, assistant deputy minister of defence and marine procurement; and Michael Vandergrift, associate deputy minister.

I welcome you all.

We'll turn the floor over to Ms. Casey Thomas for five minutes.

[Translation]

Ms. Casey Thomas (Assistant Auditor General, Office of the Auditor General): Madam Chair, thank you for this opportunity to present the results of our audit of the national shipbuilding strategy. Joining me is Nicholas Swales, the principal responsible for the audit, and Chantal Thibaudeau, the director who led the audit team.

The Royal Canadian Navy and the Canadian Coast Guard operate fleets of large vessels to support Canada's participation in security operations around the world, to support marine science, and to ensure that Canada's waterways are safe and accessible. This audit examined whether these vessels were being renewed in a timely manner. Timely renewal is important because of the need to replace aging fleets and introduce new capabilities.

In 2010, the government launched the national shipbuilding strategy to renew these fleets in a timely and affordable manner, as well as to create and support a sustainable marine sector and generate economic benefits for Canada. The strategy also calls for the building of at least 50 large vessels over about 30 years.

Overall, we found that the strategy was slow to deliver the combat and non-combat ships that Canada needs. We found that only two of four ships scheduled for delivery by January 2020 were delivered, and both were late. We also found that the delivery schedules for many ships were getting longer.

We identified three areas of management weaknesses that contributed to the delays. First, we found that schedules were often not effective in terms of managing projects' timelines. For several projects, government officials relied on production schedules to understand expected progress and monitor performance. These schedules underestimated the time needed to accomplish different tasks and they weren't provided in a timely manner by the shipyards.

• (1110)

[English]

Second, we found that the risk management tools were inadequate to properly assess, mitigate and monitor the risks of the strategy.

Third, Public Services and Procurement Canada had not confirmed whether the shipyards had met target state. Target state refers to the facilities, people and practices needed to enable the shipyards to efficiently build vessels at the required rate. This expectation was part of the agreements that the department signed with the shipyards in 2012.

During the audit, government organizations made key decisions that improved the prospect of timeliness in future deliveries. For example, in 2019, the government changed the order in which ships would be built at Vancouver Shipyards in an effort to improve the shipyard's efficiency.

Nonetheless, navy and coast guard vessels are aging. When this strategy was launched, several ships had already reached their expected service lives. Measures have been implemented to extend the service lives of vessels, and other ships were chartered or leased to maintain some capabilities. However, interim capabilities are limited and cannot be extended indefinitely. Further delays could result in several vessels being retired before new vessels are operational.

Most ships to be built under the strategy are yet to be built. This means the federal government has an opportunity to further improve how it manages risks and contingencies, so future shipbuilding projects are delivered in a timely manner.

We made three recommendations as a result of this audit. Public Services and Procurement Canada, National Defence and Fisheries and Oceans Canada agreed with these recommendations.

Madam Chair, this concludes my opening remarks. We would be pleased to answer any questions the committee may have.

Thank you.

The Chair: Thank you very much, Ms. Thomas.

We will now go to Mr. Sargent for five minutes.

Mr. Timothy Sargent (Deputy Minister, Department of Fisheries and Oceans): Good morning and good afternoon, everyone. Thanks for the introduction.

I'm pleased to be here to address the Auditor General's report on the national shipbuilding strategy. I'm here with Mr. Andy Smith, who is the deputy commissioner of shipbuilding and materiel, and my colleagues from Public Services and Procurement Canada, the Department of National Defence, and Innovation, Science and Economic Development.

As you know, this is the second Auditor General's report on the strategy, and it was focused on a relatively short period of time in its implementation. The audit period from January 1, 2018, to January 30, 2020, was, however, a very exciting time for the Canadian Coast Guard, during which we made significant progress with the renewal of the fleet under the national shipbuilding strategy. Two of

the Coast Guard's new offshore fisheries science vessels were delivered during the audit window, with the delivery of a third ship in October 2020, so we have taken delivery of the first class of ships completed under the national shipbuilding strategy.

In March 2021, Seaspan's Vancouver Shipyards cut steel for a fourth Coast Guard ship. This offshore oceanographic science ship will be the replacement for the CCGS *Hudson* and is on track for delivery in 2024. While this milestone is acknowledged to be outside of the audit period, it serves to demonstrate the momentum that has been building for the renewal of the Coast Guard fleet.

In 2019, the Government of Canada announced the most significant investment in Coast Guard history, with 24 new large vessels to be built under the national shipbuilding strategy. As a result, funded replacement plans were in place for 29 large ships at the time of the audit. One of those 29 ships was a polar icebreaker that was funded at the time of the audit but did not have a procurement strategy. Since that time, a government investment decision has been made for a second polar icebreaker, bringing us to a total of 30 new large ships for the Canadian Coast Guard under the national shipbuilding strategy. Also in 2019, an additional \$2 billion was announced for a comprehensive vessel life extension program that would take our existing fleet to the limit of its technical life expectancy.

We think we're taking steps in the right direction. As noted by the Auditor General, interim measures are being implemented to sustain operational capabilities until the new ships are delivered, and the Coast Guard has started vessel life extensions for its fleet, with the first investment made in 2012. In addition, three medium icebreakers have been acquired to backfill while ships are out of service for vessel life extension work, and there's a competitive process under way to acquire a light icebreaker. This suite of interim measures will provide sufficient on-water capability until new ships are delivered under the national shipbuilding strategy.

The Auditor General noted the continuing risk of delay for shipbuilding projects and recommended that the Coast Guard implement mechanisms to obtain current and reliable schedules to support shipbuilding projects, and to ensure that scheduled targets and delivery timelines are monitored to support timely decision-making. I welcome this recommendation and consider it to be a foundational element of both project and program management. Scheduled monitoring and oversight is something we have been managing very closely with the shipyards and with Public Services and Procurement Canada, and we are making progress.

In the 10 years since the national shipbuilding strategy was initiated, we have learned a number of important lessons and look to continuously fold these lessons into follow-on projects. However, even the most experienced shipbuilders will caution that the process is never without risk. The bottom line is that Canadians can rest assured that we will take any action necessary to maintain delivery of critical Coast Guard services. At the same time, we will continue to work with Public Services and Procurement Canada to ensure the timely delivery of the new ships we need to renew the fleet.

I want to thank the Auditor General for her recommendations. We're committed to addressing them to ensure the success of both the national shipbuilding strategy and the renewal of the Canadian Coast Guard fleet.

Thank you.

• (1115)

The Chair: Thank you very much, Mr. Sargent.

We will now go to Mr. Kennedy, for five minutes.

Mr. Simon Kennedy (Deputy Minister, Department of Industry): Thank you, Madam Chair, for the invitation to be here today.

[*Translation*]

My name is Simon Kennedy. I'm the deputy minister of Innovation, Science and Economic Development Canada.

[*English*]

I'm joined here today by my colleague, Mary Gregory, who is the associate assistant deputy minister of the industry sector at ISED.

As you may be aware, ISED is responsible for carrying out one of the three objectives under Canada's defence procurement strategy, which is to leverage defence and security procurement to create highly skilled jobs and economic growth in communities across Canada.

A primary tool to achieve this objective is the application of the industrial and technological benefits policy, otherwise known as the ITB policy, which requires contractors to undertake economic activities in Canada equal to the contract value.

In addition, the national shipbuilding strategy value proposition requires that large vessel shipyards, including the upcoming third shipyard, invest 0.5% of the value of their national shipbuilding strategy contracts into the greater Canadian marine industry to ensure its long-term sustainability. Those investments are designed to support human resources development, technology investments and industrial development.

I can report that the national shipbuilding strategy shipyards are meeting their economic leveraging obligations to date, and my department will continue to work with these yards to ensure that their economic benefits obligations are met. For example, national shipbuilding strategy contracts issued between 2012 and December 2020 are estimated to contribute close to \$20.1 billion, or \$1.8 billion annually, by 2022, to Canada's gross domestic product, and to create or maintain more than 16,900 jobs annually, through the marine industry and its Canadian suppliers.

Between 2016 and 2018, marine sector sales increased by 16% to \$4.1 billion, with export growth of 33%, to a value of \$1.1 billion in 2018. Canadian companies are having demonstrable success in the global market, with over 80% of Canadian-developed naval systems present on global fleets. This success can be attributed, at least in part, to the ability to leverage experience on domestic projects to pursue work internationally.

I'll conclude my remarks there, Madam Chair, but would be pleased to answer your questions as part of today's appearance.

Thank you very much.

• (1120)

The Chair: Thank you very much, Mr. Kennedy.

We will now go to Ms. Jody Thomas for five minutes.

Ms. Jody Thomas (Deputy Minister, Department of National Defence): Thank you, Madam Chair.

I'm pleased to be here with my deputy head colleagues to discuss the Auditor General's report 2, "National Shipbuilding Strategy".

I am joined by Vice-Admiral Craig Baines, commander, Royal Canadian Navy; and Troy Crosby, assistant deputy minister, materiel.

First off, I'd like to thank the Auditor General and her team for their very important work. The NSS is a key element of our work at National Defence and, indeed, throughout the entire Government of Canada, to ensure that Canada can be strong at home, secure in North America, and engaged in the world.

National Defence agrees with the report's findings as they relate to our defence team, and we accept its recommendations. We agree that complete current, reliable schedules are absolutely essential for decision-making in the management of the shipbuilding projects. The review and insights highlighted in the AG report are timely and useful.

As with any massive and long-term capital procurement project, we knew we would need continuous review and likely hone our approach as the NSS progressed. That's a very typical reality of major procurement. As the report notes, DND was already in the process of implementing key improvements as the report was being produced.

Additionally, since the report was released, we at DND have coordinated with our colleagues at PSPC and Fisheries and Oceans Canada on our different management action plans to ensure they achieve an integrated outcome. These action plans will outline how, with what milestones, and by when we will achieve the outcome of the recommendations.

At National Defence, we expect that Q2 of fiscal year 2021-22 is when we will be in receipt of shipbuilding schedules that are complete and reliable.

I would also like to address the fact, noted at the end of the report, that we cannot yet know the full impacts of COVID on shipbuilding timelines. This is another difficult reality of COVID. Until we are over the pandemic, we will not have a complete and accurate picture of what the full impact has been, including anticipated delays on major procurement.

However, I want to reassure the committee and Canadians that we have firm contingency plans in place to ensure that the Canadian Armed Forces has the ongoing capability required to conduct operations, including in relation to the navy's work.

Work continues on the Canadian surface combatant project, with the first of 15 ships expected to be delivered in the early 2030s, and the last ship to be delivered in the 2040s. While we develop these modern, capable ships, we will extend our current Halifax class ships as long as is required. Until the arrival of our joint support ships, we've engaged a third party to help provide those interim services, and we can extend that contract if required in order to keep that capability going.

For our Arctic offshore patrol ships, this vessel offers a new capability. There are other means by which we can and do achieve the same outcome, including having vessels escorted by helicopter or icebreaker. Of course, the first AOPS, HMCS *Harry DeWolf*, is already conducting training and operations.

In addition to shoring up capabilities, we have other means to ensure our operations are supported, up to and including working with our allies to resource-share if an extenuating circumstance arises.

As with so much else in the federal government, cross-departmental collaboration and timely information-sharing are key, both for overall efficiency and increasingly to manage Canada's evolving threat environment.

National Defence will continue to work with our colleagues in other government departments and in Canada's shipyards, as well as with our industry partners, to keep the strategy moving forward.

This concludes my opening statement, Madam Chair. I'm happy to answer any questions from the committee.

The Chair: Thank you very much, Ms. Thomas.

We will now go to Mr. Matthews for five minutes.

Mr. Bill Matthews (Deputy Minister, Department of Public Works and Government Services): Good morning and thank you, Madam Chair. I am pleased to join my colleagues to speak to the committee as it studies the Auditor General's 2021 report on the national shipbuilding strategy.

Despite the global pandemic, Public Services and Procurement Canada continues its important work to serve its clients. The national shipbuilding strategy work is one such example.

The national shipbuilding strategy is a multi-decade commitment, launched in 2010 with three objectives: to renew the fleets of the Royal Canadian Navy and the Canadian Coast Guard, to create a sustainable marine sector, and to generate economic benefits for Canadians.

With the projects already undertaken, the shipbuilding industry is now growing in Canada, and there will be sustained work on this front for many years to come. In all, work from the strategy is contributing more than \$1 billion to Canada's gross domestic product every year, and it is sustaining thousands upon thousands of jobs. Most importantly, Madam Chair, the work being done here is helping to support the brave members of the Royal Canadian Navy and the Canadian Coast Guard.

So far, the strategy has produced four large vessels and a number of small ships. Many more ships are currently under construction across the country. We are making important progress, but shipbuilding is complex, and we acknowledge the need to continuously improve. This is why we welcome reviews and recommendations, such as those from the Auditor General.

Madam Chair, to fully understand the Auditor General's report and the important observations therein, we must go back to the time when shipbuilding nearly ceased to exist in Canada.

When the national shipbuilding strategy was conceived over a decade ago, in 2010, Canada was still caught up in the boom and bust cycle of shipbuilding that has historically plagued the industry. Over the years, experience and expertise in shipbuilding had weakened. In those very early days, work and cost projections were not yet informed by actual build experience in our Canadian shipyards. Specialized marine supply chains also needed to be re-energized.

Expertise in Canada was nascent at a time when entirely new classes of ships were set to be built in completely revamped and re-tooled shipyards. This has led to challenges in planning and schedule delays. We have openly acknowledged these, and several key risks are being managed. The government has made real efforts to better streamline the work required under the national shipbuilding strategy. Indeed, the Auditor General highlights that during the period covered by the audit, the government made key decisions to put the national shipbuilding strategy on a more viable path.

Over the years, both the shipyards and Canada have gained valuable shipbuilding experience. We now have a much more reliable understanding of the time, effort and expenditures required to build world-class vessels. We are applying this knowledge every day, particularly as we closely monitor and manage the work of our shipyard partners.

• (1125)

Madam Chair, we have tabled with this committee our detailed action plan to help ensure shipbuilding schedules are more evidence-based, to improve our risk-management tools and to develop approaches that build on our lessons learned, specifically as we engage a third shipyard in the national shipbuilding strategy. As you will see, we plan to address all of the Auditor General's recommendations within this fiscal year.

Before I close, I will make brief mention of the replacement of polar icebreakers. With so much of our coastline located in the Arctic, icebreakers are an essential part of the Canadian Coast Guard and Royal Canadian Navy fleets.

Earlier this month, the Government of Canada announced plans to construct two polar icebreakers at two different shipyards, in order to ensure that they are built in the most timely and efficient manner. Following a rigorous evaluation of all available options, the simultaneous construction of two polar icebreakers in two shipyards was chosen, as it offers four key advantages: the fastest delivery of icebreakers, optimized economic benefits, minimal disruption to other projects and reduced production gaps.

To conclude, Madam Chair, in order to secure the future of Canadian shipbuilding and to ensure that we have a modern and effective Canadian Coast Guard and navy fleet for decades to come, the Government of Canada is applying lessons learned and putting to use the expertise that Canada has developed over the past decade.

Thank you, and I look forward to your questions.

The Chair: Thank you very much, Mr. Matthews.

Colleagues, we will now start our rounds of questioning.

Starting our first round, for six minutes, is Monsieur Paul-Hus.

[*Translation*]

Mr. Pierre Paul-Hus (Charlesbourg—Haute-Saint-Charles, CPC): Thank you, Madam Chair.

Good morning, everyone. My first question is for Ms. Thomas from the Office of the Auditor General.

The report on everything that happened over the past few years with respect to the national shipbuilding strategy is quite scathing. It shows that the government has real weaknesses and that the shipyards have their own shortcomings.

Can you tell us where the failures lie?

[*English*]

Ms. Jody Thomas: The first thing I would like to highlight is that the expectations, going back to 2010—

[*Translation*]

Mr. Pierre Paul-Hus: Excuse me.

Madam Chair, my question was for Ms. Thomas from the Office of the Auditor General.

• (1130)

[*English*]

Ms. Jody Thomas: I apologize. I'm happy to hear it's not for me.

[*Translation*]

Ms. Casey Thomas: Thank you for your question.

Ms. Thomas and I must pay close attention, since we share the same name.

We identified several issues during our audit. First, we noted persistent shipbuilding delays. The construction, design and development weren't necessarily managed properly when work began. Second, we identified schedule management weaknesses and inadequate risk management tools, and delays in confirming—

Mr. Pierre Paul-Hus: We know that. However, more specifically, the shipyards are having trouble building the ships and following the plans, and the federal employees have shown a lack of expertise. They didn't really have the tools. They were using Excel sheets. Were there qualified people? This isn't the first time that Canada has managed large contracts. Yet it seemed as though we were entering a totally new field, and this took several years.

Basically, it's a mix. There were weaknesses in terms of the shipyards, the federal employees and the people in charge. Is that right?

Ms. Casey Thomas: We looked at whether the fleet of vessels was being renewed in a timely manner. We identified some weaknesses in terms of human resources. The departments have a plan in place to determine whether these weaknesses persist.

Mr. Pierre Paul-Hus: Thank you.

We can see that your team analyzed certain issues by also working with external experts.

Should we be working with more people who have specific project management skills as part of the national shipbuilding strategy?

Ms. Casey Thomas: Since we focused on timelines, we didn't do much work with regard to the experts. I can't answer that question.

Mr. Pierre Paul-Hus: Okay.

In recommendation 2.49, you said that you'll consider the experience of Seaspan and Irving in order to provide guidance to Davie.

Given all the issues experienced by the shipyards, do you really believe that Davie should follow the guidelines that will emerge from this? Has anything really been learned from this?

Will advice based on the experience of the other two shipyards really help Davie do a better job, or should Davie be wary?

Ms. Casey Thomas: Excuse me. As a result of technical difficulties, I didn't hear which recommendation you referred to.

Mr. Pierre Paul-Hus: In recommendation 2.49, you said that the experience of Irving and Seaspan should be considered in order to provide information to Davie.

Do you really think that Davie should rely on what happened, given all the weaknesses?

Did these shipyards really gain any relevant experience?

Ms. Casey Thomas: We found that the shipyards and departments learned from this experience in the early years of construction. While we have concerns, we hope that the measures will work. It's still too early to comment on that.

Mr. Pierre Paul-Hus: Thank you, Ms. Thomas. I'm sorry to rush, but we don't have much time.

Mr. Matthews, you spoke about polar icebreakers. First, I want to know whether Seaspan is keeping the same model. We know that the work has been delayed for several years, but is the same model being used again?

Second, will Davie adopt the Seaspan model? Will the two vessels be the same, or does Davie need to start over?

Mr. Bill Matthews: Thank you for your question. Perhaps it would be better to ask my counterparts, Mr. Sargent and Mr. Smith.

Mr. Pierre Paul-Hus: Mr. Sargent, I'm listening.

[English]

Mr. Timothy Sargent: Sure. I'm happy to take that one on.

Yes, they're going to use the same basic design for the polar icebreaker, so they'll essentially look the same, which is not to say there won't be some detailed changes in design.

[Translation]

Mr. Pierre Paul-Hus: Thank you.

Mr. Rodriguez, the Leader of the Government in the House, said that the Davie icebreaker would be delivered shortly after the Seaspan icebreaker. At this time, Davie can't be officially awarded the contract, since Davie isn't yet included in the national shipbuilding strategy.

Do you have a more accurate estimate of the time between the two deliveries?

• (1135)

[English]

The Chair: Give a very short answer, please.

Mr. Timothy Sargent: Okay. We expect both of them to be delivered around the same time, which is towards the end of this decade.

The Chair: Thank you.

We will now go on to Mr. Sorbara, for six minutes.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Thank you, Chair, and thank you to all the witnesses for your presentations.

I'd like to start with Mr. Matthews, deputy minister of Public Services and Procurement Canada. Something in your testimony popped out at me that I think is very important as we build ships, if I can use that term. You mentioned that expertise in Canada was nascent at a time when entirely new classes of ships were set to be built in completely revamped and retooled shipyards, and that this led to challenges in planning and some schedule delays. You said you have openly acknowledged these, and that several key risks are being managed. Before that, you talked about the boom and bust cycle of building ships.

I take it that with the national shipbuilding strategy, we have been able to maintain, develop and strengthen what I would call the in-house expertise of building ships in Canada.

Can you comment on that?

Mr. Bill Matthews: Certainly. I'll start off, Madam Chair, and maybe if my colleague Mr. Kennedy wishes to add something on the workforce, he can do that. I'll be quick.

When you think about the workforce, Madam Chair, you have to think about the white collar as well as the blue collar workforce. When people think about shipbuilding, their minds often jump to blue collar, but early on it was the white collar skills in engineering and naval architecture that had eroded and had to be effectively rebuilt. I think we've seen an increase in the skill sets there as we've gone through the first roughly 10 years or so of the shipbuilding strategy.

As you're now into a world of trying to avoid the boom and bust, you're really wanting to make sure there are no production gaps at the shipyard, so that you don't lose your workforce. If you end up downing tools, losing some workforce and then bringing them back, that leads to great inefficiency.

Some of the risks that are being managed right now are around ensuring that there are minimal production gaps between ships, so that a workforce that has become expert can be retained.

Mr. Francesco Sorbara: Mr. Matthews, can we go to Mr. Kennedy briefly? I have a follow-up question afterwards.

Mr. Kennedy.

Mr. Simon Kennedy: I might just note that the guide book and the policies around the value proposition for the shipbuilding strategy and the industrial and technological benefits policy are set up to incentivize investment in skills. For example, under the value proposition program, there's a pillar that encourages bidders to identify skills development and training opportunities for Canadians, and in particular for under-represented groups, in the defence sector and in other economic sectors.

I can speak to that at greater length, if there's an interest, but we try to incentivize and support training through the investments that these companies are making.

Mr. Francesco Sorbara: Okay. I'm going to change tangents very quickly here.

Assistant Auditor General, you commented on risk mitigation and risk management tools. We know that in every organization and any project undertaken, whether you build a deck, a house or a ship, you need risk management and you need a proper timeline and referents. Even in quotations today we see that the price of input materials has exploded across the world, even for a simple thing such as lumber.

In terms of the risk management tools, then, could someone speak to how we have strengthened those tools? I'm hoping that we're not only utilizing risk management tools but also ensuring that we're using the best practices, so that whether a ship is being built in South Korea or Italy or the United States, which all have leading shipyards—or even in India—we are adopting the best risk management tools and best practices.

I'll open this up to whoever wants to jump in first, please.

Ms. Casey Thomas: I can start, and then if Mr. Swales has anything to add, he certainly can.

What we found during the audit was that in fact the risk management tools that were being used to assess the risks were inadequate. They were taking too much time, resulted in duplication and produced too many human errors.

In addition, they weren't analyzing the risks that had an impact upon shipbuilding timeliness, and that was the focus of our audit: whether or not there was timely delivery of the ships. The team, I think, recognized that there were some issues, so they tried to acquire a new tool, but I think, from what I understand, that the tool was not successful.

In terms of mitigating the risks, they also had not identified the right actions to put in place to mitigate them. There was very little information for us to be able to assess whether the risks had been mitigated, and because of that same lack of information it was difficult for us to ascertain whether there was monitoring to determine whether or not the risk mitigation measures had actually worked.

• (1140)

Mr. Francesco Sorbara: Would anyone else like to comment, or should we leave it at that?

Mr. Bill Matthews: Just to add to that, one of the best practices we are in the process of implementing is earned value management. It's a great way to integrate schedule risk as well as budget, and it's something you'll see used throughout the world. We've taken steps

to start the implementation. We still have some work to do there, but it is one example of better techniques and world-class practices that we are integrating now.

There are others as well. The assistant auditor general mentioned the software tool. There are plans to acquire a new one, and that will be coming soon as well.

Mr. Francesco Sorbara: Thank you, Chair. I'm done.

The Chair: Thank you very much, Mr. Sorbara.

We will now go to Monsieur Blanchette-Joncas for six minutes.

[*Translation*]

Mr. Maxime Blanchette-Joncas (Rimouski-Neigette—Témiscouata—Les Basques, BQ): Thank you, Madam Chair.

I want to acknowledge the witnesses here today.

My first question is for Ms. Thomas from the Office of the Auditor General.

Good morning, Ms. Thomas. Welcome to the committee.

I read your report carefully. I was sorry to read your rather harsh conclusions regarding the various departments involved in the national shipbuilding strategy, or NSS.

Your work sheds light specifically on what simply isn't working in the strategy. Let's just say that it's quite strong and very significant. To be honest, the whole thing looks, if you'll pardon the expression, like a sinking ship or a ghost ship. Delays are piling up. There will be colossal cost overruns. To offset all this, the quality of the ships awaiting construction is being sacrificed. This is quite unbelievable.

In your opinion, is it still time to really turn things around?

Can you tell us whether you have moral certainty that the various departments will actually meet the goals of your recommendations?

Ms. Casey Thomas: Thank you for your question.

We found that the NSS hasn't been effectively managed in terms of timelines, risks and the achievement of the target state, for example.

However, the departments have taken steps to preserve operational capabilities until new vessels are delivered. That said, as you noted, these interim capabilities are limited.

We still have concerns. Since there are still a large number of vessels in the NSS, we hope that the departments' decisions will have a positive impact.

Mr. Maxime Blanchette-Joncas: Thank you for that clarification, Ms. Thomas.

Your audit covered the period from January 2018 to January 2020. That was before the current pandemic. I'm a little bit annoyed that several witnesses gave the rationale that COVID-19 slowed down the NSS. Let's just say that it's easy to blame COVID-19. I think that the issue is more structural and that there isn't any captain on board to guide the strategy.

Have you conducted an analysis of the additional costs resulting from the government's complacency, or even negligence, in terms of identifying needs?

Ms. Casey Thomas: Thank you for the question.

As you said, our audit period was from January 2018 to January 2020. During the subsequent events, we found that the pandemic had an impact. There were some work disruptions, but other work was still done in the offices.

Again, it's too early to tell. Many vessels will be built in the coming years. We'll then see whether the pandemic really had a negative impact.

• (1145)

Mr. Maxime Blanchette-Joncas: Okay.

Ms. Thomas, we know that, unfortunately, certain political and backroom games benefited two shipyards in particular.

Could you gauge the potential impact of having a greater diversity of shipyards to respond more quickly to the development and construction of different vessels, in order to speed up the implementation of the initial strategy?

Ms. Casey Thomas: Since the audit period ended in January 2020, our report couldn't include an analysis and commentary on actions and decisions that occurred afterwards.

Mr. Maxime Blanchette-Joncas: Thank you, Ms. Thomas.

My question is for Mr. Matthews from Public Services and Procurement Canada.

Mr. Matthews, welcome to the committee. I was a bit puzzled by your opening remarks. I sensed some optimism in your remarks, and yet the findings of the Office of the Auditor General are quite troubling. Right now, the situation is serious. I'm not at all sure that everything will be fine in the foreseeable future.

Could you tell us more about how construction contracts are awarded and why the Davie shipyard in Lévis, Quebec, seems to have been undervalued, while Irving received the lion's share?

Mr. Bill Matthews: Thank you for your question.

I want to point out two things.

First, the Davie shipyard has done a great deal of work to support shipbuilding and the Coast Guard.

Second, the Irving and Seaspan shipyards were selected after going through a competitive process 10 years ago. The Irving and Vancouver shipyards won. That's why we started with these shipyards. Given the timelines, we decided that it was worthwhile to add a third shipyard such as Davie. However, the process is still ongoing. We hope to complete this work in the coming months.

[English]

The Chair: Thank you very much.

We will now go to Mr. Green for six minutes.

Mr. Green, you are muted.

Mr. Matthew Green (Hamilton Centre, NDP): It must have been the long weekend here. That's typical—par for the course. I probably owe some kind of fee to the committee for that, this far into COVID.

To pivot and get a little more serious, on section 2.34, it was noted again:

that schedules were...not an effective tool to manage projects' timeliness. For several projects, government officials were not satisfied with the schedules they received. They considered the schedules to be incomplete, partly because the schedules were too general and underestimated the time needed to accomplish the different tasks. They...considered them to not be provided in a timely manner. For example, in the case of the Canadian surface combatant, it took more than 6 months after the start of the design phase for the government to obtain a design schedule that was sufficiently detailed to accurately track progress.

My question is for the assistant AG, Ms. Thomas. How did your department account for the delays and the potential costings of these delays?

Ms. Casey Thomas: As you've indicated, we found that there was a need to obtain complete, current and reliable schedules, and that those schedules be monitored. We looked at what the departments provided to us in terms of the amounts of time it was going to take and the delays that were relevant to each of those ships.

In terms of the cost, our focus was not on the cost that was incurred as a result of these delays. We felt that focusing in on one of the main components of the objectives of the strategy to produce timely ships to replace and renew the fleet was where we were putting our efforts.

• (1150)

Mr. Matthew Green: On page 9, exhibit 2.3, you have a section on cost increases, and it's noted, "In 2019, National Defence estimated that design costs for the Canadian surface combatant would increase by \$111 million because of delays."

In your audit, when the Department of National Defence gives you that figure, do they also disclose what would be included in that figure in terms of the estimate for the cost of delays?

Ms. Casey Thomas: I'm going to start that answer, then I'm going to pass it over to Mr. Swales to see if he has anything to add.

When we carry out our audit work, obviously we need to obtain sufficient and appropriate evidence to make sure we have the information we need. With respect to the \$111 million in delays, this was the information that the department provided to us. We also knew that the Parliamentary Budget Officer was carrying out work in this area as well; therefore, we didn't go any further in terms of carrying out work on costs.

I'm going to pass it over to Mr. Swales to see if he has anything to add on the \$111 million.

Mr. Nicholas Swales (Principal, Office of the Auditor General): Thank you, Madam Chair.

I don't really have anything to add. This was an illustrative example and was the situation at the time.

Mr. Matthew Green: That's okay. If you don't have anything to add, I would like to ask.... I understand that the Parliamentary Budget Officer is also carrying out parallel studies on the costing. You will note—and it's been publicly noted—that there's a pretty significant difference between what the PBO says this program is going to cost and what the Department of National Defence has stated will be its overall cost. I'll note you have stated that at the time of your audit the first Canadian surface combatant for the Royal Canadian Navy was not expected to be delivered until at least 2030, but very preliminary schedules show the last ship being delivered in 2047.

When you're doing your risk analysis as the Office of the Auditor General, how do you account for, in the risk management scenarios, these types of delays as being a potential for a red flag?

Ms. Casey Thomas: That was our interest in looking at risks to determine whether or not the department was assessing, mitigating and monitoring the risks they faced, with respect to delays in particular. Our perspective and one of our focuses was on delays, because a strong assumption could be made that if you are focusing in on the timeliness of shipbuilding, then the management of cost should also follow.

Mr. Matthew Green: In unpacking that in a very general way, through you, Madam Chair, to the assistant AG, would you include provincial tax in those costings? There have been some pretty significant variations between department estimates and the PBO. As the Auditor General's department, when you're looking at a risk analysis, would you include the total cost inclusive of provincial taxes, or would you just take a suggested retail price?

Ms. Casey Thomas: As we mentioned, the focus of the audit was on the timing of the audit. I will ask Mr. Swales if we looked at any of the details of the costing from that perspective, but I suspect that our—

Mr. Matthew Green: I can ask it more generally speaking, through you, Madam Chair, back to Ms. Thomas.

When you're doing cost analysis in other department procurement processes, do you include provincial tax?

Ms. Casey Thomas: We would look at the overall cost of a particular contract to determine which elements are relevant to be

looking at for the federal government and to be able to report on and conclude on the federal aspects of those costs.

Mr. Matthew Green: Just for clarity, that would be inclusive of provincial tax. Is that right?

Ms. Casey Thomas: The cost provided by the government would most likely include the costs, but we would not be in a position to weigh in on the relevance and the appropriateness of those provincial taxes.

The Chair: Thank you very much, Mr. Green.

Colleagues, we will now go to our second round of questioning, starting with Mr. Monsieur Paul-Hus for five minutes.

[*Translation*]

Mr. Pierre Paul-Hus: Thank you, Madam Chair.

I'll start by picking up from where my Bloc Québécois colleague left off with regard to the leader of the national shipbuilding strategy. At this time, we're like headless chickens. It seems that no one is taking responsibility. Can someone tell me who is in charge?

I can see that no one wants to say anything.

Is the reason for this failure the lack of a structure and the fact that, when one department decides to move in one direction, the other department doesn't follow?

I want to talk about defence with Jody Thomas. We currently have the combat ship contract, which is huge. The parliamentary budget officer's cost estimate was \$27 billion at first, and now it's about \$100 billion. This contract includes different classes of vessels, including the European multi-purpose frigates, or FREMMs, and the type 26 ships. Choices must be made.

Ms. Thomas, with respect to the naval strategy, does anyone decide the direction to take? In the Department of National Defence, do you have the choice to do what you want? How does this work?

• (1155)

[*English*]

Ms. Jody Thomas: This Madame Thomas?

Mr. Pierre Paul-Hus: Yes.

Ms. Jody Thomas: Thank you, sir.

The governance of the national shipbuilding strategy is now quite well developed and is led by PSPC. Yes, the Department of National Defence is responsible for the program at Irving Shipbuilding, led by the ADM of materiel, Troy Crosby.

If you're asking who's accountable for the navy and its program, it is us in the Department of National Defence. We make the decisions on what will be built; we work with our partners and we are accountable for the cost of that project and that series of projects.

[*Translation*]

Mr. Pierre Paul-Hus: Okay.

The division is made and it's clear, given the vessels. Irving Shipbuilding Inc. is working with the Department of National Defence, while Seaspan is working with the Department of Fisheries and Oceans.

Two years ago, I believe, the contract to build a sixth Arctic and offshore patrol ship, or AOPS, was given to Irving. The original contract was for five ships. A sixth ship was added at twice the price. This means that Irving is being paid \$800 million instead of \$400 million. The surplus was used to give money to Irving, because its managers said that there was an issue and that the company couldn't lose employees.

In this situation, is the Department of National Defence responsible for managing the Irving Shipbuilding Inc. issue or is another department responsible for doing so? Should the Department of National Defence cover the additional costs resulting from a company's issues and include them in its budget?

My question is for Jody Thomas.

[*English*]

Ms. Jody Thomas: Yes, you're quite correct. There are two Coast Guard vessels that are going to be built at the Irving shipyard. There are also two navy ships that are being built at Seaspan.

The governance of the program means that we work with PSPC, ISED, and DFO Coast Guard in order to come to recommendations to make on the best use of the yards.

[*Translation*]

Mr. Pierre Paul-Hus: That does not answer my question, but I will ask another one, as I don't have much time left.

I will now turn to Mr. Sargent, from Fisheries and Oceans Canada.

For a number of years, Seaspan had the polar icebreaker contract. The government then decided to rescind the contract with Seaspan, but it just decided to award it again. Was it because Seaspan had an exclusive right to the icebreaker contract? Was there not a way to use another company?

Given that Seaspan has been unable to build the icebreaker in all these years, why should we trust that company now?

[*English*]

Mr. Timothy Sargent: It's important to look at the whole program of work of the Coast Guard. When the polar icebreaker was removed from the program of work, at the same time we added in 16 multi-purpose vessels, because that was a key priority for us.

Fast forward to two years later, when the government was making decisions about the two polar icebreakers that the Canadian Coast Guard needs. We determined that the best way forward

would be to have one at one shipyard and one at the other shipyard. Therefore, it's in the context of the broader Coast Guard program of work.

[*Translation*]

Mr. Pierre Paul-Hus: Why was Seaspan unable to do it? The company had the contract rescinded in 2019, and now it is being awarded the contract again. Why would it be able to build the vessel now when it has been unable to do so for nearly eight years?

[*English*]

Mr. Timothy Sargent: It wasn't necessarily that they weren't capable of doing it two years ago. The questions were, what was our priority, what did we want to build first and what was the best place to do it? We needed to get moving with the multi-purpose vessels while a procurement decision was being made on the two polar icebreakers.

The Chair: Thank you, Monsieur Paul-Hus.

We will now move on to Mr. Fergus, for five minutes.

[*Translation*]

Mr. Greg Fergus (Hull—Aylmer, Lib.): Thank you, Madam Chair.

I would once again like to thank the witnesses appearing today.

I do not come from a region of the country where ships or icebreakers are built. However, as a member from the National Capital Region, I am very familiar with governance and project management issues.

I will read to you recommendation 2.36 from the Auditor General's report on the national shipbuilding strategy:

The Canadian Coast Guard, National Defence, and Public Services and Procurement Canada should implement mechanisms to:

– obtain complete, current, and reliable schedules to support shipbuilding projects

I see that the department has accepted that recommendation.

My question is for Mr. Matthews or Ms. Thomas, from National Defence.

Are you sure that you now have the tools needed to manage the schedule and carry out the tasks related to the building of those ships?

● (1200)

Mr. Bill Matthews: Thank you for the question.

I would say two things. First, we are almost certain that we do, but we have to continue to improve our tools. We have already talked about the software used to improve risk management. We are currently implementing it, but we are still not finished.

Second, we have started to use the earned value management method, which is a best practice used around the world.

[English]

Even with the most experienced shipyards in the world, if you look to South Korea or the U.S., there is always risk and there is always challenge.

We're in a better place. We're implementing the recommendations and we're moving, but don't ever think shipbuilding will not be complex and will be risk-free. That's just not the nature of the business.

[Translation]

Mr. Greg Fergus: I understand.

Ms. Thomas, go ahead.

[English]

Ms. Jody Thomas: I would just echo what Mr. Matthews has said.

In our project budgeting, at the early stages, we account for some of this risk. Delays cost money, so there is a significant contingency attached to each project in the early days, and it's pegged down over the years as we know exactly what we're buying and the schedule firms up.

We will continue to monitor that contingency as we see things like the impact of COVID on both of the current projects under way, the AOPS, which are in construction, and the Canadian surface combatant, which is still very much in the design stage.

[Translation]

Mr. Greg Fergus: Ms. Thomas, I recognize that there are delays in all the shipyards of the world, given the complexity of processes. However, do you think our system for awarding contracts is inadequate? Do you think it does not take into account the complexity of the process and the probability of it causing delays that will cost us money?

Could best practices be adopted?

As Mr. Paul-Hus mentioned, instead of awarding a \$400-million contract, and then another contract twice that value for the same vessel, is there a better way to take that into account when contracts are awarded?

[English]

Ms. Jody Thomas: Madam Chair, I would suggest that every country that is building ships at this complexity and has a program this large is struggling with many of the same issues we are.

We are the third country, for example, to build the type 26 surface combatant. We are learning from the U.K. and from our colleagues in Australia.

The national shipbuilding strategy set out to do more than one thing. Of course, we wanted to resupply and recapitalize the navy and the Coast Guard, but we're also building an industry. Those two objectives, both critical for us as a country, added to the complexity.

I would say the other complexity is that we build ships once every 30, 35 or 40 years, for both the navy and the Coast Guard. We're leaping generations of technology in one program and in one

project, and that adds to the complexity, because the last time we built ships was in the eighties and nineties for the navy, and before that, really, for the Coast Guard. A more regular process of building ships would, I think, reduce the complexity.

• (1205)

The Chair: Thank you very much, Mr. Fergus.

We will now go on to our next round of questioning, which is a two-and-a-half-minute round, starting with Monsieur Blanchette-Joncas.

[Translation]

Mr. Maxime Blanchette-Joncas: Thank you, Madam Chair.

I would like to continue with my question for Mr. Matthews.

Mr. Matthews, my colleague Mr. Paul-Hus asked you earlier who was managing the national shipbuilding strategy. No one answered. That means leadership is currently lacking.

If no one is in charge of implementing the entire strategy, where do orders that govern the awarding of contracts come from?

Mr. Bill Matthews: I thank the member for his question.

I don't agree with the statement that no one is managing the strategy. It is true that three or four departments are playing a role in its management.

[English]

At Public Services and Procurement Canada, we run the program. We're responsible for managing the program.

If it's a question of which departments figure out what the required capabilities are, what ships are required and what budget they have, that would be National Defence for the navy, and Fisheries and Oceans and the Coast Guard for the coast guard.

For the industrial benefits piece, which is an important part of the strategy, my colleagues at ISED are led by the deputy minister, Mr. Kennedy, but the overall coordination of the program is with PSPC. When we're sitting on what type of competitive process we should run to award a contract, or what's the strategy, obviously there are lots of inputs, but it's PSPC that chairs that table and then manages the execution of the actual contracts.

[Translation]

Mr. Maxime Blanchette-Joncas: I want to make sure I understand, Mr. Matthews.

So Public Services and Procurement Canada is managing the awarding of contracts. Is that right?

Mr. Bill Matthews: It actually depends on what we are talking about. We manage contracts and the process, and we decide whether to launch a competition or not. The decision is often made by the government, but we, at Public Services and Procurement Canada manage the process and the contracts.

Mr. Maxime Blanchette-Joncas: Mr. Matthews, you just said something that made me raise my eyebrows. You are saying that the government makes the decision. However, I am under the impression that influential cabinet members leverage all their political weight to further key regional political interests. Normally, the senior public service advises the government. You say that you do not lead the entire strategy. So you carry out political orders.

Is that true or false?

Mr. Bill Matthews: The government must make decisions to assign a budget officer—

[English]

The Chair: Thank you very much, Mr. Blanchette-Joncas.

We will now go to Mr. Green for two and a half minutes.

Mr. Matthew Green: Thank you.

We heard the deputy minister for the Department of National Defence, Ms. Thomas, state in earlier testimony that essentially time is money when it comes to delays. We know that the Parliamentary Budget Officer has already reported that each ship year that a project is delayed will see production costs increase potentially by tens of millions of dollars per ship.

Through you, Chair, when the deputy minister is doing costing and contingency, how much have they set aside for contingencies related to the surface combatant shipbuilding program and the 15 type 26 ships?

Ms. Jody Thomas: I'm going to ask my ADM of materiel to weigh in.

We have a very robust budgeting and cost-estimating function here at national defence. They work with various models to build that in. We may have to get you the exact number and give that to you after the meeting, but I'll ask Troy to weigh in on the answer.

Mr. Matthew Green: Before he does that, in speaking to your robust costing, would you perhaps go on the record today and just clarify all the confusion around how the estimates were different from the PBO's, setting aside the calculations around the weight and the size calculations they had there?

When you do procurement through the Department of National Defence, do you not include provincial sales tax in your overall estimates, as reported to Parliament?

Ms. Jody Thomas: Our costing is, as I said, based on models. We do not include tax. The PBO does, but the numbers have essentially been within a range of each other that I think is reasonable going into the design phase of the ship.

The difference the last time had to do with the amount of contingency and the emphasis that the PBO put on the weight of the vessel.

• (1210)

Mr. Matthew Green: It totally froze. I'll have to probably go back to the Hansard on that.

While we're here today, the original costing for—

Mr. Francesco Sorbara: Chair, on a point of order, it not only froze for MP Green, but I think for everyone during that period of time, so I'm not too sure what the witness said. Obviously we'd like to give Mr. Green his full allotted time.

The Chair: Absolutely. We can certainly do that.

Mr. Green, can you advise as to what you heard in the response that was being given?

Mr. Matthew Green: Okay. Thank you for that grace.

I do want to get clear on this, because I'm still unclear how we go from \$26 billion to \$50 billion or \$60 billion to what the PBO is reporting as \$82 billion. That's on a program that would be on time. We now know that this potentially can have significant delays.

Rather than the modelling.... I guess it's a general question, back through you to Ms. Thomas. When you're doing procurement for other things—materiel and regular stuff—and you're doing estimates that would go into our estimates here at public accounts, do you or do you not include provincial sales tax?

Ms. Jody Thomas: I will defer to Troy Crosby to answer that question for you, as he is responsible directly for that budget input.

Our budgeting process and our costing process for every project is the same, regardless of the size. For details on the specific project, the project cost for “Strong, Secure, Engaged” was \$62 billion when we fully costed and budgeted for it, and the ships will come in within that amount.

Troy.

Mr. Troy Crosby (Assistant Deputy Minister, Materiel Group, Department of National Defence): Thank you, Madam Chair.

The current estimate, as the deputy said, of \$56 billion to \$60 billion does not include an amount for provincial or federal taxes. Through agreements between the provinces, and because the federal tax would return to the federal government in any case, those tax amounts are not included.

Mr. Matthew Green: Well, respectfully, in Nova Scotia it's 10%. Are we to add a 10% premium onto all of your estimates on a move-forward basis?

Mr. Bill Matthews: Madam Chair, maybe I can help out there. I spoke—

Mr. Matthew Green: Respectfully, I've heard your answer before, Mr. Matthews. I'm looking to get it clearly from the Department of National Defence, on the record.

The Chair: I'm sorry. We have now gone well over time, even though we added more time to your answer, Mr. Green. Perhaps you could ask for that again during your next round of questioning.

We will now move on to our five-minute round of questioning, starting with Mr. Lawrence.

Mr. Philip Lawrence (Northumberland—Peterborough South, CPC): I'll just give a bit of my time to Madam Thomas to respond to Mr. Green's question.

Mr. Green, you wanted Madam Thomas to answer that question. Is that correct?

Mr. Matthew Green: Yes. Somebody from the Department of National Defence and not PSPC, because I've already put this question to them.

Ms. Jody Thomas: I'd be happy to give you a very detailed written answer on this, Madam Chair, if that would be useful. Our budget does not include, at the time that it was posted, the provincial tax. However, we're happy to provide in detail how we budget and what it's inclusive of. I think it's best if we give you that in detail.

Mr. Philip Lawrence: Thank you, on my behalf and that of the committee. I appreciate that.

My next question is for Mr. Matthews. With the greatest respect for all the great work that all the witnesses do, I would really like some succinct, numeric answers.

For the duration of the national shipbuilding project, what is the total amount of delays—meaning every ship, every day? What is the total amount?

Mr. Bill Matthews: Madam Chair, if we're into questions of what the impact is on the budget, that's best placed to the Department of National Defence or the Canadian Coast Guard, depending on which project you're after.

Mr. Philip Lawrence: I wasn't necessarily asking about the budget.

Any of the witnesses can respond. I'm looking for this: If we added up all the delays and all the ships over the last decade, how many days would we get?

• (1215)

Mr. Bill Matthews: Unless my colleagues Simon or Michael have that handy, I think we would have to go back and provide the committee with a written answer, Madam Chair.

Mr. Philip Lawrence: Okay. And—

Mr. Michael Vandergrift (Associate Deputy Minister, Department of Public Works and Government Services): If I could, sir...

Madam Chair, there is a schedule in the Auditor General's report that outlines the original schedules through to the current schedules for the projects that were being considered by the Auditor General.

Mr. Philip Lawrence: What would be the total cost overrun then, Ms. Thomas or anyone else, for the last two years, the last

five years and the last 10 years? I was shocked to see that we have one ship that is \$111 million in one year. What's the total cost to taxpayers of these overruns?

Ms. Jody Thomas: That's a very complex question to answer and to provide you with a number on off the top of my head.

I think it's best that we provide that in writing, Madam Chair.

Mr. Philip Lawrence: Okay. That's fine—no worries. I appreciate your focus on accuracy.

Another concern I have is that we have all these interim measures. Having seen organizations work, I know that sometimes interim measures can actually take away from the actual mission, so we end up getting into this vicious cycle of trying to.... I can imagine our being in a ship. Instead of building a new ship, we are just continually trying to plug holes. What is the total cost, both financial and with regard to human resources, of these interim measures that we have to do because we can't get the original mission done?

Mr. Bill Matthews: Again, Madam Chair, I think we'll have to take that back. However, I would underscore that, across the board, the older the ships get, the greater the increase in maintenance costs. It's quite substantial, and that's one of the reasons the strategy for the two polar icebreakers to be built at roughly the same time is important; it mitigates risk, in terms of both schedule and cost. We'll have to come back to you on specific questions in terms of what the forecast for maintenance is now versus what it would have been at the beginning, if we have that number. I'm not.... We may have some work to do on that, Madam Chair.

The Chair: Ms. Thomas, do I see your hand up?

Ms. Jody Thomas: You do. Thank you, Madam Chair.

We have done some estimating and, again, accuracy matters, so we will provide that in writing in terms of the Halifax class as we await the surface combatant.

The interim measure that's being used to offset as we wait for the joint support ships to be built is a contract that has been made public, and we will provide that cost to the committee as well.

Mr. Philip Lawrence: I have two more questions for you, Ms. Thomas.

How many projects—because there's been a bit of time between the AG report and now—are there currently under way? How many ships are being built, and how many are on track versus how many are not?

Ms. Jody Thomas: Certainly at this time we have our Arctic and offshore patrol ship project under way, and the joint support ship under way. Those are in construction phases. We have two of the AOPS in the water; one is doing trials now with the navy, and working very well. The surface combatant project is under way; we have naval large tugs under way and, of course, we have ongoing maintenance of the Halifax class vessels, and we're happy to provide to you the details of those.

All the projects have experienced delays. Some of them are COVID-19 related; some of them have to do with some of the foundational challenges of the national shipbuilding strategy when it started up, but we're very comfortable that we are gaining ground and the projects are coming along nicely.

The Chair: Thank you very much, Mr. Lawrence.

Witnesses, I would just remind you that, for any written responses that will be provided to the committee, we would ask that you get those to us within three weeks.

Colleagues, we will now go to our next round of questioning, which is a six-minute round starting with Mr. Berthold.

[*Translation*]

Mr. Luc Berthold (Mégantic—L'Érable, CPC): Madam Chair, since the beginning of this meeting, I have been shocked to see the lack of seriousness in the handling of a file—

[*English*]

Mr. Kody Blois (Kings—Hants, Lib.): Madam Chair, I have a point of order. I thought I was up after Mr. Lawrence, but I had to step out just for a second before I came back. I was just wondering if we could check that.

Mr. Luc Berthold: Kody, I'll give you your time.

The Chair: You are correct, Mr. Blois. I'm sorry. Please go ahead, for five minutes.

Mr. Kody Blois: Thank you, Madam Chair. I had my five-minute timer all ready.

Thank you to the witnesses.

As I sat here and listened to the testimony today, I found it interesting because, obviously, I know this committee is studying results and the AG aspect, but we have to think back to 2010 and some of the policy choices around building some of this capacity in Canada.

Mr. Matthews spoke to this during his testimony, about the fact that we came into this about a decade ago with very little shipbuilding capacity in this country. I guess I would just remind my colleagues, having had the chance to visit the Halifax shipyard and Irving, about some of those immense challenges of trying to build that capacity in-house. Particularly given the pandemic—I know with my own constituents although I can't speak for other MPs—there's a lot of increased focus on the capacity that we want in this country, whether that be agriculture, pharmaceuticals or otherwise.

I'll start with Mr. Swales, if that's appropriate; he is the principal on this.

One thing we're lacking here, Mr. Swales, in this conversation, is the perspective of the actual ship—the private shipowners who are building these.

During your audit, I assume you had conversations with the senior management of these shipyards. What is their perspective in terms of the timelines, because the AG report certainly highlights the fact that perhaps we were all a bit ambitious about what necessarily could be achieved on the existing timelines.

What was their perspective, in about 30 seconds?

• (1220)

Mr. Nicholas Swales: We did speak to the shipyards, but I don't think I should speak for them in this regard. Our audit was on the work done by the federal government, or the federal government's management of the strategy.

Mr. Kody Blois: Mr. Swales, I can appreciate that; we're focusing on the government's internal procedures, but of course, that intrinsically involves the shipyards in question in the dialogue. Is there anything missing or anything in this report that would be relevant to their perspective in some of the challenges they faced on the ground, or was that really not part of the element in terms of examining the internal procedures, whether it was Seaspan in Vancouver, Irving or, most recently, Davie?

Mr. Nicholas Swales: We were trying to understand where the management from the government side could be strengthened so that, in working with the shipyards, it would be as well placed as it could be. We point out, in the report, obviously, that the shipyards have had their challenges; we mentioned welding issues with some of the offshore fisheries surveillance vessels.

Clearly there have been challenges on the shipyard side, but the focus of our work was on what the government could do and what it has been doing to try to keep the strategy on track as best it can.

Mr. Kody Blois: Perhaps I'll go to Mr. Matthews, then, with public procurement.

Can you speak to this? Obviously, my understanding of even the timelines.... It's optimistic, but now we're starting to get some precedent on how to build these ships. I assume that's part of the work of the government in terms of tightening the timelines and asking some of the existing procurement shipyards to be able to meet better standards moving forward.

Mr. Bill Matthews: That's exactly it, Madam Chair.

There is a natural tension. Obviously, due to the age of the fleets, there is pressure to get ships sooner, and we all know why that is. We also want schedules that are credible. When finding that balance in the early days, the yards and the government, frankly—officials—were overly optimistic in terms of timelines.

As we now have a few ships under our belts, we are in a position to be more real in our challenge to the schedules. We're demanding more detail from the yards in terms of the schedules, so that we can assess if they're credible.

I have mentioned the earned value management approach that we plan on adding in, and we have started that. As the yards mature, we'll have a better sense of what they can deliver when, and we can change their schedules accordingly.

Mr. Kody Blois: I appreciate that.

In the conversations I've had with some of the folks at Irving, for example, I've asked about beyond-government procurement and what opportunities may exist. Traditionally, Canada has not been in this space. I asked about whether there would be private opportunities for procurement in a more commercial sense outside of defence procurement, as I wasn't sure if those existed. I think that speaks to the complexities and the fact that it's not easy to build an industry overnight.

I have a question for Ms. Thomas on the DND side.

I think it was outlined in the report, but I just want to confirm. Operationally, have there been any challenges from your side? It also mentioned mitigation measures to try to avoid some of those operational challenges because of the delays. Can you broadly speak to that, in the about 25 seconds I have left?

Ms. Jody Thomas: How about I ask the Commander of the Royal Canadian Navy to speak quickly about the operational challenges and how he's mitigating them?

• (1225)

Vice-Admiral Craig Baines (Commander, Royal Canadian Navy, Department of National Defence): Thank you, Madam Chair.

Of course, we have a very careful balance of investment against operational requirement that we plan to. For example, we have two ships for deployment as we speak, and there is another one about to deploy in July.

With the JSS contract, as you know, we have an interim auxiliary tanker that is fulfilling that function. We find that, through smart scheduling on our side, we're able to manage both the maintenance and the operational requirements.

Thank you very much.

The Chair: Thank you very much, Mr. Blois.

We will now commence our next round of questioning.

We'll start with Mr. Berthold for six minutes.

Mr. Luc Berthold: Thank you, Madam Chair.

[*Translation*]

Mr. Blois, thank you for giving me a bit of time earlier.

Madam Chair, since the beginning of this meeting and question period, having read the Auditor General's report, I have realized that leadership seems to be lacking, with all due respect to the people who are here to discuss the national shipbuilding strategy, or NSS. We have learned many things. It has taken us 10 years to learn. The government is starting to ask shipyards questions to figure out what is happening and why they are late.

Mr. Matthews, do you not think that we should figure out how the three departments communicate and organize ship delivery by different shipyards?

Based on what I have heard since the beginning of the meeting, I think that other departments would probably like to deal directly with shipyards.

[*English*]

Mr. Bill Matthews: The premise of that question may be a bit of an oversimplification of where things are. Of course, there have been ongoing discussions with the yards about schedules.

I think we're now in a better position to understand—

[*Translation*]

Mr. Luc Berthold: Mr. Matthews, I apologize for interrupting you.

You say that I am oversimplifying the situation. It is not complicated: there is a shipbuilding strategy, and the federal government is being asked to supply ships and icebreakers to the Canadian Coast Guard and the National Defence. Ten years later, we are realizing that there are delays, that risk-management programs are ineffective and that the Auditor General, in her report, although she does remain very nice and accepts all your recommendations, is very strict about this entire process, which has been ongoing for 10 years.

Canadians expect various services and departments—your department and National Defence—not to have to learn lessons for 10 years on how to deliver goods to Canadians when given a mandate like this one. Billions of dollars are involved. Do you know how many Canadians it takes to pay those amounts?

I don't like to say that I am simplifying. What I want to know is why, after 10 years, you are still saying that you are learning lessons.

[*English*]

Mr. Bill Matthews: The lessons learned have been ongoing, but the sophistication of the yards and the risk management and schedule management tools that go with it... These are long-term programs, so it's not a lesson you learn overnight. This is a multi-decade program, and we will continue to learn as we go.

We're now in a better position to understand what the yards can truly deliver. We've put pressure on the yards to adjust their practices as well, but it's a joint effort. I think you'll see lessons continue to evolve, but our practices will get more sophisticated as well.

[*Translation*]

Mr. Luc Berthold: Given what you are telling us, can you assure us that no delays will ever occur again?

[English]

Mr. Bill Matthews: In the shipbuilding industry, I don't think we can ever say there will be no delays. We've already talked about COVID. Even countries with generations of shipbuilding experience still encounter delays. These are complex projects.

We've talked a bit about the surface combatant already today. This is probably the most complicated project the Government of Canada has ever undertaken. It's going to be a challenging project.

[Translation]

Mr. Luc Berthold: Do you think you have all the human resources and skills your service needs to complete this project and be the leader in this important file? This shipbuilding strategy is important, not only for Canada, but for everything currently happening in the Arctic, on our coasts, and with National Defence, which must tinker with its ships to get things done.

Do you sincerely believe that you have all the skills and expertise needed to get the job done?

[English]

Mr. Bill Matthews: The competence required and the skill sets, both from an employee perspective but also continuing to make use of outside experts to get advice, have been part of the strategy from the get-go.

We will be looking to increase our resources as well, both within our department to ensure that these programs continue to be managed with the level of effort required.... It is a combination of outside expertise, which is absolutely essential, as well as employees inside the government.

• (1230)

[Translation]

Mr. Luc Berthold: How do you determine the needs in terms of expertise from outside your department?

What inadequacies have you identified within the department that external experts need to address? How do you select those people?

[English]

Mr. Bill Matthews: You can look to the Auditor General's recommendations for good clues as to where the expertise is needed, such as in risk management, to make sure we're world-class there. If you're into discussions of capability, I would leave that to my colleagues at Defence and the Coast Guard to answer.

In terms of risk management, it's evolving the contracts themselves to make sure they're world-class in terms of best practices as the shipyards mature. Those would be the two areas I would point to.

[Translation]

Mr. Luc Berthold: In terms of capability, you are saying I should consult the two departments in attendance, but you yourself said you were a leader in implementing the shipbuilding strategy for Canadians.

That is why I am putting questions to you, and I would like the representatives of the two other departments to answer you.

Ms. Thomas, from the Office of the Auditor General, do you think it would be necessary to have more transparency and to receive more frequent public reports on the shipbuilding strategy, in order to be able to monitor the strategy's progress? Every delay is costing Canadians millions of dollars.

[English]

The Chair: Ms. Thomas, give just a very short answer, please.

Mr. Luc Berthold: I think she's frozen, and that was such a good question.

The Chair: It was a great question.

Madam Clerk, are you in contact? Is someone in contact with Ms. Thomas?

Oh, I see that she is unfrozen.

Luc, perhaps we can go back and you can very succinctly ask your question again.

[Translation]

Mr. Luc Berthold: I will repeat my question, Ms. Thomas. Do you think Public Services and Procurement Canada should be more transparent and report more frequently to Parliament on the progress of the shipbuilding strategy, given the enormous cost of every delay for Canadians and for government budgets?

Ms. Casey Thomas: Concerning reports, since our audit focused on deadlines, I cannot tell you right now whether the frequency of reports is adequate. I don't know whether I have understood the question, as technical problems caused me to miss a good portion of the previous conversation.

If that's okay with you, I could answer you in writing, after the meeting. It would be my pleasure to do so if it helps complete what I just said.

[English]

Mr. Luc Berthold: I will send you my question because I don't want to take up my colleagues' time.

The Chair: Thank you, Mr. Berthold.

We will now go on to Ms. Yip for six minutes.

Ms. Jean Yip (Scarborough—Agincourt, Lib.): Thank you. My first question is for Mr. Sargent.

Could you tell us why there are two polar icebreakers needed for the Coast Guard operations in the north, when the audit report shows that only one polar icebreaker is noted?

Mr. Timothy Sargent: To take the second part of your question first, it had always been part of the Coast Guard fleet renewal strategy that we would have two polar icebreakers. Until very recently, only one of those icebreakers was funded. I would assume, although my colleagues from the Office of the Auditor General can speak for themselves, that that is why they focused on that one—on just the one polar icebreaker.

As to why the Coast Guard requires two polar icebreakers, it's important to understand that you can't run something as big and complicated as an icebreaker for the full 12 months of the year, year in and year out. There will always be times when you need to take it in for routine maintenance and routine refit. For three months out of every 12, we would normally expect the icebreaker to essentially be in the shop, as I say, for routine maintenance and routine repair.

If you want to have year-round coverage in the Arctic—which is very much the goal to do all the things a polar icebreaker needs to do to meet supply, to assert Canadian sovereignty, for search and rescue, for Arctic science—you need to have two polar icebreakers so you can cover off those three months.

The other motivation that is quite important is that if a polar icebreaker gets into trouble in the high Arctic, it's going to need another polar icebreaker to go to its rescue. Rather than relying on another country—which might take a very long time to get to the scene of the problem—having two polar icebreakers means that if one is in trouble, the other one can go in and rescue it.

• (1235)

Ms. Jean Yip: The polars are being built at separate yards. How are you ensuring that there is commonality in the construction of these ships?

Mr. Timothy Sargent: Both the yards are using the basic design, which was completed, if memory serves, in 2014. When we separated the yards, it was in part because we wanted to get one of these ships in service by 2030, which is when the *Louis S. St-Laurent* will come to the end of its useful life. I'm going to ask Andy Smith, who is the deputy commissioner of shipbuilding, to expand a little on the commonality.

Mr. Andy Smith (Deputy Commissioner, Shipbuilding and Materiel, Canadian Coast Guard, Department of Fisheries and Oceans): Thanks very much.

With respect to commonality, both shipyards will leverage the design that was done—the ship design, the hull form and the general layout of the ships—and that has been completed. In the interest of minimizing in-service costs, we will identify a number of key systems for which we are looking to incentivize the yards to select the same equipment. It really doesn't matter which shipyard proceeds first in that selection process—for example, main engines, propellers, shafting and some of the bigger equipment. When they do their procurement process, we'll be looking to have one shipyard have the option to have the other shipyard select the same equipment from the same supplier.

Ms. Jean Yip: Thank you.

Mr. Matthews, acknowledging that current vessel life extension efforts are effectively at their maximum, how do you address the concern that this will be cutting it close?

Mr. Bill Matthews: There are two things.

Number one, I'll speak to the new-build projects and maybe turn to my colleagues from National Defence and Fisheries and Oceans to talk about any other mitigation measures for the existing fleets.

This means it is absolutely critical to work with existing yards on nailing down schedules that are precise as possible. I want to reiterate that shipbuilding is never risk-free. We're still talking about COVID and what the impact might be. We need to ensure that we have really good clarity on the schedules. Advance warning of any bumps in schedules means the Coast Guard and the Royal Canadian Navy can take appropriate actions to adjust if there are scheduled delays.

I'm not sure if Jody or Tim want to add to that.

Ms. Jean Yip: Do you feel that the navy and the Canadian Coast Guard will be able to meet domestic and international obligations?

Mr. Bill Matthews: I think, Madam Chair, we'll have to let Defence, Fisheries and Oceans and the Coast Guard answer that.

Ms. Jody Thomas: Thank you, Madam Chair.

I think that question would be best answered by the commander of the Royal Canadian Navy.

VAdm Craig Baines: Thank you, Madam Chair.

As schedules are refined over time and we manage the transition between the Halifax class and CSC, our intent is obviously to maintain the appropriate operational flexibility for the Government of Canada. We have full confidence that once those schedules are better known, we'll be able to come up with an appropriate transition plan for the Halifax class frigates.

Thank you.

Mr. Timothy Sargent: Madam Chair, let me say on behalf of the Coast Guard that we're committed to making sure we continue to deliver critical services until the new ships are delivered. Up to now, we've employed a variety of interim measures, including purchasing used icebreakers, as well as vessel life extension. We'll do what we need to do.

The Chair: Thank you very much, Ms. Yip.

We will now go to Monsieur Blanchette-Joncas for six minutes.

• (1240)

[Translation]

Mr. Maxime Blanchette-Joncas: Thank you, Madam Chair.

I will come back to the question I put to Mr. Matthews earlier.

Huge investments in the national shipbuilding strategy seem to be eroding owing to political decisions. I am very concerned by this. It seems to me that leadership, in this whole process, comes from political power, which hinders the sound management of public funds.

I have concerns about what is to come. I wish I did not have to say it to you like this, but I have the disagreeable impression that this anticipated slide could not be contained as long as you are only executing the government's political orders. Right now, I feel that you are abdicating your advisory responsibility.

I would like to hear your comments on this.

[English]

Mr. Bill Matthews: On the schedule delays, Madam Chair, I have a few points to offer here.

Number one, the initial schedules, way back when, were indeed not realistic. As time marched on, people realized that those initial schedules just weren't going to hold, and there were adjustments made.

The other piece here is that we learned that seeing labour force or production gaps in the shipyards is detrimental to the overall strategy. When you see a production gap.... The Irving shipyards afford a great example. We saw that there would be a gap between ships and that there was risk to the labour force. That leads to long-term costs, so actions were taken to close those gaps.

Those are the kinds of risks that are being managed from a program perspective.

To the original point, this was more a matter of budgets and schedules, way back when, just not being realistic. We continue to learn as the yards gain experience in terms of building up their expertise, but also in understanding on what schedule they can deliver.

[Translation]

Mr. Maxime Blanchette-Joncas: I heard and understood what you said about learning from past experiences. The Auditor General's recommendation, under point 2.49, is the following:

Public Services and Procurement Canada should consider the experience of the first 2 shipyards in determining a schedule to achieve target state for the third shipyard.

Is Vancouver Shipyards—Seaspan—considered to have met the target? If not, when can we reasonably expect the company to apply this and meet its target?

[English]

Mr. Bill Matthews: Thank you, Madam Chair.

An important recommendation for the Auditor General as we work through the third yard process.... I mentioned earlier that the early days of the national shipbuilding strategy were characterized by overly optimistic forecasts—on all sides, frankly. Taking those lessons learned, both in terms of schedules but also in terms of the challenges in reaching target states for both VSY and Irving shipyards—and they have not yet reached target state—is important as we work with Chantier Davie to go through the third yard process.

I will turn to Simon Page to add some details concerning target states.

[Translation]

Mr. Simon Page (Assistant Deputy Minister, Defence and Marine Procurement, Department of Public Works and Government Services): Thank you, Madam Chair.

Thank you for the question, Mr. Blanchette-Joncas.

As for the Vancouver shipyard, we have not yet achieved target state, as Mr. Matthews specified, but we are nearly there. We are working on a corrective action plan to deal with the last elements of achieving target state. Out of the 158 elements to consider, we have a few left to examine at the Vancouver shipyard. All those lessons will be useful to us in the qualification and the framework agreement processes with the Davie shipyard.

Mr. Maxime Blanchette-Joncas: Thank you, Mr. Page.

When will the Irving shipyard meet the target?

Mr. Simon Page: Concerning the Irving shipyard, a full assessment will be carried out in fall 2021. Our goal is to obtain the assessment results in early 2022. We will quite possibly find that it is in the same position as the Vancouver shipyard and develop an action and correction plan to finalize the process.

Mr. Maxime Blanchette-Joncas: Regarding the Davie shipyard, can you tell us when it should meet its target?

Mr. Simon Page: Things will be a bit more complex for the Davie shipyard because the selection process that will take place over the summer will have to be completed, and then the framework agreement must be signed. So as we get closer to signing the framework agreement, the details of target state for Davie will be discussed. That is when things will get interesting for us. With a view to ongoing improvement, we will take into account lessons learned with the two other shipyards and will ensure a good negotiation with the Davie shipyard in that respect. However, I cannot give you a date right now.

• (1245)

Mr. Maxime Blanchette-Joncas: Thank you for clarifying.

Mr. Matthews, in early May, the government announced that Davie would build two new icebreakers, but to our knowledge, no contract has been signed.

How can we have full confirmation that this will happen?

Mr. Bill Matthews: Thank you for your question.

As we have already announced, the Davie shipyard is currently going through the process to become the third shipyard. That is the first step before a contract is signed. So we must continue to work with the Davie shipyard, to ensure it completes the work necessary to become the third shipyard. Afterwards, an agreement could be negotiated.

[English]

The Chair: Thank you very much, Mr. Blanchette-Joncas.

We will now go to Mr. Green for six minutes.

Mr. Matthew Green: Thank you.

It's still very difficult for me to unpack the delays from the actual costing of the overall program, so I'll reference paragraph 2.41, which states, "All risks were part of the defined risk management process, and the team analyzed some risks in detail, using third-party experts. However, the team did not analyze some risks that had an impact on shipbuilding timeliness."

We've now heard Mr. Matthews reference some of the early estimates as perhaps being ambitious, being fraught with some deficiencies that we're now seeing play out in this study. Section 2.42 states:

For example, one risk was not having enough staff within departments to implement the strategy in a timely manner. The team did not document whether this risk was affecting the pace of implementing the strategy. Other risks were not having enough workers [in] each shipyard, which could affect timely delivery of vessels. Again, the team did not document how these risks were affecting timely shipbuilding.

The report goes on to say that they noted instances such as staff shortages that caused shipbuilding delays.

My question, through you to Mr. Matthews, is this: How can you commit to a multi-billion dollar shipbuilding strategy without knowing if you have enough capacity at either the departmental level or at the shipyard level?

Mr. Bill Matthews: Thank you, Madam Chair.

There are two aspects to that question, and I may turn to Mr. Kennedy to talk about the workforce in the yards.

With regard to the HR capacity inside government, which is part of the question—and we have control over that—we have added capacity, both through external resources but also in building up our own team, and we will continue to increase that team to make sure it's adequate.

I think some of the...I'll call it tension that you'll see between the government and the yards, when we talked about schedule, is that they would like quicker decisions. That's always something they raise with us. Frankly, we would say, "We would like more notice. Why didn't you tell us earlier?" That's a very natural kind of tension that occurs. Obviously, the more people we have working on the projects, the more quickly we can do analysis and get to decisions.

There are plans to further augment the team in place.

Simon, I'm not sure if you have anything to add in terms of building HR capacity in the yards themselves, because that was also a risk that came to fruition that impacted schedules as well.

Mr. Simon Kennedy: Madam Chair, I'd just say there are some things that are built into the industrial and technological benefits policy and the value proposition that are aimed to support skills development and help the bidders identify areas to improve training and that sort of thing.

I'd be happy to provide details, if there's interest.

Mr. Matthew Green: No, that's quite fine. We've identified already, through you, Madam Chair, the delays in the process.

These increases are going to cost Canadians in multiple ways. Again, going back to the PBO, each year a project is delayed will see production costs increase by tens of millions of dollars per ship. We've also heard that there's a cost to retrofitting the ships that are

scheduled to be replaced in order to keep them in service longer than expected.

We heard the DM from DND, I believe, talk about contingencies. My question through you, Madam Chair, to her, would be, who's paying for the cost of retrofitting the existing ships to extend their service? Considering the overall cost of the shipbuilding, is this part of the contingency or is this a holdback or a set-aside from the actual contract through the procurement with a company like Irving?

• (1250)

Ms. Jody Thomas: The budget for the surface combatant does have contingency in it for delays and other costs—that is absolutely true. There is a separate budget for the maintenance, repair and ongoing operation of the Halifax class vessels.

Mr. Matthew Green: What would that cost be? What would the contingency be on the maintenance side, and who pays? Is this something that in procurement processes you would negotiate with a contractor? If they don't meet targets and if they don't meet milestones, then the costs would be borne by them. Or is this an additional cost to the taxpayer?

Ms. Jody Thomas: It's all within the budget that currently exists. It's not negotiated with the shipyard per se. Certainly, we all want the new ships in the water as quickly as possible. The navy needs new capacity, and we would rather be in new ships than old ships, but no, there is no particular... Mr. Matthews can speak to this in greater detail than I, but there is no particular... The yards are incentivized to produce sooner rather than receiving a penalty for not.

Mr. Matthew Green: There are no penalties.... For instance, we're now looking at, potentially, the last ship in 2047. Let's say it's 2055. I would imagine that all of us will be gone, and maybe we'll be tuned in virtually somewhere, but there's no penalty at all if this national shipbuilding goes way off the rails and is further delayed for unforeseen circumstances.

Ms. Jody Thomas: There's a difference between slight delays and "way off the rails", Madam Chair. We would certainly be managing the project at that stage much more tightly than an eight-year delay on the last ship, as an example.

Mr. Matthew Green: Okay.

I'll go back through you, Madam Chair, to the other Ms. Thomas, from the AG's office, and ask about this. Under paragraph 2.36, it is stated that the Coast Guard, National Defence and PSPC "should implement mechanisms to obtain complete, current, and reliable schedules to support shipbuilding projects" and "ensure that progress toward forecast targets and delivery timelines is monitored to enable timely decision making".

Mr. Matthews referenced some of that as being a "challenge" and a "tension" between the builders and the government. Compared to other large-scale military or similarly complex procurement projects, what other specific deficiencies did your audit reveal regarding the project's scheduling and monitoring systems and tools for these shipbuilding processes?

The Chair: We need a very short answer, Ms. Thomas.

Ms. Casey Thomas: In the spirit of short answers, I will pass the question about details over to Mr. Swales.

Mr. Nicholas Swales: Thank you, Madam Chair.

I'm not in a position to compare to others, but I think the issue here is that we felt there was an opportunity, certainly as we get into future projects, to look at ways of ensuring the government was using or had sufficient levers and was using those levers to keep the schedules on track better than it had up till now.

The Chair: Thank you very much.

We will now go to our last round of questioning. It's a five-minute round.

We're starting with Mr. Webber.

Mr. Len Webber (Calgary Confederation, CPC): Thank you, Madam Chair, and thank you to everyone today.

The testimony here today is incredibly enlightening. As a prairie boy, I don't talk much about shipbuilding, so I find this really interesting.

Ms. Yip alluded to this vessel life extension. Mr. Sargent, you brought that up in your opening comments and said that an additional \$2 billion was announced for a comprehensive vessel life extension program to your existing fleet, to the limit of its technical life expectancy. This upgrade will put our vessels in the waters for how much longer?

Mr. Timothy Sargent: I'll maybe pass that over to the deputy commissioner, who is the keeper of our project schedules.

Mr. Andy Smith: Thank you very much, Deputy Minister.

Madam Chair, the Canadian Coast Guard currently has 26 large vessels, and the \$2 billion that you have referenced speaks to the vessel life extension budget for that entire fleet of large ships. Given that some of the ships will remain in service until early 2040, it's envisioned that we're going to be 16 to 18 years cycling the ships through the various vessel life extension periods, which sometimes can take 8 to 12 months to complete.

• (1255)

Mr. Len Webber: For a period of 8 to 12 months, these vessels will then be out of commission. Where do they get upgraded—in what shipyards?

Mr. Andy Smith: The vessel life extensions are individually contracted. They are competed for through Public Services and Procurement Canada. Sometimes we look to bundle ships to provide greater opportunity for industry to schedule their resources over a longer period of time.

Mr. Len Webber: Thank you.

Also, Mr. Sargent, you mentioned that three medium icebreakers have been acquired to backfill while the ships are out of service. From where did you acquire these medium icebreakers?

You also have a light icebreaker that you say you are going to acquire. From where will you get these additional icebreakers?

Mr. Timothy Sargent: Maybe, Andy, you can speak to that.

Mr. Andy Smith: The three medium icebreakers were the subject of a multi-year process where we started out doing an industry pulsing to see what was available on the market. The world market for used icebreakers is very small. Canada was fortunate to acquire the three medium icebreakers from a company in Sweden through Chantier Davie, which was the exclusive Canadian broker for that company.

The first two of those medium icebreakers are in service today. With regard to the third light icebreaker, we are just in the final stages of completing a request for proposals. It's envisioned that we'll acquire that ship this fall, and it will be in service at some time in 2022.

Mr. Len Webber: Mr. Smith, what was the cost of these icebreakers?

Mr. Andy Smith: With regard to the cost of the three medium icebreakers, I can get you the exact figure, but it was in the neighbourhood of \$680 million.

Mr. Len Webber: As a comparison between that and a polar icebreaker, what is the cost of a polar icebreaker?

Mr. Andy Smith: That's a good question.

First of all, they are both icebreakers, so that's the apples to apples comparison, but they're really very different ships. A medium icebreaker is in the range of 6,000 tonnes. A polar icebreaker is a 24,000-tonne ship, so it is a significantly larger ship, with heavier steel, given the higher icebreaking requirements of the ship.

The budget for the polar icebreaker remains under review and will be made public once we get further into the design process. However, it is also a little speculative to try to compare the cost of a used icebreaker to the construction of a new polar icebreaker of a completely different size.

Mr. Len Webber: Great. Thank you for that, Mr. Smith.

Madam Chair, I have 10 seconds, so I'll pass it on to you.

The Chair: Thank you very much, Mr. Webber.

We will now go on to our last questioner for five minutes.

Mr. Van Bynen.

Mr. Tony Van Bynen (Newmarket—Aurora, Lib.): Thank you, Madam Chair.

Thank you to our witnesses today.

It's great to be able to join this committee once again this morning.

I have a few questions for Mr. Matthews. There has been some concern presented in this report regarding the tools that were available to the PSPC procurement and project management teams. I think it's fair to say that these tools were limited in their scope and their effectiveness.

The Auditor General also acknowledged that key decisions were made to address risks in meeting the goals of the NSS, in some cases including reassigning the timelines for achieving these goals, but to the betterment of the overall project.

My first question is this: What decisions were made?

Mr. Bill Matthews: Colleagues from the Office of the Auditor General, if you want to add on to this, please do.

I have a couple of examples. First, measures to extend the lives of current vessels obviously have to be an important measure here. The other would be to add additional Arctic and offshore patrol ships to the Irving shipyards—AOPSs number seven and number eight, which will eventually go to the Canadian Coast Guard. That helps to reduce the production gap and also will result in the Canadian Coast Guard's getting ships earlier than necessary.

You can point to the west coast—Vancouver Shipyards—and see the reordering of ships in terms of the reordering of the joint support ships being brought up to number two in that case. You can also see the adding of the multi-purpose vessels to the Vancouver Shipyards workbook—17 of those, if I recall correctly. That is to better align with the requirements of the Canadian Coast Guard.

Those are a few examples of what we've done from a program management perspective that show how it all fits together.

• (1300)

Mr. Tony Van Bynen: How much time was required to come to these conclusions?

Mr. Bill Matthews: They evolved. They weren't necessarily one complete package. Some were individual measures, and some were part of a broader group. Going from memory here, I would say there were discussions over about a year, on and off, with the shipyards to talk about a schedule and mitigation measures. It may even have been 15 months, but it was a long-term discussion.

My colleague Jody has been around longer than I have. If you have a different recollection, Jody, please correct them.

Ms. Jody Thomas: Thank you, Madam Chair. I think he just said I was older than him.

The program has been evolving over the 10-year period. The individual decisions have all taken between a year and 18 months for

us to come to a determination and get approval to proceed. Nothing has been done quickly, but it has been as our relationship has evolved with the yards that our understanding of schedule has evolved; our understanding of the needs of the Royal Canadian Navy and the Coast Guard has evolved, and we have come to these conclusions and recommendations.

Mr. Bill Matthews: Madam Chair, I should have mentioned also that the most recent, newest addition of the third yard would be another measure in terms of how the program has evolved to better mitigate risk.

Mr. Tony Van Bynen: How has this experience helped PSPC to avoid facing similar challenges when undertaking similar massive projects like this?

Mr. Bill Matthews: The toolset we will have in place from a risk management perspective, new software and the earned value management approach in dealing with the yards are some tools that we can likely use on other large projects of this scale as well. We'll look to leverage those investments as we can.

Mr. Tony Van Bynen: This question is for the AG.

You note in your report that the timelines at the outset of the replacement processes may have been unrealistic, and it suggests that timelines proposed or called for by the previous government of the time and these schedules developed may have been, shall we say, ambitious. In your review of large procurements from the same time period, in your experience, what was a common element? That is to say, were timelines developed for these large projects often overly ambitious?

Ms. Casey Thomas: I would have to say that I don't recall doing any similar work, Madam Chair, in relation to timelines on other large projects. Unfortunately, I don't have a lot to add relating to this.

Mr. Swales, you can probably nod if you have something to add related to this question.

Mr. Nicholas Swales: Thank you, Madam Chair.

The only thing I would add is that shipbuilding is quite different from other types of procurement, so we need to be cautious in running those kinds of comparisons of time frames across different types of equipment, if I can put it that way.

The Chair: Thank you very much, Mr. Van Bynen.

Thank you to our witnesses for joining us today. It's been a great meeting with lots of great questions asked.

Colleagues, I would like to remind you that on Wednesday I will be chairing the Auditor General's lock-up for reports that will be tabled in the House after the lock-up. You will all have received an invitation to the meeting, and I would encourage you all to attend. Finally, Thursday's meeting will be concerning report 1, "Procuring Complex Information Technology Solutions".

Is the committee in agreement to adjourn the meeting?

Thank you.

We are adjourned.

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