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Chair: The Honourable John McKay





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Thursday, October 26, 2023

• (1545)

[*English*]

**The Chair (Hon. John McKay (Scarborough—Guildwood, Lib.)):** I call this meeting to order.

We have with us the Parliamentary Budget Officer today, who is quite well known to a number of us, along with Mr. Penney and Mr. Solomon.

Welcome to the committee. You have provided us with a fairly provocative report. Maybe it's not provocative. I don't know. Maybe it'll be very simple.

I thought that instead of the usual five minutes we give to a witness, and in light of the fact that we have you for a couple of hours, it would be useful if we took the first 10 minutes and had you go through the report and explain it. Then we'll go to our usual rounds of questions.

With that, I'll ask you to present in the fashion you see fit. Thank you, sir.

**Mr. Yves Giroux (Parliamentary Budget Officer, Office of the Parliamentary Budget Officer):** Good afternoon. Thank you for inviting us to appear before you today.

As you mentioned, Mr. Chair—or maybe you didn't mention it—I am joined by Christopher Penney, adviser-analyst, and Binyam Solomon, special adviser, on the report you are considering today.

In accordance with the PBO's legislative mandate to provide impartial and independent analysis to help parliamentarians fulfill their constitutional role, which consists of holding the government accountable, my office published a report in September entitled “A Force Structure Model of Canada's Military: Costs and Personnel”. I didn't think at the time that it would be provocative, but if it is provocative, so be it.

First, I'd like to explain why we have produced this report.

The government provides a range of analytical and reporting frameworks, such as the public accounts and the main estimates, which offer valuable insights into past and projected expenditures. The departmental results framework, or DRF—or even “derf”, for those who are more intimate with it—takes this a step further by associating spending with measurable goals and effects.

However, while the DRF establishes a relationship between expenditures and the strategic outcomes that are served, it combines results across multiple military branches with intermediate outputs, such as expenditures on training and infrastructure. The DRF, there-

fore, does not enable the assessment of recurring operating expenditures on individual military capabilities such as armoured battalions or naval surface combatants, for example.

[*Translation*]

Our force structure model fills this gap by providing an overview of the recurring annual operating expenditures for Canada's military capabilities.

Our model consists of an independent estimate of these operating expenditures for 21 military capabilities identified in every branch of the Canadian Armed Forces.

We've divided the costs into three categories—direct and indirect costs, and overhead—to give us a better understanding of the percentage of expenditures required to use, support and maintain a specific military capability in relation to those that are essential to the combined forces, but which have no independent military impact as such.

The model also includes estimates of the personnel strength associated with each capability, in terms of direct costs, indirect costs, and overhead. That allows for combining the estimated operating cost analysis with the staff levels for each capability.

For example, in the tool we published on our website, you can increase or reduce the capability of, let's say, the naval air forces and determine which expenditures are directly related to the naval forces and which are indirect, such as support vessels, and overhead, which are typically associated with headquarters. That makes it possible to determine the impact of an increase or decrease in direct capacity on overall costs, and personnel.

As you may know, the model was published on our website, and it is available to the public. We created an interactive tool that allows users to analyze portfolio compromises for all military capabilities, by displaying the changes in recurrent costs and personnel strength resulting from the changes in the structure of the forces specified by the user. It's the first publicly available model of this kind in Canada, and I can tell you that it's very popular.

Thank you, Mr. Chair. That concludes my opening address.

I'd be happy to field any questions you may have.

[*English*]

**The Chair:** That was well below 10 minutes.

Let's go to our first round. I think it's Mr. Bezan for six minutes.

**Mr. James Bezan (Selkirk—Interlake—Eastman, CPC):** Thank you, Mr. Chair.

I want to thank the Office of the Parliamentary Budget Officer for being here today. I do appreciate all the hard work that the PBO does in keeping us, as parliamentarians, informed. I appreciate the report that you just filed.

We have lapsed spending. We just saw that in the public accounts that were tabled this week. There was another \$1.5 billion down, and \$2.5 billion before that. Both of those big lapsed spending amounts—\$4 billion-plus—were under Minister Anand. Now, we also know, as we've heard in testimony here in the past couple of weeks, about the recruitment crisis that we have: 16,000 troops short and 10,000 undertrained and undeployable. The Liberal government has undermined the Canadian Armed Forces.

If we increase numbers and get money back toward where it's supposed to be, even if the government had just hit their budget numbers before they take this \$1 billion cut out of this current year, where would, in your mind, the ratio be, tooth to tail?

You're talking about a third right now of actual direct military effect. If budgets were met, if troop strength was up, would that ratio change significantly?

• (1550)

**Mr. Yves Giroux:** It would depend on where the money would be spent. If you're talking about a billion dollars or a billion and half dollars per year, I don't think it would change the ratio significantly. It would move it a bit but not that much.

**Mr. James Bezan:** Okay.

I found it interesting that the ratio on the Canadian Army, the tooth-to-tail ratio, is worse than it is for navy or air force. To me, it's counterintuitive. I would expect that it would be more expensive for direct military effect to put fighter jets in the air and ships to sea than it would be to put soldiers out in the field.

Why is it that we have so much more overhead costs and indirect costs tied to the Canadian Armed Forces in the army?

**Mr. Christopher Penney (Advisor-Analyst, Office of the Parliamentary Budget Officer):** For the Canadian Army, we have a greater quantity of what we call indirect capabilities, for instance, armed reconnaissance regiments, combat engineers, engineering support regiments and such, which are, of course—

**Mr. James Bezan:** You don't consider that direct military—

**Mr. Christopher Penney:** These are indirect. They are deployed as part of a force mix.

**Mr. James Bezan:** Have you ever seen combat engineers and how they operate? They go right into harm's way. They are part of the fight.

**Mr. Christopher Penney:** There's no reason to disagree with what you're saying. We follow the convention that was set forth in the strategic cost model, which was DND's own framework, dating back to over a decade now. Also, we follow the conventions established by the Congressional Budget Office.

**Mr. James Bezan:** The Congressional Budget Office has provided this type of modelling, which exists down in the States, and we're just adapting that and applying it to the Canadian Armed Forces.

**Mr. Christopher Penney:** In so many words....

**Mr. James Bezan:** Okay.

I noticed that you put Canadian Rangers as their own military effect, I guess, their own capability.

Did you guys do an analysis of reserve forces versus regular forces?

**Mr. Christopher Penney:** There is a breakdown within the model. It's not displayed as part of the tool. As you can imagine, there are only so many axes by which we can offer that level of detail and that level of granularity. I would say that the reserve forces are fully accounted within the model.

**Mr. James Bezan:** Okay.

On their tooth-to-tail ratio, how does that compare, especially since most of our reserve forces are army reserves? There are, of course, navy reserve units as well. On the army reserve units, what would that tooth-to-tail ratio be versus the Canadian Army? Would it be worse or better?

**Mr. Christopher Penney:** I can certainly say that, of the reserve personnel, many of them are attributed to direct. I don't have a breakdown, however, of the reserves, whether they are direct or indirect. I think Mr. Solomon might have something to add.

**Mr. Binyam Solomon (Special Advisor, Office of the Parliamentary Budget Officer):** Yes. As you pointed out, the army basically eats up about two-thirds of the reserve force we have. A good chunk of the remaining is the navy, followed by the air force.

The reserve forces are essentially treated as basically providing support to the direct elements. If we were to integrate them as a part of the direct, you might get the ratio higher, but, in order to remain consistent in our modelling strategy to match with both the Congressional Budget Office and past DND experience, we left them out. Your analysis would be pretty much correct if we decided to include them as part of the direct.

**Mr. James Bezan:** When we look at tooth-to-tail ratios, Canada's versus our allies', did you guys do an analysis of where we stack up?

**Mr. Christopher Penney:** I believe the Congressional Budget Office figures show the tooth-to-tail proportion at 41%, so more than one-third. Looking at the U.K., the most recent estimate I can find is from the middle part of the last decade, but it's also exactly 31%.

**Mr. James Bezan:** Where is the sweet spot then? If we're going to reduce the tail and get more teeth, get a bigger bite in our fighting capabilities, where is the sweet spot? Where do we make investments—air force, navy, army?

**Mr. Binyam Solomon:** It's the way—

**The Chair:** Mr. Bezan has asked an extraordinarily complicated question right at the last minute, literally in the last seconds. I'm going to let that go, because we do have these folks for two hours. I'm not going to be hard-nosed, but I don't want to get abused if I tell you that I'm not going to be as hard-nosed as I usually am.

I think this is an important question, and I'm going to let it go even though Mr. Bezan is way past his time.

**Mr. Binyam Solomon:** In terms of the tooth-to-tail ratio, you have to understand that people sometimes use the analogy of an arrow. Sometimes you need bigger support in the back in order to make sure that your fighting edge is quite capable. You need to have a certain amount of overhead and indirect support.

The tooth-to-tail ratio is an important way of looking at how much is being put on the overhead, but sometimes some capabilities actually require a good amount of support as an overhead. Imagine, for example, even within the navy, some of the air force capabilities have to be included, and the air force would come with their own set of supporting elements. Sometimes the tail needs to be bigger.

We don't usually say that there's a fixed goal to achieve, but we always have to make sure that there's a reasonable amount of overhead to go with it.

**The Chair:** Thank you, Mr. Bezan. You should be thanking me, actually.

Madame Lalonde, six minutes, please.

• (1555)

**Mrs. Marie-France Lalonde (Orléans, Lib.):** I was under the impression it was Mr. Collins.

**The Chair:** I'm sorry. I'm reading from the wrong sheet.

Mr. Collins, you have six minutes.

**Mr. Chad Collins (Hamilton East—Stoney Creek, Lib.):** Thank you, Mr. Chair. I hope you can hear me okay.

I have read past PBO reports, and this one is written a little differently. I missed a portion of the opening, so excuse me if this was answered in the opening statement. I'm at a housing conference here, and they referenced a PBO report, coincidentally, this morning. They talked about a housing report that was done. Participants here talked about the rental construction financing initiative and the positive critique that the PBO referenced in terms of affordability and why the government should make some changes and tweak that policy as it relates to providing support for housing providers.

I use that as an example right now in my opening question, because this one is written a little differently. It doesn't reference existing policies. Certainly it highlights existing budgets, but it doesn't provide recommendations in terms of making changes. Traditionally PBO reports do that, and they do that for different constituencies. They certainly do that for us, in terms of allowing us to reflect on some of the policies that have been implemented and the changes that we might want to make in terms of making them better. They do that for our constituents.

That's a great example that I just provided, in terms of how I'm at a housing conference and they're referencing a PBO report and some of the changes that were highlighted in that document I referenced. Of course, our bureaucracies use these reports for the same reasons and rationale, in terms of making changes.

This one is written a bit differently. I didn't see those recommendations. I didn't see the comparisons that Mr. Bezan rightfully raised, in terms of how we compare to other countries. Those are the types of things that I think we're accustomed to seeing in many of the reports that come out from the PBO.

Who is the report written for? How is it to be used? Is it to be used by others in bureaucracy? I would have to guess that when it comes to trade-offs, those who create our budgets are well aware that increased support in one area means you may have to decrease in another area, because budgets are finite. Can you help me with that, in terms of who the sliding scales are for? Are they for the public to go online and play with them, to say if they're going to advocate for more in a certain area within the defence budget, here's where I would like to see it because I've utilized this tool that you provided online?

I wasn't certain, after reading this report twice, why that was created and who the intended user is. I'm sorry for the long introduction and anecdote.

**Mr. Yves Giroux:** Thank you. That's a very good question and an interesting one, and it allows me to explain a bit more, and probably a bit better, why we did that report.

This report, as you pointed out, is written differently because it's meant to be a companion to something that we released at the same time, which is a tool on our website intended for parliamentarians and their staff, and also for Canadians. It allows them to look at what happens if you increase or decrease some military capabilities, how much it costs and how much it requires in additional personnel, both in direct capabilities but also the indirect capabilities—for example, field hospitals, if you want to increase the army—and also the overhead costs that are accompanied by these increased or decreased military capabilities.

That's why we wanted to have that tool. We wanted parliamentarians to have that capacity to look at the impacts of varying 21 military capabilities. That's something that's not available right now from DND, so we wanted to have that tool available for parliamentarians so that they can play with the various capabilities.

It's not perfect, by any means. It's based on historical data, the most recent data from the past six years. We looked at that and we reconciled all these various objects by line item and made that fit into the 21 capabilities—direct, indirect and overhead—so that parliamentarians and Canadians can have an idea as to the costs and the military personnel required, or freed up, if you vary the capabilities. For example, for direct regiment capability, how much more or less money is needed directly to support them, as well as the personnel and also the costs?

• (1600)

**Mr. Chad Collins:** I had an opportunity to look at the DOD's same version online. I understand, sir, that you have an international component to your job, in terms of meeting with your counterparts and looking at what they're working on.

Where did the request come from, internally or domestically? Is it something that you witnessed that they're working on in another country—the United States is a prime example—and you thought this would be a useful tool here? Did someone request this, saying that there's not enough transparency, not enough budget information online or the public is clamouring for this? Of all the things you could have worked on with your limited resources, why did you go down the path of providing this tool?

**Mr. Yves Giroux:** It's something that we identified as a gap in information that was available to parliamentarians. We identified that as a gap before I was appointed, so it's something that was on our work plan the moment I stepped into the job.

However, there were a couple of events that prevented us from working on this issue, notably the pandemic and the fast pace of reports that we had to produce. That's why this was put on ice for a number of years, unfortunately. With the pandemic receding and Mr. Solomon becoming more available than he was before, we asked him to come back and complete the work that we had done, because we had identified that as a gap and also because of the sustained interest on the part of parliamentarians for information on anything that relates to national defence. For example, the moment we release a report on DND, be it on the operating or capital spending, the "Strong, Secure, Engaged" capital plan, or surface combatants, there is tremendous interest in our reports.

That's why we thought it would be advisable to provide that tool for parliamentarians and the Canadian public to look at different permutations, for their own interest and for the purpose of holding the government to account.

**The Chair:** Thank you, Mr. Collins.

[*Translation*]

Ms. Normandin, you have six minutes.

**Ms. Christine Normandin (Saint-Jean, BQ):** Thank you very much.

It's always a pleasure for us to welcome the Parliamentary Budget Officer.

I'd like to follow up on what Mr. Bezan was saying. But first, I'd like to make sure that I've understood. Let me use an example: in the model you just described, when you move the cursor around, you can see modifications made to the direct and indirect costs. If

I've properly understood the answer to one of Mr. Bezan's questions, there isn't a perfect correlation when you move the cursor. There's a sort of sweet spot that pops up automatically.

Is that right? Is that what happens for each of the capabilities? Is that accounted for in your model?

**Mr. Yves Giroux:** We've wondered about that ourselves.

The ranges available on the online tool are fairly linear. They go from -25% to 25%. Beyond that, the linearity begins to break down. That's the main reason why we limited ourselves to plus or minus 25%. Indeed, the linearity, based on historical data over the past six years, is pretty much in that range. However, if we go beyond it, whether upwards or downwards, there's a risk of losing linearity. There could be a complete collapse or exponential growth in certain indirect capabilities, particularly for overhead.

**Ms. Christine Normandin:** Thank you very much.

I would also like to ask a question about the definitions of direct and indirect costs. I too was surprised to hear that the combat engineers, among others, are in the indirect costs category.

Can you tell me what a direct cost is? I believe direct costs are those that don't produce a military effect.

You've previously made comparisons with other countries, and I'd like to know whether they use the same definitions. My understanding is that Canada uses the same definition as the United States. Do other countries use the same definitions of direct and indirect costs?

• (1605)

**Mr. Yves Giroux:** To my knowledge, in terms of definitions, very few countries provide this kind of information.

The United States was mentioned, an ally whose lead we follow in many instances for national defence matters, because that country tends to provide a lot of information, particularly from the Congressional Budget Office. We are therefore closely aligned in this area.

Mr. Penney and Mr. Solomon may be able to provide more information about comparisons with other countries.

I'll give you one example of direct capabilities. For combat ships, one might say that destroyers fall into the "direct capability" category. Supply ships like the *MV Astérix* or other ships, fall into the "indirect capability" category, even though they too might be deployed in combat zones or active zones.

Mr. Penney, could you tell us about comparisons with other countries?

[English]

**Mr. Christopher Penney:** I was going to first touch on the indirect versus direct capabilities front. In particular, it's not to demean a capability if it's indirect. It's the point of delineation that we used and implemented in the model. Is it something that is typically deployed as part of a force mix, or is it something that can be conceivably deployed by itself? I think reasonable people can have disagreements on that front.

With regard to the international comparisons, I believe this is an import from both U.K. and U.S. military doctrine, but perhaps Mr. Binyam Solomon could....

**Mr. Binyam Solomon:** Yes.

What we mean by indirect is essentially, when you go on a combat mission, you will need these things to go along with it. It's like a force package. Which one is the most lethal aspect? It's the one you would typically use for combat and for doing, for lack of a better word, the actual killing. Who is providing you the support?

Sometimes, we decide to include under the indirect not only the capability of combat engineering support but even reconnaissance. Even though some reconnaissance items might be employed for combat or killing, they are primarily used as a support unit that you send together.

Think of that as a force package—that indirect. It's not really an overhead when we are talking about indirect.

[Translation]

**Ms. Christine Normandin:** Thank you very much.

I'm now going to ask some completely different questions.

Minister Freeland and Minister Anand announced \$15 billion in cutbacks in various departments.

At what point can the Parliamentary Budget Officer become involved in analyzing impacts? Is that a role he can play?

Without revealing any confidential information, can you tell us whether your office is called upon sufficiently to analyze the impacts of cutbacks like these?

**Mr. Yves Giroux:** It's certainly a role we can perform to help parliamentarians.

We have not yet been involved or consulted. That doesn't surprise me, because to some extent, the government needs to do this kind of work confidentially. When the internal work has been completed and more details become available, we intend to study the potential impact of any measures to be taken.

The minister, Ms. Anand, had given the department until the beginning of October to submit proposals. Decisions will probably be made over the coming weeks. Once the decisions have been made, we'll start seeing how we can get involved in providing relevant information and analyses.

[English]

**The Chair:** Thank you, Madame Normandin.

Mr. MacGregor, welcome to the committee. You have six minutes.

**Mr. Alistair MacGregor (Cowichan—Malahat—Langford, NDP):** Thank you very much, Mr. Chair. It is a pleasure to be here.

Thank you to all three of you for being here today.

Back in 2017, I had the pleasure of being invited aboard HMCS *Vancouver*, one of our beautiful frigates out on the west coast, and they took me for a sailing to show me its capabilities. For anyone who's been on the frigate while it's pretty much ready to go, it has a very large crew to make that ship work. It's a 100-metre long ship. I know that a frigate, of course, is classified as direct-action capable. It's capable of many different roles, but of course the personnel aboard that ship serve many different roles. With some, you could look at their job position and argue that it's indirect or that they are helping sustain the ship.

In your classification system, you're essentially looking at the unit when classifying, so everyone in that unit, no matter what their role—because it is a direct role—is going to be classified under that cost. Am I reading this right? Is it the same for the Canadian Army and for the Royal Canadian Air Force?

• (1610)

**Mr. Binyam Solomon:** The personnel numbers are basically as you indicated. On a ship, you would have those who are going to be providing some sort of overhead or indirect activity. That could be determined by the expenditure data we receive, which we could map into something called “the frigate”, which would have its own specific cost centre or data point.

The personnel one was a bit of a challenge for us. We had to actually use other external information as well, beyond DND, just to make sure that those numbers we're using are also publicly available and comparable. While the methodology you described is essentially the same as what I described, there might be some nuances in terms of making sure that it's part of the publicly available information.

Sometimes you might have some extra people who should have been labelled as base employees, or sometimes the first direct maintenance work that is done for the ship when they are on board or travelling would be tagged to a base or a fleet maintenance facility personnel, so we have to make some adjustments on that.

**Mr. Alistair MacGregor:** Thank you.

I'm substituting in on this committee, but when I was looking at the ratios between direct costs, indirect costs and overhead costs for the three branches, and of course joint costs, I became curious. Are you aware of just how those ratios compare with the NATO average or some of our closest allies? Are we an outlier in any of these? Is this comparable across the NATO spectrum? Do you have that information at all?

**Mr. Christopher Penney:** I don't have a breakdown by direct, indirect and overhead, other than what's available from the Congressional Budget Office, but there is nothing.

**Mr. Binyam Solomon:** Just to clarify, what we mean by “there is nothing” is that, with the exception of the United States, which is willing to provide that kind of information publicly, not a whole lot of nations have been able to break it down in that fashion.

**Mr. Alistair MacGregor:** The next question I have is specific to my riding.

My riding is Cowichan—Malahat—Langford out on Vancouver Island. We are very much oriented toward the Royal Canadian Navy, especially in the south end. Many of my constituents are either full-time service members or civilians working at CFB Esquimalt.

I understand in your report why you needed to exclude new major capital expenditures, like the procurement of new military systems, but in my riding we know that the wait-list for service members and their families for military housing is close to 700 at CFB Esquimalt, and we know that, year after year with successive governments, they have kind of punted that critical maintenance and new building expenses to prioritize some of the mega-projects, like the F-35 procurement.

We have a lot of military personnel and their families suffering as a result. We have not had those increases made to those budgets, but I am wondering if you can tell us why the report does not include modelling for the increases to things like the Canadian Forces housing agency. Is that not something you could link to personnel costs? It's such a vital and important thing, especially for constituents of mine.

**Mr. Yves Giroux:** That's a good point, and that speaks to the exclusion of major capital expenditures in the report, because major capital expenditures—such as housing but also frigates or fighter jets—are expenditures that are for decades. It would be quite difficult to include an accurate cost of the capital expenditures necessary to increase or decrease specific military capabilities, and also the various types of expenditures that can sometimes depend on policy choices, whether that's housing that's provided on base or off base. That's why we have not included these types of expenditures.

• (1615)

**Mr. Alistair MacGregor:** Just as a quick follow-up, would that not sort of affect your personnel costs? If the personnel are having trouble housing themselves, that's a cost they're having to bear, which indirectly I think may affect the Canadian military.

**Mr. Yves Giroux:** Yes, it's obviously something that military personnel.... If they have to bear additional costs, it will have a negative impact on the capacity of the Canadian Forces to recruit, but also to retain their military personnel. That's probably a very different issue than just the tool and the model we have built.

**The Chair:** Thank you, Mr. MacGregor.

Mr. Kelly, you have five minutes.

**Mr. Pat Kelly (Calgary Rocky Ridge, CPC):** Thank you.

Before I get into questions about this report, I have a quick question that I would like to get some assurance on from you and your office. We had testimony just on Tuesday that the procurement ombudsman does not have sufficient funds to do his job and to do the reviews that his office is supposed to do. The defence ombudsman's

office has said much the same. We've seen the shameful refusal to fully fund the Office of the Auditor General.

Does your office have sufficient funds to do the important work that you do for parliamentarians?

**Mr. Yves Giroux:** That's a question that I'm glad to have. I'm also glad to be able to say that I think we have the resources that we need to fulfill our mandate.

Of course, if somebody were willing to double my salary—

**Some hon. members:** Oh, oh!

**Mr. Yves Giroux:** —and expand my office, I would not say “no”.

**Mr. Pat Kelly:** I do want to move on quickly to the report, but that's good. I'm glad to hear that. You're funded though by the House of Commons, not through finance.

**Mr. Yves Giroux:** Exactly.

**Mr. Pat Kelly:** Okay. I think that's the difference.

Lapsed funding is something that has, I guess, always existed, but it has really become quite a significant number.

How does lapsed funding play into the ratio? If there is failure to execute and actually fulfill the expenditures that have been authorized by Parliament, how does that affect the ratios? How does the money that isn't there affect the numbers and the ratios?

**Mr. Yves Giroux:** In our tool, we are basing it on six years of historical data. The lapsing wouldn't appear or would not affect the numbers that are in our report or the simulations that one can do using the online tool. It would, however, affect Canada's capacity to meet the 2% target under the NATO commitment, but it would not affect what's in the tool.

**Mr. Pat Kelly:** Okay.

Let's look at examples, then, just to help us understand, because I share some of the—maybe—lack of fully grasping the report in the same way as some previous questioners. For example, in the air force, aerial refuelling would be.... I'm sorry—the parlance was just lost on me for a minute here.

You have the fighter jet itself. You have refuelling, and then you have overhead. Is a hangar overhead? Is that indirect, or what is that?

**Mr. Yves Giroux:** The fighter jet would be direct. The refuelling in flight would be indirect because that's helping the fighter stay in the air and complete its mission. The hangar could be direct if it's used to house the fighter jets. It could be indirect. I don't have that level of detail, but it certainly wouldn't be overhead.

**Mr. Pat Kelly:** Okay, tell us about overhead, then. The whole point of the report, I think, is just to demonstrate what an enormous expenditure there is in overhead. People think of the direct and indirect costs when they think of where a military budget goes, but it's actually mostly going to overhead. What are the examples of overhead?



**Mr. Yves Giroux:** Examples of overhead could be our contribution to NATO—a financial contribution or an in-kind contribution to NATO. It could also be research and development that's done at DND, the Department of National Defence. It's also parliamentary affairs or the civilians who are working at HQ. If you drive by Colonel By Drive here, you'll see a big building, and that is in good part overhead for military capabilities.

● (1620)

**Mr. Pat Kelly:** Okay. I think this tool is very helpful and might be very illuminating for many Canadians who have questions about how military budgets are spent.

There's a crisis in recruitment and retention. We're having trouble filling the positions at every stage, whether they would be under overhead, indirect or direct. Maybe I'll give you some more time on what was partly Mr. Bezan's question. How does the inability to get people into these key roles play out in the ratios and our ability to have direct capability?

**Mr. Yves Giroux:** It's clear that the capacity or incapacity to recruit and retain military personnel affects the capacity of DND or the Canadian Armed Forces to deliver on its mandate. It's not affecting the ratio and the tools that we are providing here, but I think this tool can give an example as to what if, for instance, the navy increased its uniformed personnel by 1,000, the army by 1,000, and so on. That'll give users a good idea as to how much that would mean in terms of increased indirect, direct or overhead costs. However, the absence of a full contingent of the Canadian Armed Forces is not affecting the simulations themselves or the results that one would get.

**The Chair:** Thank you, Mr. Kelly.

Mr. Fillmore, you have five minutes please.

**Mr. Andy Fillmore (Halifax, Lib.):** Thank you very much, Chair.

[*Translation*]

I'd like to welcome Mr. Giroux and his colleagues.

[*English*]

I'm joining you from sunny Halifax today, home of the east coast navy, the 5th Canadian Division of the Canadian Army and 12 Wing Shearwater. It's a good Canadian Armed Forces town, so I'm pleased to be joining you from here today.

I want to acknowledge that an undertaking like the model you've built is no easy task, and certainly not for an institution as vast as the CAF, so by its nature we know that this force structure model is but a snapshot. For example, what I mean by this is that one of the assumptions in the model has estimates that reflect a steady-state cost. It assumes the military will continue to operate in a similar manner in the next six years as it has in the past six years that are in the data in the report.

However, it's just not clear to me how we can use a model like this to understand the emergence of new threat environments and new operations in new theatres, like the Indo-Pacific or Ukraine or, now, Israel-Gaza, nor is it clear to me how we can use the model to understand new and emerging CAF needs, like the emphasis on culture change or more costs in recruitment, retention and infras-

tructure needs, as examples. I wonder if you could tell me to what extent you believe this model accurately and effectively accounts for the complexities in the modern Canadian Armed Forces and in the DND as it stands today.

**Mr. Yves Giroux:** That's a good question, and it allows me to explain the capacities of the model but also its limitations.

This model is based on the most recent six years of available data, and in that sense I think it reflects pretty well the state of the world as we know it and as we knew it fairly recently. It can be very helpful in projecting, in the near future, what could be the needs and what would be the costs and the needs in terms of military personnel to adjust, at the margin, for some or all of the 21 military capabilities that we have in our model.

What it doesn't do and is not intended to do is indicate what types of resources and the number of these resources Canada needs to face emerging threats—for example, how much it would cost to send the Canadian Armed Forces to the Middle East or additional support to Ukraine—because that would not be a specific military capability. That would also be highly contingent on government decisions as to what to send and what type of support to provide to these two regions, for example.

It's a good tool for adjusting capabilities—minus 25%, plus 25% or anywhere in between—but it's not intended to project the costs of doing something that has not yet been done or when discrete decisions would have to be made as to the type of interventions to make.

● (1625)

**Mr. Andy Fillmore:** Thank you for that.

Your office has made an investment in creating this tool. I want to ask you about the magnitude of that investment, if you could just tell me that.

**Mr. Yves Giroux:** Yes, I can. We used data that was provided to us free of charge by the Department of National Defence. We also needed to have somebody help us, so it involved, probably, three months of somebody working full time. We also had to contract for a value of, I would say, probably, off the top of my head, between \$15,000 and \$30,000. That would be the extent of the cost of building this model.

**Mr. Andy Fillmore:** Okay. That's good to hear.

To protect that investment, then, do you have some strategies in mind to keep the tool current, to update it as we go forward—periodic updates, usage monitoring? How do we keep the value of this investment moving forward?

**Mr. Yves Giroux:** It's probably a matter of getting updated datasets from the Department of National Defence and refining the model, depending on any changes or any hiccups that we or somebody else finds in the model. We've already had discussions with the Department of National Defence. They had some caveats along the lines of what you mentioned, but the cost of maintaining it going forward would probably be minimal compared to the cost of establishing the model.

**Mr. Andy Fillmore:** I think we're going to be out of time in about 10 seconds, but maybe in some of the future responses you could try to help us understand what methodology was used to decide on the 21 capabilities that were covered.

There were some that are missing. The Canadian Forces intelligence command is missing. Maybe if we could try to uncover that methodology that would be helpful too.

Thank you, Mr. Chair.

**The Chair:** Thank you, Mr. Fillmore.

Madame Normandin, you have two and a half minutes.

[Translation]

**Ms. Christine Normandin:** Thank you.

Before starting, Mr. Chair, for your information, the interpreters have said that with all the microphones in the room that have not been muted, there is too much noise for them to do their work. As a result, we unfortunately missed some portions of Mr. Fillmore's comments.

I will return to my questions. Your analyses and recommendations are based on decisions made by Public Services and Procurement Canada and the Department of National Defence.

Would the Parliamentary Budget Officer's role also enable him to contribute to hypothetical decisions submitted to him by various departments or does that extend beyond his mandate? For example, before making a decision, could a department consult you?

**Mr. Yves Giroux:** We can certainly do that. We can look at the assumptions. In fact, we do so often, particularly in our economic and budgetary forecasts. We also do this for our long-term forecasts of government financial viability. When we publish reports, we often, where appropriate, present alternative scenarios to give parliamentarians an idea of what might happen if the government were to make a change in direction. So it's always possible for us to study the assumptions and work with the government.

What we don't generally do is make public policy recommendations, for example on whether the government should implement a national pharmacare program. We just estimate the costs. However, we can work from the assumptions to estimate the cost or the implications of various scenarios.

**Ms. Christine Normandin:** Thank you very much.

I have a question about overhead. We've often heard that military procurement generates an enormous amount of bureaucracy. I'm thinking of things like analyzing bids in response to tender calls.

Are the bureaucratic costs included in the overheads presented here, or are they mainly tied to what happens at Public Services and Procurement Canada?

**Mr. Yves Giroux:** First of all, there are two different things. Expenditures incurred by Public Services and Procurement Canada would probably not be included in the model. However, expenditures incurred by the Department of National Defence for the procurement process would certainly fall into the overhead category.

[English]

**The Chair:** Thank you, Madame Normandin.

Mr. MacGregor, you have two and a half minutes.

**Mr. Alistair MacGregor:** Thank you, Chair.

In your model, there doesn't appear to be a separation of personnel between public and outsourced. I want to make that point. The Union of National Defence Employees had an "Uncover the Costs" report. They found staggering evidence that rising outsourcing of operations and sustainment in the Canadian Armed Forces is actually costing more to the department. If we have a situation where outsourced contractors are costing more than maintaining the good union jobs on base, I'm not sure how the model can be effective if we don't delineate the costs between outsourced and in-house work.

Can you tell this committee your thoughts on the impact of the more expensive outsourced contracting in your model, and maybe why there wasn't a delineation? Are there any thoughts you have on that?

● (1630)

**Mr. Yves Giroux:** In our model, the costs of the outsourced expertise is in, but as you pointed out, we don't factor in the personnel. The costs are there, but when you look at the personnel impact, it's not there, and it's because it's difficult to determine the full-time equivalent or the personnel impact of contracted-out expertise.

Contracting out expertise can be done for a variety of reasons. It could be to get expertise that does not exist within the Canadian Armed Forces or DND as a department. It could also be because it would not be advisable to develop that expertise in-house, for example if it's necessary for a limited period of time. It could also be related to the fact that the expertise is difficult to retain, as we have seen in the difficulties for the Canadian Armed Forces in reaching their target. That's probably as much as I can say, not being deeply involved in the day-to-day operations of the department and the Canadian Armed Forces myself.

**Mr. Alistair MacGregor:** Very quickly, where does the difficulty lie? Is it in your trying to obtain the data from the department or...?

**Mr. Yves Giroux:** I wouldn't say it's difficult to obtain the data. It's probably difficult to get that second-hand information from the contractors, because it's not something that is perceived as pertinent in all cases.

**The Chair:** Thank you, Mr. MacGregor.

Mrs. Gallant, you have five minutes.

**Mrs. Cheryl Gallant (Renfrew—Nipissing—Pembroke, CPC):** Thank you, Mr. Chair.

In the 2022 budget there was an unexplained \$15 billion earmarked for our military that was described as a big “black hole” because we couldn't figure out what it was for. Was this money spent that you know of, or do you know what happened to it? Does it show up anywhere?

**Mr. Yves Giroux:** I don't know exactly what you're referring to, but when we ask for information from the Department of National Defence we get the information that we need. You may be referring to the capital expenditures, so I'd have to look at the specifics of those billions of dollars.

**Mrs. Cheryl Gallant:** Could you get back to us on whether or not that \$15 billion was spent, and if so, how it was spent?

In August 2021, the CAF acquired four new and fully operational simulated urban training sites at Gagetown, Valcartier, Petawawa and Wainwright, and that was as part of the urban operations training systems project, at a cost of about half a billion dollars. Did your analysis for 2023-24 include the approximately \$15 million to \$20 million to cover the software renewal for this fiscal period? The program has not been renewed, and they've shelved this capability.

**Mr. Yves Giroux:** We looked at historical data, and the most recent year we had, I think, was 2021-22, so we would not have looked at anything beyond that for the purpose of establishing this model.

**Mrs. Cheryl Gallant:** At your last meeting here in June you said the shortfall for Canada to get to NATO's minimum 2% threshold was between \$13 billion to \$18 billion. What, if anything, has changed? Have we come closer to that mark?

**Mr. Yves Giroux:** For the current year, when we did that report in June 2022, we estimated the gap would be \$15.5 billion in 2023-24. If anything, that gap has widened since that time, because of the GDP and the way the spending has evolved at National Defence.

**Mrs. Cheryl Gallant:** That excludes that \$15 billion that's missing as well.

What did you determine was the biggest contributor to the disproportionate cost just to keep our four submarines barely operational? Really, what I'm looking to do is understand how we could calculate the cost of waiting to acquire a new fleet of submarines versus pouring money into keeping the hand-me-downs we do have afloat.

● (1635)

**Mr. Yves Giroux:** It's a question that is of great interest to me as a taxpayer, but unfortunately, my office and I have not done a study or a report on the submarines—not yet.

**Mrs. Cheryl Gallant:** Last week at this time I was at CFB Petawawa, on the planes. We had the engineers out there, and the CDS was there taking questions. One of the soldiers asked, “When are we going to get our drones?” I think they started asking for

them in 2003, and they were Predators back then. Then he said, “Well, that's the answer you gave me last time.” He asked it again and he said the same thing: “That's the same answer you gave me the time before that, and the time before that.”

This soldier's been waiting over a decade for the Predator drones and now they're being set aside for a higher, more costly drone with more capabilities. How would we use your tool to calculate the cost of, again, just getting what we can in terms of Predators, because they are still available—India's buying them, as is the UAE—versus waiting and paying more, albeit for something that has more capabilities?

**Mr. Yves Giroux:** Because the tool is based on historical data, if it's a capacity or tools that do not exist at the Canadian Armed Forces, the tool would not be helpful in determining the cost of waiting or acquiring equipment that the Canadian Armed Forces do not already have, unfortunately.

**Mrs. Cheryl Gallant:** Okay.

**The Chair:** Just for the purposes of the record, Mrs. Gallant's first question had to do with a \$15-billion hole.

Do you understand what it is she's asking for at this point?

**Mr. Yves Giroux:** I'm not one hundred per cent sure, but if I had to summarize that, I would probably assume that it's based on the capital spending of DND that was not according to the initial plan under “Strong, Secure, Engaged”.

**The Chair:** It's important for Mrs. Gallant that the PBO understand what it is she's looking for.

**Mrs. Cheryl Gallant:** Do you want to me explain a little further, Mr. Chairman, for the purpose of following up?

**The Chair:** Why don't we leave it that you can explain it to him off-line. That should be helpful.

With that, we'll go to Ms. Lambropoulos for five minutes, please.

**Ms. Emmanuella Lambropoulos (Saint-Laurent, Lib.):** Thank you, Chair.

Thanks for coming to help clarify certain things and helping to explain this new tool to us.

When looking at the website, I noticed that some of the capabilities that are listed have that range of 100 plus or minus 25%, and some don't.

I'm wondering if you can explain what the difference is here. Why, for example, don't the Canadian Rangers, Arctic and offshore patrol vessels or coastal defence vessels have anything such as a sliding scale there?

**Mr. Yves Giroux:** We refer to these as locked, so there's not much that can be done for these capabilities.

In these cases, it's because moving the scale even a little bit would get us out of that linear relationship. For example, for some capacities, if you tried to decrease them, you'd get to zero pretty quickly, or you'd have a ratio that wouldn't be sustainable. You'd get virtually zero capacity, but you'd be stuck with a very high ratio of indirect and overhead costs, so that wouldn't be very helpful.

It's the same if you were to increase it by 25%. You would probably need to incur significant and disproportionate capital expenditures, so the tool wouldn't be that helpful in these cases. That's why these capacities are locked.

**Ms. Emmanuella Lambropoulos:** In terms of why these 21 military capabilities were identified, is there a rationale? Is this just what there is? To the average Canadian, can you give some rationale as to why these are the ones listed?

**Mr. Yves Giroux:** Sure. These are the ones that are relatively—and I say “relatively”—easy to understand but also easy to measure, and they're probably the most widely known and available in the Canadian Armed Forces.

• (1640)

**Ms. Emmanuella Lambropoulos:** I noticed that you also deemed the Rangers non-essential, and that there are some that are more essential than others in the capabilities and in the different categories.

I'm wondering what the rationale is, considering the fact that they were essential, especially during the pandemic. They were dispatched to long-term care homes, and obviously they do a lot of incredible work in their own communities in areas where you wouldn't necessarily want to send the forces. They know their environment. They are the ones who are protecting certain areas that the forces aren't necessarily protecting in other ways.

I'm wondering why that one was deemed less essential.

**Mr. Yves Giroux:** We didn't pass judgment on whether capacities are essential or not. We leave that to those in charge of determining Canada's military needs and capacities. We may have labelled some as direct or indirect, but I don't think we have labelled anything as essential versus non-essential.

There may be some miscommunication or maybe some typos in the tool or the report.

Chris is kicking me under the table, so I don't think there's any typo.

**Some hon. members:** Oh, oh!

**Mr. Christopher Penney:** If I can just add, the model and the way we built it is completely agnostic as to whether a given capability—whether it's direct, indirect or overhead—is essential or not.

In fact, everything's assumed to be essential. You need the overhead and you need the indirect, in order to have the direct.

**Ms. Emmanuella Lambropoulos:** I have one other question in terms of indirect and overhead costs. Mr. Solomon gave a bit of a clarification earlier and said, for example, that the cost of the combat engineering supports that would be sent along would be indirect. What would be considered as overhead, and what's the differentiation between the two?

**Mr. Binyam Solomon:** A typical example for an overhead... Let's take any of the navy capabilities. An indirect capability would be a fleet diving unit, a unit that would be going along with the ship. Eventually, when we have the JSS, for example, the joint support ship, that would be considered indirect, because we need them to be refuelling while they're on a mission. Overhead would be items like the fleet maintenance facility that stays offshore doing the work, the maritime command, or the executive overhead that would be sitting at Halifax or Esquimalt or NDHQ. Those would be the overhead we're talking about in that case.

**The Chair:** Colleagues, I think we have time for one more five-minute round.

Let's start with Mr. Bezan.

**Mr. James Bezan:** Thank you.

This report and this model are going to be, hopefully, a living document, or you guys can update the information. Now that the public accounts have been tabled and the 2022 financials are out there, can you input that data here and update the model?

**Mr. Yves Giroux:** We could to the extent that the level of information, at the granular level that we need, is available from DND and to the extent that we can reconcile it with the standard line items that we have in our model.

**Mr. James Bezan:** This is only good if it has current data in it.

**Mr. Yves Giroux:** Yes, it is.

**Mr. James Bezan:** Once it stales, it's garbage in, garbage out. Is that right?

**Mr. Yves Giroux:** Yes, it is. It becomes an interesting intellectual exercise, but not much more than that.

**Mr. James Bezan:** When is the F-35 report going to be coming out? I know you've been working on it. Can we expect it to be tabled here soon so we can have you back?

**Mr. Yves Giroux:** Yes, you can. Hopefully, it will be next week—late next week.

**Mr. James Bezan:** That's awesome.

You also talked about whether Canada is ever going to get to the 2%, and you said that the gap is widening. You did your report on NATO's 2% spending target in June 2022. Are you going to be updating that? Already, if we look at the charts you had in there, we were supposed to be at 1.33%. We missed that mark. We were supposed to be, this year, at 1.46%, and you're saying we're going to be significantly lower than that. Do you have any plans to go back and update that dataset?

• (1645)

**Mr. Yves Giroux:** No, we don't—not in the near future. We're focused on the F-35s and then updating the report on the capital spending at DND under “Strong, Secure, Engaged”.

For the 2%, we are also held hostage a bit by the availability from NATO of NATO definitions and updated numbers, but it's something that is of keen interest to parliamentarians. It's not in the near future, but it's not never. It will probably be sometime in the next several months.

**Mr. James Bezan:** Going back to your force structure model and talking about the tooth-to-tail ratio, some people would say that the tail is fat and the tooth is lean. Where can we cut the fat without affecting the tooth? There's always the issue around sustainment, and you said that, certainly, some of the overhead is necessary. Were you able to identify, through this process, whether there's too much bureaucracy? Are we top-heavy? Do we have too many commanding officers, flight officers or general officers?

**Mr. Yves Giroux:** We looked at historicals. We looked at the numbers that DND provided us, and we reconciled that. We tried to tie all the little knots there were to ensure that we had a good tool, but we didn't look at whether all the numbers were necessary, or whether all the overhead and indirect costs were necessary. That was way out of the scope of that report.

All of that is to say that I can't answer that question, because we have not done that kind of work, looking at everything with a very critical eye and asking, "Is it absolutely necessary?"

**Mr. James Bezan:** When we start looking at the issue of procurement—we've been talking about this now for some time at committee—there are dollars tied to it within the Canadian Forces. There's no doubt that, for whatever reason, the big-ticket items definitely use bigger tooth-to-tail ratios. Surface combatants are going to really change that number dramatically. New fighter jets will change that number dramatically, which isn't necessarily the same for putting boots on the ground in the army.

When you're doing this process, are we talking about the U.S. numbers being higher because they have a more robust air force and navy versus Canada to get to 1.4%?

**Mr. Christopher Penney:** I would suggest that they certainly have a higher rate in regard to the total force employment. The operations rate is much higher in the United States. We could also talk about their higher-end systems costing more on a flying-hour basis, let's say—recurring variable costs—which is what the model does.

**Mr. James Bezan:** Do you know if the United Kingdom has a similar process?

**Mr. Christopher Penney:** It does not exist as far as I know.

**The Chair:** Thank you, Mr. Bezan.

Madame Lalonde, you have five minutes.

[Translation]

**Mrs. Marie-France Lalonde:** Thank you very much.

Thank you for coming, Mr. Giroux.

I would also like to thank the members of your team who are here today, Mr. Penney and Mr. Solomon.

I'd like to ask a few questions about some of your answers.

To begin, am I correct in saying that you copied an American tool to build your Canadian tool?

**Mr. Yves Giroux:** We used the American classification to determine what was direct, indirect and overhead. We did indeed draw upon what the United States had done to draw up our classification system and build our tool.

**Mrs. Marie-France Lalonde:** Okay.

I'm going to return to one of these questions.

[English]

As you mentioned, there are 21 capabilities that are being used in these tools. One of my colleagues did mention that the Canadian Forces intelligence command was not considered. I think, this week particularly, we saw its importance within the framework of what's happening internationally.

Is there a reason we did not use this part of this tool?

**Mr. Yves Giroux:** It was considered, but we have some limitations when it comes to using information for public consumption and it's classified. It was considered, but we understand that DND was not very comfortable with our disclosing that level of detailed information.

• (1650)

**Mrs. Marie-France Lalonde:** I appreciate that answer, actually.

Very quickly, we've been asking a lot of questions. This is new. It's a new tool. You were mentioning that it is popular. I'm just wondering if that was something that parliamentarians asked you to initiate, or senators or DND itself?

What are the target audiences and the intended outcomes? I would really like to know that.

Also, regarding the maintenance of the tool, who's going to do this?

**Mr. Yves Giroux:** It's something that was not specifically asked for. I don't remember one parliamentarian asking me to develop this specific tool, but it's something that was of keen interest to many parliamentarians in both chambers: "What would it cost to increase this, decrease that, modify this or add that many CF personnel in this area?" It's the result of many questions that were asked of my office and my predecessors over the years. That's the genesis of this report.

It's intended for parliamentarians, like all that we do, first and foremost—MPs and senators and those who are courageous enough to support them—but also for Canadians. What we do is always available to the public, but, first and foremost, it's for parliamentarians.

The cost to maintain it should be minimal because our office runs a lean operation. As I mentioned before, the cost to maintain it, aside from hosting it on our website, is updating it, which should be done with existing resources in our office.

**Mrs. Marie-France Lalonde:** I'm just curious. Quickly, because of my time, is there flexibility in adjusting based on information that people or other parliamentarians may want to have available in that way? Is there flexibility within this tool to modify it?

**Mr. Yves Giroux:** We always aim to provide parliamentarians with information and analysis that is useful for them but also accurate. If there are suggestions from parliamentarians, we are very happy to take that into consideration and adjust as necessary to meet their needs.

**The Chair:** You still have a minute, Madame Lalonde.

**Mrs. Marie-France Lalonde:** That's great. I am going to ask, just in case, if one of my colleagues wants to ask anything. Are we good?

Then, can I continue?

**The Chair:** Not anymore.

**Some hon. members:** Oh, oh!

**The Chair:** You have two and a half minutes, Madame Normandin.

[Translation]

**Ms. Christine Normandin:** Thank you very much, Mr. Chair.

I understand that your model factored in data from the past six years. I would imagine that's because you wanted to be up-to-date and represent what's happening now.

Could you tell us more about having taken attrition in the forces into account. We know that this can have an impact on certain contracts for various reasons, such as subcontracts being required for maintenance.

I'd like to know the extent to which going back as far as six years might muddy the waters. But then attrition may not really be having an impact on the situation, because it's not that recent.

I'd like to hear your general view of this.

**Mr. Yves Giroux:** Your question is really about the accuracy of the model. We use historical data, of course. We go back six years, as you mentioned, to keep it current. That means it reflects the status of the Canadian Armed Forces over these past six years.

Does attrition muddy the waters? I would say no, not really. As I mentioned, the model is based on recent years, and there are plans to use it to project the situation into the next few years.

We don't expect any major reversal in terms of attrition in the Canadian Armed Forces over such a short period. That's why I'm suggesting that the model be used for short-term rather than long-term forecasts.

**Ms. Christine Normandin:** For comparison purposes, given that the exercise was carried out with a view to developing a model, would it be relevant to go back in time to see what the various ratios were 10, 15 or 20 years ago? That might provide a basis for comparison with today's numbers. Would it be possible to do this without spending too much time and energy on it?

**Mr. Yves Giroux:** It would certainly be possible, but I'm sure my colleagues to the left and right of me would, if I said I was going to do that, either fight me or quickly leave the room.

An undertaking like that would be very onerous in terms of time and resources.

• (1655)

[English]

**The Chair:** Thank you.

Mr. MacGregor, you have two and a half minutes.

**Mr. Alistair MacGregor:** Thank you, Mr. Chair.

The Canadian Armed Forces has its own unique national health care jurisdiction. I'm aware that this committee just completed a study that I think is going to include a lot of different recommendations on how to improve and expand the coverage for CAF personnel and their families. A model like this could be really helpful to understanding the impact of the different recommendations to the Canadian Forces health services and other aspects of the military health care system.

I guess what I would like to know is how the model could be used for studying reforms to health care in the Canadian Armed Forces. I know that in some areas we are dealing with structural deficits, especially in some professions like mental health care providers. These would be personnel on the base, but it could also be the infrastructure used to support them. Again, does this factor into the personnel costs and so on? Can you delve into that for me, please?

**Mr. Yves Giroux:** The model is intended to look at what happens to the number of personnel, as well as the expenditures, if you change some of the military capabilities. If the government is looking at changing the system or the delivery system or model, or the package of health care coverage for CAF personnel, then the model is not the appropriate tool to look at that and consider the best approach. It's intended to focus on changes to military capabilities, as opposed to being used for accessory or indirect costs such as health care for Canadian Armed Forces personnel.

**Mr. Alistair MacGregor:** If you are a service member.... My father used to be a member of the Canadian Armed Forces. He was a base doctor. Of course, we have many nurses who serve in the forces as well, and sometimes you have mental health care providers who are civilian employees of DND. Are they all considered to be in the indirect category in support of direct action?

**Mr. Christopher Penney:** There would be some in the indirect category but also in overhead.

**Mr. Alistair MacGregor:** I'll leave it there, Chair. Thank you.

**The Chair:** Next is Mr. Kelly.

**Mr. Pat Kelly:** Thank you, Chair.

I want to return to the Victoria-class submarines. We know that we are generally lucky to have one that's operational at any moment.

This is a direct expense. Again, just so that we understand, is the entire program a direct expense? How does this measure when such an extraordinary amount of money is spent on the maintenance and the non-operational time the individual units have?

**Mr. Yves Giroux:** As I understand it—and Chris and Binyam can correct me if I'm wrong—the submarines themselves and the personnel on board would be direct, but the base and the expenditures at the base would be either indirect or overhead, depending on the precise nature of—

**Mr. Pat Kelly:** Actually overhead but not indirect...? Okay.

**Mr. Yves Giroux:** Some of it could be overhead. As Binyam indicated in the response to a previous question, the commander at the base could, for example, be attributed in part to overhead costs for the submarines.

**Mr. Pat Kelly:** All right. Boy, the different grades—direct, indirect—or how you classify these things really weighs into how the ratios work.

**Mr. Yves Giroux:** I gave examples here that may not be the best examples, but overhead could also be the defence research and development attached to that, maybe not that much in the case of subs but in intelligence or other types of expenditures.

We did a very refined.... There were thousands of lines that were attached to every single military capability, thanks to the granular data that DND provided us. I'm not using the best example because I'm not intimately aware of every single one of these lines, but if you want to have an off-line conversation, I'm sure these two gentlemen would be more than happy to give you more accurate examples.

**Mr. Pat Kelly:** Okay. I picked the submarines because it has already come up, and it's one that I think is an obvious concern. In 2019, we had zero subs that were deployable or at sea for even one day, yet there were significant expenditures on this equipment. I would hope that wouldn't be reported as a direct expenditure, because there are no teeth on a submarine that is on dry land or confined to harbour.

● (1700)

**Mr. Yves Giroux:** That reminds me of vocabulary that I learned in another report on dental care. It's "indentured" or something like that: no teeth at all.

**Voices:** Oh, oh!

**Mr. Yves Giroux:** That would be a good analogy for that specific military capability.

More seriously, though, our tool would be based on historical data, so if there's a year where there were virtually no expenditures, that would be reflected in the data.

**Mr. Christopher Penney:** It's averaged over six years.

**Mr. Pat Kelly:** Okay. Well, it's not that there are no expenditures when this equipment is not in the water.

I appreciate having the information—and I think that we as parliamentarians do—and having tools from the officers of Parliament who help all the MPs to do their jobs and hold the government to account. I do appreciate it. I know that there have been some questions that have been raised that seem to question the utility of what

you're doing, and I'd like to make sure the record indicates my support for your office and what you do.

I have one minute left. James has one question.

**Mr. James Bezan:** Using the submarines as an example, maintenance, repair and overhaul are direct or indirect costs—or is it overhead?

**Mr. Binyam Solomon:** Some of the maintenance that is done at a fleet maintenance facility would be shown as an overhead. Costs associated with what National Defence terms "national procurement", which is actually an amount of money it would spend on fixing the submarine, because the submarine is the capability we're looking at, would show up as an expenditure on—

**Mr. James Bezan:** A life-extension project to a frigate or, let's say, an F-18 fighter jet, would be what...?

**Mr. Christopher Penney:** That's capital.

**Mr. James Bezan:** Okay. Thank you.

**The Chair:** Thank you. That was a toothless question.

**Mr. Pat Kelly:** You're funny, Mr. Chair.

**The Chair:** That was pretty bad, eh?

Go ahead, Mr. Collins.

**Mr. Chad Collins:** Thank you, Mr. Chair.

I just want to get back to the program itself. There have been a lot of questions today, mostly around things unrelated to the force structure model, so I'll get back to that.

If I could, Mr. Chair, I'd like to ask—

**The Chair:** Hang on for a second, Chad.

What's the problem?

[*Translation*]

**Ms. Christine Normandin:** The interpreters are telling me that the microphones need to be muted in the room. Otherwise they can't do their work. There's too much noise.

[*English*]

**The Chair:** I had mine off.

[*Translation*]

**Ms. Christine Normandin:** I think the interpretation is back, but for a moment, there was none.

[*English*]

**The Chair:** Go ahead, Mr. Collins.

**Mr. Chad Collins:** Am I good to go? Okay. Thanks, Mr. Chair.

Back to the force structure model, on the reductions that our constituents and our committee members and other parliamentarians can use in terms of those sliding scales, I was someone who had to live through that political fad known as “defund the police”. I had the opportunity to work with our police chief in terms of the calls for a 20% reduction in the police service. At my request, the chief came forward to show what a 20% reduction would look like. If we had had that sliding scale during that time period, a lot of people might have used the model and the interactive model that has been placed online and made available to us.

What I found when that 20% reduction report came forward was that it was not as simple as just a 1:1 ratio. If you wanted to decrease the police budget by 20%, it meant much more, from a service-reduction perspective, than just a 20% cut. If you were to take, for instance, 20% of the workforce out of commission, it would mean a 35% to 40% reduction in services to the community.

I could go through the list. We don't have time today, but I could give examples of the services that residents would live without because of that.

Mr. Chair, I'd like to ask our delegation this. If I were to ask someone in the service who's dealing with budgets whether it's as simple as just sliding the scale 20% one way or 10% another way and whether that accurately reflects the options that are available to those who create our budgets and deliver our services, would those who answer the question say that it's not that simple?

Can you comment on that in terms of the accuracy of using that sliding scale? You've tried and I think at times struggled to relate to us how you've modelled this. It's very complex. It's just not that simple, so could you comment on that?

• (1705)

**Mr. Yves Giroux:** Certainly. If one were to look at the tool and try to use it to determine how easy or difficult it would be to decrease the budget of National Defence by a number of billions, I don't think the tool is intended to do that.

Somebody who would want to reduce spending at DND, for example, would probably want to do a much deeper dive than just using a calculator or a tool. The tool is meant to provide an idea of how much it would cost to increase capabilities or decrease capabilities for specific military objectives, but to carry out a fulsome budget exercise, whether it be increasing funding or decreasing funding, I hope people would use something much more refined than a calculator.

It's intended to provide a tool and information for parliamentarians, but it's not meant to be used as the basis for decision-making when it comes to deciding where or how to increase or decrease funding at DND.

**Mr. Chad Collins:** This whole exercise is based on budget numbers. If it's not for the purposes of the trade-offs.... I think “trade-offs” was the best word you had in your report in terms of accurately describing what these tools allow us to do. If you increase in one area, you're forced, I think, in other areas to decrease in order to meet whatever the budget number is for a specific year or past years.

I'm not certain how to rationalize our use of these tools if it's not to try to determine whether to enhance services in one or more areas, and when you do that, there are dominoes that fall the other way. You're taking money out of one area to add to another, and there are implications. I don't think you get any detailed information in this exercise that informs you—whoever you are, whoever's using these sliding scales—about the implications of making whatever changes are in your mind when you're playing with this online tool you've provided.

**Mr. Yves Giroux:** You can certainly use the tool to make these trade-offs. What I meant and didn't say is that you also have to look at what you want to do with the forces. If you want to increase, for strategic reasons, some types of capabilities, you also have to look at what you want to do with your defence policy. That is what I didn't say but what I meant.

The tool is very useful in determining the trade-offs, but you have to do that keeping in mind that it will have geopolitical and policy implications. The tool is obviously not built to do that.

Doing a reduction or an expansion exercise will be possible to do with the tool—how much it would cost you or how much it would free up in terms of resources—but it doesn't take into account the other considerations. That is what I should have said and I didn't say in my previous answer.

**The Chair:** Thank you, Mr. Collins.

Before Mr. Bezan moves his motion, the chair has a question.

After the combat ships and maybe the F-35s, the largest single expenditure is going to be on the NORAD modernization, particularly the over-the-horizon radar. That strikes me as tailed or indirect rather than direct because there is no lethality to that capability, yet without that capability, the lethality is rendered useless.

In your direct-indirect analysis, does that go into the indirect pile and not the direct pile? If it does, then will that move the numbers around, if you will, or skew the numbers once again?

• (1710)

**Mr. Yves Giroux:** If you're talking about the F-35s and the new warships, these would both be direct. There would be some indirect costs associated with that, obviously, like the support that these ships would need such as the refuelling at sea. It's the same with the fighter jets—the refuelling in the air.

The F-35s themselves and the warships would add to the tooth part, so the capabilities.

**The Chair:** The over-the-horizon radar and the costs of NORAD modernization, the siting of all of the new ability to detect threat, that's indirect.

**Mr. Yves Giroux:** Generally speaking, reconnaissance is indirect, although it can vary on the specifics.

I am not being kicked under the table, so that means—

**The Chair:** I'm glad to see you're not being kicked under the table.



**Mrs. Cheryl Gallant:** On a point of order, just before we close, Mr. Penney indicated that he knew this \$15 billion black hole wasn't some worm in outer space. He knows what we're referring to.

Could he provide us with a response of whether or not they found it, and if they found it, what it was used for?

**The Chair:** Is that reasonable?

**Mr. Christopher Penney:** I'm glad I'm put on the spot. I recall this issue being raised at the time. I recall doing analysis on it. I don't have the answer with me to relay to you.

**Mrs. Cheryl Gallant:** Can you get back to us?

**Mr. Christopher Penney:** I absolutely can, and I will.

**The Chair:** I have another question, but we are running out of time and Mr. Bezan is getting quite anxious.

On behalf of the committee, I want to thank you for your testimony. You've given us a lot to think about. In fact, sometimes it's quite perplexing.

We appreciate not only your contribution to this committee but to the functioning of Parliament. I'm not sure whether you fall quite into the category of essential service, but you certainly approach essential service. It makes our jobs much more informed and allows us to make decisions.

Thank you, all three of you, for your contributions.

Go ahead, Mr. Bezan.

**Mr. James Bezan:** Thank you, Mr. Chair.

I want to move the following motion, which I gave notice of on October 2. I move:

That, pursuant to Standing Order 108(2), the committee undertake a study of the almost-one-billion dollar cuts to the Canadian Armed Forces and the impact this will have; that the committee hold a minimum of three meetings on the topic; that the committee invite the President of the Treasury Board, the Minister of National Defence, and the Chief of the Defence Staff to appear before the committee; and that the committee report its findings and recommendations to the House.

If I can just speak to that for a minute, as we know, it was announced that the government is going to find almost a billion dollars. The Liberals have asked the Department of National Defence to find those monies, and we had the chief of the defence staff here saying that this was going to have a very large impact on the operations of the Canadian Armed Forces. As he said at committee, he's had some "very difficult" conversations with the commanding officers of all three services—air force, army and navy—and they are having trouble communicating this back to their people. That's a direct quote.

I would say that, based upon the concerns that are being raised by the Canadian Armed Forces, based upon the efforts that are supposed to be made to get Canada to the NATO 2% metric, knowing that we just got a note this week that the public accounts have been tabled with Parliament and that last year the budget lapsed another \$1.5 billion in defence spending and knowing that \$2.5 billion lapsed in the previous year, a total of over \$10 billion has now been cut from our Canadian Armed Forces and those dollars aren't being reinvested back in.

The government has always talked the game, but their actions speak louder than words, and I don't believe that Prime Minister Trudeau is at all interested in supporting our troops or making our Canadian Armed Forces more capable in light of the very dangerous world we live in, especially, as we saw in today's headline, with General Eyre talking about how Russia and China "consider themselves to be at war with the West" and that includes us as Canada. If we are under that level of threat—never mind what's going on in the Middle East with the war in Israel against the terrorist organization Hamas, and never mind our responsibilities to NATO on the eastern flank in Latvia and to help our allies in Ukraine—we need to make sure these cuts that the Liberals are bringing down on the Canadian Armed Forces are not undermining our ability and capability.

• (1715)

**The Chair:** I see Mrs. Lalonde, Mr. Kelly and Mr. Fisher.

**Mrs. Marie-France Lalonde:** I know that time is running out, but I would really like to suspend. I have two members and we just need to.... Overall, I think we are somewhat comfortable with the intent of the motion. There are aspects where we would propose amendments. I would just ask the chair to suspend for a minute.

**The Chair:** I can suspend for more than a minute. Is a minute good?

**Mrs. Marie-France Lalonde:** Actually, 10 minutes would be great.

**The Chair:** We're suspended.

• (1715)

(Pause)

• (1720)

**The Chair:** We're back.

Mrs. Lalonde, do you want to speak?

**Mrs. Marie-France Lalonde:** Yes. Thank you very much for allowing me to have a conversation with our team and get some clarity.

As I said, I think, overall, the intent of the motion has very strong merits in the sense that it was on notice and we knew it was coming, but I have some hesitation to say yea to the way it is written right now. We would like to propose some amendments—actually very friendly amendments.

**A voice:** I'll be the judge of that.

**Some hon. members:** Oh, oh!

**Mrs. Marie-France Lalonde:** They're always friendly amendments coming from me, Mr. Chair.

I'm going to go back because I want to make sure I'm reading it exactly the way it is. I do not have the copy of your motion, Mr. Bezan, so I apologize.

I think my understanding is that it would read that, pursuant to Standing Order 108(2), the committee undertake a study on all defence expenditures since 2013 and their impacts on the operational readiness of the Canadian Armed Forces; that the committee hold a minimum of three meetings for this study; that the committee invite the Minister of National Defence, Mr. Bill Blair, and deputy minister Bill Matthews to appear before the committee for the study; and that the committee report its findings and recommendations to the House.

**Mr. James Bezan:** I have a point of order.

**The Chair:** Hang on to the point of order.

First of all, do we all understand the amendment as it's been presented?

Are we debating the amendment, or are we having a point of order? We have a point of order.

**Mr. James Bezan:** I believe if you review the amendment, you'll see that it changes the intent of the motion, which is to review the budget cut.

She changed it to looking at expenditures that have already taken place. We're talking about a budget cut that was announced.

**Mrs. Marie-France Lalonde:** I apologize to my honourable colleague for misreading this:

Whereas, Budget 2023 announced reductions in spending on consulting, other professional services, and travel;

Whereas, these reductions will not impact direct benefits and service delivery to Canadians, direct transfers to other orders of government and Indigenous communities, and the Canadian Armed Forces;

That, pursuant to Standing Order 108(2), the committee undertake a study on all Defence expenditures since 2013 and their impacts of the operational readiness of the Canadian Armed Forces;

That the committee hold a minimum of three meetings for this study and that the committee invite the Minister of National Defence, the Chief of the Defence Staff, and the Deputy Minister of the Department of National Defence to appear before the committee for the study; and that the committee report its findings and recommendations to the House.

**The Chair:** All right.

**Mr. James Bezan:** I just want clarification.

The preamble talks about the announced reductions, the budget cut, of a billion dollars, but it's not actually part of the motion. The motion starts at "That, pursuant to Standing Order 108(2)," so it still changes the intent.

• (1725)

**The Chair:** If it changes the intent, then it is out of order, but if it doesn't change the intent, it is in order.

Without reading it, I'm unable to determine whether it's in order or out of order. I'm proposing, since I'm going to bring this gavel down at 5:30, that we undertake this discussion on Tuesday in the afternoon, after we complete the health study.

**Mr. James Bezan:** Mr. Chair, if you want to adjourn, then you need to have a motion to adjourn, based upon the fact that we are in the middle of a debate on a motion.

The only way a committee can adjourn is if there's a motion to adjourn.

**The Chair:** I didn't say I was going to adjourn. I said that, at 5:30, I'm bringing the gavel down and I will adjourn. We have two minutes left. If people want to carry on the debate at this point...

**Mr. Pat Kelly:** We can't debate the amendment until you rule on whether or not it's in order.

**The Chair:** That's what I was suggesting.

That's why it would be better if we adjourned to Tuesday, which I'm going to do in a minute and a half anyway.

**Mr. Pat Kelly:** I'm prepared to debate the motion. I understand that I have already caught your eye and that I am next to speak, but are we debating the motion or are we debating an amendment?

**The Chair:** The amendment's on the floor, but the objection has been that it is out of order. I can't determine whether it's in order or out of order until I actually read it, at which point we will know whether there is a debate on the amendment or... If it's in order, then there's a debate on the amendment. If it's not in order, then there's no debate on the amendment.

If you want to use your last 30 seconds debating that—

**Mr. Pat Kelly:** No, this is a point of order.

If you are going to adjourn this meeting and leave it until the next meeting to determine if the amendment is out of order, that's fair. We're down to a couple of minutes, and that would be acceptable to me at this point. However, the next meeting is scheduled to be in camera and we would need to debate the motion in public, not in camera, Chair.

I have no problem just adjourning this now. You can rule on this on Tuesday, but please do so in public so we can debate it in public. If the amendment is in order, we'll debate the amendment. Otherwise, we'll debate the motion.

**The Chair:** That's fair.

**Mr. James Bezan:** Mr. Chair, can I make one final comment on planning ahead?

**The Chair:** In 25 seconds...?

**Mr. James Bezan:** In that case, if we are going to adjourn and you're going to rule on this when we come back next week, I would suggest that we start off in camera and get our recommendations done on the report. We can then move into a public meeting to finish off our report.

**The Chair:** That's exactly what I had intended. We'll finish off the health report, hopefully in camera, and the clerk will make the necessary arrangements to be in public after that.

The meeting is adjourned.







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