



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER  
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

## Standing Committee on Government Operations and Estimates

### Meeting of February 4, 2022

Supplementary information requested by the committee.

#### Question 1

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Is it possible to limit / lower project management costs in the Polar Icebreaker procurement project?

Answer:

We did not assess the possibility of lowering project management costs in our analysis. We based our estimates on the historical experience to date of the Arctic Offshore Patrol Ship program and compared our results to the projected costs of project management for other Canadian procurements such as the Joint Support Ship and the Canadian Surface Combatant. Our estimates are, after adjusting for the scale of the procurement program, in line with the project management costs of these other programs. It is not obvious which project management costs could be decreased; the Minister and departmental officials would be in a better position to determine how this could be achieved.

#### Question 2

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Can a breakdown of the 6.1 billion acquisition cost category be provided, in particular the line item for initial spares?

Answer:

As stated in our response to the committee, our model estimates the various line items of the Acquisition phase collectively: construction costs, studies and analysis, engineering support, initial spares, and system tests, trials, and evaluation. While our model did not estimate these line items individually, we have undertaken a separate analysis to provide the committee an understanding of a general distribution of Acquisition costs for a procurement project of this type:

Acquisition Costs	
Engineering Support:	4%
Construction:	93%

Initial Spares: 2%  
System Test, Trials, and Evaluation: 1%

### Question 3

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Has the design changed since 2016? What are the reasons for which design costs may have increased over time? Is it possible to narrow the range of the estimates surrounding design costs?

Answer:

It is not unusual for the costs of design, and the estimated cost of a ship, to change as the design of the ship matures. Recent experience has suggested a mostly upward adjustment of these costs but this is not always the case.

For Design phase costs specifically, changes in costs may occur as decisions are made on system selection and implementation and the resulting design work that is required to accommodate these decisions. It is also possible that the Government changes the specifications of the vessel, resulting in additional work for the design to be modified to reflect the new changes in specifications and capabilities.

With regards to our estimates of Design costs, we did not conduct a separate uncertainty analysis for this category specifically. Our estimate of the Design costs represents the 50<sup>th</sup> percentile or “most likely” cost based on our model and source data.

### Question 4

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Have you looked at the costs of outsourcing construction of these vessels? How much savings could be obtained if these activities were outsourced?

Answer:

In general, our analyses of shipbuilding projects and other major capital procurements are based on the ground assumptions of the Government, so as to not unduly misrepresent aspects of the procurement or introduce arbitrary differences between our estimates and those of the Government. In this analysis, we have assumed that all construction activities will take place in Canada. We have not estimated how much could be saved by outsourcing construction to a foreign shipyard.



## Question 5

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Were the contracts associated with the procurement provided to the PBO? Did we include potential contract incentives or penalties in our analysis?

Answer:

Our analysis did not include an assessment of the contract or the potential contract incentives or liabilities that often accompany contracts of this type. However, as our analysis is based on an assortment of historical and contemporary procurement programs, the base cost data implicitly includes a variety of contractual incentives and penalties that were incurred in these programs, and these are reflected in our estimates.

