



**Opening Statement of Kevin Page, Parliamentary Budget Officer
to the House of Commons Standing Committee on Public Accounts
May 3, 2012**

Good afternoon Mr. Chair, Vice-chairs, and members of the Committee. Thank you for inviting me and my colleagues to speak to you today.

I have provided you with a deck which tracks my opening remarks. I would be happy to discuss the slides in greater detail.

Broadly speaking, I have three points to make. I will attempt to be as brief as possible. All points concern the PBO and the information provided to it or the information it has provided in relation to the proposed acquisition of the F-35 fighter jets.

First, over the last few weeks, it seems that some confusion has surfaced as to whether or not the PBO included operating costs within its estimate provided to Parliament in March of 2011.

I am here to reconfirm that it did; the PBO estimate includes operating costs.

When the PBO provides operating and support costs in its report, it tracks the language of the Department of National Defence Costing Guide, Second Edition 2006. In Chapter 2, page 2, that guide provides the following:

*“Operating costs include: **personnel costs** such as the activation of reserves, overtime cost of civilian employees, and the cost of any other personnel hired to provide service; rations, quarters, temporary duty, travel and transportation; variable and step variable operations and maintenance costs of equipment; total operating costs for facilities and **materials consumed**. The cost of capital assets purchased by the Department for the purpose of providing the service may also be included.”*

This definition of operating costs is consistent with the United States Department of Defense’s Cost Analysis Guidance Procedures published in December 1992. Furthermore, inclusion of operating costs within a life cycle cost estimate is consistent with Treasury Board Policy.

Given this, it seems difficult to understand how there could have been any confusion as to whether or not the PBO included operating costs within its estimate.

Second, over the past few weeks, it has become clear that that the Department of National Defence provided the PBO with figures that did not include all operating costs. The PBO understood that it had been provided with full life cycle costs from DND as required by the House of Commons Standing Committee on Finance in its November 1st, 2010 motion. That motion required the provision of:

“All documents that outline acquisition costs, life cycle costs, and operational requirements associated with the F-35 program and prior programs (CF-18).”

In March 2011, the PBO provided Parliament with an independent life cycle cost estimate for the F-35A. As part of that report, it compared the figures provided by DND, obtained as a result of the motion, to its own estimates. After publication of the PBO report, DND compared on its Web site, side-by-side, its figure of \$5.7 billion and the PBO's figure of \$14 billion labelling both as "Operating and Support" costs.

While the PBO's cost estimate was complete in this regard, it has since become evident that the government's public figures did not include all components of full life cycle costs as required by the FINA motion of November 2010.

Third, it might now be observed that the figures found in the Auditor General's report, confirmed as accurate by the Minister and Deputy Minister of the Department of National Defence, bring that department's life cycle cost figures into the same order of magnitude as the PBO estimate. Furthermore, DND's figures and the PBO's estimate are in line with those found in the United States Department of Defense December 2011 Selected Acquisition Report, released last month.

Thank you again for inviting us here today. We would be happy to take your questions.