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Mr. Leon Benoit

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Wednesday, October 26, 2005

•(1530)

[English]

The Chair (Mr. Leon Benoit (Vegreville—Wainwright, CPC)): Good afternoon, everyone.

We have two orders of business today. The first has to do with the nomination of Ross Nicholls for the position of president and chief executive officer of Defence Construction (1951) Limited.

The second is the issue of our agenda. The subcommittee on agenda has met and we have a report. This committee has not discussed the report, so we would like to do that today as well.

We'll start first with our witnesses for today's meeting. The first witness is Ross Nicholls, president and chief executive officer of Defence Construction (1951) Limited, and John McLure, chair of the board of directors. He was chair of the nominating committee, or the renominating committee in this case.

Mr. John McLure (Chair, Board of Directors, Defence Construction Canada): The chair of the nominating committee lives in Calgary, so among ourselves we discussed...and I was involved in the processes.

The Chair: You were a member of the nominating—

Mr. John McLure: Well, Ross was a member. It's a three-member committee; we have a very small board. He had indicated his intentions to let his name stand at the very beginning, so he was excluded from the total process, and I was involved throughout.

The Chair: Okay. Thank you.

We'll get right to it. Do you have opening statements, gentlemen?

Mr. John McLure: Thank you very much, Mr. Chairman.

I am pleased to have the opportunity to appear before this committee and to introduce Mr. Ross Nicholls to you in the course of your deliberations of his reappointment as president and chief executive officer of Defence Construction (1951) Limited, which I will be referring to as Defence Construction Canada, or DCC.

[Translation]

In French, it's called Construction de Défense Canada, or CDC.

[English]

As you are aware, DCC is a crown corporation accountable to Parliament through the Minister of Public Works and Government Services. The organization was created in 1951 to bring specialized focus and expertise to assist in dealing with the rapid expansion of DND infrastructure during the heightening of the cold war period and has been serving National Defence ever since.

Today, DCC has a mandate to provide high-quality, timely, and efficient contracting, contract management, and related services to support the Department of National Defence and the Canadian Forces in the long-term development and management of its facilities infrastructure.

DCC has a seven-member board of directors, the majority of whom are from the private sector. The corporation is headquartered in Ottawa. It has four regional offices and presently has 30 site offices across Canada. A copy of our annual report has been provided to you, as well as a map showing DCC's regional presence across Canada.

Over the years, DCC has accumulated a wealth of experience that gives it an unparalleled corporate memory of DND infrastructure, while soundly administering hundreds of millions of dollars worth of contracts. This history and tradition of excellence has held the corporation in good stead with the Department of National Defence, the Canadian Forces, and, I might add, the Office of the Auditor General of Canada.

•(1535)

[Translation]

The President and Chief Executive Officer is responsible to the Board of Directors for the day to day operations of the Corporation, fulfilling the corporate objectives, developing strategic and operational plans and ensuring that the appropriate policies, systems and business practices are in place to facilitate both the execution the Corporation's plans and the efficient and effective functioning of the organization.

DND is going through an important period in its history, and this brings me to the nomination process and the recommended reappointment of Mr. Nicholls. The Board of Directors has a Nominating Committee chaired by Ms. Nancy Penner from Calgary. Ms. Penner is a senior partner with a law firm in Calgary and has been on the DCC Board since 1996. She has two other Board members to assist her: Mr. Jean-Claude Garneau from Montreal and Mr. Nicholls. Mr. Nicholls, of course, excused himself from all deliberations associated with this appointment, as he was asked at the beginning of the process if he would be prepared to consider a further term - and he was.

[English]

The nominating committee was diligent in its review. It first undertook a review of the competency profile for the position. It undertook a review from 1996 of Mr. Nicholls' performance as president and CEO; it has been consistently strong during some trying and difficult times. It weighed the pros and cons of proceeding with a competition, given the strong desire to have Mr. Nicholls continue for one more term. Upon completion of its deliberations, the committee concluded that it would recommend to the board of directors the reappointment of Mr. Nicholls. The board—less Mr. Nicholls, of course—was unanimous in accepting this recommendation. As I mentioned to you in the discussion just prior to these remarks, I was involved in and out of that process, because Mr. Nicholls had stood down.

[Translation]

There were many important factors that contributed to the Board's decision to support this recommendation. First and foremost, the Board recognizes that the task of presiding over the operations of DCC is highly specialized and demanding of a mix of skills and abilities that is not readily available in the executive marketplace. The job requires a sophisticated mix of skills that encompass an in-depth understanding of Crown corporation governance and reporting, a sound understanding of DND and the Canadian Forces and the manner in which clients administer their construction and infrastructure program. It also requires a sound understanding of the government's procurement policies and procedures and an extensive knowledge of the architecture, engineering and construction industry sectors throughout Canada.

Considerable time is required to hone the knowledge and skills required for this position to the level and standard of performance expected of the President and CEO of DCC. The job focus is on the delivery of high quality services within government.

[English]

Mr. Nicholls joined DCC in 1978, where he held a variety of engineering and management positions prior to his appointment as president and chief executive officer in 1996. Since his initial appointment as president, the corporation has experienced significant growth in the depth and breadth of its services. This growth has been managed very effectively, always with the objective of maintaining or improving the management and the operational efficiency and effectiveness of the corporation. The board has been very pleased with the consistently positive achievement of corporate results and with the consistently positive reports on business practices submitted by the corporation's internal auditors and the Auditor General of Canada.

During Mr. Nicholls' tenure as president and CEO, DCC has twice been awarded the Auditor General's prestigious annual award for operational reporting. Furthermore, the board is of the view that the successful outcomes of the last three special examinations by the OAG can all be attributed in large part to Mr. Nicholls' leadership and to his management skills and abilities.

As president and CEO of DCC, Mr. Nicholls has also demonstrated ethical leadership by example, through his own actions. This type of leadership has had a positive impact on all

aspects of business at DCC. Employees have a clear indication from Mr. Nicholls of how business is to be conducted, and anything otherwise is not tolerated.

As well, DCC has a number of corporate performance indicators that have consistently shown solid management practices under his direction. Some of these are the low occurrences of environmental and safety incidents on DCC sites, a consistently high utilization rate that ensures the corporation is operating cost-effectively, and the low number of ongoing legal claims against the corporation, a direct indication that the interests of the Crown are being protected while contractors are being treated fairly.

● (1540)

[Translation]

Finally, as a result of attention to nurturing stakeholder relationships during his tenure, DCC has been held in consistently high regard by the architectural, engineering and construction communities, as well as by its clients in the Department of National Defence and the Canadian Forces.

Mr. Nicholls has consistently either met or exceeded the Board's expectations in past performance evaluations and he more than adequately fulfills the selection criteria for the position. The Board remains confident in Mr. Nicholls' ability to hold the position of President and CEO for one further term of four years, which would enable him to complete his public service career and retire.

[English]

A copy of Mr. Nicholls' CV has been provided to members of the committee. He is a member of Professional Engineers Ontario,

[Translation]

the Ordre des ingénieurs du Québec,

[English]

and the Canadian Military Engineers Association. He's on the board of trustees for the Canadian Mechanical Contracting Education Foundation.

Mr. Nicholls earned a Bachelor of Science degree from Mount Allison University, as well as a Bachelor of Engineering—that is, civil engineering—degree from the Technical University of Nova Scotia.

In closing, Mr. Chairman, let me convey this message to you from the board of directors: the specialized knowledge Mr. Nicholls has accumulated over his career with DCC—in contract law and procedures, in construction contract management, and in working with the Department of National Defence—combined with his exemplary record of management, make him an excellent candidate for reappointment as president and chief executive officer of Defence Construction Canada.

That concludes my remarks, Mr. Chair.

The Chair: Thank you, Mr. McLure.

Mr. Nicholls, do you have some comments on the issue of the corporate plans for 2004-05 to 2008-09 of the capital operating budget? Or do you have general comments to make?

Mr. Ross Nicholls (President and Chief Executive Officer, Defence Construction Canada): I have a few general comments, if I could take a minute.

[*Translation*]

Mr. Chairman and honourable members of this committee, I am very pleased to have this opportunity to appear before you today. I started with DCC over 27 years ago and have worked at all levels of the organization and have been exposed to all aspects of DCC's operations across the country and overseas.

Mr. McLure has given you an overview of DCC - its history, mandate, corporate governance and activities - I would be pleased to discuss any aspect of those subjects that interest you through your questions.

First, I would like to take just several minutes to mention some specific accomplishments that I have been able to achieve since my appointment as President in 1996.

[*English*]

First, for 47 years, Defence Construction was funded by appropriation through the DND capital budget. Shortly after I assumed the presidency, we changed to a service billing arrangement, whereby the scope of services we provide to the department and the fees we charged were negotiated and allocated to particular projects and programs we delivered. This business arrangement had the advantage of making total project and program costs a lot more transparent to the department. They were allocated directly to project as opposed to hidden elsewhere in the budget, and it improved the definition and evaluation of expectations and performance of both parties with respect to the scope, quality, and cost of services. DCC now receives no appropriation from Parliament, and the corporation is completely self-sufficient in terms of current and future financial requirements.

DCC is a leader in performance measurement, benchmarking, and reporting. This has been recognized in the past by the Office of the Auditor General. Our performance results compare very favourably to the private sector, including the areas of efficiency and productivity.

DCC has always had, and continues under my watch to have, a very sound and healthy corporate culture and values. Employees take ownership of projects, take ownership of problems, and deliver solutions to the defence team. The integrity and good faith in our business dealings have never been questioned, and during my tenure we have had no significant deficiencies reported in internal audit reports, external audit reports, or in special examination reports prepared by the Auditor General. Perhaps one of the reasons for that is we've implemented quality management systems for most of the services we provide. In fact, our procurement process is ISO registered in recognition of the importance of consistency and compliance in this key business area.

Success for the corporation is contingent on the satisfaction of our client groups at DND and the Canadian Forces. Attention to client communications, the quality of services, and efficiency of operations has resulted in consistently high client satisfaction ratings at an increased demand in service.

I should note that DCC accounts for almost half a billion dollars in expenditures on behalf of DND, including contract expenditures and the fees for our own services.

We can't successfully implement projects for our clients without industry partners. In fact, 95% of the value of projects and programs I mentioned earlier, the \$500 million, is delivered by the architectural, engineering, and construction industries. We maintain excellent working relationships with each of the industries at the local and national levels, and we have always maintained a fair balance between crown interests and the industry interests.

The Canadian Construction Association, along with other industry representatives, cited DCC expertise and business practices as a model for federal government construction program delivery in their submissions to the parliamentary task force on procurement reform led by the Honourable Walt Lastewka.

● (1545)

[*Translation*]

To finish my opening remarks, I would like to note that, after only a few years with Defence Construction Canada, DCC, I decided that I would make my career with the organization and aspired to lead it. I was lucky enough to achieve that goal and I'm proud of my accomplishments to date. I look forward to one more term to complete some unfinished business and to prepare to leave as solid a foundation for my successor as my predecessors left for me.

I see increasing demand for the corporation's expertise as the Canadian Forces undergoes a transformation in response to leadership and new foreign and defence policies. Changes in the role, capability and size of the Canadian Forces will undoubtedly have an impact on the department's physical infrastructure, and DCC will be challenged to contract and implement projects within tight timelines.

Defence Construction Canada has been successful in finding innovative methods of delivering projects and services since its creation to build capacity for the Korean Conflict and will continue in the future to find better delivery mechanisms — faster or more cost effective.

[*English*]

It's a privilege to appear before you today. I hope through either your questions or future invitations to the committee I can help provide you with a better understanding of DCC's role in the National Defence team.

Thank you.

The Chair: Thank you, Mr. Nichols and Mr. McLure.

We'll start questioning on either the process for renomination or anything else to do with Defence Construction Canada, starting with Mr. Lunn for seven minutes.

Mr. Gary Lunn (Saanich—Gulf Islands, CPC): Thank you very much for coming.

I have to say it's kind of enjoyable listening to your presentation and hearing about your background and how long you've been with the company. I suppose my only complaint, as somebody who has been in the construction industry, is I wonder why I wasn't offered such a fine job.

We're having a little fun here.

I think I'll just defer to my colleagues. Obviously, as somebody who has been around as long as you have—27 years with the corporation—you have integral knowledge of how it should operate.

I suppose there's one question I have, just out of curiosity, and either one of you can answer it. It came up at the beginning that this sort of happened at the beginning of the cold war, and that was the reason they brought this crown corporation into existence. Obviously it's here today and there's no cold war. What has it morphed into? Why is it such an integral part of construction in the Department of National Defence today?

• (1550)

Mr. Ross Nicholls: On the origins of the corporation, back in 1950-51 we were preparing for the Korean conflict. C.D. Howe was Minister of Defence Production and the father of many crown corporations. In order to respond to a big demand in a short period of time, he felt that the crown corporation was the best way of responding.

Since that time, our mandate of building the physical infrastructure and looking after environmental issues for the department hasn't significantly changed. Frankly, the advantage we have today is we intimately know the department's infrastructure needs. We understand the construction industry. Our processes are very efficient and effective. We're doing essentially the same job we did back then, and based on the performance indicators and benchmarking we've done, I think we're doing it, if anything, even more effectively.

I hope that answers your question.

Mr. Gary Lunn: Thank you.

Mr. Preston.

Mr. Joe Preston (Elgin—Middlesex—London, CPC): I'll go for a bit on that one too, and we'll see where we come back.

Why is there a need for a separate department? Why wouldn't the Department of National Defence simply call an RFP when something needed to built on one of its bases?

Mr. Ross Nicholls: I suggest to you, sir, that as a specialized organization that operates partly outside of government—as a crown corporation we have one foot in government and one foot out of government—we can more effectively understand how the industry can respond to the needs of the department. The Department of National Defence has its own jargon, it's own way of putting things. To a certain extent you could say we interpret their requirements into something the construction industry can understand.

Mr. Joe Preston: But that's true of all industries. I come from a background in the restaurant business. You want jargon; we have the same thing, but we're able to just call up a general contractor and say, "I need this building built from these plans". What would make the Department of Defence so naturally different from anybody else? Whether it's office buildings or barracks, or those types of issues, why would we need a middleman, if you will, as a crown corporation, instead of simply, as the rest of government does, calling for an RFP and building buildings?

Mr. Ross Nicholls: That's true. You could argue that anyone could do that. However, someone has to get the opportunity, Mr.

Chairman, out onto the street. It could be the Department of National Defence. It could be the Department of Public Works. Part of the specialization on the defence side is that we don't just build office buildings and accommodation. We get into things like missile storage facilities, aircraft hangars, jetties, runways, such that the commonality in some of the delivery processes we use...practically, I think it's just a very efficient way of doing it there.

Mr. Joe Preston: I recognize there are different levels of building expertise needed to build those different things, but there are contractors out there who also know that thing.

The other question that jumps to mind just came to me while I was listening to your opening comments. We've heard an awful lot over the last couple of years about the deficiency in the housing on our bases. Are you responsible for building the accommodation for the people from our Department of National Defence?

• (1555)

Mr. Ross Nicholls: Mr. Chairman, the Department of National Defence is responsible for providing the housing to its members. Defence Construction provides services to the Canadian Forces Housing Agency, which is part of the Department of National Defence. However, the department and the housing agency define the requirement, and we then have the work implemented. If they say they want a new house, we'll build a new house. If they want renovations done, we'll renovate the house.

Mr. Joe Preston: So it's the Department of National Defence that comes forward to your crown corporation and says, "We're going to redo the married officers' quarters at Base Borden", or whatever it might be. You then take that information they want and go out to find a contractor who would then do that work.

Mr. Ross Nicholls: That's correct.

Mr. Joe Preston: So you wouldn't be doing the work without the Department of Defence asking you to do that.

Mr. Ross Nicholls: No. That's correct. The department asks us.

Mr. Joe Preston: So you have up and down years. The Department of Defence, of course, has gone through some pretty lean years in funding on some cases. Would there be years where the Department of National Defence built a lot less than in other years?

Mr. Ross Nicholls: Yes, there's a fair bit of fluctuation. That is one of the flexibilities we have as a corporation.

Mr. Joe Preston: But isn't that also one of the liabilities? Your corporation sits there dormant. If we're not building much for the Department of National Defence, would you also be building for other departments of the government?

Mr. Ross Nicholls: No. Our mandate is to deliver defence projects. So there could conceivably be defence projects for some other departments in very limited circumstances, but 99% of the time it's defence. If there's less activity, we shed staff. If there's more activity, we gain staff.

Mr. Joe Preston: So there have been cases of the example I gave: there'd be lean years from an expenditure point of view and heavy, up years from an expenditure point of view.

Mr. Ross Nicholls: Yes, definitely.

Mr. Joe Preston: All right. This crown corporation sits there in the background waiting for defence to want to build something.

I guess I'm still lost as to where the efficiency is here besides simply issuing an RFP for whatever building is needed on that given year across the country. Could you enlighten me just a little more?

Mr. John McLure: Mr. Chairman, maybe I can have a go as well, because I also served in the Department of National Defence as a civilian member—mind you, I was in the senior cadre.

DND, and in particular the Canadian Forces, has made many, many efforts to streamline their operations such that they can devote their uniforms to the front end, the operational end. What Defence Construction then brings to a base...and you mentioned a base, for example, deciding to build a building and why wouldn't they just go out...? They would have the staff of their base. That would bring a level of expertise. Those people may or may not have been involved in the construction of a building previously.

Defence Construction comes to the table with a highly competent group of people who have done this over and over again. They know the tendering process. They know how to deal with the contractors. They know how to deal with contracting problems, amendments to contracting. Believe me, if any of you have been in or around the business, that is very, very complex. It's highly specialized. If it's not done right, you get yourself into massive problems.

For DND, we have in the order of 2,000 contracts under way at any given time. The value runs between \$400 million and \$500 million.

I thought I had a chart with me, and perhaps we could provide it to you in a follow-up...

You talked about ebbs and flows. Yes, there have been ebbs and flows, but if you look at the long-term history, it's not erratic from year to year. The long-term flow...the curve does move like that. You go through the cold war period, with a lot of activity, and down, and then the north warning system, up. In fact, over the last few years, there have been a number of quite large contracts because of the repositioning of the forces on the various bases across Canada. In some of your ridings you may have seen that.

That's really what DND brings to the table.

Mr. Joe Preston: So a project is let and a construction contract is let for whatever job. Your corporation then is the project manager, the architect's project manager, on the job. Or do you hire someone from the outside for that job?

Mr. Ross Nicholls: We will hire architects or engineers to do the design work. We will then tender the finished project to construction contractors. So we look after the tendering, the quality assurance during construction, the financial management, the management of changes, the management of payments, managing changes to the scope in work as required by the Department of National Defence, and we look to provide some other specialty services ranging from environmental services to assisting with the commissioning of

finished buildings. As I said in my opening remarks, 95% of the work is done by the private sector, by architects, engineers, and contractors. The remaining 5% is looking after the interests of the Crown, ensuring that we provide best value, that we can certify payments, ensuring that we receive what we've contracted for, and that type of thing.

• (1600)

The Chair: Thank you, Mr. Preston. Your time is up.

Madam Thibault, for seven minutes.

[*Translation*]

Ms. Louise Thibault (Rimouski-Neigette—Témiscouata—Les Basques, BQ): Thank you, Mr. Chairman.

Mr. McLure and Mr. Nicholls, thank you for coming to meet with us. I very much appreciate your comments. As my Conservative colleague said, it's nice to hear two presentations of this type and quality, and I thank you for that.

If I understand correctly, Mr. Nicholls, you have been President and Chief Executive Officer for nine years. First, I'd like to tell you about something that was of considerable interest to me and is of special interest to the Bloc québécois. I noted in the description of the position of President and Chief Executive Officer, in the Establishing Relations, Coalitions and Communications with Stakeholders section, that the President must be bilingual, for both oral and written communications. We're pleased to see that you are.

The organization's only client is National Defence, the Armed Forces. I read somewhere — and you'll correct me if I'm mistaken — that you'd like to have other clients. Am I mistaken?

Could you have other clients, or, like the Royal Canadian Mint, which makes coins for other countries, could you offer your services to other friendly or allied countries — let's be clear on that — for construction? You're in Afghanistan, among other places. I'm going to talk about that in a moment. So you're overseas. Can't we, or wouldn't we like to offer this kind of contract to organizations from other countries?

Mr. Ross Nicholls: No. Our mandate is to deliver defence projects, which normally means construction, environment-related projects for national defence, such as a Transport Canada facility on a National Defence air base. We can't work for just anyone.

Ms. Louise Thibault: So you can't and you wouldn't want to do so. That's not in your mandate.

Based on the figures we have, there has been a substantial increase in your budget over the past four years. Your staff, among other things, has increased considerably. How do you plan your financial needs in all their forms?

I ask you the question because, in the last budget, if my memory serves me, the government allocated \$13 billion to National Defence over five years. I imagine that, with that \$13 billion, it will do various types of construction, development, etc. So what other percentage can we expect in the next four years, in view of the fact that your staff has increased 52 percent in the past three years?

So, Mr. Nicholls, for this target of \$13 billion, what was the percentage increase that you expected, for both your staff and your operating budget? You must have done some planning, and you must have been told about it at the Department of National Defence, no?

Mr. Ross Nicholls: That's very hard to predict. We do indeed react to the department's needs. We can say that the department's construction spending hasn't changed much in the past four or five years.

However, the department needs other services. For example, on the environmental side, there are a number of contaminated sites. The department turns to us for our help.

As regards project management, in some cases, rather than do the work internally, the department, which is trying to allocate its resources differently, turns to us for our help. So we intervene more in those areas.

• (1605)

Ms. Louise Thibault: So you intervene in reaction to needs.

Mr. Ross Nicholls: Yes, it was in reacting to those needs that we increased our staff.

Ms. Louise Thibault: You must have a good reputation for being able to react quickly and effectively.

Mr. Ross Nicholls: Yes. It's a challenge.

Ms. Louise Thibault: So, if I understand correctly, in certain areas, you contract out, if I may use that term, the work that must be done.

Mr. Ross Nicholls: Yes.

Ms. Louise Thibault: Can you give me some idea of how the service offers made through you for the Department of National Defence break down by province, whether it be for architects or other things?

For example, in Quebec, we have bases, air strips, infrastructure and so on. When your services are required, directly or through contractors, do Quebec businesses get the contracts, or is it businesses located in Manitoba, Ontario or Nova Scotia? I'd like to have an idea of the various businesses you rely on.

Mr. Ross Nicholls: Do you want a break down by province?

Ms. Louise Thibault: Yes, absolutely.

Mr. Ross Nicholls: I can give you the value of expenditures in each province for each site. For example, on page 23 of our annual report, there is a breakdown of construction expenditures.

Pardon me, I'm looking at the English version. I hope it's the same in French.

Ms. Louise Thibault: Yes. On page 23, it states: "Contract Expenditures 2004-2005".

Mr. Ross Nicholls: That's it. The expenditures made in those places are indicated there. However, there are a number of Quebec contractors working outside Quebec...

Ms. Louise Thibault: Absolutely, and the contrary is also true.

Mr. Ross Nicholls: Yes.

Ms. Louise Thibault: Could we get those figures?

Mr. Ross Nicholls: I'll try to get them.

Ms. Louise Thibault: Let's suppose you've spent — let's take a round figure — \$1 million. Out of that \$1 million, was \$100,000 paid to Quebec contractors, regardless of where they worked? You're correct; they can do work elsewhere. Is it possible to get that information?

Mr. Ross Nicholls: I'm not sure. I'll try to get it.

Ms. Louise Thibault: All right. Perhaps you could forward it to the committee Chair.

Mr. Ross Nicholls: For example, if Hervé Pomerleau Inc. has a contract in Nova Scotia, it will have an office in Nova Scotia. So is that a Quebec contractor, or a Nova Scotian contractor? Whatever the case may be, I promise to try to get that information.

Ms. Louise Thibault: I'd appreciate that. Thank you.

Do I have any time left, Mr. Chairman?

[English]

The Chair: Just keep it very short.

[Translation]

Ms. Louise Thibault: I could come back to it later.

However, what process do you use to select subcontractors? According to the notes I had, you had requested services from 1,352 businesses. So what process do you use to select the best business to do work for the Department of National Defence? I don't doubt that's it's very rigorous.

Mr. Ross Nicholls: I'd say that 99 percent of contracts are awarded following a competitive process. We make calls to tender through the MERX electronic system. We look for competitive prices and award contracts to the lowest bidder. In some cases, criteria other than price are considered. For example, criteria such as quality, energy efficiency and things like that, are established in advance. However, it's always done on the basis of a competitive price.

Ms. Louise Thibault: Thank you.

The Chair: Thank you, Ms. Thibault.

[English]

We have Mr. Szabo for seven minutes, followed by Mr. Martin.

Mr. Paul Szabo (Mississauga South, Lib.): Thank you very much.

Mr. Nicholls, I've had an opportunity, as have the other members, to review the documentation that was provided with regard to your CV and your tenure and service to Canada, quite frankly, over some 27 years. I doubt you're going to find anything but praise for the continued service and the expertise you bring to the organization.

So I would certainly support the reappointment of you in the position and hope that we continue to follow good management practices and board practices by making sure that when you do decide to retire, we've done a succession arrangement that will ensure the continued success of the organization. And I'm sure that will happen.

I did want to ask a little bit about the organization itself, and I don't think your balance sheet and your P and L do justice to characterizing the magnitude of what you get involved in. It's clear that this is a highly professional organization that actually provides leadership. I see from some of the notes here that there could be up to as many as 2,000 active professional or service contracts going on at the same time, with expenditures of \$400 million to \$500 million. This is not a small responsibility, and it certainly does take significant expertise to operate.

I much suspect—and this is my first question—that one of the reasons we have a crown corporation here is that it appears that your activity levels can vary over time. There may be some spikes, and within the public service, as defined, and in DND, it may be a little more difficult to expand and contract than it would be in your own organization. How would you respond to that characterization?

• (1610)

Mr. Ross Nicholls: I would suggest that that's one of our key success factors over the years and one of the reasons why we have been around so long. The public service staffing process... It can take time to get the people you want, and once you have them, you maybe have them for a while, whereas we have the flexibility as a separate employer to hire and let go people as required. Also, we transfer people around the country as required.

Mr. Paul Szabo: Have you ever done, in recent years, an analysis of what it might cost or what you're saving by having it in this structure as a crown corporation, as opposed to having it as just part of the public service? As Mr. Preston mentioned, why not just be part of the Department of National Defence and contract out, and if you need to do certain things, put out a request for proposal?

We understand how that procurement process works, and for one-shot items it's kind of interesting, but where you have repetitive stuff, you often have pre-qualified people in any event. Do you have any idea of the rationalization, in terms of the cost savings, of having this dynamic crown corporation as opposed to being part of the public service?

Mr. Ross Nicholls: Unfortunately, I can't put a figure on that. I wish I could. I know intuitively that there are very significant savings.

In the first place, we've created a bit of a niche expertise in contracting and contract management that I would argue would be hard to replicate anywhere else in Canada, whether in the public or private sectors, because of the volume of work we do and the specialized nature of the work we do. So it's hard to find external comparisons.

Also, a great deal of the value that I believe the corporation adds through its employees is—I'm not sure quite how to articulate it—through the culture and the work ethic and this sense of ownership I referred to earlier. People act as if it's their own money they're

spending, and the government gets the benefit of that. It's not just part of the multi-billion-dollar budget coming from somewhere.

I wish I could put a figure on it. I'd have a very easy time at committee hearings like this if I could.

Mr. Paul Szabo: I'm sure you would.

I think it's important, and it would be interesting to hear whether you have any comments with regard to the fact that there's a lot of interest now in terms of governance, transparency, and accountability.

Obviously, you are audited. Could you identify and maybe share with the committee the results of audits that have been conducted on you, in terms of recommendations for improvements in areas of effective management, accountability, and transparency?

• (1615)

Mr. Ross Nicholls: Let me think on that.

John, I don't know if you can jump in to support me on that.

I indicated earlier that no significant deficiencies were indicated in our audit reports. That's not to say we're perfect. There are always things that auditors can find and suggestions they can give to make improvements, but frankly, nothing of a major nature has been put forward from those.

We have been following with great interest the work the Treasury Board has been doing lately on crown corporation governance. I think they're coming up with some good ideas. Frankly, there's nothing that Treasury Board is going to suggest that will fundamentally change the way we do business. On the governance side and the management side, I think we have a pretty good model. We have excellent relations between the board and management, as well as with the central agencies.

I'm not sure how to describe the nature of our success.

John, would you like to add anything to that?

Mr. John McLure: Mr. Chairman, to go back to the first part of the questioning, I would add that this is in essence a major make or buy decision. For National Defence, it's in essence contracted out. This activity is contracted out to a highly specialized organization. DND doesn't have to therefore deal with any of the recruiting. You're absolutely right that they don't have to deal with the Public Service Employment Act and all of those things. They don't have to deal with the training of people, hiring and firing, going to different regions, going up north to do cleanup, or going to do range cleanup in Calgary. It's not easy to respond to those things.

They have other things that are very difficult to manage. They'd like to be able to push a button and say they want something done. It doesn't mean they aren't intimately involved in the development of the designs and what it is they need.

In terms of the pressure to keep costs down, as the president said in his opening remarks, we used to be on an appropriation basis and we're now on a fee for service basis. A fee for service means we're therefore charging against each project for people who work on that project.

Within the corporation, we all know that the Department of National Defence is always under enormous budget pressure. As a corporation, we therefore go to great lengths to make sure the indicators that deal with our efficiency are maintained at levels that can be realized and are benchmarked against the best practices of the private sector.

I would be embarrassed to have to stand in front of DND and tell them that we're more expensive than elsewhere for what they can buy. We have a very good reputation for that.

Mr. Paul Szabo: I have one last little question. It's important to the committee as a whole. Can you affirm to the committee that you are familiar with the current guidelines on the appointment of officers and board members and that this process will be followed to the letter, as was quoted by someone else, and will be used for filling a vacancy? Do you still have one vacancy on the board?

Mr. Ross Nicholls: We now have two.

The Chair: You now have two.

We may be seeing you or at least receiving material very soon. I'm pleased to know that you are apprised of the new policy and will be following it to the letter.

Mr. Ross Nicholls: Absolutely, there is no question whatsoever.

Mr. Paul Szabo: Thank you.

The Chair: Thank you, Mr. Szabo.

Mr. Martin, followed by Mr. Poilievre.

Mr. Pat Martin (Winnipeg Centre, NDP): Thank you, Mr. Chair.

Thank you, Mr. Nicholls.

Mr. Nicholls, in your brief, I noticed that up to one third of your work these days is on environmental remediation, as you put it, or environmental cleanup. I'm very concerned about an issue on bases with housing for armed forces. It may have come across your desk. If so, I'd like to know how you handled the specifications of the contracts, etc. It deals with Zonolite asbestos-laden insulation. Have you come across this issue or has this issue been brought to your attention?

•(1620)

Mr. Ross Nicholls: We have done some work related to the Zonolite. The way the process works is the Department of National Defence studies the scope of the overall problem and how to deal with the problem in various locations. We have engaged some consultants to provide advice to the department, and we have carried out some cleanup work for the department.

Mr. Pat Martin: Who does the specifications as to what type of cleanup will take place? As engineers, are you asked to give advice as to what might be done in a case of a contaminated home?

Mr. Ross Nicholls: No, we will not do the actual engineering, if you will, of the specifications.

Mr. Pat Martin: You simply supervise the contracting.

Mr. Ross Nicholls: That's right.

We will engage the consultant, who will write the engineering specification or the construction specification. We will then contract someone to do the cleanup.

Mr. Pat Martin: Maybe I could ask you then specifically.... We were horrified to learn the extent of this situation. By way of background, it was on the CTV, *Whistleblower* TV program that military families living in base housing in Kingston, Ontario, weren't advised of this contamination when they moved in. These homes have no basements, so they store all their Christmas gear in the attic, where there's Zonolite tremolite asbestos, the most virulent and dangerous type of asbestos of all the forms of asbestos. These people are horrified.

When we first brought this to DND's attention, they said they were going to spend millions of dollars removing it, with full remediation. Now they're telling these people they are going to staple a vapour barrier, four-millimetre polyethylene, to contain the Zonolite in the attic. My specific question is, as an engineer and as the contractor, is the work you're doing on Zonolite limited to containing it in the attic with a vapour barrier, or are you charged with the task of full remediation to make these homes safe?

Mr. Ross Nicholls: I'm afraid I can't respond directly to the question. I believe we've done some of both types of work. Unfortunately, I can't answer for the department as to either the communication they've had with the homeowners or the decision they are making in terms of how to proceed.

Mr. Pat Martin: From an engineering point of view, one of the things that's always mystified me about that base housing is that the heating vents are just underneath the crown moulding, which means the ducts are going through the ceiling joists or the lower cord of the rafter. That's where the Zonolite is. These heating ducts are 40 years old and rusted out, and they're going through tremolite asbestos, picking it up along the way, and blowing it into the home.

First of all, it's environmentally stupid to have your heating ducts at the ceiling; they should be at the floor. All our homes have that. Does that strike you, as an engineer, as a good idea to have your heating ducts in the ceiling going through a pile of Zonolite tremolite asbestos and dumping it into people's homes?

Mr. Ross Nicholls: I guess one has to keep in mind that the homes were designed and built for the most part in the late 1940s, early 1950s. In retrospect, that certainly doesn't seem to be the way to do it, but once again, I can't allow myself to comment on the specifics.

Mr. Pat Martin: I guess I'm only going after this because you're involved in the contracting on behalf of DND. I'm not trying to say that you're personally responsible for this in any way.

In the 27 years or so that you've been with DND, though, Zonolite was in fact a commonly used insulation. Did you ever spec it out in your work prior to becoming CEO? Is that something you remember ordering the installation of?

•(1625)

Mr. Ross Nicholls: I personally can't remember installing Zonolite in married quarters. The company that preceded Defence Construction, called Wartime Housing Limited, probably built a lot of these houses and might well have done the original installations.

To my knowledge, it's only been in the last year or two that Zonolite has obtained any profile in a public sense.

Mr. Pat Martin: Do you think homeowners should be advised of the risk of Zonolite contamination in their attic prior to moving in?

Mr. Ross Nicholls: If one is sure Zonolite is there, I think definitely people should be advised of it.

Mr. Pat Martin: I can tell you that hasn't been the practice with the people contacting our office who live in this military housing that is contaminated. They tested 62 houses at Shilo and they found 60 of them with Zonolite. And in Kingston, Ontario, as I say, we have families coming forward too.

I'm wondering, again as an engineer... A lot of people feel that as soon as you put up a plastic vapour barrier and staple it, you've actually compromised the sealing value of it by the staple hole. Do you think that film would be able to contain the tens of millions of microscopic asbestos fibres that are in asbestos?

Mr. Ross Nicholls: I think it's perhaps unfair to ask me to respond to that. It definitely has to be an engineered solution that considers all the health hazards.

Mr. Pat Martin: It's funny. They just started a class action suit in B.C. The seven CEOs of W. R. Grace & Co., which manufactures Zonolite, have been indicted in the States, but in B.C. they've started a class action suit against the Government of Canada because they knew years ago that Zonolite was in fact contaminated with asbestos and still promoted it in their CHIP home insulation program. So it's in literally hundreds of thousands of houses across the country, including military bases and Indian reserves, contaminating a whole generation with this deadly form of asbestos.

I know this line of questioning has very little to do with your reappointment, but as an engineer in a senior position dealing with the environmental remediation of DND properties, I think it's appropriate. I don't think it's irrelevant, Mr. Chair.

How is my time?

The Chair: Your time is up, Mr. Martin.

Mr. Pat Martin: Thank you.

The Chair: Thank you.

Mr. Poilievre, you have seven minutes, followed by Monsieur Simard for five minutes.

Mr. Pierre Poilievre (Nepean—Carleton, CPC): Thank you very much, Mr. Chair.

I want to make a general statement on behalf of my constituents.

My constituents believe it's time that we as Canadians rebuild our armed forces; that our forces have suffered enough from the deep Liberal cuts, which devastated the strength and the numbers and the equipment our people rely on to keep our borders secure and our interests advanced. This is just a general statement on behalf of my

constituents that we need a strong national defence. We as a party—I think my colleagues would agree—will continue to stand up for that national defence.

I encourage you to work hard toward that end as well, and we look forward to the day when we can work with you as a Conservative government to bring about a stronger Canadian Armed Forces for all Canadians.

Thank you.

The Chair: Thank you, Mr. Poilievre.

I don't think a response is necessary.

Monsieur Simard.

[*Translation*]

Mr. Christian Simard (Beauport—Limoilou, BQ): Thank you for being here today.

I know that National Defence has a code of ethics for accepting gifts from suppliers, invitations to contractors' golf tournaments or cocktail parties or honorary memberships at golf clubs.

Do you have a similar policy, and, if so, is it specific enough to prevent relationships with service suppliers from becoming too close over time?

•(1630)

Mr. Ross Nicholls: Mr. Chairman, we have a code of conduct that concerns conflicts of interest, among other things. In that case, we use specific examples. We can't accept tickets for hockey games, gifts and so on.

We're very sensitive to this issue because we deal with contracts totalling between \$400 and \$500 million a year. We think it's very important to keep a distance between us and our suppliers and contractors. On this subject, I believe our record speaks for itself.

Mr. Christian Simard: In the same line of thinking, I can see that it's nearly half a billion dollars this year, \$477,902,000 to be precise. Those are major expenditures.

As regards the breakdown, I see that less than 10 percent of those expenditures were made in Quebec. I imagine that's because there are fewer military bases.

Since CFB Valcartier is in my region, I know there is serious TCE contamination there. This is an extremely toxic substance that has contaminated the water table and is currently found in the Jacques-Cartier River.

I know you were asked to deal with the separate water and sewer systems to prevent the drinking water of Shannon residents from being contaminated.

Did the Department of National Defence ask you to try to find solutions to reduce at source or prevent TSC from leaching into the water table and the river? Were you involved in that regard? Is Defence Construction Canada at that stage?

Mr. Ross Nicholls: We were involved on the research end. There was a drilling program. We hired consultants to analyze water samples.

We're preparing a contract for pilot projects in order to test various technologies for cleaning water and the water table.

So we called in consultants and contractors at the request of National Defence. We're very involved, but we don't manage the project. The department establishes requirements, and we provide the consultants and contractors.

Mr. Christian Simard: Are pilot projects planned for the near future?

Mr. Ross Nicholls: They're planned for very soon. I believe a request for proposals may be ready around Christmas. I'm not entirely sure when, but it will be soon.

Mr. Christian Simard: That's good.

Let's go back to this small percentage: less than 10 percent of total expenditures. And yet the population of Quebec represents 24 percent of the population of Canada. I know it's not always proportionate to population. It depends more on the number of military bases.

To be very specific, do you have any figures on changes in investment by province in recent years? Do you have a table showing the share of contracts to be carried out, or work performed by Defence Construction Canada over a certain number of years, that shows, in short, changes in the share of each of the provinces or regions?

Mr. Ross Nicholls: We have those figures. It's a bit like the table you have, and we have them for a good number of years. We could provide them to you.

Mr. Christian Simard: I'd appreciate that.

Mr. Ross Nicholls: That's good.

Mr. Christian Simard: I'd like to ask you one final question.

Do you use the MERX system, Industry Canada's system, I believe?

• (1635)

Mr. Ross Nicholls: It's Public Works Canada's system.

Mr. Christian Simard: That system was recently criticized because certain documents intended for Francophone contractors had been translated by some crazy translation software. It produced completely absurd results. It was impossible to understand them because the translation had been poorly done.

Did Francophone contractors trying to complete the forms through the MERX system complain to you? We know the situation was recently the subject of formal complaints to the Commissioner of Official Languages.

Mr. Ross Nicholls: To my knowledge, we haven't received any complaints as such. We read the recent criticisms and we did a very quick check of our advertisements to see whether there was a

problem. As far as I know, we have no specific problems in that regard.

Mr. Christian Simard: You nevertheless checked to determine the situation.

Mr. Ross Nicholls: Yes.

Mr. Christian Simard: Thank you. That's all.

[English]

The Chair: Merci, monsieur Simard.

Monsieur Godbout, for five minutes.

[Translation]

Mr. Marc Godbout (Ottawa—Orléans, Lib.): Thank you, Mr. Chairman.

Upon examining the credentials of our witness, I believe that Canada can be proud to have servants of Mr. Nicholls' calibre.

[English]

I would like to move that the committee waive further consideration of the certificate of nomination of Ross Nicholls and convey its support of his nomination to the position of president and chief executive officer of Defence Construction Canada.

The Chair: The committee has heard the motion. Any debate on the motion?

Mr. Joe Preston: I have a question.

The Chair: Mr. Preston.

Mr. Joe Preston: It's only on the point that we had stated as a committee that we would not do this with a witness present. We had said in the past, when we had other witnesses who were here for—

An hon. member: Televised.

Mr. Joe Preston: Okay. I don't think that was the case.

Mr. Paul Szabo: We have to make sure only the nominee doesn't know.

Mr. Joe Preston: Well, that's what we had said as a committee in the past.

The Chair: I'm sorry, Mr. Preston, could you just repeat what your point was there?

Mr. Joe Preston: As a committee, when we had other witnesses here for—I'm missing the word—

A voice: Confirmation.

Mr. Joe Preston: —confirmation, we had said we would wait until the following meeting before we would do the confirmation so we weren't doing it in front of the witnesses.

The Chair: It was in case there was a desire for some discussion.

Mr. Joe Preston: It was if there was a desire for discussion, or God forbid, the case ever came up when we would say no to someone, but—

The Chair: I do remember that discussion. I guess that point would be valid.

If anyone here wants to discuss this issue before we go ahead with the vote, then we can put it off until the next meeting.

Does anyone here have any discussion on this issue, or are you ready to take the vote right now?

A voice: Put the question.

The Chair: Okay, we'll go to the vote right now.

(Motion agreed to)

The Chair: Thank you very much.

Thank you, Mr. Nicholls and Mr. McLure, for coming today. I appreciate it.

We will take short break here in the meeting and come back with a discussion of the agenda for the committee and of the subcommittee report on the agenda in just a couple of minutes.

[Proceedings continue in camera]

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