

Infrastructure Ontario— Alternative Financing and Procurement

**Standing Committee on Public Accounts Follow-Up on
Section 3.05, 2014 Annual Report**

The Committee held a public hearing in March 2015 on our 2014 audit of Infrastructure Ontario—Alternative Financing and Procurement. The Committee tabled a report in the Legislature resulting from this hearing in June 2015. The full report can be found at www.ontla.on.ca/committee-proceedings/committee-reports/Infrastructure-OntarioAlternativeFinancingandProcurement.

The Committee made six recommendations and asked the Ministry of Infrastructure (called the Ministry of Economic Development, Employment and Infrastructure at the time our audit) and Infrastructure Ontario to provide the Committee with written responses to its recommendations by the end of September 2015. The Ministry of Infrastructure (Min-

istry) and Infrastructure Ontario formally responded to the Committee on September 30, 2015. A number of issues raised by the Committee were similar to the observations in our 2014 audit. In February 2016, our Office asked the Ministry and Infrastructure Ontario to provide an update on the status of actions taken to address the Committee's recommendations. The Ministry and Infrastructure Ontario provided us with information in the spring and summer of 2016. The updated status of the Committee's recommendations is shown in **Figure 1**.

Figure 2 shows the recommendations and the status details that are based on responses from the Ministry of Infrastructure, Infrastructure Ontario, and our review of the information they provided.

Figure 1: Status of Actions Recommended in June 2015 Committee Report

Prepared by the Office of the Auditor General of Ontario

# of Actions Recommended	Status of Actions Recommended			
	Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	2	1	1	
Recommendation 2	2	1	1	
Recommendation 3	2	2		
Recommendation 4	2	2		
Recommendation 5	1		1	
Recommendation 6	3	3		
Total	12	9	1	2
%	100	75	8	17
				0

Infrastructure Ontario has made progress on a number of the recommendations, including reporting back to the Committee on the actual cost experience of the Alternative Financing and Procurement projects in Ontario and the details on its revised Value-For-Money assessment methodol-

ogy. However, it was not able to provide data on the actual cost experience on recent public-sector procurements, and it is yet to report back on the results of the third-party review of its budget process and estimating methodology.

Figure 2: Committee Recommendations and Detailed Status of Actions Taken

Prepared by the Office of the Auditor General of Ontario

Committee Recommendation	Status Details
<p>Recommendation 1 Infrastructure Ontario shall report back to the Standing Committee on Public Accounts a summary of its analysis into the collection of data on actual cost experience from recent public sector procurements Status: Little or no progress. and AFPs in Ontario. Status: Fully implemented.</p>	<p>On September 30, 2015, Infrastructure Ontario provided to the Committee two reports. The first report summarized the performance of 45 Alternative Financing and Procurement (AFP) projects and seven traditional (direct delivery) projects (with project costs between \$10 million and \$50 million) delivered by Infrastructure Ontario. The report noted that 98% of the AFP projects were on budget and 73% were on time compared to 71% on budget and 86% on time for the traditionally delivered projects delivered by Infrastructure Ontario.</p> <p>The second report reviewed five major hospital projects with capital costs in excess of \$100 million that were traditionally delivered 10 years ago. Infrastructure Ontario stated that it was unable to obtain more information on recent major projects in the public sector. The report identified that the average cost overruns for these five projects were 25% when comparing costs at tender to final, and 54% when comparing budget to final.</p> <p>In addition, when Infrastructure Ontario provided our Office with the update on the implementation of this recommendation in April 2016, it also included a staff report from the City of Toronto on the schedule and budget reset of the Toronto-York Spadina Subway Extension, and a report issued by the Lawrence National Centre for Policy and Management on comparing P3 and Traditional Approaches. Infrastructure Ontario provided details on these projects as evidence of cost overruns in traditionally delivered projects.</p>

Committee Recommendation	Status Details
<p>Recommendation 2 Infrastructure Ontario shall report back to the Standing Committee on Public Accounts on details of its revised VFM assessment methodology, including what was changed, when, and why. Status: Fully implemented.</p> <p>This response must also include the extent to which the valuation of risks assumed to be retained under the AFP and public-sector delivery models are supported by actual cost experience from recent public-sector procurements and AFPs in Ontario. Status: Little or no progress.</p>	<p>Infrastructure Ontario updated its value-for-money (VFM) assessment methodology in March 2015. The updated VFM approach includes five main enhancements that are summarized as follows and described in more detail in the VFM Guide, which was provided to the Committee:</p> <ul style="list-style-type: none"> • Simplified risk matrices—The total number of risks was reduced from approximately 60 to 40 to clarify definitions and reduce redundancies. • Introduction of an innovation factor—The innovation factor assumes that the base cost of the public sector comparator will be higher than the AFP model by an average of 7.5% to 12%. The innovation factor is only applied to projects that have a design component to them. • Lifecycle cost adjustment—The estimated lifecycle spending for the public-sector comparator has been reduced based on observations made on historical underspending by the government to maintain assets. • Removal of insurance costs from the calculation of competitive neutrality—The costs of insurance premiums are included in the base cost and have been removed from the competitive neutrality amount. • Enhancements to the risk assessment process—Where possible, project-specific cost consultants will be requested to validate the assignment of valuations to the different risks from the risk workshop. <p>Infrastructure Ontario has not included the extent to which the valuation of risks assumed to be retained under the AFP and public-sector delivery models are supported by actual cost experience from recent public-sector procurements in Ontario.</p> <p>Infrastructure Ontario said it was unable to obtain information on actual cost experience from recent public-sector procurements in Ontario.</p>
<p>Recommendation 3 The Ministry of Economic Development, Employment and Infrastructure shall report back to the Standing Committee on Public Accounts on its plan for the screening threshold for AFP projects. This response must</p> <ul style="list-style-type: none"> • state the amount of the new screening threshold, if applicable, and provide a rationale for the change; and Status: Fully implemented. • provide an anticipated implementation date for any proposed changes to the screening threshold. Status: Fully implemented. 	<p>Since spring 2015, upon the direction of the Minister of Infrastructure, Infrastructure Ontario has been using \$100 million as the threshold to identify projects for potential delivery through the AFP model.</p> <p>This change brings Ontario in line with other jurisdictions in Canada (e.g., PPP Canada, Partnerships BC, and SaskBuilds) that use a \$100 million threshold for projects that require long-term financing through the operating and/or maintenance period of the contract.</p> <p>Projects under \$100 million may be assessed on a case-by-case basis.</p>

Committee Recommendation	Status Details
<p>Recommendation 4 Infrastructure Ontario shall report back to the Standing Committee on Public Accounts with a summary of its traditionally delivered projects. This summary must</p> <ul style="list-style-type: none"> • include statistics about cost overruns and project delays for these projects; and <p>Status: Fully implemented.</p> <ul style="list-style-type: none"> • highlight any trends in these statistics over the period from when Infrastructure Ontario first began overseeing traditionally delivered projects to the most recent projects. <p>Status: Fully implemented.</p>	<p>Infrastructure Ontario provided the Committee with a summary table of the performance of its traditionally delivered projects over the last four years. On average, Infrastructure Ontario delivers 4,000 traditionally delivered projects a year. Of these projects, approximately 1,600 were over \$100,000 and were assessed by Infrastructure Ontario for on-time and on-budget performance. The targets for these measures were on-time performance of >90% and a budget variance of +/-5%. In the last four fiscal years, from 2011/12 to 2014/15, Infrastructure Ontario's on-time performance ranged from 87% to 94.5% and its on-budget variance ranged from -0.9% to 0.9%, exceeding the targets in all cases except one instance of 87% on-time performance in 2011/12. The trend over the last four years shows improvement in performance measures, which, according to Infrastructure Ontario, can be attributed to changes in its procurement processes and revisions to the outsourcing service delivery model used for these projects.</p>
<p>Recommendation 5 Infrastructure Ontario shall report back to the Standing Committee on Public Accounts on the results of its third-party review of its budget process and estimating methodology</p> <p>Status: In the process of being implemented by winter 2017.</p>	<p>In 2015, Infrastructure Ontario retained a third-party cost-consulting firm through a competitive process to review the methodology Infrastructure Ontario uses to develop project budgets for AFP projects. The firm analyzed the budgets for 36 AFP projects with a construction value of \$19.75 billion across all sectors. In addition to reviewing capital construction costs, the review analyzed the forecast accuracy of lifecycle and maintenance costs developed for budgets by Infrastructure Ontario. Infrastructure Ontario provided the Committee with the preliminary results of the review in September 2015. The final report, which Infrastructure Ontario has not provided to the Committee, was issued in March 2016. Although the report found that Infrastructure Ontario's methodology for producing budgets follows a process that is consistent with industry practices, it identified a number of areas for improvement. Specifically, the report noted that:</p> <ul style="list-style-type: none"> • There continues to be room to improve budgets within the transit/transportation Design Build Finance Maintain (DBFM) portfolio. Overall budgets for projects in this portfolio appear to be conservative. • There continues to be a need for constant monitoring of industry trends in order to address any new trends. • Infrastructure Ontario should further leverage its expertise and portfolio knowledge to improve budgeting for lifecycle and maintenance costs. <p>In response to the concerns identified in the report, Infrastructure Ontario is implementing a new project database system that will allow greater analysis and reporting on individual projects and sectors for budget development. Infrastructure Ontario anticipates this system will be implemented in the spring or summer of 2017. In addition, the budget and cost management team was restructured in 2016, with resources identified to improve the budget performance of the transit/transportation DBFM portfolio, including hiring of new personnel (a Quantitative Surveyor or Analyst) expected in the fall or winter of 2016 and the development of a new Cost Consultant Vendor of Record in winter 2017.</p>

Committee Recommendation	Status Details
<p>Recommendation 6</p> <p>Infrastructure Ontario shall report back to the Standing Committee on Public Accounts on its competitive bidding process for AFP projects. This response must</p> <ul style="list-style-type: none"> • explain how the remaining one-third of projects were chosen and how the system of scoring bidders' submissions would be modified to ensure appropriate weighting is given to both technical merits of the submission and price; <p>Status: Fully implemented.</p> <ul style="list-style-type: none"> • include steps taken to ensure the bidding process is a competitive one; and <p>Status: Fully implemented.</p> <ul style="list-style-type: none"> • include a summary of the average number of qualified bids received for AFP projects. <p>Status: Fully implemented.</p>	<p>Infrastructure Ontario stated that all bids must meet minimum design-technical standards prior to being evaluated on price to ensure that the government or other public-sector client ultimately receives a high-quality, cost-efficient project. Historically, two-thirds of the projects have been awarded to bidders whose price is the lowest and whose design-technical score is the highest. Therefore, the remaining one-third would have been chosen based on price as long as the bidders met the minimum design-technical standards.</p> <p>In addition, Infrastructure Ontario undertook a review of its evaluation methodology and stated that there is currently appropriate balance to consider both technical and financial bid submissions, and it does not intend to make any major modifications to its bid scoring system. However, Infrastructure Ontario did make two adjustments to the system in 2015:</p> <ul style="list-style-type: none"> • it introduced "sequential evaluation," whereby technical results are completely evaluated before any financial submissions are opened (in the past, this was done simultaneously by the technical evaluation and financial evaluation teams); and • it introduced a minimum scoring threshold in the technical submission for Build Finance projects, to further ensure that certain construction scheduling standards would be met. <p>Infrastructure Ontario stated that its procurement process has controls and processes in place to ensure competitiveness. For instance, in some cases, prior to any procurement, "market sounding" is done to ascertain interest in particular projects and get feedback on potential transaction-structuring elements. Procurements are initiated through a Request For Qualifications phase, whereby all market competitors are open to submitting qualification submissions that meet established requirements. Only successful prequalified applicants are then invited to submit proposals in a Request For Proposals stage, which is a competitive process that also allows for commercially confidential meetings observed by fairness monitors.</p> <p>As well, Infrastructure Ontario has reported that, on average, its AFP projects delivered via the Build-Finance model typically involve five bids, whereas projects delivered via the Design Build Finance and Design Build Finance-Maintain models involve three bids.</p>