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Standing Committee on Government Agencies

Agency review:

Ontario Infrastructure Projects Corp. (Infrastructure Ontario)

Chair: Julia Munro
Clerk: Douglas Arnott

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STANDING COMMITTEE ON GOVERNMENT AGENCIES

COMITÉ PERMANENT DES ORGANISMES GOUVERNEMENTAUX

Wednesday 17 September 2008

Mercredi 17 septembre 2008

The committee met at 0932 in room 151, following a closed session.

AGENCY REVIEW

ONTARIO INFRASTRUCTURE PROJECTS CORP. (INFRASTRUCTURE ONTARIO)

The Chair (Mrs. Julia Munro): Good morning and welcome to the Standing Committee on Government Agencies. This morning our first order of business is the review of the Ontario Infrastructure Projects Corp., commonly known as Infrastructure Ontario.

We welcome you to this hearing this morning. I would ask that, for the purposes of Hansard, you introduce yourselves. As you may know, you have five minutes in which to provide an overview, and then we will be asking for questions from the members of the committee. We will begin this morning with the third party, then we will go in rotation. Each caucus will have just over 45 minutes each. I will guide the rotations with some flexibility, providing around 18 minutes for the first round, and then I will divide the rest up as we go, which should work out to about 15 minutes per round. Thank you very much for being here this morning. Please begin.

Mr. Tony Ross: Thank you very much, Madam Chair. My name is Tony Ross and I'm the chair of Infrastructure Ontario. We appreciate this opportunity to share information about Infrastructure Ontario and to answer questions from the committee.

Before I begin, I would like to introduce members of the Infrastructure Ontario team who are with me today. On my left is David Livingston, who is the president and CEO; to his left is our executive vice-president of project delivery, Jim Dougan; and to my right is our senior vice-president of infrastructure lending and our CFO, Bill Ralph. Other members of our team also in the room are George Stewart, senior vice-president of project assessment; Steve Richards, senior vice-president of nuclear projects; and Tony Day, our senior vice-president of human resources.

As members know, Infrastructure Ontario was created in 2005 to help manage the delivery of major infrastructure projects in the province. Our business is effectively split in two lines: project delivery, which uses alternative financing and procurement to deliver projects on time and on budget, and the OSIFA loan program, which offers affordable loans to help municipalities and other public sector entities to build and renew Ontario's public infrastructure.

I have been chair of Infrastructure Ontario's board of directors since the first day in 2005. In the beginning, the board played a crucial role in overseeing the operations of the agency, both in terms of getting projects out the door—or, more appropriately, in the market—as well as putting in place an organization that had a culture of transparency and accountability strongly entrenched. In addition to providing strategic direction, the board also ensures that public funds are being used effectively. For example, to ensure that value-for-money can be achieved, the board reviews and approves each project RFP—request for proposal—before it is released to the market. In carrying out our responsibilities we recognize the obligations we have to the people of Ontario in all of our operations.

You will hear in a few moments some of the work that Infrastructure Ontario has undertaken in the past three years. Certainly the board is very proud of the work that has been started, but we recognize there is a lot of work yet to be done if we are to successfully carry out our mandate. There are many projects that have yet to be brought to market and, critically important, there are projects under construction that need to be completed on time and on budget. We will remain diligent in our efforts to ensure that this happens.

The government has committed to delivering the largest expansion of social infrastructure in more than a generation. The board of Infrastructure Ontario is committed to ensuring that this happens in a manner that protects the public interest. My fellow directors and I continue to diligently hold Infrastructure Ontario's management to account. Having said that, it's a great privilege for me personally to work with the group of women and men at Infrastructure Ontario. They're very talented and they're very committed.

Thank you. I'd like to ask David Livingston to now say a few words.

Mr. David Livingston: Thanks, Tony. As Tony said, I'm the president and chief executive officer of Infrastructure Ontario. Over the past two years, we have grown in both size and scope and have become a trusted name in delivering infrastructure projects, as directed by the government of Ontario. To date, we have put more than $6 billion of capital projects into the market, and of these projects, 20 are under construction today. We have also been assigned major new infrastructure projects from new sectors, including the Ontario Highway Service Centres project from the transportation sector and the nuclear procurement project from the energy sector. As well, the OSIFA—Ontario Strategic Infrastructure Financing Authority—loan program has advanced nearly $1.7 billion in affordable loans to its public sector partners. This has allowed for 650 separate infrastructure projects in communities across Ontario, and they include roads, bridges, public housing, water and waste water facilities, to name a few.

In the 2008 Ontario budget, the government announced that the OSIFA loan program will be further broadened to include local service boards, not-for-profit professional arts institutions, and social and affordable housing providers, to name some. This expansion will stimulate enhanced infrastructure investment across these new sectors and allow interest savings to be redirected towards the important business of providing good public services.

We have demonstrated our commitment to making projects happen in Ontario, surpassing our objectives for both project delivery and for the OSIFA loan program. I have no doubt that we have strengthened this organization for our stakeholders, for our clients and for the communities in Ontario, both today and for the future.

We really appreciate the opportunity to address the committee, to answer any questions that you have, and, along with the members of the team here, we hope we can do it to your satisfaction. To be efficient and not overly bureaucratic, I'll act as the moderator on our side. So I'll take the questions, and whatever I can answer I will answer, and whatever I can't answer, I will lay off onto one of my esteemed colleagues here, who I'm sure will be able to come up with something appropriate.

With that, Madam Chair, the floor is yours.

0940

The Chair (Mrs. Julia Munro): Thank you very much. We'll begin with Ms. Gélinas.

M^me^ France Gélinas: Good morning, gentlemen. I'm pleased to meet you. I will dive right in. David, I guess I address my questions to you?

Mr. David Livingston: Please.

M^me^ France Gélinas: According to what you've just said, there are 20 alternative financing and procurement projects currently under construction. The way I understand it, the contracts are between the construction company and yourself, and they include a guaranteed price, which is defined as the cost of work plus the cost of financing. Am I still on target?

Mr. David Livingston: There are some variations on that. Why don't you finish the question, and then I'll answer it all.

M^me^ France Gélinas: Okay. I understand this to be the total cost guaranteed by the construction company to, let's say, a hospital, if we take a hospital as an example. For each of the projects currently in the construction phase, can you provide the guaranteed price, the cost of work and the cost of financing, by project?

Mr. David Livingston: So, just in terms of—to be fair, we really have two models that we use when we're doing projects. There's what we call the build-finance model. The build-finance model is typically what we use when we are adding on a wing to an existing building or reconstructing something that's already in existence. For other projects we have a design, build, finance and maintain model, where the bidding group would design it, build it and finance it, and then they would maintain it for a 25- or 30-year period post-construction.

In a build-finance contract, the cost of construction and the cost of financing would be in the fixed price. In the case of a design, build, finance and maintain, the cost that would be included in the bid would be the cost of design, the cost of building, the cost of financing and the cost of maintaining the facility, including whatever capital investments they have to make over the 25- or 30-year period to meet the terms of the contract. So I guess the answer is, it depends on the project we're talking about as to what the cost elements are that would be included.

For each of those projects, we post on our website and make public the final contract that lays out whatever details are in the bid. If your question is, can we provide them to you right now, or can we provide them to you generally—I'm not sure, so if you actually want the cost of the financing and the cost of the construction, as two components on every project right now, we probably have that detail around in our briefing notes, and we could read it into the record. Or is it a more general question that you're asking?

M^me^ France Gélinas: No, I would like to know what they are. You can read it into the record or you can submit it to the committee, whatever you want.

Mr. David Livingston: Okay.

M^me^ France Gélinas: To submit it would probably be easier.

Mr. David Livingston: Do we have that in the record?

Mr. Jim Dougan: No, we just have, the totals—the GPC amounts.

Mr. David Livingston: So the answer is, we just have the totals.

M^me^ France Gélinas: But could you supply to me the breakdown? If it's build-finance, then I would have the cost of build, the cost of finance, and if it's design, build, finance and maintain, then could I see those four components? Plus, you've said, some capital costs associated with the maintain—could I see the breakdown of those for the 20 projects currently under way?

Mr. Jim Dougan: Just from a confidentiality standpoint, that's why haven't been doing it. We've been just posting the one number, the GPC number or the net present value number on the DBFM projects, because there's commercial confidentiality around that in terms of posting it publicly.

Mr. David Livingston: I guess the problem we would have is the bidders—for them, it's a competitive advantage on how they put together their bid and what they would like to have included. We publicly show the totals. I guess the question would be—the government is the shareholder, and so how much detail can we provide, and how would we do it in a way that wouldn't compromise the integrity of the bid? Because they would have some concerns about the details we'd be providing. So I don't know the answer, to be honest with you.

M^{me} France Gélinas: Let's say we just take the build and finance model. For those projects, can I get the cost of the build, the cost of the finance?

Mr. David Livingston: Is that broken out in the contract?

Mr. Jim Dougan: Yes.

M^{me} France Gélinas: Yes, I can?

Mr. David Livingston: Yes.

M^{me} France Gélinas: Yay! Let's take the other one: design, build, finance, maintain. What is it that I can and cannot get broken down as to those four or five parts if you add the capital costs associated with maintenance?

Mr. Jim Dougan: It's around the strategies of the various companies when they're bidding these projects, so a lot of that information is commercially sensitive. The life cycle strategies, financing strategies, facilities management strategies from the bidders on the project team are all commercially sensitive, so that's why we just post it, and we've been posting sort of a net present value of those projects.

M^{me} France Gélinas: Let me come back to this.

Of the 20 that are presently on the way, are there any projects that are expected to cost more than the initially established net present value or net present cost, whatever you called it, or the guaranteed price?

Mr. David Livingston: I'll have Jim answer this more specifically in a moment, but we have a regular tracking that we do on all projects on how they're performing in relation to the contract that's set. When the government assigns the project to us, they assign it to us with a budget. That budget includes a contingency amount that we set when we do the contract. Really, the question is, are they performing within the budget that's approved by the province? That's the critical number. All of the projects that we have today are operating within the budget that has been approved by the government.

M^{me} France Gélinas: And when you refer to the budget approved by the government, you refer to the budget including a contingency envelope.

Mr. David Livingston: Correct. It's a cabinet-approved number.

M^{me} France Gélinas: I was aware of this. Can you provide me or the committee with a list of projects where change orders have been approved, meaning that the guaranteed price exceeds the guaranteed price set out in the agreement that was initially made?

Mr. David Livingston: We don't publicly disclose that. That would not be on our website for a variety of reasons: We don't want to encourage it, we don't want to be talking about it, we don't want bidders out there thinking that this is an acceptable practice. There are instances where change orders happen with respect to risks that are on our side of the balance sheet, if you like, in the contract, but that information would not be publicly available. So if we just go back again, the time when we would be going back to the government with that would be when there is evidence that the change order is causing us to be above the assigned budget or above the approved price. That's not the case today, so there hasn't been an obligation to go back.

M^{me} France Gélinas: So if we looked at the cabinet minutes of the project cost of each of those projects, you've never had to go back and you have never gone over what the cabinet minutes will show as the approved budget for those projects.

Mr. David Livingston: Our approach or our practice with cabinet and with the government is that when we're assigned a project and we're assigned a budget number, before we take it to market—and in our view, taking it to market means we either put out a request for qualifications or a request for proposals—we go through a very detailed process with the client, the hospital board or whoever, to ensure that the scope is appropriately articulated and that that scope has been properly costed. There have been several instances where, in having gone through that scope assessment and determined the appropriate costing, the number has been above the budget that has been assigned to us.

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We do go back to Treasury Board or cabinet in that instance, but we've done that before it goes into market. Our view is that the time to deal with something is before we're locked into a course of action. Once we've gone back and once we have a number that we think is appropriate for the scope as it exists at the time we're going to put the project out, the bids have all come in and the projects have come in within the authority that cabinet has given to us. So I'm thinking, while I'm talking today, as I said before, all of the projects that we have today are within cabinet-approved numbers.

M^{me} France Gélinas: So if I understand, sometimes you would have gone to cabinet about a project—we'll call it initially going to cabinet about a specific hospital—then you went back, reviewed the scope and went back to cabinet, I'm guessing, to adjust the budget of that project.

Mr. David Livingston: Right.

M^{me} France Gélinas: Can we have a list of those projects?

Mr. David Livingston: I think that would be—I mean, I'm not sure of the rules here, but it seems to me that's up to cabinet. Those are presumably confidential documents and if cabinet wants to release them, then I would think that's a decision the government has to make, not us.

M^{me} France Gélinas: Okay. I have a question about a specific project. What was your agency's initial estimate of the total cost of the Niagara hospital in St. Catharines and what is the latest estimate?

Mr. David Livingston: Again, I'll look to Jim to answer this, but if I can just offer a general comment, we go to great pains with the local hospital board and ourselves not to be putting out prices before the bids come in because we do not want to be signalling to the bidders what is an acceptable price. So we have a budget number for Niagara, we have bids in, but we have not yet closed this project. We do not talk about a number and, we ask the hospital not to talk about a number and as far as we're concerned, any numbers that people are talking about out there are estimations, they're numbers that are just not, in our terms, real. We don't have a number that we have put out there yet and would not put out a number until this deal was closed.

Mr. Jim Dougan: That's correct. Just to add too, Niagara was a particular project where we had a budget and we updated the budget. It was an original budget based on an original scope. The budget was revised to include the scope change. We had infection control provisions that were introduced in the project, so it went to a high percentage of single rooms that affected the budget. There was scope added in the cancer area, in the mental health area; that's part of what David was mentioning. When you go back and update, really, a lot of it is to do with the Ministry of Health and the hospital working together to arrive at the final scope provisions.

Mr. David Livingston: I might add too, and maybe Tony could comment on this, that part of our approval process internally is that before we put a project into market, the board has to approve that not only is there value for money in the project relative to the alternative, but that we stay within the cabinet number.

Mr. Tony Ross: I can't add anything to that. That's what we did. That is fact.

Mme France Gélinas: I think, Jim, you mentioned that the scope changed regarding the cancer treatment centre, it changed regarding infectious disease, it changed regarding adding of mental health. How many times did you go to cabinet with the Niagara project?

Mr. Jim Dougan: It was just through the annual capital planning process. It wasn't like we took that project specifically; it was through the annual capital planning. Projects are assigned to us in a lot of cases where the functional program hasn't been defined yet and the functional program is an agreement between the hospital and the Ministry of Health. So we have to work and manage that project as that functional program is evolving. I gave you a couple of examples of what changed. There were numerous other changes that happened through the development of that functional program to arrive at the final one.

Mr. David Livingston: But I think it's safe to say when we went back—we went back once just before the RFP went in.

Just in terms of history here, Infrastructure Ontario was set up in November 2005. At that time, we were assigned a number of projects and Niagara was one of those projects, and those projects were to be staged in over a number of years. Not surprisingly, a project that's determined that we're going to go ahead with in 2005 and we're putting into the market in 2008—

Mme France Gélinas: Has seen some changes.

Mr. David Livingston: Things change. That process of coming to a final set of specifications took place over the two-year period, so the review process we're talking about is that—but just before we put it into the market, that's when we can sort of nail the budget or settle on a number and settle on a scope, because from their point of view, that's where we're going to be insistent that we're not going to change. We need to get the number for that time, and that's when we go and get the final authority from treasury board or cabinet that this is the number that we have to bring it within.

Mme France Gélinas: So I'll take any project in your minds, where you'd gone to cabinet, you went to RFP, you selected a winner, we'll call it, for the bid, and you knew your budget for it. Have there been any circumstances where there's been major scope modification afterwards?

Mr. David Livingston: I don't think so.

Mr. Jim Dougan: No, not afterwards.

Mr. David Livingston: We're going through one right now, but it's not finalized or approved.

Mme France Gélinas: Then let's look at a different time: You selected a winning bidder, but before financial close, before you agreed with this consortium—because that's what they end up being most of the time, but we'll call them the consortia for now—where the request for proposals had gone out, the bidding came, you reviewed them, you selected one, and then before you signed the final contract you brought in scope changes.

Mr. David Livingston: I can't help but think that we're leading up to something here, but it's probably escaping me. So it would be where we changed scope before we got the financial close. Can you think of one?

Mr. Jim Dougan: Not changing scope.

Mme France Gélinas: Or changed specifications, made changes.

Mr. David Livingston: We understand: where there is some kind of major change between what they bid and what ultimately got approved. We're struggling here. The kinds of things that I'm thinking about, just so you understand why we're hesitating—for example, in Sault Ste. Marie, there were a number of policy decisions being made in the Ministry of Health about what percentage of single rooms you want to have in a hospital to accommodate infectious disease problems. So we changed the percentage of single rooms that would be at Sault Ste. Marie, but I forget where in the process we did that.

Mr. Jim Dougan: It was during the RFP, and we didn't have to go back on that—

Mr. David Livingston: Because we stayed within the number. So there are instances. I don't want it to seem that we're overly rigid here. If there are reasons to change that are directed by the government, they would change. I guess the point, though, is it doesn't always affect the price.

Mme France Gélinas: If we go back to the Sault Ste. Marie example, where, because of infectious disease control best practice telling you more single rooms, this actually was a change that you incorporated in your RFP before you selected the winning bidder?

Mr. Jim Dougan: Correct.

M^me^ France Gélinas: And because this is a change that affected pretty well all the hospital designs, because infectious control is done pretty well the same way throughout Ontario, were there other ones that were more advanced, where the RFP had gone out, the selected bidder had been chosen, and those changes came in afterwards?

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Mr. Jim Dougan: I guess it's a similar type—it wasn't directly a result of that, but—

Mr. David Livingston: We're just talking about Trillium. It was further along in the process than Sault Ste. Marie was, but the same change had to take place.

M^me^ France Gélinas: And that's Trillium, you said?

Mr. David Livingston: At Trillium hospital, in Mississauga.

M^me^ France Gélinas: Okay. All right—

The Chair (Mrs. Julia Munro): I'd like to move along. We'll come back to you.

M^me^ France Gélinas: Darn. I was just getting warmed up. Go ahead.

The Chair (Mrs. Julia Munro): All right. Thank you. Mr. Flynn.

Mr. Kevin Daniel Flynn: Thank you, Madam Chair, for the time. Earlier this year, there was a market capacity study done that involved Infrastructure Ontario. Certainly, in my neck of the woods, it became a bit of an issue and sort of highlighted some issues. If I was to paraphrase the report, I think what you were saying is that the ability of the construction industry within the province of Ontario to respond to what had been the forecasted plans at that point in time for the building of infrastructure had gone off in divergent directions, that we wanted to build more than the construction industry was capable of delivering. That set off a bit of a debate around the province. Certainly, it impacted on a major project in my community: It set back a hospital by about 12 months.

What came out of that was that there appeared to be only a certain number of Ontario businesses that were capable of building hospitals, and that seemed to set off another round of debate as to, "If that's the case, that's not a good situation to be in. What are you doing about it?" So that would be the first question. There's still, I think, a debate between ourselves and perhaps the opposition party—or certain members of the opposition—as to whether that market capacity is indeed a problem or not, if it's real or not. If it is real, what are some of the remedies to that?

When you look at the struggling US economy—and you've just described it, or I think it was described in the opening, as being the largest infrastructure investment in a generation, or the largest public infrastructure investment in a generation, which is taking place in a neighbouring jurisdiction. You would think that American companies that are perfectly capable of building hospitals would be banging down our door. Instead, what we're doing is, we're stalling projects because we don't have the market capacity to deliver with the existing businesses that are in Ontario.

That would be my first question: Are things changing? Have things changed since earlier? Obviously, you would still agree that there is a market capacity issue; others would differ with you. If that issue exists, what are you doing to address it?

Mr. David Livingston: I'm going to ask Jim in a second to give you a background on how we did the study and who we engaged with, just to give it some substance. A comment I'd like to make first of all, though, is that one of the successes of the AFP program is that by having a pipeline of projects and by having a consistent set of documents, we have lowered the bid cost for bidders of trying to get these things in the market, which has encouraged more people to come in. So we are seeing contractors from Europe, we're seeing contractors from the US—we're seeing money from all over the place. They are all coming to the province in a way that they were not coming to the province in the past. So I think that your initial premise is exactly proving to be true: We are attracting people we wouldn't attract before.

But the problem, and where the capacity constraints come in, is that they all use the same pool of labour. Whether you're a contractor from Spain or you're a contractor from the US or you're a contractor from Canada, if you need mechanical trades, the mechanical trades are here. It's a much different thing to be importing workers from all over the place. So the constraint usually comes in the trades. In particular, in hospitals, it's the mechanical and electrical trades, because they are a significant proportion of hospital construction, and no matter who the contractor is, they're all going to the same pool.

In the end, the way we will ultimately solve the problem, we think, is by making it clear that there is a pipeline of projects here that's going to last for a while, which gives incentive to everybody to increase the size of the trade forces. It's a long process to get trained, and it's a long process to become capable of being a tradesperson on some of these projects, especially the skilled trades, so they're not going to invest in the time and effort unless they know there's going to be work three, four or five years from now.

We're just part of the game. We've got a pretty steady flow of work on behalf of the government, but what's the private sector doing? What's everybody else doing? These are all variables that are more difficult to predict. How we increase the size of the trades is something we are all interested in doing, but it's all going to happen to some degree depending on, and the views on, where the economy is going, how it looks and whether there is going to be work around that makes it worth increasing the size of the trade forces.

It's probably worth just a bit of a comment on how we did the capacity study in the first place and whom we talked to.

Mr. Jim Dougan: We've put a lot of time into the capacity study because it's so critical to our program, with the staging of the projects that we have. We've consulted with the Ontario General Contractors Association and several of the key bidders on our projects on what capacity they can manage from their perspective. We had the quantity surveyors' association of Canada and a lot of their members participating, because they see these projects as they're coming in, what's happening to the cost and the escalation on these particular projects. So we did a lot of consulting with the industry and looked at what's happening in the material areas in terms of escalation and how that's driving the price.

When we finally got through it all, it's really, as David mentioned, the skilled trades where we have the biggest capacity issue. Currently, the projects that are assigned to Infrastructure Ontario are all social infrastructure projects, they're building-type projects. Of the projects we have under construction right now, 75% are hospitals. And hospitals, again, as David mentioned—the mechanical-electrical component of a hospital is 40% to 50% of the value of the capital cost, a significant value. So if you have a $300-million hospital, $150 million is just mechanical-electrical, and those two areas are the most trade-intensive trades.

When we go out and talk with the mechanical contractors' association and the electrical contractors' association, they're saying, "We have issues." Their issues are both finding the tradesmen and, even more importantly for these large, complex projects, finding the supervision and the project management within their companies to be able to manage those projects successfully. Because a $150-million project for mechanical and electrical permits is huge, and you just can't put the same people who are running a million-dollar retail project on it to manage it. It takes a very different skill set. So that's where we've found that the biggest constraint is.

When we're going through and looking at our staging plan, if it's a little bit too much of a waterfall effect, where we're stacking too many projects on top of each other, these firms, with limited capacity, really can't effectively bid. What's happening is that we're at risk of not getting competitive bids, because they don't have the resources to properly manage the bids and, if they're successful, to actually do the work in the field. So we had to make sure—the first priority—that there was enough staging, that we weren't overlapping too many projects at one time, so we could ensure that we were getting the most competitive bids possible; that once those projects got their shovels in the ground, so to speak, we had the tradesmen available to work on them; and that when those projects are completing, the people coming off that project could go on to the next project. So we're really making sure we have a high efficiency of the skilled trades that are available.

Mr. David Livingston: If I could just make one last comment, the order that we do projects in is set when we get the project. When we have these capacity issues, we don't pick on one project versus another; we try to keep the order the same. But if you stretch things out, as Jim said, if you increase the time between the projects, there's a ripple effect, so ones that are further out tend to get affected more than the ones that are nearer in.

Mr. Kevin Daniel Flynn: When I think of building hospitals, I think of the PCLs and the EllisDons. And now Carillion and Vanbots, I understand, have merged, to a point where they could provide that service. Is there any evidence of any other companies seriously entering the market in Ontario, and are you free to give their names?

Mr. Jim Dougan: I would think so. We have, on Bridgepoint, for example, the health care project, a request for proposals currently in the market. There are two companies from Michigan that have pre-qualified to bid on it, Walbridge Aldinger and Barton Malow, two very large general contractors that work through the US, with a lot of great health care experience. So we see that depressed market in Michigan, great skills in the areas that we need, and they're coming and bringing their capacity—their bonding capacity, their project management capacity—to Ontario to help deal with our situation.

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Mr. Kevin Daniel Flynn: Is that an occurrence that's taken place since the market capacity report was done?

Mr. Jim Dougan: Yes. That is one—their prequalification for Bridgepoint happened after the—

Mr. Kevin Daniel Flynn: So that is actually added to the capacity of the province.

Mr. David Livingston: It doesn't get us more labour, though.

Mr. Kevin Daniel Flynn: It doesn't get you more labour, but it gets you more supervision.

Mr. Jim Dougan: Well, supervision at the general contractor level. We still have the supervision problem at the trade level.

Mr. Kevin Daniel Flynn: Okay. It's interesting, when we get into the discussions around alternate forms of financing for public infrastructure products, that everybody gets a little bent out of shape sometimes, and that kind of amuses me. I could be wrong, but in the history of the province of Ontario I don't recall us ever having a department of building hospitals. I don't remember us having a pool of guys just sitting around, waiting for the Premier to tell them to go out and build a hospital. We seem always to have transferred in some way that risk to the private sector, and I think this is more in the supervision and the financing end of things and it's what makes the current scheme inviting.

One of the advantages of the scheme is that you transfer the risk, but you don't transfer the risk for free; you actually sell the risk. The private sector assumes the risk but assumes it at a cost. I'm assuming that Infrastructure Ontario constantly sort of monitors where that optimum level of risk transfer is, because you would think it would change on a fairly regular basis and you would want to be at the margins of that, but you wouldn't want to exceed it. At some point, with the law of diminishing returns, you're selling more risk than you need to and you're actually losing money by selling risk. Do you have any comments on that? Could you tell us what you do with those types of exercises?

Mr. David Livingston: I think your observation is entirely correct, and the temptation is to say yes. We put together what we refer to as risk matrices on every project where our—we'll take a hospital. We sit down with cost consultants and people who have been in and around hospital projects forever and have a deep well of experience, and we figure out what are all the risks in building a hospital. We then, on a hospital-by-hospital basis, look at the hospitals that we're doing and figure out who is best able to manage that risk. There are certain risks that should be on our side, the provincial side, and there are certain risks that should be on the bidder's side, and we go through a process to determine what's appropriate in the circumstance. Then we figure out the value of that risk and we measure that risk against what is the incremental cost of financing, what are the transaction costs and what is the bidder going to charge us to take on that risk? As long as the value of what we're transferring to them is greater than what they're going to charge us for it, then it's worth doing.

There have been instances where—and we go through that analysis with the board before we put the project into the market. If the board is not satisfied that there is value in going ahead, then we won't do it. There are at least two or three cases I can think of where we've done that analysis, determined that there was not value in going ahead—we were not able to transfer enough risk or the project wasn't complicated enough—and in those instances we in effect hand it back to the government and say it's not appropriate to be done by us under AFP and it should be done traditionally.

Mr. Kevin Daniel Flynn: Okay. A final question, and I think it only needs a short answer: I've heard the criticism and you perhaps have heard the criticism, that in order to pre-qualify in the province of Ontario you need to fill out a stack of forms this high or you need to go through a book this high, where in other jurisdictions it's this big. And the criticism I heard was that there are too many lawyers involved in Ontario now. That can either be a good thing, where we've got very high standards and we're maintaining them, or it could be that our standards are excessive to the point where they've become a detriment to the finances.

That obviously is being said out there. What would your response to that criticism be?

Mr. David Livingston: Do you want to talk about the pre-qualification process?

Mr. Jim Dougan: Yes. The projects that are assigned to us are large and complex, so we do have to be careful. We have to manage properly who we are pre-qualifying, so we do ask for a lot of information on experience and qualifications. There's no doubt there's a lot of information that's requested. We do talk to the industry a lot, because we're all about standardization, and we have standardized our pre-qualification process from when we started to where it is now, and we're looking at it again to further refine it so that we're actually pre-qualifying companies on a generic basis, based on their capacity and capabilities, and then we'll have a much simpler qualification on a project-specific basis: "What's your actual experience as it pertains to this project?" So we're in the process of revamping our pre-qualification process on that basis to hopefully simplify it and deal with that concern that you've heard.

Mr. David Livingston: I'd add two things. One is that when we're pre-qualifying—it goes back to an earlier question—the deal is not done with the contractor; it's done with a consortia, and the consortia bidding group consists of a DBFM: an architect, a construction company, a fund provider, a maintenance provider. So there are a lot of people to be qualified, and we need to know that group can work together.

The other comment I'd make is just on legal costs. We take a lot of pride in the fact that we have really done a lot of work to standardize the documents that we have—the RFP, the RFQ, the project agreements—and we have demonstrably brought down the legal costs per deal to a point where we're as good as anybody in the world at keeping the legal costs low per project.

Mr. Kevin Daniel Flynn: I'm going to transfer it on to my friend to my right here, but just before I do that, can I just say, in summary, the project that got delayed in my own community as a result of that market study, perhaps for the right reasons—since that time you've seen an increase in the capacity of the market from the number of firms that are entering the market, but you haven't seen a change yet in the skilled trades, in the mechanical end of things. Should that change take place within the near future, in the short term, or even off into the long term a little bit, that could still alter that schedule.

Mr. David Livingston: I think the chances of having the number of skilled trades increase in the time frame we're talking about are remote. As we have said to the people at the project, their best chance of being able to go earlier is if they're ready, they have their functional program agreed to, the project is properly scoped and costed. It has certainly happened that projects that are ahead of them on the list have not been ready. So their best chance of moving is to be ready, so that if an opportunity presents itself, they can take advantage of it.

Mr. Kevin Daniel Flynn: I think they've taken that advice. Thank you.

The Chair (Mrs. Julia Munro): We'll move to Mr. Ramsay.

Mr. David Ramsay: Thank you very much. This is very, very interesting.

I have a particular interest in the sustainability of our infrastructure, and I'm wondering if you've had any discussions about that on projects going forward, considering things like LEED standards and that sort of thing. Since you are involved in the initial upfront costs and of course the long-term maintenance costs, what would be the cost implications of, say, going to a certain standard like that, whether it's a silver or gold LEED standard, in the long term?

Mr. David Livingston: With respect to the sustainability question, I think one of the benefits of the DBFM approach to projects is that not only do you get a project built, but then it gets maintained to a reasonable standard over an extended period of time. I think it is fair to say that in projects that are built traditionally, they get built, but then when budgets are approved by the government, maintenance is often one of the costs that gets tossed over the side relative to other things that need to be done at the time. So I do think that the DBFM model creates more sustainable facilities. It will come back to us in a better condition than otherwise would have been the case.

As to whether or not there's a cost benefit to the different levels of LEED standards, I think there's still working being done on that. I think that for us right now, LEED is still something that's decided on a project-by-project basis. There is not yet a policy across the province, so we have a variable amount of LEED specifications built into our projects.

Is there anything else you'd add to that?

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Mr. Jim Dougan: Yes, we do have a number of projects that are following the LEED program. There are probably seven or eight of the 20 under construction that are LEED-certified silver level—I don't think any of them are at the gold level. We don't set the program; that objective comes with the program, or certainly the objectives of what the province wants to put in place in terms of setting the standard.

Mr. David Ramsay: So a particular ministry would say, "We'd like to see this particular hospital A at a LEED standard." Is that what happens, and then you just take your—

Mr. David Livingston: In the case of a hospital, it's more likely going to be the hospital board.

Mr. David Ramsay: Okay, it might come from the local level, and if the government concurs—so that's how. Okay.

Mr. David Livingston: Right. Then we would just have to ensure that, relative to every other specification, fits within the budget.

Mr. David Ramsay: Okay. Thank you very much.

The Chair (Mrs. Julia Munro): We'll move, then, to Ms. MacLeod.

Ms. Lisa MacLeod: Welcome to committee. Just with respect to Mr. Ramsay's point about sustainability, I'm wondering if you think there is an infrastructure deficit in the province of Ontario right now.

Mr. David Livingston: I think there are a number of ways to look at that. We could look at it as individual taxpayers. I think that we—

Ms. Lisa MacLeod: Let's look at it in terms of sustainability.

Mr. David Livingston: We try hard at Infrastructure Ontario to—I'm not trying to evade it, but we don't take a view on that because it's not up to us to decide what projects are going to get done. Our job is one of execution, so once the government has decided that they want to invest infrastructure money into a particular sector or into a particular project, our job is to then do that within the budget that we have and do it as best we possibly can.

We are not a way for various people in the province who would like to have a project done—they don't come through us to get that approved. So while we might have a view on it, our view is no more relevant than anybody else's.

Ms. Lisa MacLeod: Sure, but you surely have a view in terms of the skilled trades deficit in Ontario—you've just described that—

Mr. David Livingston: For sure, but that affects execution.

Ms. Lisa MacLeod: —and that is with respect to execution. Having said that, the execution of your business when funds are funnelled or flowed to your organization: I'm asking again how you would describe an infrastructure deficit in the province of Ontario. I know you deal largely with social institutions and social infrastructure, but surely it doesn't stop there. As you know, communities across Ontario have infrastructure wish lists. They believe in their own view, and so would I, that new infrastructure or repaired infrastructure would greatly improve the quality of life of their residents. I'm wondering if you think that the province of Ontario should create a priority list of infrastructure needs in the province.

Mr. David Livingston: Again, I think that's something that the government, as the owner of Infrastructure Ontario, has to decide, not us. I can certainly say that we see lots of requests for money through the OSIFA loan program at the municipal level, we see the government constantly assigning us projects to build infrastructure, but it's their view on the priorities, not ours.

Ms. Lisa MacLeod: Do you think that's efficient, just being assigned things, or do you think it would be more efficient if we had an infrastructure priority list in the province of Ontario?

Mr. David Livingston: Again, I don't think it's appropriate for us to have a view.

Ms. Lisa MacLeod: I think it's appropriate, and that's why I'm asking the question.

Mr. David Livingston: And the answer is, we don't have a view.

Ms. Lisa MacLeod: So you don't have a view; the whole corporation doesn't have a view on whether or not we have an infrastructure deficit and how we would prioritize infrastructure?

Mr. David Livingston: Our job is to get it done once it's assigned to us.

Ms. Lisa MacLeod: Okay. With respect to prioritization, which you don't have a view on, I do have another question: Do you consider clean drinking water to be a greater infrastructure priority than building mass transit?

Mr. David Livingston: I can have a view personally, I can have a view as a taxpayer, but as Infrastructure Ontario, which is what we're here as, it is the government's prerogative, the government's decision as to who gets the money.

We don't have any water—sorry, that's not true. We have water infrastructure projects that we're funding through the loan program, but we don't have any waste water projects through AFP.

Ms. Lisa MacLeod: Could you tell us more about the loan project that you do have at your disposal?

Mr. David Livingston: The loans?

Ms. Lisa MacLeod: Yes, in terms of water quality—

Mr. David Livingston: I'll ask Bill Ralph, who runs the lending program. So maybe in terms of numbers, or the percentage of the portfolio that goes to water and waste water?

Mr. Bill Ralph: Sure. Since the program was created about five years ago, we have committed to providing about $2.3 billion in loans; of that, about $1.2 billion is for the water and waste water sector, which supports around 173 communities across Ontario and several hundred local projects. So that's the support that the loan program per se provides for the water sector. You'll notice that of the total program, about 70% of the loans are going to water and sewer—waste water.

Ms. Lisa MacLeod: Could you give me a few direct examples of where this money is going?

Mr. Bill Ralph: Sure—all across the province. There's a water plant in Kingston. There's a water plant, I believe, in the city of Timmins, which is building a new water plant. Almost every community in Ontario is doing some form of investment in water infrastructure, which would—I mean, there's 400 and some municipalities in Ontario and we have about 190 clients who are doing water projects.

Ms. Lisa MacLeod: The reason I asked that question is actually quite serious. Residents in a mobile home in my community are without clean drinking water, and there's a pipeline coming from—I'm not sure if you know the Ottawa region very well, the national capital, but there's the township of Russell, which is receiving provincial funding to draw water from the city of Ottawa. The pipeline that they're building right now is, I would say, less than a kilometre away from residents in a mobile home park in my riding, in a small village called Edwards. It's a mobile home park called Lynwood.

We have been having a very difficult time in trying to locate a funding source where these people, who live in the national capital of Canada, can actually have water quality that is not comparable to a Third World nation. Last night, of course, the residents of my city met with the rural affairs committee of our city council to decide how we can best deal with this infrastructure problem, because, I'm sure, as you would agree, if you live in the city of Ottawa, in the province of Ontario, you should have clean water. But we are having a very difficult time identifying a source to upgrade the water problems that my residents are facing.

The other challenge we have—and I know that in our briefing book, we were talking a little bit about COMRIF and how that's administered through the agricultural and rural affairs ministry. We don't qualify for that in rural Ottawa because we're not a rural community, though there are farms everywhere. I'm just wondering, and I'm asking for advice: You folks are the infrastructure people. Where do you go when you have people—50 mobile homes—without clean drinking water?

Mr. David Livingston: The process of applying for a loan from us is an online process. The community that's involved should apply.

Ms. Lisa MacLeod: Okay. I will let them know as of today that they can. Are they able to apply as a mobile home park, or do they have to apply as the city of Ottawa?

Mr. Bill Ralph: They would have to apply through the city of Ottawa. I presume the mobile home park is not an incorporated municipality?

Ms. Lisa MacLeod: No. It's actually owned privately. Does that impact their ability?

Mr. Bill Ralph: Well, generally, the loan program provides financing for public infrastructure—that's publicly owned infrastructure, not privately owned infrastructure. Having said that, there are cases where the municipality would be providing service to a privately owned development or that sort of thing. So if the municipality is in the role of providing a service, whether it's water or other, to a park, then that provision of that service would be eligible.

Mr. David Livingston: And from our point of view, as long as the entity that's requesting the loan is a public entity—

Ms. Lisa MacLeod: Okay. So if it was the city of Ottawa, then.

Mr. David Livingston: Right.

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Ms. Lisa MacLeod: It leads me to another question that I have with respect to the Investing in Ontario Act. Does funding for you folks come through the Investing in Ontario Act or does it come through—do you get an amount of money or a pot of money based on an individual project such as the hospital that he was talking about in Milton?

Mr. David Livingston: The way that the vast majority of our costs are determined is we have—as part of the overall process when a project is approved, our costs are included in the capital costs of that project, and so we are part of the overall project costs and then we are amortized over the life of the project the same way as every other project cost would be.

Ms. Lisa MacLeod: Okay, so the recent Building Canada fund, as it applies to Ontario, wouldn't impact you folks at all?

Mr. David Livingston: No.

Ms. Lisa MacLeod: And the Investing in Ontario Act, which was just passed recently through the Legislature, which says that anything over $600 million in a surplus will go to municipalities, does not impact Infrastructure Ontario at all?

Mr. David Livingston: It doesn't affect us in terms of our funding. I guess it has some effect on whether or not people would want to come to us and want loans. If they have access to money outside the loans, then it may reduce the amount of business that we do.

Ms. Lisa MacLeod: I want to go back to a regional issue again. Do you have criteria that ensures funds are allocated equitably among geography—rural, suburban and cities? Because I know that my colleague Kevin Flynn, like me, represents a high-growth area, though I represent, like Mrs. Van Bommel, a rural community as well. I know that it is very difficult, because there are competing needs. In one area of my riding, we need clean water, and in another, quite frankly, we need a bridge built because there are 70,000 people where there used to be just a lot of farmers' fields in the last 10 years. So how do you—or are there criteria to ensure that the funds are allocated equitably among the regions?

Mr. David Livingston: If we're talking about the loan program, we have a lot of capacity to make loans, so our problem is not that we have more requests than we have money for. So we have, in a sense, the luxury of not having to prioritize because pretty much any request that we get, as long as we can be satisfied that they can pay the loan back, we can make the loan. We have more capacity than, at least for the foreseeable future, we perceive that anybody could ask for.

Ms. Lisa MacLeod: So in terms of the loans, what is the most that you would give a municipality or a public entity and what is the minimum?

Mr. David Livingston: There's no minimum and there's no maximum.

Ms. Lisa MacLeod: You have a clear ability to do this. And what's the rate of repayment in terms of interest?

Mr. Bill Ralph: The interest rate varies by terms. Our loans go anywhere from 30 days for construction loans all the way up to 40-year-term debentures, and the rates vary accordingly. The way the market is today, the construction loan rate is around 2.5% or 3%, and the 40-year rate would be around 5.5%. Obviously, those rates change with market conditions.

If I could just add a point about the rural question, interestingly enough, of the total $1.7 billion in loans that have been approved, rural and northern communities account for almost $1.3 billion, so the program is really quite focused on northern and rural. One of the reasons for that is that the large urban regional municipalities don't use our program because they're more than able to borrow on their own in the capital markets.

Ms. Lisa MacLeod: Do I have a few seconds?

The Chair (Mrs. Julia Munro): Yes.

Ms. Lisa MacLeod: With respect to that, what is your rate of return in terms of repayment? Is it 100%?

Mr. Bill Ralph: It's 100%.

Ms. Lisa MacLeod: It is 100%. And is it largely municipalities that are applying through this loan, or is it hospitals and other public infrastructure? For example, school boards: Are they able to apply for this fund?

Mr. Bill Ralph: The group that is eligible to apply includes municipalities, universities, long-term-care homes; not-for-profit arts training institutions were just recently added; municipal corporations. For somewhat arcane—

Mr. David Livingston: They can't be assets that are owned by the province.

Ms. Lisa MacLeod: I didn't hear that.

Mr. David Livingston: If they are consolidated under the province's ownership, such as a hospital, they cannot be borrowers.

Mr. Bill Ralph: That would include school boards.

Ms. Lisa MacLeod: Thank you very much.

The Chair (Mrs. Julia Munro): We'll move back to Ms. Gélinas.

M^me^ France Gélinas: We're talking about delivering projects on time and on budget, and I think you were quoted in the National Post as saying, "Building better, faster, cheaper." These are big shoes to fill. Of the traditional procurement that went on, let's say, in the last five years, do we know how many of the projects before were either delayed or over budget?

Mr. David Livingston: We certainly know of some that were delayed and over budget. There were some that were incredibly delayed and over budget, there were some that were modestly delayed and over budget, there were some that never began at all, and there were some that came in on time, on budget.

I think what we do, as far as value-for-money assessments, is look at how a project would be done under a traditional model and we compare it to how we're doing it under AFP, and as long as there is value for money in doing so—we don't try to compare to the worst cases and we don't try to compare to the best cases. What we try to do is compare to the expected case and produce value in relation to the expected case. In every project that we do, we have demonstrable value in relation to that expected case.

M^me^ France Gélinas: You have mentioned that two or three projects were turned away from; after you did the value-for-money assessment, you didn't think that you should. Can we know which three projects those were?

Mr. David Livingston: I'm going to try to remember what they are now. We worked with Ryerson University on a project that they had and there wasn't sufficient value in going ahead with it. The Ontario Police College is another one.

Mr. Jim Dougan: Yes, the Ontario Police College was another project that really didn't have sufficient scope and risk transfer to justify the model. The MUMC project—I'm just trying to remember—

Mr. David Livingston: What MUMC stands for?

Mr. Jim Dougan: Yes, what MUMC stands for. Some of those acronyms; I'll get in trouble for them. It was a health care project that didn't really have the scope or the necessary risk transfer, so it's one that we turned back.

M^me^ France Gélinas: Did you spend any time at all looking at why the traditional procurements were coming in late and over budget?

Mr. David Livingston: The way I'd answer that is to say that the people who work at Infrastructure Ontario have, I usually say, and I might be exaggerating one way or the other, a thousand years of construction experience in the place. You just kind of know—we know it because that's what we do, that's how we live; we know why things don't work. What we try to do is bring all of those skills to the table in trying to establish a deal that doesn't let those problems happen.

M^me^ France Gélinas: I would certainly agree with you that Infrastructure Ontario has built up an internal capacity to be proud of in engineering, legal, financing etc. and carried out billions of dollars of infrastructure projects. Why are those skills only available to projects under alternative financing and procurement? Why aren't those skills available for what I'll call the old way of procuring infrastructure?

Mr. David Livingston: This is a hotly debated item inside our organization and elsewhere. The reason that we exist for AFP is that we believe fundamentally that the model that we have on how to deliver projects, especially the design, build, finance, maintain, is the right way to go, is the way that produces the best value. If we turned around and said, "But we'll do it any way that people want to do it," it defeats the purpose for which we exist. So if we think it's the right way, then this is the way that we should do it.

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One of the arguments is that we just don't want to give people an easy out because they don't happen to like the model. The model is the right way to go. But I'd go further and say that our worry is that—we think part of the reason why we've been successful is that we have an organizational size that allows us to know pretty much what's going on. If we started to handle every project in the province in some kind of project management capacity, we would be quite a bit bigger and quite a bit more diffuse, and I think that that would potentially water down our effectiveness. So we just think that we're better and we're producing more value by sticking to the DBFM model.

M^me^ France Gélinas: So does that mean that if we take a highway infrastructure project that has been using mainly design and build and not the other part, Infrastructure Ontario is not going to handle any highway infrastructure project?

Mr. David Livingston: No, I think not. We have been talking a lot to the Ministry of Transportation, and I think the hurdle for them is that they have to get the government to agree to put capital into a highway project. Once that decision is made, then we'll do an assessment with them as to whether or not there's value in using the AFP model. We've been through at least a couple of possibilities in that regard with them that we think would likely be best delivered by way of AFP, so I think it's entirely possible that we'll be doing highway projects, presuming they get the capital.

M^me^ France Gélinas: Okay. So there is a leap of faith there that you're asking everybody to make, that you have a group that is convinced that your model, based on the values inherent in your model, is the best way to go. What do you do with economist after economist who brings in arguments that say, "No. Certainly, the internal capacity that you have developed is very valuable, but it should be used for projects that are design and build, not finance"?

Mr. David Livingston: I guess we'd find economists who agree with us. That's an overly trite answer. I think there is as much art and science in the answer. Could I point to a specific study that says that our position is the right way for us to be? The answer is no. It's just our collective view and it's one that we've debated ourselves, based on all of our experiences, that we think that this is the right way to go. I don't want to be boastful about it, but I think our collective experience is at least as good as one or two economists'.

M^me^ France Gélinas: Okay. I want to come back to the disclosure of the value-for-money assessment. The Canadian Centre for Policy Alternatives and the Registered Nurses' Association of Ontario did a report, and one of the main conclusions was that there was no way for stakeholders to evaluate the cost-effectiveness of P3s because of the serious lack of disclosure. Would you agree and commit to providing financial information so that we know the financial aspect of the agreements?

Mr. David Livingston: We pride ourselves on our disclosure. We always, I have to admit, bristle when we get the criticism that we don't disclose enough. We disclose our RFQs—requests for qualifications. We disclose requests for proposals. We disclose who qualifies when they get to them. We disclose the project agreements at the end so that all the terms are known. We have a pretty high level of disclosure. We think we are quite transparent.

The things that we do not disclose—I think, in particular, the individual finance terms—we don't disclose because we think it is not in the province's interest to disclose them, because the more we do that and the more that everybody else knows what they are, the more we affect the quality of the bids that we're going to get in the future. The bidders don't want us to be disclosing the individual terms of the finance agreements because they consider that to be their competitive advantage. From our point of view, if we start to destroy that competitive advantage, then we think we meaningfully affect the level of the competition. So there are certain things that we will not disclose, but we do it in the province's interest—in the interest of getting the best possible deal.

M^me^ France Gélinas: How do you balance this with accountability to the Ontario taxpayer? I've gone on your website and tried to find every number that I could; I couldn't get a whole lot. I did a freedom of access to information—you sent me 300 pages like this. There is not a single number on it except for the page numbers.

I'm a member of Parliament: I want to know. I want accountability back for the people of Ontario. Those values that drive you, those values that have you convinced that you're doing the right thing, have to be shared with the rest of the people of Ontario. The only way to do this is through what your chairman has said as his opening statement: "We want to be as transparent as we can." This is how you build trust; this is how you build accountability. Is this trust and accountability?

Mr. David Livingston: All I can do is repeat myself. We take seriously the desire to be transparent and we take equally seriously the desire to get the best possible bids. Our view is that disclosing information with respect to the workings behind the finance component will not get us the best bids. That's as much in the interests of the taxpayer as the kind of disclosure that some people want.

M^me^ France Gélinas: Try to explain it to me so I can explain it back to people who don't share those values. To know that projects cost millions of dollars, $75 million for the cost of the project, $25 million for the cost of financing this thing over 25 years—how is my knowing that it's $75 million and $25 million going to be a competitive advantage to anybody? The value-for-money analysis that you do will be for the project, not for the bidder. I don't get it.

Mr. David Livingston: I'm frankly not sure how I would satisfy you. When a bid is put together by the consortia, there are a number of components to it: There is the design component, the build component, the finance component, the maintaining component. They very much look at all of those things together. Some will have a strategy in their bid that focuses on the maintenance portion, some will have a strategy that focuses on the financial component; others will focus on the construction component because they think that's where they're particularly good. There are strategies that the bidders have. What we try to do is not disclose those strategies to give them an incentive to keep trying to do better and to give others an incentive to compete with those strategies.

It is an art as much as it's a science. All I can say is, our collective judgment is that what we disclose is appropriate, it is transparent, and what we don't disclose is that which would ultimately hurt the value that would accrue to the taxpayer in the end by disclosing it.

M^me^ France Gélinas: And you're not willing to look back upon those decisions and see if you could be more transparent?

Mr. David Livingston: Honestly, we consider transparency—we don't disagree with you. We think transparency is very important and we always look at what we disclose, what we don't disclose. It's not like we have a rigid position that we'll never change. All I can say is that of the things that we have looked at, we feel comfortable that we've made the right decisions.

M^me^ France Gélinas: If we take a project, when you go through evaluating the scope of a project and finding out how much money you will be requesting from cabinet, you assign a risk premium to the financing of that project. I read this in your—

Mr. David Livingston: In that thing? Okay.

M^me^ France Gélinas: Yes, so I take it that it's true.

Mr. David Livingston: Yes. We put in what we expect the interest rate will be. The risk premium in effect is what the interest rate is over the Ontario rate, which is a quasi risk-free rate. So the answer is yes.

M^me^ France Gélinas: Wouldn't that be the same for every project that comes through?

Mr. David Livingston: It depends on the market at the time. It will change depending on what rates are on the market.

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M^me^ France Gélinas: Yes, but what I mean is, a project in 2008—your projection of interest rates for the next 25 or 30 years will be the same from the date that you do that projection.

Mr. David Livingston: Yes; that's fair.

M^me^ France Gélinas: So why couldn't you share that?

Mr. David Livingston: We definitely do not want to be giving that rate out to the market. We never tell the market what our budgets are, and we never tell the market what we expect the rates will be. We want them to tell us. We want them to be highly incented to come with the lowest possible prices and the lowest possible rate. So we don't tell them because, as far as we're concerned, it's their responsibility to come in with something that's better.

M^me^ France Gélinas: You have mentioned in the documents that you submitted that you haven't been audited. I don't think I'm using the right term.

Mr. David Livingston: The Auditor General has not done a value-for-money assessment on us, right.

M^me^ France Gélinas: Do you figure it's time?

Mr. David Livingston: There are two things that we have done. There is an internal audit function within the government that has done a review of us just recently. We got a good report and we shared that with the risk committee of the board, and they were satisfied. Tony can comment on that if he likes. In addition to that, on every project that we do, the value-for-money assessment that we put together is reviewed by a competitively procured auditor that confirms that there is value and that the process we've used is a market process. Whether the Auditor General chooses to come in and review us or not, and they are free to do it whenever they like, we think that we have an ongoing process that is to a high standard.

M^me^ France Gélinas: I would agree with you that this assessment as a value-for-money would bring in accountability. But I quote from this assessment: An "attempt to independently verify the accuracy or completeness of the information or assumptions underlying" the public sector comparator was not available.

Mr. David Livingston: You probably need to read the full letter—

M^me^ France Gélinas: I read the full letter, and I felt pretty good until I came to this part.

Mr. David Livingston: It is similar to the decision that somebody makes when they're getting their books audited every year. There is always a qualification and an auditor opinion. The cost of getting a complete audit would be very high. What we want to know is that the process that we use is a reasonable process and that the outcome produces a value, and for both of those we got affirmative statements in the auditor's letter. What we're paying for is that which is most important and that which gives the board comfort that we have value in the deal.

The Chair (Mrs. Julia Munro): I think we must move on in this round. Mrs. Sandals.

Mrs. Liz Sandals: Maybe I will just start with a bit of preamble. One of the things I do, actually, as a member of the public accounts committee—and I was just going to comment for the record that whether or not the auditor has chosen to audit you, since he has been given the authority to audit agencies, actually has nothing to do with you; that's the auditor's choice. The auditor has chosen, initially, to look at sorts of agencies of which there are multiples, for the most part. So he has looked at school boards, he has looked at hospitals, he has looked at colleges, he has looked at universities. He did look at Hydro One because there has been a lot of conversation about that. I just didn't want to leave the impression that somehow it's your fault that the auditor hasn't done that sort of public accounts evaluation of you, because you don't choose; he chooses.

The other thing I wanted to comment on: In my past life, I spent 15 years as a school board trustee in a board that was experiencing significant growth, so I've actually had a fair bit of experience with I guess what you would call conventional capital projects, albeit not as large as the ones that you are tending to handle. It seems to me that a number of the issues we've been talking about this morning that you face are, in fact, exactly the same issues that you would deal with if you were going at a project in a more conventional financing mode. As a trustee who had some fiduciary responsibility, and I actually was actively involved in a lot of building committees, the issues around changes in scope while you're in the process of getting the detailed specs for a project is something that happens, and particularly, when you're at the policy directive of the government. Changes in scope, in the initial sort of phases of a project, aren't unusual. The whole issue around doing a reality check on the budget, that the initial budget, once you've actually got the scope well defined, may have been unrealistic in the first place and that that needs some re-examining: Do you change the scope to get to the budget or do you change the budget to get to the scope? That's a policy decision, really.

The issues around capacity—certainly, when we were building lots of schools, we would have faced the same issue that people who are in building schools faced when too many came to tender all at the same time. Then you started to see the price going up just because of capacity with those people who happen to do schools. So the labour availability, the issues around prequalifying subs, all of those things strike me as issues that you would experience if you're responsibly supervising projects, no matter what financing model you choose.

Could you comment on whether in fact that observation is true and then, where your experience is a little bit different from people doing conventional sorts of financing models? Where do you have additional roles in terms of conventional models?

Mr. David Livingston: I would say that what you said is absolutely true. A lot of the disciplines that we use about scoping and costing before you put it into the market are all things that should be done, whether it's done traditionally or done otherwise. Having said that, even in the best scoped project or even in the best possible case, things happen. In the types of contracts that we have, the types of things that happen, we want those to be—where it's controlled by the bidding group, it's their responsibility to fix them. A great example of that is where, invariably, there'll be differences between what a design says should happen and what the contractor will actually make happen when they get in there and start building it.

We don't want to be responsible for those misalignments, because they can be costly. So even in a perfectly scoped, perfectly costed project, there can still be value in transferring risk, and that's what we assess. When we do our value-for-money assessments, we're not trying to compare to a badly scoped traditional project or a badly costed traditional project; we actually assume that that's all done well, and still, we determine that there's value-for-money in transferring risk.

The reason for the finance being in the deal is to give the bidding group incentive to perform. If it's their money at risk, there aren't going to be delays. We think that even with all of the traditional performance done well, there can still be value in a deal.

Mrs. Liz Sandals: The other thing that intrigued me was your discussion of OSIFA, and I know again that this was always a challenge for smaller school boards, particularly, in trying to get the best rates when they go to market because typically, people with money prefer to work with larger organizations rather than smaller, and school boards have solved that by setting up financing consortia because, as you say, they're consolidated on the province's books, so they're not eligible for OSIFA.

But could you talk a little bit about, when we're looking at our partner agencies and other public sector organizations, how the availability of OSIFA is actually helping those organizations get better financing than they would otherwise have access to, because from my point of view, at least, that's what I find really exciting, that small organizations can get help with getting good deals. So could you talk about whether that in fact has been the case and why that's the case, if it is?

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Mr. David Livingston: It's undoubtedly the case because we're able to borrow at the provincial rate, with a small increase to cover our costs. A small entity out in the province would not be able to borrow at that rate. As much as anything, what we do is try to make the access to the money relatively easy, but as importantly, relatively consistently. Part of the problem that smaller public entities have is that if they just went to the private sector and tried to borrow, they'd get inconsistently served. Some get it, some don't. We try to fill those gaps, if you like. We don't want to be a lender of last resort; that's a bad place to be because that just means you get all the bad risks. We want to be a consistent provider to sectors that are not consistently served today, and we're able to do that at an attractive interest rate. So we think that we give them consistent access that's in their interests.

The Chair (Mrs. Julia Munro): Mrs. Van Bommel?

Mrs. Maria Van Bommel: Thank you for appearing before us today. Just two questions, a bit on both sides of the things we've been talking about. Considering the dollar values of the projects you deal with and the complexities of those projects, I think for the average taxpayer it's very difficult to understand how these things are being managed, and we've been talking about it in bits and pieces all morning. I was wondering if you could very concisely let us know how you ensure that the public dollars are well managed, that the costs are well managed and what you do to ensure that the taxpayers get value for their money.

Mr. David Livingston: I'll take a shot at it and what I don't get right, Jim will correct me on. I'm trying go focus on the concise part of what you said. The first thing that we do is make sure that the scope for a project is well defined and properly costed before it goes to the market as opposed to figuring it out as you go along.

The second thing that we do is try to transfer the risk and the responsibility for performance to the budget to the bidders, to the private sector.

The third thing that we do is then stay out of the way and let them perform to their contract and deliver the project within scope. But we act as an intermediary between the bidder and the customer to make sure that they don't change their mind on the way through, so we don't get back into, "Well, scope can change here." If the scope is going to change, then there'd better be a really good reason. At the end of it, we have appropriate advisers who will look at the project and make sure that what we got delivered was what we were expecting before we let the money go out the door.

I think those are the four or five things we do that create the value.

Mr. Jim Dougan: Just to add, on the discipline side, is certainly the due diligence that we put in—David touched on it—before a project goes to the market. We spend an awful lot of time making sure the scope is right, the proper approvals are in place so we don't have issues that once it's under construction that we have to fall back on. So, really, due diligence is critical.

In working with our co-sponsor, whether it's a ministry or a hospital, we enter into a memo of understanding with our co-sponsors on each of the projects, a project charter which sets out the goals and objectives for the project and how we're going to work together and what those conditions are. Then, on each project, we have a project implementation plan which really sets out the project management processes that we're going to use and our co-sponsors follow our systems—all our project management systems, how we manage the cost, how we control the scope, how we deal with schedule issues. It's very well defined and very standardized. Each one of our projects—the 20 that are under construction right now—is following the same discipline, which is key from a project management standpoint.

Then as an organization, whether we're overseeing the construction or we're actually managing the construction—and that does vary, whether it's a hospital project or a public works project—we monitor those projects on a monthly basis. We have what we call an AFP construction committee where we have very detailed reports on all the key performance indicators on that project, in terms of the budgets and the schedules and risk registers, contingency usage, any issues in the community that come up. We have our project teams present to the committee, and then issues are dealt with very proactively on that basis. So we really manage these projects in great detail.

Mrs. Maria Van Bommel: I think one of the things most taxpayers always worry about is the over-budget thing. People always hear about projects that have gone over budget, especially in hospitals and such, and then the community and the hospital board are suddenly trying to deal with something like this. In the process that you were talking about, do you have a process for dealing with or anticipating or monitoring to catch those kinds of things early and to work with the contractors and the hospital board to try to make sure that you don't go over budget?

Mr. David Livingston: You typically go over budget because you changed the scope. What we do is we just say no. Because we feel pretty confident that the process we went through at the beginning of a project was appropriate, that we really worked hard with the hospital on what's the scope that they want, and we make sure that the ministry agrees with that, that the hospital agrees with that, that all the stakeholders in the entity agree with that—because we've invested all that work up front, it makes it easier to say no when people want to change their mind on the way through. It's a bit simplistic, but our first answer is no, and then you kind of go from there.

Mr. Jim Dougan: Just to follow on that, to say no, that's our punch, where there's no doubt. Then, as part of our process, we have a project scope authorization change which is a very detailed, laid-out procedure. So if someone wants to change the scope on a project, it's going to be painful to do it because of the approvals that you have to go through, and we manage that. So a hospital, for example, can't change the scope unless we approve, and there's a very detailed process map of how that's done and appropriate forms that have to be signed off before they're allowed to do it.

Mr. David Livingston: We look at it as effective use of bureaucracy.

Mrs. Maria Van Bommel: I also wanted to just go back to the OSIFA loan program. I'm from a rural riding, and I'm certainly not surprised to hear that the bulk of your loan applications come from rural and northern communities, considering, firstly, the kilometres of infrastructure that my municipalities deal with and the tax base that they don't have in order to pay for those things. I've had a number of my municipalities work with the OSIFA program.

Mr. David Livingston: Happily, I hope.

Mrs. Maria Van Bommel: Well, that's my question. I'm going to say to you that they are because I have not had them say otherwise to me. I guess sometimes you can gauge success by repeat customers, so to speak. So my question to you is, can you give us a percentage of the clients or municipalities that are repeat clients for you?

Mr. David Livingston: I'll let Bill answer that in a second. Repeat clients is a way of being able to judge success, but you can also do it directly. One of the things that we do as a measure, that we commit to the board at the beginning of the year and then we measure at the end of the year, is client satisfaction. We send out questionnaires to all of our lending customers, we send out questionnaires to our clients in the AFP projects, and we ask that they rate our service. We commit that we will achieve a certain rating. It's the top two boxes: What percentage of the customers rate us as being satisfactory or better? Our target is 80%. If we don't achieve that target, then we have failed in one of our key objectives with the board. So we actually do client surveys regularly. The response rates that we get are quite high, and the statistical relevance of the ratings that we get is considered to be quite accurate. We would say that based on the last two years—we've been doing this now for two years—the satisfaction level of our lending clients in particular is very high.

But you're right: Repeat business is a great indicator. So what would you say?

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Mr. Bill Ralph: Well, according to the recent stats that we have, about a third of the current clients are repeat clients. That would include communities like Oxford county, which has been in the program since day one in 2003. It now has over 70 projects financed through our program. Chatham-Kent is another community that's been very active over the period. Yes, current clients are good; it's also good to get new clients. In particular this year, a lot of our business, at least a third of the new business we're getting this year, is from new clients. So that suggests that the current clients are satisfied, and that the new clients are hearing from the current clients that it's a good program.

David was alluding to our client survey. As he said, we do that every year, and one of the questions we ask around the OSIFA program is, "How can we improve it?" So over the years, we have done a number of things to make it more user-friendly, if you will, things like reducing the amount of documentation that we require and providing more flexible financing in terms of different terms—five years, 10 years, 15 years—throughout the spectrum. We have some customization in terms of the loan itself that we're able to provide. Those are some of the things that we've done coming out of the client survey, at least this year, and have done other things in past years to make it more friendly for the clients.

Mrs. Maria Van Bommel: Thank you for that answer. I think one of the things—and Ms. MacLeod talked about it. I have municipalities in my riding that just don't have the capacity in terms of taxpayers to do a quick repay of a loan. Without naming a municipality, I guess—and you were talking about how there's no such thing as too big and no such thing as too small. But I also know, being familiar with my own municipalities, that there would be situations where the amount of money would be relatively large per ratepayer. The ask would be small in comparison to others, but nevertheless would maybe be extended over a longer period of time, even though the dollar value of the ask isn't that high. I don't know if you have the dollars in front of you, but I'm just curious: What would you say is the smallest loan that you have given out and what is the longest-term loan?

Mr. David Livingston: The smallest is literally going to be a few thousand dollars and the largest is going to be many millions of dollars. But it's not—and we do have standards. There are certain criteria that we look at to ensure that a municipality doesn't try and borrow too much. But I would say that, for the most part, municipalities are quite risk-averse, and so we very seldom see them come in wanting too much money. It happens, and when it happens, we try very hard never to say no, so we go back to them to try and get them to rework their request to something they can manage. I would say that more often what we see is that a municipality will come in, will want to borrow money, and we don't really get why they want to borrow it for as long as they want to borrow it for, because it looks like they've got the cash flow in the municipality to pay it off faster. I think they're just trying to be prudent; they're trying to line up their financing in relation to the life of the asset—it's a good strategy—and not necessarily in relation to their cash flow.

So when we say small—I've seen thousand-dollar loans, which is crazy. They can be quite small, but equally they could be quite large.

Mrs. Maria Van Bommel: What I hear you saying, then, is that if a municipality comes forward and has an ask and a need—

Mr. David Livingston: We work with them.

Mrs. Maria Van Bommel: You work with them. So you will go back—you don't just simply flatly say no because they don't have the capacity to repay or whatever; you just simply would go back and help them work through the project. In many cases, as Ms. MacLeod has said, these are issues of water, waste water and public safety for these communities, so they have to do them. They need to deal with the issue; they just don't have the dollars to deal with it at the time.

Mr. David Livingston: Right. In the last three years, I almost can't remember a time when we flat out said no. We can usually work something out.

Mrs. Maria Van Bommel: Thank you.

The Chair (Mrs. Julia Munro): Thank you very much. We'll move to Ms. MacLeod.

Ms. Lisa MacLeod: I just want to touch on a few things that we discussed during my last round. Then I've got some questions—five—from one of my colleagues that I'll be reading and I'd just like you to respond to them. He's not here.

I just want to pick up, actually, where Mrs. Van Bommel left off with respect to what is too big and what is too small for a loan. She is right: Most of our municipalities will go there, whether it's for sewage treatment, septic problems or water quality problems. But I'm wondering, do you do any value-for-money audits on the money that is loaned and that is repaid?

Mr. David Livingston: What we do, especially for the larger loans—because we have a pretty good capability within Infrastructure Ontario to judge projects, to cost them properly and to figure out what are the right disciplines along the way, the thing that we don't want to have happen is to lend some money to a municipality for a project and then find out that they've got a bunch of overruns, for whatever reason. It's not value-for-money in the sense that we're not looking at doing it as an AFP versus traditionally. What we try to do is work with them to make sure that what they're asking for is in fact what the project will cost and that there is a very high likelihood that the project will be delivered within that budget.

Ms. Lisa MacLeod: That's all done at the front end of the loan, so nothing at the back end: You wouldn't go back and assess if the money actually went to where it was intended to go?

Mr. Bill Ralph: Yes, we do have an audit capacity, where, on a selective basis, we will go to a community and audit compliance in terms of whether the money did actually go to the project it was intended for.

Ms. Lisa MacLeod: Okay, that's great. I just want to talk a little bit more now about the grant program that you were responsible for last year. In Ottawa, we call it the MIII. We received $20 million for archives in Ottawa. But that said, my very first question was with respect to what Mr. Ramsay had said in terms of sustainability, then I wanted to talk a little bit more about infrastructure deficit. I then talked a little bit more about prioritization. This pot of money, which I think was around $450 million—which was, I assume, allocated to Infrastructure Ontario—

Mr. David Livingston: What it was—we've built a reasonably good infrastructure ourselves to administer the loan program, so what the government did was rent our infrastructure to allocate the money. The decisions about who got the money, the decisions about the size of the pool, were all made by the government. We acted as an administrative arm for the—

Ms. Lisa MacLeod: So you dispensed the funds.

Mr. David Livingston: We just dispensed.

Ms. Lisa MacLeod: So there was no—

Mr. David Livingston: We took in the requests and passed them to the government; once they made the decision, we dispensed the funds. We truly were an administrative arm to the government, efficiently handling the requests and efficiently distributing the money.

Ms. Lisa MacLeod: Okay. So the $450 million was allocated to the Minister of Public Infrastructure Renewal and then was sent to you to dispense. But the Minister of Public Infrastructure Renewal and his department were responsible for deciding who received what and how much?

Mr. David Livingston: I don't even think I could tell you how the decision was made about who was going to get what. We would have received our direction from the Ministry of Public Infrastructure Renewal, but the process that they would have used to determine who got what money would have been something that was internal to them.

Ms. Lisa MacLeod: Okay. Now, with respect to those 462 projects, municipal projects throughout Ontario that received funding through this one-time grant, would you be responsible, then, to ensure that the money was spent where it was intended to go, or would that be the minister of municipal infrastructure—I don't even know. It used to be David Caplan; now it's George Smitherman.

Mr. David Livingston: We have an audit function to make sure that it went to the place it was supposed to go.

Ms. Lisa MacLeod: So you do have a capacity, then.

Mr. David Livingston: Right.

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Ms. Lisa MacLeod: And have you started that process, or will that process be undergone in the next year, and how will you embark upon that? Could you enlighten us as to how you'll move forward?

Mr. Bill Ralph: The report-back process on what we call the MIII program—there's another one for you—

Ms. Lisa MacLeod: It's got lots of names.

Mr. Bill Ralph: —requires that the grant recipients report back at the end of the first calendar year. So that will start in March 2009. The instructions to the grant recipients will likely be going out in the next few weeks. We have been discussing with the Ministry of Energy and Infrastructure over the last little while precisely what the report-back process will look like and what the requirements are, so that is being finalized as we speak. Then the instructions will go to the grant recipients to outline exactly how they are to report back. Then we will receive the first report back next March.

Ms. Lisa MacLeod: That's great. What if the criteria that you're putting in place are not met? Will you take back the money from the municipality?

Mr. Bill Ralph: That would be a decision the ministry would have to make.

Ms. Lisa MacLeod: Infrastructure Ontario, then, has no decision-making capacity whatsoever?

Mr. Bill Ralph: Not on this program.

Mr. David Livingston: On the two grant programs, as I say, we were just administrative. I suppose there is probably some value in us knowing who got the money, because in some cases, the grant money wouldn't have been enough for the total project, and so they might need to top up the grant—

Ms. Lisa MacLeod: Through the loan program?

Mr. David Livingston: —with a loan. With respect to the loan, then, we would have decision-making capacity, but not with respect to the grants.

Ms. Lisa MacLeod: I guess this is a real challenge then, if some communities, theoretically, don't meet the criteria, and having the grant and then the loan, and you don't have the ability to go in—whether it's a value-for-money audit—to try and recover those provincial funds if the project didn't go forward.

Mr. David Livingston: If the government decides—if the audit shows they didn't use the money for the purpose intended and the government decides they want the money back, I guess we'll find a way to get it back.

Ms. Lisa MacLeod: Okay, but you will have no say in that, even if you do have a portion of that funding that was part of the loan process.

Mr. David Livingston: Yes, but if it was part of the loan process, we would feel pretty comfortable, then, because we have control over that, that the money was used for the purpose intended, so it's a bit difficult to picture how they could get a grant and a loan and that both of those pools of money would not go to where they wanted it to go. If it's going to happen, it's more likely going to happen if it's just a grant.

Ms. Lisa MacLeod: The final question on the MIII, M-triple I—it sounds like it should be a movie out of Hollywood. In terms of that, will you be making recommendations to the minister on follow-through, or if there hasn't been appropriate follow-through from municipalities—to take action? Or are you just administering, again, the criteria to the recipients, and you just leave it at that, and it's up to the minister's office or the ministry to follow up?

Mr. David Livingston: Right. It won't be a recommendation from us.

Ms. Lisa MacLeod: I appreciate that. I'm going to ask some questions to follow in the line of Mr. Flynn's questions. They come from Ted Chudleigh, who's our MPP from Halton. I'm just going to read them:

"The town of Milton is the fastest-growing community in Canada"—although I would argue that Barr Haven is the fastest-growing community—

Mr. David Livingston: You're here and he's not.

Ms. Lisa MacLeod: —"and it's mandated to expand by the Liberal Places to Grow initiative. However, population growth has not been accompanied by the necessary investments in infrastructure; most importantly, its hospital is congested and its health care staff are overworked. When will the Milton District Hospital receive its well-needed expansion, and why hasn't this started already?"

Mr. David Livingston: I will just go back to where we started; that is, the decision about who gets what money is made by the government, not made by us. We execute the government's wishes. So I think the answer would be, presumably, for the hospital to be talking to the Ministry of Health and Long-Term Care. That request, if the ministry puts it forward, will get into the capital planning process of the government, and we'll find about it in due course.

Ms. Lisa MacLeod: Okay, then his next question is that the city of Oakville is in dire need of a second hospital, and why has the new Oakville hospital in Halton been delayed?

Mr. David Livingston: Ditto.

Ms. Lisa MacLeod: And I guess you're saying it's because the Ministry of Health and Long-Term Care hasn't put forward this request to make it a priority.

Mr. David Livingston: I presume.

Ms. Lisa MacLeod: Okay, thanks.

"How is it possible that other projects in Ontario proceed while the Oakville hospital is stalled? Why has the health of certain citizens been put on the back burner?"

Mr. David Livingston: Again, as I think I said when I answered Mr. Flynn, when the projects are assigned to us they're assigned to us in an order and we try to respect the integrity of that order unless there is a good reason not to. So we don't arbitrarily say we're going to Halton here and somebody else over here. It's—

Ms. Lisa MacLeod: It comes in through the government, then.

Mr. David Livingston: It comes in through the government.

Ms. Lisa MacLeod: Okay.

"Ted Chudleigh has talked to the heads of eight construction companies that are able to build hospitals. They have all said that they are ready and willing to begin work on the Oakville hospital. How can you say that construction capabilities are exhausted?"

I know that we touched on this earlier, but if you could just repeat for the record your—

Mr. David Livingston: If you ask any construction company, "Are you prepared to work on any project?" the answer will always be yes. But if you take into account that between now and the time that we're going to put Halton into the market we have 15 other projects that we have to do, and somebody is going to win those projects, which is going to tie up labour and it's going to tie up the contractors, then the answer is going to be quite different. So I think they take that comment in isolation and don't consider what the effect of everything else is that we have going on in the province, both on our side and privately. I think that you would get a different answer.

Ms. Lisa MacLeod: Okay, and then he goes on to ask, "If construction capabilities in Ontario are really exhausted, what is being done to remedy the situation?"

Mr. David Livingston: As we said, they're not exhausted. We just need to stage things so that we don't exhaust them. To think that there would be some sort of magic wand that could be waved to create labour, that's going to be tough. Our belief is that if we can be consistent at how we roll out projects and have a consistent pipeline, the market will look after creating labour and creating capacity because that's the business that they're in. Where the market has more difficulty responding is if the pipeline is not there or if there are stops and starts; then it makes the investment decision tougher to make.

Ms. Lisa MacLeod: Can we just talk a bit, then—and I know it's not exactly in your realm but it is about the skilled trades shortage. In Ottawa recently we've invested an enormous amount of money on a new trade school that the community has gotten behind for a very long time because of this issue. But then, it's not only training these folks, it's also that the apprenticeship ratios are a little too high. Is that impacting the situation in Ontario right now?

Mr. David Livingston: I couldn't talk intelligently about apprenticeship ratios.

Mr. Jim Dougan: It's really outside our bailiwick.

Ms. Lisa MacLeod: Would you know how many skilled labourers we would be short if we were to complete the list that you have in front of you right now?

Mr. David Livingston: Well, if we complete the list on the staging that we've done, we won't have a shortage. Again, we don't look at it as if we have a shortage. What we have is a need to be able to stage the projects so that we—there is available labour, but if we try to do 15 projects next month there wouldn't be enough labour to work on all those projects at the same time. But if we stage the 15 projects in over the next year and a half, then we can manage the flow and then the available labour can get the work done.

Ms. Lisa MacLeod: I understand that, but I think it goes to the point that Mr. Flynn was making. His community needs a hospital. My colleague shares the community. They need a hospital and we were told in the last election campaign that there is a crane on every hospital in the province. At least, that's what we were told in Ottawa. So that's nice and it's all well and good, but there is a problem here with respect to available labour. I think priority also comes into this. What is a priority in Oakville and Ottawa may not be a priority elsewhere. From what I can tell, the two MPPs who represent that area—Halton and Oakville—would say that this hospital is a priority and they would like to see skilled labour, supervisors and construction workers on a hospital site right away.

It goes back to that whole level of prioritization and where we should be putting workers. I'm not sure of all the different projects—if you're working on any in Ottawa, keep doing it, but—

Mr. David Livingston: And we are, and we will.

Ms. Lisa MacLeod: And that's excellent, but I guess it goes back to that whole level of, where do you put your resources in a timely manner? I think that you don't want to pit communities that need hospitals against one another in the province. So that's why I go back to that: How many people, if we wanted to build these hospitals today, would we need in terms of skilled labourers? I know that there are specialized tradesmen that we would also require.

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Mr. David Livingston: I don't think we could give you a number.

Mr. Jim Dougan: There's the Ontario Construction Secretariat. They've published figures, and I'll probably be wrong, but they're saying that there's a shortage, I think, in the order of 250,000 people that'll be coming up—it's not immediate but over time, with retirement. The average age of construction workers—if you look at carpenters and labourers and some of the key trades, they're all approaching retirement. It's really a crisis for the construction industry. So it is an area, and that's where we hope that the capacity study that we put forward—it was a very detailed document and we did spend a lot of time. We're trying to get that message out that there are needs here. As I said, the construction secretariat do their own surveys, and they've identified that there are needs. I think that's actually a very good publication to refer to.

Ms. Lisa MacLeod: Would you be able to table your capacity study with this committee?

Mr. David Livingston: Did we make it public?

Mr. Jim Dougan: No, we didn't. There are probably some things—we just need to be careful with what we put into the document, so we'd have to look at what it is. A lot of it is, as I say, dealing with the issues that we've talked about. We just have to watch how we've represented some things that might be—as David was pointing out earlier, if it gets into the market or the bidders and that, it might be sensitive information for the province to disclose.

Ms. Lisa MacLeod: Okay. Well, when we get to our committee report writing, I think it would be extremely beneficial if this committee were to receive a briefing in camera on this. I think it has actually created some issues in Halton and Oakville, just because the two lines of questioning from the members, although they're from different parties, were quite similar in terms of concerns. I think it would help us in terms of writing the report and making recommendations down the line.

If you're uncomfortable making this public—

Mr. David Livingston: I think that this would be something we'd want to discuss with what we referred to as the shareholders, so this would be our decision, in conjunction with the government. I think it's something that we would discuss with them and figure out what's the right way to respond.

Ms. Lisa MacLeod: Okay. Thank you.

The Chair (Mrs. Julia Munro): Just to remind you that this is the last go-around.

M^{me} France Gélinas: So how long do I have?

The Chair (Mrs. Julia Munro): You have seven minutes.

M^{me} France Gélinas: I'll speak fast.

The first one is: When I asked you whether we ever did the percentage of traditionally procured public infrastructure projects over the last 10 years, how many of them were delayed and how many of them were over budget, you told me that some of them were by large amounts and some of them never even saw the light of day. But do we have the actual percentage?

Mr. David Livingston: No.

M^{me} France Gélinas: Do you know if the Ministry of Health has done this work for hospitals and knows?

Mr. David Livingston: I don't know.

M^{me} France Gélinas: You don't know? And were you given targets as to—they were at 70%, and you're to achieve 90% success, on time and on budget?

Mr. David Livingston: I think the government's target with us is clear: They want 100% on time and on budget.

M^{me} France Gélinas: Okay, but we don't know what we were at before?

Mr. David Livingston: I think it's safe to say that we were not there before, but that would be a gross assumption on my part.

M^me^ France Gélinas: And there's been no request on your part to do that kind of analysis to know where we were at before we went to the new procurement method?

Mr. David Livingston: No.

M^me^ France Gélinas: Excluding infrastructure grants to third parties, would you know the percentage of the Ontario capital budget that is to be allocated through AFP versus what I'll call traditional?

Mr. David Livingston: I think I'm not going to answer only because—I could give you an answer based on what I've heard or what I think, but I don't really know. Only the ministry really knows, because we don't see all the capital projects. They go through the process and determine which ones they're going to do and which ones are not going to get done, and they assign them to us. So we kind of hear what the percentage is, but I think it's more of a question for them to answer than us.

M^me^ France Gélinas: Okay. I tried to get information about financing cost and basically was told that this is not—it's commercially sensitive.

Mr. David Livingston: Right.

M^me^ France Gélinas: How about risk transfer premium? I know that you rely on industry experts to estimate the risk transfer premium in determining value for money. So the assumption around the risk premium will ultimately determine if a project will show a positive value for money or not and if you will keep it or not. Is this something you can share with us?

Mr. David Livingston: No, for exactly the same reasons. The price that a bidder will charge us to assume the risk that we want them to take is quite variable. That's very much the essence of the competitive process. To disclose what one will charge versus another is giving away something that is definitely a competitive advantage, so we would put that in the same category as the detailed financing costs.

M^me^ France Gélinas: Okay, how about the expert advice—when the expert gives you advice on risk premium.

Mr. David Livingston: For the same reason that we wouldn't disclose the rate that we assume in the request for the project. It would be the same thing there, because we don't want to give the bidders a floor or give them an indication of something we nominally assume, because we think they would just come to that number.

M^me^ France Gélinas: I'm going nowhere fast here. All right.

Mr. David Livingston: I hope for good reasons. We think the way we do it creates value.

M^me^ France Gélinas: We'll move on to Move Ontario 2020. Can you say how much of the $15.5-million Move Ontario 2020 plan will be allocated through AFP?

Mr. David Livingston: No. I think $17.5 billion is the number, of which two thirds is the province and at least a third, for assumption purposes, is federal. We're going through a process now with Metrolinx and with the respective transit agencies to do an assessment of which project would produce value for money and that process is not complete. So we don't know yet which ones will produce and which ones will not.

M^me^ France Gélinas: In your discussion with Metrolinx, let's say, are you looking at design, build, finance and maintain?

Mr. David Livingston: We're trying to break it into components, so we're looking at least at design, build, finance and we're looking at maintain, but we try and cost them out separately, what the value is for the different components.

M^me^ France Gélinas: Okay, with the idea that—

Mr. David Livingston: That they would have some control over the decision that they make, because in the end, it's going to be for them to decide, not us.

M^me^ France Gélinas: Okay. But there are discussions that would see the maintenance of those lines being included into those projects when they're rolled out?

Mr. David Livingston: At this stage of the game, what we're doing is the assessment, so that when they make a decision as to whether maintenance is in or out, they're making an informed decision. So the decision has not yet been made about what aspects of maintenance, if any, would be in the project.

M^me^ France Gélinas: From what you've told us before, cabinet makes a decision as to which project will be funded, they give it to you and you're the action agent; you roll it out. Did cabinet make a decision to roll this project out to you? Under which authority are you doing this work right now?

Mr. David Livingston: Cabinet has not made a decision that any of the Move Ontario 2020 projects are assigned to us. We are doing this assessment at the invitation of Metrolinx.

M^me^ France Gélinas: But wouldn't that go against your memorandum of understanding that says that it doesn't allow Infrastructure Ontario to undertake work without the minister's instruction?

Mr. David Livingston: What we expect would happen is that once Metrolinx and the Metrolinx board are satisfied with the regional transportation plan and satisfied with what projects they would be prepared to do using AFP, at that point, we would expect that we would get a letter from the government saying, "It is okay for you to go ahead with those projects." There will be a direction at some point; it's just that this is not the time. The government is fully aware that we are doing this assessment with Metrolinx. Once the assessment is finished, then everything will fall into place.

M^me^ France Gélinas: So has your memorandum of understanding been modified to allow you to do work up front?

Mr. David Livingston: As in any memorandum of understanding, there is a sundry duties as assigned clause that basically gives us the ability to provide advice to the minister or provide advice to the government on a wide range of things. So our memorandum of understanding, as it exists, contemplates doing this kind of analysis, because this is not the same as spending billions of dollars. These are assessments.

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M^me France Gélinas: Are you saying that the government has asked you to gather that knowledge, or are you gathering this knowledge to feed it to the government? Who is driving who?

Mr. David Livingston: Our client here is Metrolinx. As I said, Metrolinx is the client, Metrolinx is with whom we work, and then, through Metrolinx, with the transit authorities. The government is fully aware of what we're doing, so it's not a secret.

M^me France Gélinas: It's just not in your memorandum of understanding either.

Mr. David Livingston: But it is in our memorandum—as I said, the memorandum of understanding is broad enough to contemplate us doing this kind of activity. We don't need a letter for everything.

M^me France Gélinas: So you feel that this is within your mandate to do; it's just that you hadn't done it before?

Mr. David Livingston: We've done assessments before. Provincial agencies, provincial bodies, will come to us and ask us whether or not we think there would be value in doing a particular project as an AFP, and we'll do those assessments happily.

M^me France Gélinas: What sectors were those other projects in?

Mr. David Livingston: We're doing quite a few right now in training, colleges and universities. That's probably one of the bigger ones today. Transit, transportation; training, colleges and universities. Where else, George?

Interjection.

M^me France Gélinas: Okay.

The Chair (Mrs. Julia Munro): Last question.

M^me France Gélinas: Last question? How could that be? Well, let's make it a good one. Oh, no.

Mr. David Livingston: Okay, we're good.

M^me France Gélinas: I have pages of questions left.

The projects that you manage are complex. Not everybody has the skills or expertise to deliver those kinds of projects. There have been quotes in the papers and, again, economists saying that there is a very low number of bidders for the types of projects that you have responsibility for. What is the average number of eligible bids through your RFP process? Let's take the last five.

Mr. David Livingston: We do an RFQ, a request for qualifications, first. Typically, we will get four or five groups that will want to bid that will qualify, and we typically go with three of whatever that number is, because we think that three is an appropriate number. It's efficient on our side to be able to do the work that needs to be done to get through the process, and from their side it's not too many; they have a reasonable chance of winning, but it's still enough to be competitive.

M^me France Gélinas: Has it ever happened that you did not have three bids come in, not for your request for qualifications but your actual RFP?

Mr. David Livingston: It has happened that we've had less than three bids, yes.

M^me France Gélinas: Two?

Mr. David Livingston: Yes.

M^me France Gélinas: One?

Mr. David Livingston: There was one where we had one.

M^me France Gélinas: Okay—

The Chair (Mrs. Julia Munro): I'm sorry, we must move on.

M^me France Gélinas: That was my good question.

The Chair (Mrs. Julia Munro): Mr. Flynn.

Mr. Kevin Daniel Flynn: Going back to the market capacity study, prior to that the government had clearly signalled its intention that these projects proceed in a certain sequence. As a result of the information that was found through the market study, it was decided not to alter the sequence but to extend the time frame. Given that as forecasts go out in time, their accuracy diminishes, as a simple rule, with the information you have now, looking at the time frame you're envisioning these projects being started and completed in, how confident are you that the new schedule is a firm schedule?

Mr. David Livingston: We feel quite confident, with the exception that we mentioned. It can often happen that somebody is just not ready, so then we will want to move somebody else into that slot.

Mr. Kevin Daniel Flynn: So to somebody who's at the end of the time frame, if they were prepared to go, that would be seen as an advantage. Obviously the project that can't proceed wouldn't feel good about it.

Mr. David Livingston: To preserve the integrity of the sequence, if somebody can't go, you tend to go down to who's next and who's next. So it's the next one who's ready that you'd try to put into the slot. You wouldn't jump down to the bottom of the list, because if we start to do that, then we're starting to affect the sequence. It more just moves everybody up.

Mr. Kevin Daniel Flynn: So if there's a project that is not ready to go, everybody would benefit from that.

Mr. David Livingston: Potentially. It depends on when they're ready to go.

Mr. Kevin Daniel Flynn: Yes, it depends on where you are on the schedule.

Obviously, you looked at the situation from a macro point of view. When you saw some of the projects that were going to be pushed out into the future, did you get down to the micro level on some of the projects, as far as things such as staging are concerned? I'm thinking about something that didn't have the reliance on the mechanical trades; for example, certain parts of structures—could you build a portion of a hospital that didn't have a heavy component of mechanical trades ahead of the part that's waiting for those trades to presumably finish up another project elsewhere and move in?

Mr. David Livingston: Certain types of projects require mechanical and electrical trades more than others, so the staging already contemplates that a courthouse might follow a hospital. That's the way we accommodate it. We try not to do pieces of projects, because if you do a piece of a project and then you put the project out to tender, you run into coordination issues between that piece and the ultimate tender. So as much as we possibly can, we try to keep the projects all together.

Mr. Kevin Daniel Flynn: I want your opinion on this, or it could be the opinion of somebody on your staff: Often, when the debate rages about AFP and traditional models of purchasing or procurement, the argument is put forward, and I'm sure it reaches your ears, that AFP is a more expensive way to go. Often, evidence is offered to support that, but my experience has been that that evidence often is lacking something or there's a piece that has been left out. When that argument is made, what most often are the facts that are either not considered as carefully as they should be or are omitted?

Mr. David Livingston: You're 100% right. Inevitably, when the comparisons are made, it's apples to oranges. I would say probably the two things that happen most often are that they're either comparing a project with financing to one without financing—so, often, if you're comparing an original budget to a project and you're comparing it to one of our bids, because our bids include the financing, by definition you've got a mismatch. The second major thing is that it is very easy to take a number—somebody four years ago said that it was going to cost X dollars to build a hospital. Who knows where that number came from? The number that we have in a bid is a firm number, properly costed, properly assessed, properly put on the table. To compare something firm to somebody's guess is a spurious comparison. So I'd say that most often when it happens, it's those two things.

A third one, maybe less often, is that in our bids, where you also have the cost of maintenance and the cost of the life cycle built into it, and you compare that to an original bid, then you're really getting out into the ether. So, if you compare an original bid for a construction that's based on nothing to a response to a tender that includes the design, includes the financing, includes the life cycle, includes the maintenance, there's no comparison.

Mr. Kevin Daniel Flynn: So if you take the political philosophy out of it and you just present a business case to the taxpayers of Ontario, you feel that Infrastructure Ontario can make a very, very strong case that they're getting the best value from AFP.

Mr. David Livingston: Absolutely.

Mr. Kevin Daniel Flynn: When you look at other jurisdictions around the world, obviously there are a variety of models of health care delivery and there are a variety of models of procuring the sites for that or procuring the buildings. When a project is complete, do you keep a finger in the pie, so to speak? Do you take a look at other examples around the world? Obviously, other people are building hospitals under different models. Do you compare yourself against those?

Mr. David Livingston: Different models, but not incredibly different models. Every six months, the various agencies across the country that do what we do—the province of BC has an equivalent to Infrastructure Ontario; Quebec has one as well—meet regularly and discuss our approaches to risk transfer and our approaches to projects. We try and benchmark our projects as much as we can to figure out what works and what doesn't. The UK has been doing this the longest and has done most projects. We have all met and consulted with them. I would say that both formally and informally, we try and gather information about what's happening with a mind to what's going to get us the best deal in Ontario, the best deal defined as being what gets the taxpayers the lowest possible price.

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The Chair (Mrs. Julia Munro): I'll just remind you that we're closing in on your time.

Mr. Kevin Daniel Flynn: Just about done?

The Chair (Mrs. Julia Munro): Yes.

Mr. Kevin Daniel Flynn: Okay, very good. This is my final question, then: Are there any examples of jurisdictions that are still building hospitals in what we would refer to as the old way—in similar economies?

Mr. Jim Dougan: There's no one that comes to mind.

Mr. David Livingston: The country that's had the toughest time with all of this is the US, but to compare how a hospital gets built in the US to how it gets built in Canada would be a really tough comparison. Australia would be more typically using our models, certainly most of the rest of Canada; the UK would be similar to this.

Mr. Kevin Daniel Flynn: Anything in Europe? Germany, Spain?

Mr. David Livingston: Again, it's more likely going to be using what they call PFI, private finance initiative.

Mr. Kevin Daniel Flynn: Thank you.

The Chair (Mrs. Julia Munro): Thank you very much. Ms. MacLeod?

Ms. Lisa MacLeod: Thanks, Madam Chair, just two follow-ups from the previous two rounds: One is, if you're unprepared to provide us with a briefing on the market capacity study, I would request that at least the executive summary is tabled. The second thing is with respect to these loans. Are public-private partnerships for the loans allowed? For example, would a municipality be able to apply for a loan with a private partner who would repay it?

Mr. David Livingston: The loan program is not a public-private partnership; it's just government money.

Ms. Lisa MacLeod: Okay.

Mr. David Livingston: I'm not sure what the—

Ms. Lisa MacLeod: The question was, could the municipality engage in a public-private partnership whereby they would request the loan and presumably get the loan, but they would be repaid by a private entity?

Mr. David Livingston: But then it wouldn't be—in a public-private partnership, or AFP, in the context that we use, the financing is provided by the private entity, and then they get paid back. If the question is—

Ms. Lisa MacLeod: Let's do it in the reverse, I guess.

Mr. David Livingston: Well, but then it wouldn't be an AFP. I don't know how they'd do it.

Ms. Lisa MacLeod: No. I'm not asking for an AFP. I'm asking if the township of Russell, for example, decided to ask for a loan from Infrastructure Ontario and received it, could a private entity actually pay that money back?

Mr. David Livingston: But I don't—

Ms. Lisa MacLeod: For example, like a mobile home park.

Mr. David Livingston: The borrower for us, though, is the municipality.

Ms. Lisa MacLeod: I'm a very subtle person, as my colleagues well know.

Mr. David Livingston: How the municipality pays us back, we don't care.

Ms. Lisa MacLeod: Okay, I just wanted to ask that question.

I just want to shift gears a little bit now because we do have a very little bit of time left. We haven't talked at all about the merger between the Ministry of Infrastructure and the Ministry of Energy. Of course, we know energy concerns are very important here in Ontario, and I'm just wondering: What role does Infrastructure Ontario see itself playing in its AFP-type nuclear procurement project? And more specifically, what kind of interaction will there be with officials at the Ontario Power Authority, Ontario Power Generation, Hydro One and the Ministry of Finance, as well as the winning bidder?

Mr. David Livingston: Wow.

Ms. Lisa MacLeod: I saved them up—just before lunch.

Mr. David Livingston: The nuclear procurement project for us is an assigned project the way we get all assigned projects: from the government. What we have done is create a competitive process whereby three nuclear companies, nuclear providers, are bidding to install nuclear reactors at Darlington.

Ms. Lisa MacLeod: Further then to your assigned involvement, to what extent does Infrastructure Ontario, and specifically its nuclear procurement project team, contemplate engaging outside financial, legal or other technical expertise to assist in the negotiations related to, and the long-term management of, this project?

Mr. David Livingston: We have outside advisers, mostly legal, because the documents that we are crafting—we're taking our basic templates and our basic models, but we're trying to adapt them to a nuclear environment that is new to us. We're extensively using outside lawyers. Financiers we don't see using because we don't think financing is going to become part of the deal right now. I'd say mostly it's lawyers.

Ms. Lisa MacLeod: Okay. Just a couple more questions with respect to your assignments and directives from the ministry. Have you received any directive with respect to the degree of Ontario or Canadian content or materials or other aspects for this project?

Mr. David Livingston: We did an assessment of what was expected to be the level of Canadian content with whoever was going to win this bid. Based on that, we developed a criterion that was ultimately approved by the government. It was going to be based 80% to 20%, on what we call LUEC: The cost of the power is 80%, and 20% on the value of the Ontario economy.

Ms. Lisa MacLeod: Finally, has Infrastructure Ontario been assigned any responsibility with respect to the power transmission upgrades required to accommodate this additional generation from Darlington?

Mr. David Livingston: Not specifically. The only involvement we have is in making sure that that's known—what upgrades are going to be required—and if somebody's going to be doing it. But we're not doing it.

Ms. Lisa MacLeod: Thank you very much.

The Chair (Mrs. Julia Munro): Thank you very much. We appreciate you being here this morning.

This committee stands recessed until 1:30.

The committee recessed from 1154 to 1333.

The Chair (Mrs. Julia Munro): Good afternoon, ladies and gentlemen, and welcome to the Standing Committee on Government Agencies. We are deliberating on the review of the Ontario Infrastructure Projects Corp., more commonly known as Infrastructure Ontario. We set aside time this afternoon in which to offer various stakeholders and interested parties the opportunity to present with regard to Infrastructure Ontario.

ONTARIO GENERAL CONTRACTORS ASSOCIATION

OTTAWA CONSTRUCTION ASSOCIATION

The Chair (Mrs. Julia Munro): I would like, at this time, to call forward the Ontario General Contractors Association and the Ottawa Construction Association. Please come forward and make yourselves comfortable there in order for us to be able to begin. Welcome to the committee. You will have 30 minutes, during which time you may make a presentation, after which we will divide the remaining time for questions and comments from members of the committee. Please introduce yourselves for the purposes of Hansard. You may begin.

Mr. Clive Thurston: My name is Clive Thurston. I'm president of the Ontario General Contractors Association. I thank you very much for this opportunity to be here today.

We have brought with us comments from a number of the stakeholders that are involved in Infrastructure Ontario, so although I represent the Ontario General Contractors Association, I have been asked by many of the other associations to bring some of their points forward today.

We have a short statement, and after I've given that, Mr. Sharp will have a few things to say, and then we are at your service to answer any questions you like.

Infrastructure is a wide and complex area and it affects every part of our lives. Ontario's taxpayers expect to have access to up-to-date hospitals, clean water, safe disposal of wastes, reliable highways and accessible and public transportation. With the creation of the public infrastructure renewal ministry, our sector achieved the attention that it has so long deserved. As the main economic engine of Ontario today and the largest employment sector in Canada, we have never had a direct voice to government here in Ontario; PIR was a welcome and refreshing change.

In response to requests from PIR for assistance, the Ontario Association of Architects, Consulting Engineers of Ontario and the Ontario General Contractors Association participated jointly with the PIR staff to assist them and provide advice as they moved forward in developing the infrastructure plan. This later continued with the creation of Infrastructure Ontario and it expanded to include many other associations.

Many of the associations expressed some concern that none of us was officially invited to be here today. We are the people who actually build the infrastructure in Ontario, and I was asked to make that point by the other associations and on behalf of the OGCA. We hope the standing committee will acknowledge this valuable resource and that this type of liaison with industry leaders who have the knowledge and expertise is continued not just with IO, but with all other government agencies and ministries.

The recent efforts of Infrastructure Ontario have focused mainly on the health sector, hospitals in particular. Nevertheless, infrastructure is more than just hospitals or buildings, for what good are such structures if we cannot depend on the roads and bridges to reach them? How can they operate if the water and the waste systems break down or cannot handle the new expansions? It is clear that it's time to balance the efforts on infrastructure to include these two areas. The same effort made to bring the hospital sector up must be equally applied to highways, roads, bridges, transportation, water and waste water.

From the point of view of the general contractors of Ontario, today we have reached a position where we understand the risks, rewards and the consequences of the current Infrastructure Ontario policies and the application of alternate finance projects. However, there are still questions that reach out to the areas where the consultants practise, especially on risk transfer. You will hear from my colleague Mr. Sharp on how the risk transfer is viewed by the subtrades.

Issues are arising due to the method of rollout that has been used up to this point, and a concern over a practice of bundling projects to meet the AFP financial threshold, which, though it has some merit, has the effect of reducing bidders and competition. What's more, it affects small-town Ontario. There are many niche firms throughout Ontario that depend on government work and government projects in their area. If these projects are bundled into one massive project, those companies will go out of business and there will be an economic and social effect on small-town Ontario across this province.

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We believe there are a number of underlying fundamentals that we would encourage Infrastructure Ontario to adopt—in particular, supporting new ways of procuring these infrastructure projects. We need to look at new and better ways of obtaining services. One such method is called qualification-based selection of consultants. It is a proven method across North America and in Europe. It will allow for a more cost-effective delivery of projects and for fewer cost overruns.

We need an open and transparent system of accountability. We need to ensure that proper planning of future expenditures ensures that the money flows to infrastructure projects. Recently, a number of associations have attempted to access the financial information and records of the current program. They have not been successful. They have been advised that the new MEI structure is looking at developing a better tracking system for projects. However, even if the data were current only to the previous fiscal year, this would be better than the current state of affairs. It is critical to maintain substantial investment in the infrastructure program. It is equally critical that there is a clear regulatory and contractual framework to ensure the appropriate use of this investment. The planning and rollout of projects in concert with the industry will ensure the realistic setting of project schedules, budgets and provide for an effective managing of these very same items.

There has been much talk in the press and in other areas about capacity. I can tell you that today general contractors do have a serious shortage. We lack experienced and well-trained professionals to staff our sites. The government can be applauded for its recent efforts to address the shortage in the trades, a shortage that actually does not exist today. It will exist in five years. And one of the important things was the announcement yesterday of the trades college, which we applaud and support, yet nothing has been done to address the shortage of professionals in the industry. Those of us in management have not received any funding or support from the government whatsoever to help develop professionals in this industry, and without the project managers, the estimators and superintendents, it doesn't matter how many trades you have because there's nobody to run the job.

We believe that you should remember that risk transfer does not necessarily result in risk reduction. There has been far too much emphasis that nobody wants to take on risk and that they simply pass it down. But the proof is that that doesn't necessarily reduce your risk.

Finally, we believe that infrastructure is essential to our quality of life in Ontario. We cannot take it for granted and we must continue to build on the efforts of the PIR, IO and the industry stakeholders and ensure that we address all sectors of the infrastructure problem. The vast network of transportation systems, water systems, power systems, education and health facilities across Ontario can only be maintained through the continued co-operation of the industry and government. We must work together to address the infrastructure deficit in this province.

After Mr. Sharp's comments, we will be happy to answer any questions you may have.

The Chair (Mrs. Julia Munro): Please continue, then, Mr. Sharp.

Mr. Mike Sharp: Good afternoon, Madam Chair, members of the committee. My name is Mike Sharp and I'm here really in two capacities. I'm chairman of the Ottawa Construction Association, which is an organization of over 900 members from all parts of the construction community in Ottawa, representing contractors, manufacturers, suppliers and construction professionals. I'm also vice-president of Black and McDonald Ltd., which is a national electrical/mechanical contractor, and we have had some experience with the IO infrastructure, and we've also had some experience with these types of service deliveries in other provinces in Canada. At some times my various hats may confuse you, but I'll attempt to differentiate. I want to thank you for the opportunity to be here. Initially, I was struck by the fact that on the agenda, there was really only one stakeholder or one representative from the industry that's actually going to do the work. I have some specific issues with IO from our members and I'll get to them in a minute here.

Clive talked about communication with the industry, and I think that's very important. Initially, it was our impression that there was very little communication with the trade contractors—the individuals who are actually going to do the work—about capacity, about trades, the timing of the work and so on. I believe that there was communication with some of the larger general contractors, but, no disrespect to them, they'll take on anything. But there was very little communication with the trades about the availability of electricians and so on. I believe that is improving, but I still think that there's more work that can be done in that respect, because as Clive mentioned, the risk—most of the trade contractors view these P3s, or whatever acronym you want to give them, really as a P2. It's between the developer and the owner. Very little changes for the subcontractor, the trade contractor, in these.

The risk profile for us, as trade contractors, is extremely high in finance, build and operate, probably about two times what we would normally see on large projects. You can use all kinds of methods to measure risk, but when a trade contractor views the risk as substantial and outside what they either have the ability to take on or want to take on, then they'll go other places to play. They will go to other provinces, they'll look at other work, but they won't bid these things. So you find that, other than some large subcontractors, by and large it hasn't done much for our industry in Ottawa in terms of delivering the work to the smaller subtrades.

The subguard, which is what the general contractors use to cover the risk for the M and E trades on these IO projects, really has done absolutely nothing for the trade contractors. That's one issue that the trades have.

On the facility maintenance side, we believe that the government, or IO, needs to remove the requirement to keep or use the existing staff or unions when they're talking about the maintenance, whether they take them on or not. As a company that's had experience—we recently had a contract with the Kelowna hospital that's being built. I believe that the BC model more equitably distributes the risk. You might want to take a look at that.

In terms of bid expenses, the IO model causes bid expenses, as far as we're concerned, to be about four times the norm, so there's a heavy investment in these. When you only get, in the norm, as a subcontractor, maybe one out of 10 bids, it's sometimes tough to put the resources into these projects. They do cost a great deal. I believe that what is happening out here is that you're getting a low number of bidders, the qualifications are very strenuous, and it leaves the door open to only one or two bids, which I believe they've experienced recently. In our opinion, that's not a good situation and should be cause for concern.

The benefits: I would say that the jury is still out on the benefits of the delivery of the infrastructure. For our industry, at least, I know that it's early in the game and that everybody is promoting the benefits right now in our province, and there's a lot of hugging and kissing going on right now about the benefits. But if I was a betting man—and I'm really not; I've only been in the Rideau Carleton casino once in my life—I would say that when you get near the end of these, you're going to have the same issues, the same problems, the same claims, the same suits that you do now in any other form of delivery. I think when they start to close, you'll see that happen.

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That really concludes my comments. I know that they're very specific ones, to have the services delivered. I applaud the emphasis on infrastructure spending. I believe it's well overdue. If there's anything our association or our industry of subtrades can do to assist, we would be more than willing to lend any expertise that we have. Thank you very much.

The Chair (Mrs. Julia Munro): Thank you very much. We have five minutes per caucus left. Mr. Flynn.

Mr. Kevin Daniel Flynn: Thank you for the presentation. I really enjoyed that. We've been talking about these issues all morning. We heard from Infrastructure Ontario this morning. There's agreement that there is a capacity issue, then: Is that true? If we do agree on that, the major cause of that is the lack of skilled trades in certain sectors and the lack of project supervision?

Mr. Clive Thurston: From what I've heard from the union leaders, no, there isn't a huge shortage of trades. We have men available. We're very busy. There's a lot of competition in the industry with OPG and others coming online—schools and everything else. I think what you're seeing is, as Mike says, our contractors consider the risk. The risk on an AFP is, as you say, four or five times greater than bidding other work. Contractors and subcontractors will go where they feel they can make the best return on their money at a fair risk. You don't get a lot of people moving there.

The other problem is that a lot of the AFP projects are in remote areas. It's difficult to get a 40-year-old electrician in Toronto to go up to Sault Ste. Marie—he's not going to leave his family—and there are problems.

It's a bigger problem than just a shortage of trades. There's no doubt that within five to 10 years, we're going to have a dearth of tradespeople, but right now it's more that we can't bid this work. The companies are either too small or they are not prepared to take the risk. As Mike said, you see the larger companies bid. From a general contractor's point of view, that's absolutely true. There are only eight to 10 GCs in this province that have the capability to take the risk and bid AFPs.

Mr. Kevin Daniel Flynn: There are some people I'm hearing from who are saying that the government is selling or transferring too much risk—and it doesn't have to transfer that—and is paying too much to transfer that risk. What I heard today I think from Mr. Sharp is that he's being asked to accept risk at a higher level than he would prefer to.

Mr. Mike Sharp: Yes, that's correct. As I mentioned, our company has been involved in some of these proposals, but the transfer of risk to us from the lender has been unacceptable, so we have respectfully declined to participate.

Mr. Kevin Daniel Flynn: Okay. I just wanted to go back to the skilled trades and the project supervision. We made an announcement as a government yesterday that I fully support and that I think most people would in the business, and that was the College of Trades, finally, which I think is going to go a long way towards the skilled trades shortage at the end of the day. Project supervision: Where, typically, would somebody receive that type of education and training, and what role would the government play in that? You were calling for an expanded role. I don't know what that role is.

Mr. Clive Thurston: First off, I'd just like to see equal mention instead of always hearing about the trades—with all due respect, Mike. We would like to just get some equal time here.

The colleges are really stepping up to provide programs, but even they tell me that money is only available for them to run trade programs, not management education. We need to approach that. There needs to be a better investment at the college level that recognizes the—

Mr. Kevin Daniel Flynn: So it's a curriculum issue.

Mr. Clive Thurston: It's a curriculum issue.

Mr. Kevin Daniel Flynn: That's something that can be addressed.

Mr. Clive Thurston: Yes, exactly. I think that can be addressed, and I agree with you that the trade college is great. We've had a number of meetings with Minister Milloy, and I think we've got his ear on this.

Mr. Kevin Daniel Flynn: That's good to hear. Just one thing, Mr. Sharp—do I have a little bit of time left?

The Chair (Mrs. Julia Munro): Yes.

Mr. Kevin Daniel Flynn: You said that you expect, at the end of the day, to see that the AFP process will be wrought with the same problems you see in the old, traditional procurement way. Has that been the experience in other jurisdictions that have gone the AFP route?

Mr. Mike Sharp: I think there, again, it's probably too early to—

Mr. Kevin Daniel Flynn: Okay. So this is just a calculated guess, then. There's no evidence to suggest that this is going to happen.

Mr. Mike Sharp: There's no empirical evidence that would suggest that that's going to happen. But contractors being contractors, if more is going out than is coming in, they'll find ways to institute claims and suits and all that lovely stuff. That's just the way we are.

Mr. Kevin Daniel Flynn: As a final question, could you just expand quickly on what you meant by qualification-based selection of consultants?

Mr. Clive Thurston: Qualification-based selection started in the United States; it's now the law in some 40—

Mr. Mike Sharp: Forty-eight.

Mr. Clive Thurston: —48 states for all government to hire consultants. What it means is that when the public body is looking to hire consultants, architects and engineers, it looks at the qualifications first. Price is not an issue; it's never even brought into the equation. They look at the best fit for the project. So companies do their presentations by saying, "Here's how we would build your project." When those proposals come in, the buyer looks at those and says, "This is the best one. Mr. Consultant. What would be the cost of doing this?" It's negotiable.

There's a recent National Guide to Sustainable Municipal Infrastructure which was done by independent people. I recommend you take a look at that; that's got all the information in it.

It works. There's always this fear that if government moves to something other than low bid, taxpayers are going to hammer you. That's false. It's not going to happen today. Why? Well, believe it or not, it's because of people like Holmes on Homes. The public knows: You go lowest common denominator, you get what you pay for, and it's usually not what you want. Quality-based selection allows for the architects and the consultants to think outside the box. If price is an issue, you get standard, cookie cutter, no innovation, nothing. If you go this route, you get innovation, you get new thinking, you get better ways to build, and you get a better price. From a general contractor's point of view, I get better drawings, I get better specifications, I don't have to put in 300 RFIs a month on every job I'm doing to try to clarify what's being done. It works.

The city of London is doing it and they've had huge success with it, but we still find there's huge resistance from government bodies, municipal and provincial, to take a look at this. I urge you, don't be afraid. It works. Go for it. Get Mike Holmes to do an ad for it or something. The public knows; the public no longer believes that low bid works. We have to address that and especially at the consultants' level. They've got to be paid and given the time to properly prepare these drawings and specs. I'm not kidding, on one $50-million job, each contractor during the bid process submitted 300 requests for information, which are clarifications of the drawings and specifications. That's got to tell you that not enough time and effort was made when that job came out for bid.

The Chair (Mrs. Julia Munro): We must move on. Ms. MacLeod.

Ms. Lisa MacLeod: I'm really pleased to have both of you here today. It was actually the official opposition, through my office, that contacted the Ottawa Construction Association for the great work that you do. I know that you're going to be very valuable here today. I was told through the clerk's office that you were going to invite Mr. Thurston, and I thought that was excellent.

I really appreciated your comments, especially with respect to the infrastructure deficit that we have here in Ontario, and of course, Mr. Sharp, you would know we've got one as well in the city of Ottawa, on our home turf. I'm just wondering, with respect to that, what do you think is the largest infrastructure deficit we've got in the province? Is it with roads and transit systems, or is it with sewer, septic and other water systems?

Mr. Mike Sharp: I think you could almost flip a coin, and it would be 1, 1(a) between the transit systems and the water and waste water treatment facilities. Depending on who you asked, you'd probably get a little different perspective. Certainly, you read about both of those in the paper every day in Ottawa, so as I said, I think both of them are extremely important.

Ms. Lisa MacLeod: How do we go about, then, prioritizing where the funds go and where they're allocated, and do you see a role in Infrastructure Ontario actually putting together that prioritization list? You made a comment, and I think it was actually quite important, so I'm going to repeat it: "IO have focused mainly on the health sector, hospitals in particular. Nevertheless, infrastructure is more than just hospitals or buildings, for what good are such structures if we cannot depend on the roads and bridges to reach them?"

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I think that's a very important point. I guess my question would be, do you see Infrastructure Ontario having a greater role?

Mr. Clive Thurston: Absolutely. It was always my understanding that that was PIR's mandate, to deal with all of those issues. And Infrastructure Ontario has told us in the past that they are going to move there; the hospitals were the first priority, and understandably. As somebody who's had wait times to go in for operations, I can agree with that. But the roads and the sewers are falling apart in this province. We've seen what's happened in other provinces: collapsing bridges and things. ORBA, the road builders' association, and another group headed by Andy Manahan have prepared reports and studies showing what has to be done, laying out plans; the Ontario Sewer and Watermain has—I think it's time for Infrastructure Ontario to engage those people as well as they did us and bring them in.

Ms. Lisa MacLeod: Do you think Infrastructure Ontario is—and I don't want to say, "Is it doing a good job?" I want to know, does it work? From your perspective, does it work?

Mr. Clive Thurston: It's—how do I say that? It does work for what it's doing now. It needs to expand and meet its full mandate. It needs to stay out of areas that it doesn't need to go to—municipalities, schools, police stations. They need to concentrate on the three main building blocks of infrastructure, and if they do that, I think they will be successful.

Ms. Lisa MacLeod: So that would be roads, sewers and hospitals?

Mr. Clive Thurston: Hospitals—yes.

Ms. Lisa MacLeod: That's actually very interesting because, when you look at what they do, they essentially don't make any decisions with respect to infrastructure, but they do administer—they administered the MIII program, which did get into all of those other secondary issues, and then, of course, they do offer loans. But there's really no decision-making body within IO, and that's why I was concerned.

I just wanted to switch quickly. First of all, I would like to thank you, Mike, for the work that I know you did for our Algonquin trade school, which was one that I was pleased to sort of lend my voice to a few times. I know that we're all pretty proud of it in Ottawa, that that's moving forward. I'm sure you're aware that I've attended many breakfasts with some of the folks at Algonquin—in fact, even a large one, where we did have a very long discussion with Statistics Canada on the skilled labour shortage that we're to expect.

When we had Infrastructure Ontario in earlier today, you would almost get the impression that we were at the point of shortage right now, when we were talking about a hospital in Oakville, in the Halton area, and they said that we wouldn't be able to have enough workers to do everything that's on the list right now. But there's no shortage. We were led, I believe, to believe that there was a shortage at this point in time, because we can't fulfill, I guess, the projects that are on the docket right now. But I'm listening to you, because Mr. Flynn asked a very important question, I think, with respect to the capacity issue. I think you answered it right on, but I'm just wondering: Could we be building the hospitals on the docket right now with the manpower, or is it about the risk issue?

Mr. Mike Sharp: I'll address the manpower issue. I believe that you can, or you could, build the hospitals on the docket now, and you have to—our industry is a very fluid one. When oil drops to $92 a barrel, you see people—at least we do, in our business as, say, Black and McDonald—returning from Alberta to Newfoundland, people who were electricians in Alberta coming back home to Ottawa. So it's a very fluid type of industry. People move, the guys move around, and they will go, a lot of them, where they can get the big hours and so on. If things start to slow down out west, they'll come back, and they already have started to do that. So I believe that, right now, there is the capacity within the trades to do that. I am concerned that the demographics show that we could face possible skills shortages down the line, but I think there's an effort to mitigate that risk, so to speak, in terms of the colleges and trades, and working with them, and we're trying to do that in Ottawa.

I think that there is the capacity, and if we address the issues that we foresee in five years, then we'll be able to deliver the infrastructure that the province really deserves.

Ms. Lisa MacLeod: Thank you.

The Chair (Mrs. Julia Munro): I'm sorry, we have to move on.

Ms. Lisa MacLeod: Just quickly, Madam Chair. I'm just wondering if, through you, they might be able to provide us with a list, even if it's after this, of other groups that maybe we should have brought in. They did make a comment about that very early on in the presentation that they were the only group that actually is going to be building the infrastructure. I'd just be curious.

The Chair (Mrs. Julia Munro): Okay, thank you. Certainly, we will take that into consideration.

Ms. Lisa MacLeod: Thank you.

Mme France Gélinas: Good afternoon and thank you for coming. I represent a northern riding with a lot of rural area that was hit by the forestry shutdown, so we do have electricians, millwrights and all of those people with trade tickets and no jobs. So I'm interested in this issue of risk for the small contractors who, when the ministry used design and build, were able to bid on those local jobs, like the Sudbury Regional Hospital, for example, and do their part—with the new design, build, finance and maintain, then, only the big contractors. Am I reading this right? Would it have panned out differently in the province if we had stayed with the design and build? Would that have helped the smaller independent contractors get jobs?

Mr. Clive Thurston: Well, AFPs and P#s are simply a tool, the same as design-build, on how to deliver a project. We basically don't have an objection to the AFP-P# model, because we do know it works in other areas. The model here is not the same as was developed in other areas, so we're in a learning curve of how to use it and make it work. Design-build can work, yes, but there have been cost overruns in those projects as well previously, though I would put those mostly down to an antiquated system of procurement that the Ministry of Health had at the time. You can't tell people in a hospital that you can't have a change order. That kind of negative, blinder type of policy was what was causing the hospitals to go overboard. It wasn't how we built them, it was because the restrictions had become so great and the ridiculousness—the budgets were five or six years old when the jobs came out for tender, so they were always over budget.

There was a problem with contracts; there's no standardization of contracts. The industry has standardized contracts and we have since worked something out with the Ministry of Health. That would have gone a long way to improving things. Adjustments had to be made because of the finance aspect; there's no question. IO chose to go down a road that redeveloped the system, created their own contracts, and that's their process. We've learned to work with it but the fallout from that is that you are only going to get eight to 10 generals bidding that work and one to two mechanical-electrical—Mike, would that be about right, about two or three only?

Mr. Mike Sharp: Yes, there are not very many and, just to elaborate a bit on what Clive is saying, in my opinion it doesn't matter whether it's design-build, finance-build, operate or whatever you want to call it—the traditional method of fixed-price tendering—if the mechanical and electrical is $35 million, you're down to that many electrical-mechanical contractors.

In our industry, maybe 95% of the contractors are small, family-owned businesses, and for them to take on a job of, say, even $3 million puts the family trust at stake because you can go through $3 million very quickly on a job, and if you have an overrun of 10%, that's $300,000; that's the guy's house. So that's why they don't do it. Ours is obviously a lot larger company, but when you start to get up into $100 million, I'm not too sure that the McDonalds want to bet $10 million on that; in fact, I know they don't, so we don't do it. We go and work at OPG on the design-build there and the restarts and up at the Bruce; we'll go and do other things where there is more acceptance or sharing of the risk profile.

Mr. Clive Thurston: To your specific point, on the bigger contracts you're going to exclude the small contractors.

Mme France Gélinas: In your industry, are there standards that exist that allow the smaller contractors to participate in those without having to take a level of risk that is not appropriate to their size?

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Mr. Mike Sharp: Again, if I was an electrical contactor and I wanted to have, say, a local contractor from Sudbury or something like that participate, I'd be trying to pass down the same risk that I'm asked to assume. I'd pass that down to him. If he said no, then I might say, "Okay, I will cover the risk, but you're going to do it for less money than it's going to cost me." So if I make more money, I'll assume more risk. If I make the same amount of money, no, I wouldn't give it to him.

The Chair (Mrs. Julia Munro): Thank you very much. That concludes the time that we have available. I appreciate your coming here today.

ONTARIO HOSPITAL ASSOCIATION

The Chair (Mrs. Julia Munro): I'd now like to call upon Mark Rochon, the chair of the board of directors of the Ontario Hospital Association. Good afternoon, and welcome to the committee. I'll just let you know that you have 30 minutes available. You may wish to make some comments, and then the time will be divided amongst the caucus for questions and comments. Whenever you're ready, please begin.

Mr. Mark Rochon: Good afternoon. My name is Mark Rochon, and I am chair of the Ontario Hospital Association's board of directors. I'm also president and chief executive officer of the Toronto Rehabilitation Institute, a rehabilitation research and teaching hospital which, I'm happy to report, is in the early stages of an Infrastructure Ontario-led capital renewal project. The OHA is a voluntary association that represents Ontario's 157 not-for-profit hospital corporations.

As requested, I plan to use my time this afternoon to provide you with the OHA's perspective on Infrastructure Ontario. But before I begin that portion of my remarks, I will spend a few moments discussing the hospitals' capital environment in Ontario because this will put my comments about Infrastructure Ontario in the appropriate context.

Ontarians take pride in their health care system, and rightly so, but they also have high expectations. They expect to receive the care they need when they need it and they expect that care to be safe. They expect to be treated in modern hospitals built according to design best practices and equipped with the latest medical technology.

In 2002, the Ontario Hospital Association published a report entitled Capital Planning and Investment in Ontario's Hospitals. The first page of that report featured a quote from the Ontario Financial Review Commission. The quote reads: "One of the key roles of government is to build and maintain infrastructure. When infrastructure is still in use past its intended lifespan, or has not been properly maintained, or does not benefit from the introduction of new technologies, that quality of service experienced by the public may well decline." When the OHA report was written, that quote was particularly poignant. In 2003, an expert panel estimated that it would cost approximately $8.4 billion in 2003 dollars to modernize obsolete facilities and equipment and to address demand or volume-based service pressures. This very large amount of money was needed because Ontario's hospitals had an average age of 40 years, with a median age of 37, in an era where the useful lifespan of a hospital is approximately 40 years. By contrast, the average hospital facility in the United States is nine years old. I should note here that the lifespan of a hospital is thought to be approximately 40 years because over that period of time patient volume, advances in technology, occupational health and safety and patient safety best practices typically outstrip and overtake the design practices incorporated into a hospital structure.

There is a large and strong body of evidence-based health care design analysis, specifically nearly 700 studies, most published in international medical journals, that draws a link between the architecture of acute-care hospitals and positive or negative patient outcomes. Their conclusion is that good hospital design promotes better clinical outcomes, increases safety and reduces stress for both patients and staff. For example, installing large pieces of medical technology such as MRI equipment is not always a straightforward proposition in older hospitals that were designed and built with small rooms. The same holds true in operating theatres, where the space required by the technologies that support modern operating techniques can leave the room very crowded. Further, the physical capacity required to support IT infrastructure often does not exist in older facilities, and the retrofitting costs can be quite substantial. In a similar vein, current ergonomic hospital designs and equipment, such as patient-lifting and transferring equipment, are in many cases easier to incorporate in new facilities rather than old. Sound physical environments and occupational health and safety practices are particularly important today as hospitals are focusing in on ensuring that their aging workforce can continue to work effectively and safely.

Finally and topically, new hospital facilities can be built to incorporate infection control best practices. Every year, hospital-acquired infections affect thousands of Ontarians and increase direct and indirect costs to Canadians and Canadian patients by $40 million to $50 million. A recent study showed that in acute care settings, the cost for precautions and management of patients infected with MRSA is $27,000. However, studies have shown that the right physical environment, including single-patient rooms, well-designed ventilation systems and air filters, easy-to-clean, non-porous surface materials and plenty of sinks for washing hands, can and does reduce the spread of infections.

As noted by Richard Van Enk, hospital design expert, private rooms are the most important design element in terms of reducing the spread of infection between patients. For example, requiring patients to share space, including sharing washrooms, increases the risk of infection being spread through air and by contact with hospital furniture and equipment. Indeed, following the outbreak of severe acute respiratory syndrome, SARS, in Toronto in 2003, a study determined that approximately 75% of the SARS cases were acquired in hospitals.

Another example is MRSA, which can within hours contaminate surfaces, such as bedrails, tables and bathroom fixtures. A 2004 study published in the Journal of Hospital Infection showed that the contamination rates of surfaces with MRSA in surgical wards of London teaching hospitals were as high as 74% in spaces occupied by a patient with MRSA.

A number of jurisdictions, including 43 US states and the UK, have moved to increase the number of single-bed rooms in an effort to better manage hospital-acquired infections. Indeed, simply converting existing semi-private rooms to private rooms has in one case led to a 45% reduction in hospital infection rates. However, most facilities in Ontario, particularly older facilities, have a relatively low number of single rooms. In our view, these examples underscore the need for modern facilities that have an appropriate number of single rooms equipped with proper ventilation and other equipment consistent with current evidence-based best practice.

I should note that a peer-reviewed business analysis of a new 300-bed US hospital concluded that including evidence-based upgrades added approximately 5% to the initial construction costs. However, conservative estimates of savings from the design upgrades suggested that the one-time incremental cost could be recaptured in only one year.

In the OHA's view, any go-forward policy adopted by the government or Infrastructure Ontario regarding single-bed rooms should be informed by the facts and evidence regarding their effectiveness in preventing and contributing to the effective management of infectious diseases and promoting quality outcomes for patients.

The elements of sound hospital design were just one part of the equation that existed in 2003. Standardization of practice was another. The OHA's capital renewal report recommended that architectural principles be standardized across hospital construction projects because doing so would promote the adoption of best practices and ensure that identified efficiency measures are incorporated in every design. The government of Ontario has moved strongly in this direction with the creation of generic output specifications, or GOS. We understand that the release of these guidelines is imminent, a development that we welcome.

The most important challenge that we faced in 2003 was the fact that the funding model for hospital capital renewal was broken. As I mentioned a moment ago, Ontario's hospital sector faced an $8.4-billion capital renewal deficit at that time. However, very few projects were being undertaken. Under traditional financing models, hospital construction could only proceed when the government had all the funding required for the project up front. This caused hospital construction and upgrades to be delayed for long periods of time or not to be started at all.

In an effort to jump-start hospital renewal, the OHA called for the government to begin viewing hospital capital spending as a strategic investment in the health care system and to adopt a range of progressive financing models, including debt instruments such as bond issues, municipal levies and alternate financing models, to raise the funds for needed capital improvements. Those were, briefly, the challenges that the hospital sector faced only five years ago.

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The government began to respond to the challenge in May 2005, with the launch of its ReNew Ontario capital renewal strategy. Key features of the strategy included a $5-billion investment in hospital capital renewal over five years, the introduction of the AFP model and the creation of dedicated project management, known as Infrastructure Ontario. Obviously, the $5-billion government investment in hospital capital was welcomed by a sector facing over $8 billion in capital needs. Further, the introduction of the AFP model broke the logjam of pending hospital projects by allowing hospitals and the government to leverage the financing power of the private sector to fund hospital capital renewal, while retaining title and deed to the finished hospital building.

I should note here that the OHA was from the beginning, and remains, a strong supporter of the AFP model because it is getting results for hospitals and the patients in the communities they serve. In the three years since the introduction of the AFP model, 21 hospital projects have begun while 15 others are in their preliminary phases. This contrasts very favourably with the three-year period prior to 2005, when only a handful of major hospital construction projects were undertaken.

I should also mention that the government adjusted its local-share policy, reducing to 10% the share of project funding that a hospital and its community had to raise on their own in order for most projects to begin. In the past, the size of these shares ranged from 20% to 50%, depending on the project. The government also now covers 100% of eligible construction costs for long-term mental health programs transferring from former provincial psychiatric hospitals. These changes were warmly welcomed by the OHA and the hospital sector. But of high importance, in our view, was the creation of Infrastructure Ontario, and I'll dedicate the balance of my remarks to it.

In our 2003 capital renewal report, the OHA observed that existing hospital capital renewal processes lacked accountability for decisions and outcomes, and that this was not a positive situation. There were simply too many actors in the capital construction process and not enough coordination. The government of Ontario responded by creating Infrastructure Ontario in 2005. The formation of an agency with finance and project coordination and management expertise, and the appointments of Tony Ross as board chair and David Livingston as president and CEO, were welcomed by the OHA.

Since 2005, the OHA and Infrastructure Ontario have developed a strong and very productive partnership. In my role as OHA chair and as a hospital CEO, I have seen how open, accessible and responsive Infrastructure Ontario staff is. This observation is echoed by the hospital officials whose opinions I canvassed when preparing this presentation. Without exception, hospitals reported that they found Infrastructure Ontario staff to be first-rate, very responsive, effective and respectful of hospital priorities and requirements, and willing to consider innovative approaches to various issues.

I mentioned Infrastructure Ontario's project management responsibilities a moment ago. Hospitals commented positively regarding Infrastructure Ontario's focus on making projects happen, citing their strong performance at assembling the requisite resources, providing excellent leadership and advice—legal, process fairness and other general advice—through the selection, procurement and negotiation phases of projects and working aggressively toward critical milestones.

One CEO noted that "the IO process had led to a much more rigorous, disciplined and industry-standard process for hospital procurement and transaction management." Other positive observations were that Infrastructure Ontario has greatly strengthened its second-generation processes and documents. This should come as no surprise, as experience inevitably reveals better ways of doing things. But what is important, in our view, is that Infrastructure Ontario quickly took their key learnings from their first-generation processes and applied them to the next, which illustrates their commitment to quality improvement. Hospitals also cited the orientation to Infrastructure Ontario processes provided to the hospital project team and board as an area of strength.

In terms of where Infrastructure Ontario could improve, we have no significant observations beyond saying that we believe that the generic output specification document should be released as soon as possible in order to help hospitals develop their design plans on a consistent basis, in terms of environmental design, energy conservation, equipment selection and costing.

Madam Chair, I would now sum up my comments in this way: The government's capital renewal strategy, of which Infrastructure Ontario is such an important part, is allowing new hospitals, the kind of hospitals Ontarians expect to be treated in, to be built on time, on budget, while retaining full public ownership of the facility. The Ontario Hospital Association supports both the capital strategy and Infrastructure Ontario because both are delivering good value to the taxpayer and creating the environment for better-quality patient care.

Thank you for your time this afternoon. I'd be pleased to answer any questions.

The Chair (Mrs. Julia Munro): Thank you very much. Once again, we have five minutes per caucus. We'll begin with Ms. MacLeod.

Ms. Lisa MacLeod: I appreciate you coming in. I have a few questions for you. In your estimation, how many of the hospitals in Ontario today require a retrofit because they've moved beyond that 40-year lifespan that you were talking about?

Mr. Mark Rochon: I can't tell you the exact number of hospitals. I can get you the answer to that. But the value is about $8.4 billion, in 2003 terms.

Ms. Lisa MacLeod: So of that $8.4 billion, then, the province has invested $5 billion, or it's above and beyond that $5 billion?

Mr. Mark Rochon: It's $5 billion toward solving the $8.4-billion problem.

Ms. Lisa MacLeod: I just want to talk briefly about architecture, because we have a really great success story in the city of Ottawa called the Royal Ottawa Hospital, which was originally a public-private partnership. It was delayed after 2000 through the change of office. I assume it was part of this Infrastructure Ontario plan, when it was actually built. It's a beautiful hospital. I can't say enough about it. I'm just wondering if you're aware of the Royal Ottawa Hospital.

Mr. Mark Rochon: I'm aware of the hospital. I haven't visited the new facility.

Ms. Lisa MacLeod: And you're aware of the process they went through to build that new hospital and the improved architecture there—because of course the hospital, previous to the private-public partnership brought in by former Premiers Harris and Eves, was an old, old hospital that had exceeded its lifespan, wasn't exactly a hospital where you'd want to send any member of your family. But this new, state-of-the-art facility is a result of all of that work.

I just wanted to talk briefly about a few of the hospitals on the current project status list provided by Infrastructure Ontario. I noticed that there are two from my community: the Montfort Hospital and the Ottawa Hospital Cancer Centre. I'm wondering if you're aware of the time frames on when those are to be completed as well as the associated costs. Are they on budget?

Mr. Mark Rochon: I can't give you specifics on those projects; I can on my project, Toronto Rehab. My understanding relative to the Montfort is that it is under construction, but I can't tell you exactly when they're expected to complete that project. I do believe that information is available on the IO website.

Ms. Lisa MacLeod: Just two other hospitals, then. I've just received word from one of my colleagues who is concerned about West Lincoln Memorial in Grimsby. MPP Tim Hudak is very concerned that that has been delayed after the election. He had been expecting that that hospital would be receiving more assistance—and I see on this list it is "pre-tender." There's another hospital that we were talking about with respect to St. Catharines, the Niagara Health System. I understand that you may not have the exact information on each of these, but I think it's very important that when a project or a hospital is on the list from Infrastructure Ontario, we move along in getting these hospitals built.

I'm wondering what role the Ontario Health Association has in making sure those on this approved project list move thoroughly through the system so that either hospitals are expanded or they are being built on time, on budget, to assist communities.

Mr. Mark Rochon: One of the things that we do, as the representative of hospitals in Ontario, is meet with Infrastructure Ontario to make sure that the relationships between IO and the hospitals that are in the planning phase, and eventually the procurement phase and eventually the construction phase, are working together as a team. I can tell you from first-hand experience that the relationship between Infrastructure Ontario and hospitals is extremely positive. They work in partnership, in a collegial manner, and we try to solve problems together. I have great respect for what they've been able to accomplish.

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The OHA's job is to make sure that where hospitals do have some issues, we try to determine whether those issues are system-wide or only related to that one specific institution. Particularly, if they're system-wide issues, we will raise those matters with David Livingston and the staff of IO. I can also tell you that, to date, Infrastructure Ontario has been very open to meeting with us and hearing what we have to say.

Ms. Lisa MacLeod: Okay. Do I have time?

The Chair (Mrs. Julia Munro): That's it. Thank you very much. Ms. Gélinas.

M^me^ France Gélinas: It's nice to see you again.

Mr. Mark Rochon: Nice to see you.

M^me^ France Gélinas: You've been in the business for a long time, and so have I.

I was interested in what you said, the description of Infrastructure Ontario. There sure is a lot of capability within that group and it has helped hospitals a whole lot. I was curious as to how come you didn't talk about the maintenance part. Hospitals will now have this relationship with this consortium for 25 to 30 years, in a lot of cases. Are your members apprehensive looking forward? How is this?

Mr. Mark Rochon: As you know, there are two models: the design, build and finance, and the design, build, finance and maintain. In the design, build, finance and maintain model, in any relationship, of course, people have issues that they need to establish and make sure are properly captured in agreements and so forth. But our members are so delighted with the prospect of moving forward with new development for their communities that any concerns they would have would be far outweighed by moving forward with these projects.

M^me^ France Gélinas: They've waited a long time for those hospitals.

Mr. Mark Rochon: They've waited a long time, yes.

M^me^ France Gélinas: When we had the executive director and chair of Infrastructure Ontario with us this morning, they certainly made a point of saying that one of the reasons they're able to deliver on time and on budget is that they really make the process—he said that they use bureaucracy well—of scope changes to the project really difficult and onerous, so that the hospital really has to think this through a whole lot. It is the case in my community in Sudbury, where we're looking at ALC clients, thinking, "When the hospital is built, where are we going to put those 150 people who are presently in hospital?"

So I was wondering, is my community the only community that has a really hard time getting Infrastructure Ontario to realize that there has to be a change in the scope of the project as the project unrolls?

Mr. Mark Rochon: The scope of the project in terms of capacity is really an issue that's between the hospital and the Ministry of Health and Long-Term Care. The question of scope, the size of the hospital and the breadth of the clinical programs within the hospital is something that the hospital and the Ministry of Health have to come to an agreement on and then translate that agreement into a design and a plan that Infrastructure Ontario would then execute. We would not be negotiating with Infrastructure Ontario on whether or not a particular service would be offered in a hospital. That's clearly in the realm of the Ministry of Health.

M^me^ France Gélinas: Okay, because Infrastructure Ontario certainly made the point that they are able to deliver on time and on budget because the scope of the project doesn't change. The reason why the old way of doing things was often delayed and cost-overrun was because as you went through those projects, you realized that best practices had changed, and you now wanted more individual single rooms rather than double. That was the reason why, in the old days, there were delays and cost overruns. But now, because they are so rigid in making those changes, that balanced it out.

Mr. Mark Rochon: I would put it a different way. I would suggest that what Infrastructure Ontario brings to the table is a requirement for organizations to think through, up front, what they want the building to do. Once they begin the process of procuring and then building, that time frame is so short, really—we're building several hundred thousand square feet in about 20 months, in terms of the construction-build side of it—and you don't have time for change, quite frankly. Hopefully the design that you've incorporated is flexible enough to allow for modifications in the long run, because these buildings are going to be with us for 40 years.

M^me^ France Gélinas: So far, of the 21 projects that have begun, none have brought to your association the issue of being a little bit leery of having to deal with that consortium through the life of the project, 30 years? You know for yourself that lots of changes happen in a hospital in 30 years.

Mr. Mark Rochon: Absolutely.

M^me^ France Gélinas: And they're stuck having to deal with that one contractor, stuck with their prices as well.

Mr. Mark Rochon: That has not been an issue that's been raised with us as anything of significance.

M^me^ France Gélinas: Do you see it as an issue for your own hospital, that in 30 years from now you'll be—

Mr. Mark Rochon: No; our project is a design, build, finance; it's not a design, build, finance, maintain. You always have to be worrying about the extent to which your building is designed for the future, and things will change. Part of our building, for example, was built 45 years ago as an acute-care facility. It's not designed for its current use. That's why we're in the middle of this. It's going to replace another building. I mentioned in my remarks the need for proper ergonomic design to protect the safety of patients and staff. We could not install ceiling lifts because the ceiling couldn't support the structure of the lifts.

The Chair (Mrs. Julia Munro): Thank you very much. We must move on. Mr. Flynn.

Mr. Kevin Daniel Flynn: Thank you, Mark. Thanks for attending from the beautiful town of Oakville today. It's a pleasure to have you here.

We've heard interesting and varied opinions on the advantages of using the new AFP system. I'm just thinking that a person in your position, both with the rehab hospital and with the OHA, must keep your finger on the pulse of this type of thing around the world. I asked IO this morning if they could point to any examples of other jurisdictions that are similar to our economy here that are in the process of building hospitals and that do it in a way that's substantially different from the AFP program, and if there's any evidence to prove that there's a better system than the AFP program. Infrastructure Ontario really couldn't come up with anything. The idea isn't to put you on either side of this debate, because it soon degenerates into a black hats, white hats thing. I think if you ask the average Ontarian, what they want is the highest-quality hospital built at the lowest cost possible, at the end of the day. I'm just wondering if you know of any other jurisdiction—we were talking about other provinces, about the States, about Europe, about the UK—that's been in it for some time. Is there any example you can think of for this committee that is something we should be looking at?

Mr. Mark Rochon: Nothing comes to mind as an alternative to what we're doing now. I think that if we had turned the clock back and we were having this debate pre-Infrastructure Ontario, what we would be saying is that there are some lessons that we can learn in the UK and in those jurisdictions to move to an AFP-like approach. In other jurisdictions, for example, south of the border, their system is so different, and the way in which they reimburse hospitals for capital is so different because it's built in to the annual reimbursement for facilities, that there really isn't a reasonable comparator or an example that I could say to you, "Yes, we think that would work better." One of the things that I find good about the approach we're on is, as we learn from our experience, Infrastructure Ontario is open to changing its approach and its processes. They're very clear that they're not about to change scope, to get back to your question, but the way in which they come at this project has changed, and I think that's a very positive thing.

Mr. Kevin Daniel Flynn: So there isn't anybody that comes to mind, any other jurisdiction that is doing it the old way, prior to P#s and prior to AFP?

Mr. Mark Rochon: There are still jurisdictions, I suspect, in Canada that are on sort of a grants-based approach. We could go back and get you the specific provinces that are going down that path.

But the need to get on with it and the need to come up with ways in which to finance these projects in an affordable fashion lead us to the conclusion that this is a reasonable approach and path we're on. Under the old rules, you had to have the money locked up in budget estimates as a specific annual expenditure or you couldn't move forward. The Ministry of Health at one point was trying to manage construction projects on $250 million a year. They couldn't do it. That fact led to the circumstance where we have a capital deficit in Ontario of about $8.4 billion.

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Mr. Kevin Daniel Flynn: If we went back to the old way of doing things, would we build any hospitals at all, in your opinion?

Mr. Mark Rochon: This all comes down to money, right? Part of the issue is, how would you pay for it? To me, with this kind of money at risk, I would argue that the way you mitigate the risk is to have this kind of structure and these kinds of processes to transfer as much risk as you can to the organizations that are building these facilities.

Mr. Kevin Daniel Flynn: Thank you.

The Chair (Mrs. Julia Munro): Thank you very much. That concludes the time that we have available. I appreciate you coming here today.

Mr. Mark Rochon: Thank you for allowing us.

ONTARIO HEALTH COALITION

The Chair (Mrs. Julia Munro): I'd now like to call Natalie Mehra of the Ontario Health Coalition forward. Good afternoon. Do make yourself comfortable. As you would know from the previous presenters, we have 30 minutes allocated, and you may use that time to make some remarks, after which we will take the remaining time for questions and comments from the members.

Ms. Natalie Mehra: Thank you. My name is Natalie Mehra. I'm the director of the Ontario Health Coalition. Our organization represents more than 400 organizations. We're the broadest public interest group on health care in Ontario, with 78 local health coalitions operating in many of your constituencies. Our chief mandate is to protect and extend a quality public health system under the principles of the Canada Health Act. Our chief concern about Infrastructure Ontario is actually the lack of accountability and the performance of the P3 projects to date in Ontario.

I just want to clarify, because there are two models of P3s that are being used: the design-build models and then the design, build, finance and what you're calling "maintain," but really "operate," models—so the large models that are 30 years long, approximately 20 to 30 years, that include some privatization of services bundled into the design or build and finance of the hospitals. Those models are our chief concern. I'll just clarify that my comments are mainly about those particular models, although I think we still have concerns that the design-build models may be unnecessarily expensive and lead to competing demands on scarce resources. But really, our chief concerns are with the larger, 30-year contracts.

I guess our primary concern about Infrastructure Ontario would be the governance, or the lack of public interest protections in the governance of Infrastructure Ontario and in the management of the projects that have happened to date. The whole board of Infrastructure Ontario is taken from the industries that benefit from the P3 model, particularly, and there really aren't independent public interest voices that are not connected to the industries that benefit greatly from the P3 approach on that board of directors. There's no legislation—there's no P3 legislation that was brought in in Ontario at all to guard the public interest. There are no teeth to guard public accountability, transparency or access to information, stopping of cost overruns, accurate public reporting or any of those things in any of the legislation that does exist.

The Ontario Infrastructure Projects Corporation Act, 2006, which was set up to set up Infrastructure Ontario, doesn't actually have any provisions that would ensure that the kinds of excesses we've seen in the projects to date could be stopped. There's no statutory or legal framework for P3s. There's been no debate in the Legislature about this program. There have been no public hearings. The only "public consultation" was by invitation only, done by the Ministry of Infrastructure Renewal, in which 90 out of 100 participants came from the industries that benefit from P3s themselves, in which all the questions were about how to do P3s, not whether or not to do P3s. Other than that, there's been no proper process. So we have deep concerns about the process, and we think the process, actually, has led to some of the problems we're seeing today.

I have to say that these are not points that I'm making lightly. I don't think I have personally ever seen another government program covering this much money that had so little public accountability or public interest protection. I have never seen a program with so much secrecy, and every reasonable question that we have asked either had an inadequate answer or we've been refused an answer or we've been given just a straight PR line that escapes or evades answering.

For example, we asked David Livingston, who is a very nice man and pleasant and so on, what the average cost overruns were in former projects. Much has been made of cost overruns in Thunder Bay and Sudbury—but curious: "What are the cost overruns?" For instance, in the UK the auditor has a report showing 10 years of history of public procurement, what the average cost overruns were, what the average cost overruns are in the P3s, and can compare the two. We asked David Livingston, "Where is that analysis in Ontario? What were the cost overruns?" He said that they don't have that information. He said they would love to have that information but they don't have that information. Without that information, how is it possible to calculate the risk that's being transferred? In a hospital project, the highest risk period is the construction period for cost overruns and delays and so on. How can you calculate what risk you're transferring to the private sector in a P3 deal if you don't know what the cost overruns were in the previous public projects?

We asked David Caplan, "Why no consultations? Why, in the only consultation process that was created, were there no public improvements and public procurement options created? The legislation that sets out the mandate of Infrastructure Ontario allows for Infrastructure Ontario actually to be treated as a kind of centre for excellence and procurement that could provide a project management expertise, that could provide the support that local communities need when their or local hospital boards need when they are mounting these giant infrastructure projects that they're not used to. It doesn't actually require a P3 approach. So why is it that the only approach that has been considered seriously has been a P3 approach, an approach that is highly controversial and has led to well-documented, significant problems in the UK, where the world's largest experiment is happening?" We couldn't get an answer on that.

We were told that cabinet was brought either by Infrastructure Ontario or by the industry lobbyists or by the MPIR to Thunder Bay to look at the hospital project there. I wonder: Was cabinet brought to Peterborough to look at the public hospital project that was built there, because at the same time as the government commissioned the Brampton P3 hospital, which suffered from significant cost overruns—the initial projected cost was $350 million. By the end of the construction, the capital costs were $650 million, the equipment costs had trebled, the local fundraising total had trebled during that time. The whole deal, including services, was $2.6 billion on a hospital that ended up smaller than it was originally projected to be. It was originally projected to house 608 beds. It now has 479 beds in it. A whole building was axed in the middle of the tendering process, medical/surgical beds were removed, all the complex continuing care beds are no longer in the project, the ambulatory care's base has shrunk in order to contain costs. Now Brampton patients are being told that if they need a complex continuing care bed, they need to go to Orangeville to get those services, partly as a result of the exorbitant costs of their hospital.

At the same time as that hospital was being built using the P3 method, the hospital in Peterborough was being built. It was the last public hospital being built using the public procurement method. These are not my figures; these are the government's figures. These are the cost comparisons between the two. The Peterborough hospital was started within a year of the Brampton hospital. The final construction costs for the Brampton project, $650 million; Peterborough hospital, $197 million. Total costs, including equipment: $900 million in the William Osler Health Centre; $286 million in the Peterborough hospital. Number of beds on opening: in the Peterborough hospital, 400; in the William Osler Health Centre, 479 beds. Total bed capacity: 608 in Brampton; 494 in Peterborough. So the question is, how can you build a hospital that has capacity for 100 more beds at double the price of a public hospital? How is it that a hospital with a 500-bed capacity costs $200 million and a hospital with a 600-bed capacity costs $650 million? How does that happen? Nobody in this government has been able to answer that question.

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Where's the 10-year plan that was supposed to have the priorities and timelines for each of the parts of infrastructure? What happened to that? Where's the evaluation of the Brampton P3 hospital and the Royal Ottawa P3 hospital, which were claimed to be pilot projects at the beginning? And why is it that the Peterborough hospital is so much cheaper than the P3 hospitals? I gave you the comparison with Brampton. If you want to look at the new set of P3 hospitals, we can look at North Bay. North Bay hospital has a total bed capacity of 388 beds; it's being built for $551 million. Peterborough hospital has 494 beds; it's being built for $197 million. Why is the North Bay hospital, which is a smaller-sized hospital than the Peterborough hospital, almost double the price?

In the Brampton P3, the former director of the Office of the Auditor General of Canada, Lewis Auerbach, did an evaluation of the value-for-money report, which in the Brampton P3 looks like this: It's hundreds of pages, it's detailed, it's by Deloitte and Touche. In that report, he found that on a hospital that was planned to cost $350 million, $430 million had been signed away in the contract for profits, for management fees and for higher interest than would be at a public bond issue rate, for example. That's $430 million on a hospital that was supposed to cost, in total, $350 million in the first place.

When you look for the value-for-money audits of all of the P3 hospitals that have come under Infrastructure Ontario, what you get is something that looks like this, by PricewaterhouseCoopers. The caution letter at the beginning of the value-for-money audit says, "We did not audit or attempt to independently verify the accuracy or completeness of the information or assumptions underlying the information here"—which they were provided by Infrastructure Ontario—"and/or the successful proponent's final offer, nor have we audited or reviewed the successful proponent's financial model." What that means is that none of the assumptions to come up with a public sector comparator, neither Infrastructure Ontario's figures nor the figures in the final bid, have been audited in these value-for-money audits.

If information has been given to cabinet that these deals have been subject to a proper value-for-money, if this is the only value-for-money that exists, they have not been subject to a proper value-for-money. This wouldn't pass a test with any auditor anywhere. There is really non-existent value-for-money on all of the remaining projects, yet all of them have seen significant cost overruns. The North Bay hospital, for example, a 20-something-year P3 project, was projected to cost $218 million, I believe, at the outset of the tender process, in 2005. By the end of the tender process—which was late, by the way, not on time at all—in 2007, it was $551 million. That's capital costs. Total costs for that project were $1.05 billion.

The Sault Ste. Marie hospital, one of the other large P3 projects, was projected to cost $200 million. By the end of the tender, by the end of the RFP, it was $408 million. We don't have a disclosed full cost if you include the privatization of the services and all the interest, but that's capital costs alone. All of those hospitals have at least doubled, so every P3 hospital done under Infrastructure Ontario for which there are any figures available, the costs have at least doubled in those hospitals.

The claims that risk has been transferred for cost overruns or for the projects being late or beyond time simply don't hold water. Both the North Bay project and the Sarnia project were significantly late. The tender process was held up at the request of the consortia that were bidding, and the same thing has happened in St. Catharines, so all of the large P3 projects that are in process are not on time, nor are they on budget.

The scope of the deals exceeds what has been publicly announced by the government and what is implied by using DBFM—design, build, finance, maintain—as the language of the model. In fact, there is a directive from the Ministry of Health to the hospitals. This is the only thing preventing full-scale privatization in the P3 hospitals. I would warn you that if another government came into office that didn't believe, for example, in public, non-profit hospitals, these deals are open to being transferred totally, almost, into private hands. But what they allow is not only hard facility management but also lifecycle maintenance services, also a list of soft facility management services throughout the lifetime of those projects. For the St. Catharines project on, it looks like they're 30-year. So it's not just shell or hard facility maintenance.

Finally, the secrecy surrounding these projects is astonishing. We're talking now, for the first large P3 projects, the first four of them, over $4 billion or $5 billion in public money that's going to these projects, and yet there has been no proper public disclosure. Even after the Premier announced that there would be public disclosure of the deals, the government has not been able to leverage public disclosure of the deals. The new project agreements, such as this one for North Bay, contain clauses in them that say that disclosure is subject to the agreement of the consortium, so the consortium has to agree before the documentation is revealed. In this case and in all cases since the North Bay hospital, there's actually less information available than there was about the first two P3s, the Brampton P3 and the Royal Ottawa P3 project. It took us four years in court just to get the value-for-money audit of the Brampton P3 project revealed publicly. That is simply an unacceptable lack of accountability about the use of billions of dollars of public funds. It's not in the public interest that this amount of money be spent without public scrutiny, especially given the closeness of relationships in Infrastructure Ontario and the Ministry of Public Infrastructure Renewal and the industries that all benefit from these projects.

I guess I want to end with a warning that this looks a lot like the kinds of relationships and the kinds of money that ultimately led to the sponsorship scandal. What you have here is the set-up for a scandal. Ultimately, there's a lot of money being spent here that would make sponsorship look like small potatoes, frankly. What we would recommend now is a moratorium on P3s. You have a good set of principles, the government has a good set of principles: that the public interest is paramount, that value for money must be demonstrable, that appropriate public control and ownership must be preserved, that accountability must be preserved, that all processes must be transparent. None of those are actually being followed, but they're good principles. Assert those principles, get a grip on the actual spending that is happening in these hospitals, set up a legislative framework and revisit the question of whether or not P3 privatization is, in fact, the way to go. Thank you.

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The Chair (Mrs. Julia Munro): Thank you. We'll begin our questions with Ms. Gélinas.

M^me^ France Gélinas: How long do we have?

The Chair (Mrs. Julia Munro): You have about three or four minutes.

M^me^ France Gélinas: Thank you so much, Ms. Mehra, for a very good presentation. I can tell you that this morning we had Infrastructure Ontario in here, and I tried to get them to associate accountability with being transparent. It was a little bit surprising to me because the chair opened up their part of the presentation by saying that they understand that they're in charge of a lot of money, that hospitals are something that is very dear to people's hearts and that transparency is the key to strong accountability. But then I started to ask, "Could you give us information about the value for money?" and they said, "No." "Can you give us information about the financing of the project?" and they said, "No." There was no transparency, and I understand that your organization came away with the same block.

Could you take us through what your agency went through to finally have information on the Brampton one, just so that, for the record, people know how unaccountable Infrastructure Ontario has been?

Ms. Natalie Mehra: We fought in court for four years to get disclosure on the Brampton deal. What we got in the end was the value-for-money, the project agreement, the direct lenders' agreement—some of the information still is not publicly released. On the remaining deals, on the North Bay deal, for instance, we asked Infrastructure Ontario and the Ministry of Public Infrastructure Renewal if there was anything beyond these value-for-money assessments, which don't actually test any of the numbers. We were told that they were summaries. I asked the Ministry of Public Infrastructure Renewal for a release of the full version of the value-for-money. I was told that they couldn't be released.

There's information in Project Finance Magazine about the plenary group—about an off-shore arrangement that allows one of the consortia to evade actually paying taxes as part of the deal. I asked for information on that; I was told that that information couldn't be made available publicly.

So we asked for release of the North Bay information. What we got was a project agreement here. It's 695 pages or so. Every piece of financial information is blacked out. Even the names of the companies and their relationships are blacked out. All of the schedules are missing, the direct lenders' agreement is missing, there is no proper value-for-money—there's no disclosure except for the basic template project agreement. That's it.

M^me^ France Gélinas: At the end of the day, an Infrastructure Ontario official this morning led us to believe that we have to take a leap of faith, we have to trust that the value-for-money is there because they are the experts, they know what they're doing and we should trust them: The value-for-money is there, and they're investing public tax dollars in a wise way. I want disclosure so that I can come to my own conclusions. We have tried; we have done requests for information. I got the same as you: 300 pages of black. I'm sure it cost them a fortune in ink because everything was black except for the page number. I got nothing. You had to go through court to get a little bit of information.

As long as we don't have disclosure, as long as we don't have an independent set of eyes looking at those deals to assure the public of Ontario that their tax dollars are being well spent, we open the door to lack of accountability. This is something that our party cannot agree to.

Ms. Natalie Mehra: Sure. You know, this has been an ongoing scandal in the UK, where they have 10 years' advanced experience on us with this project. I believe that in Scotland now, they're looking at legislation to force disclosure on the deals. But nonetheless, if part of the cost of privatizing the infrastructure is that there is no longer any public accountability for it, then perhaps it's not the most appropriate method to use for public procurement.

The Chair (Mrs. Julia Munro): Thank you very much. We'll move on to Mrs. Van Bommel.

Mrs. Maria Van Bommel: Thank you very much. I'm certainly very interested in some of the numbers that you have put forward. I'm a past chair of a hospital alliance in my riding, and so as the chair of a board that was responsible for two hospitals that were built under the old system, one of the things that happened a lot was the cost of maintenance of the building. Windows had to be replaced, roofs had to be redone, paint, walls cracked, that sort of thing—at that time, it always kind of reminded me, in many ways, of trying to build a house, because if you have a system where you're just going for the cost, the cheapest contractor is going to get the bid and the job, and you'll end up with 15-year shingles instead of the 40-year shingles, and you'll get windows that won't last.

I look at the numbers that you've given here. There's such a spread in the numbers that I have to wonder: Did you, in your calculations of the Peterborough hospital, take into account—because in the other hospital numbers, there isn't a maintenance factor in there; there is an operating cost. Did you take into account anything in there? You talk about construction costs, but what calculations—I'd like to know a little bit more about what expertise you have behind these numbers. If I look at Peterborough hospital and I look at it from my experience with a hospital under the old system, and I look at what it cost us over 30 years to keep that hospital in running condition, I think my constituents probably still paid more in the long run under the old system than they would have if we had had a maintenance contract with this.

Ms. Natalie Mehra: Sure. So to answer your question, the numbers are numbers that have been released by the government, so they're your numbers. They're the government's numbers. For the Peterborough hospital, the capital cost—that means no maintenance contract, just the capital cost—is $197 million. That's for the 494-bed hospital capacity. For the Brampton hospital, it's $650 million—capital cost alone; nothing else in there. For the North Bay General Hospital—

Mrs. Maria Van Bommel: Is that capital cost or is that maintenance?

Ms. Natalie Mehra: That's capital cost.

Mrs. Maria Van Bommel: My understanding is that that's the cost.

Ms. Natalie Mehra: I'll give you the maintenance—Brampton: $650 million capital costs. You add in the equipment and it becomes $900 million. You add in the service contract and the interest, and it becomes $2.6 billion. That's the Brampton P3 deal. The total deal is a $2.6-billion deal, at least.

The North Bay hospital: The capital costs are $551 million. Add in the services and the interest, and it's a $1.05-billion deal. Those are figures that were leaked from the hospital itself, from correspondence between the hospital and the ministry.

The Peterborough hospital, figures released by Jeff Leal, government MPP for Peterborough: The total cost was $197 million in capital costs alone, and including the equipment, $286 million. So for a hospital that has approximately a 500-bed capacity, it's less than $300 million, compared to the Brampton hospital—these are the comparable figures—which, including equipment, is $900 million.

Mrs. Maria Van Bommel: My understanding is that the numbers that you were quoting were the original costs, including the maintenance, because it is—

Ms. Natalie Mehra: No, I'm comparing apples and apples.

Mrs. Maria Van Bommel:—a design, build, finance and maintenance project. So it's all in one.

Ms. Natalie Mehra: No. For Brampton, the total deal is $2.6 billion.

Mrs. Maria Van Bommel: Do you have any idea what it would cost to do maintenance over 30 years for the Peterborough hospital? Would you be able to put a calculation to that?

Ms. Natalie Mehra: No, I couldn't.

Mrs. Maria Van Bommel: So you have no—do you talk to people who do redevelopment of hospitals? When you do your analysis, what expertise do you use?

Ms. Natalie Mehra: Let me give you an example. Lewis Auerbach, the former director of the Office of the Auditor General of Canada—so obviously, he has the expertise; a very credible person—did a value-for-money review of the Brampton P3 hospital. What he found was that the financial case for the hospital rested upon a projection that the services of the hospital—so the maintenance that you talk about, but in that hospital it was additional services—would be run for 70% of the public sector comparator, a number that is so low as to be implausible. It is very unlikely that the hospital could be run for 70% of the costs that it normally would be run for under a public model—so what he calls a dubious assumption that hospital operating costs can be reduced beyond reasonable levels in order to offset the unnecessarily high costs of financing design and construction. What that means is exactly what has happened in the UK: Because the financing costs are too high, because of the profit-taking, because of the consultants' costs, because of all those costs being so high, the scope of the hospital ends up getting shrunk. In the Brampton hospital, that's exactly what happened. The scale of the hospital was reduced.

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The Chair (Mrs. Julia Munro): Excuse me, we've run out of time. We'll move on to Ms. MacLeod.

Ms. Lisa MacLeod: I appreciated my colleague's questions. I think she had some very valid questions.

I want to talk to you a bit about the role of private investment in the public delivery of health care. I think, philosophically, we'll probably disagree. Having said that, you made some very valid points about accountability and how we could probably see a more transparent Infrastructure Ontario; I agree. You made a point where you said there is so much money, but so much secrecy, and a lot of the questions have not been answered.

Then you went on to warn us, and this is where I want to have a little clarification, that this could be another sponsorship scandal. That's a pretty serious thing to say, particularly because my colleagues will remember, during the sponsorship scandal federally, that implied that the government was funnelling money into companies for partisan purposes. I've seen no evidence of that. I might not be on the same side as my colleagues, but that's a pretty serious thing to say, and I wonder if you have any claims to back that up.

Ms. Natalie Mehra: What I'm saying is that you have a set-up that is ripe for use of public funds. You have a set-up with such a lack of transparency and such closeness of relationships between the industry and the bodies that are meant to oversee the P3 projects, which deal with billions of dollars of public funds, that it's a set-up for a scandal, it's a set-up for misuse of money—

Ms. Lisa Macleod: But just to be clear, the sponsorship scandal was very unique in that there was actual public money used for partisan purposes. I'm not one to always defend my colleagues on the other side, but I just think that it's a very dangerous path to go down and to use rhetoric like that while we're in front of the province is quite dangerous. I think that in terms of making your point, we would all be better off to talk about the lack of accountability rather than likening it to something that I have not seen any evidence of.

Ms. Natalie Mehra: You're putting words in my mouth, so I want to clarify that what I've warned you of is a set-up for misuse of public funds. There is not enough accountability here to ensure—

Ms. Lisa MacLeod: I mean no disrespect. It's just that I did work on Parliament Hill during that time, and we're still seeing the repercussions of that, and I just would hate to see that be implied. Anyway, thank you very much.

The Chair (Mrs. Julia Munro): That concludes the time available. We appreciate you coming.

LABOURERS' INTERNATIONAL UNION OF NORTH AMERICA

The Chair (Mrs. Julia Munro): We would now ask the Labourers' International Union of North America representatives to come forward. Good afternoon, and welcome to the committee. As you have been present during the last couple of presentations, you know that we have 30 minutes. You will have the opportunity to make statements as you wish, and then we'll divide the remaining time amongst the members here. For the purposes of Hansard, I'd ask you to introduce yourselves. When you are ready, you may begin.

Mr. Joseph Mancinelli: Thank you for the opportunity to make our presentation on infrastructure investing and our work, in particular, with Infrastructure Ontario.

I am Joseph Mancinelli, international vice-president of LIUNA, Labourers' International Union of North America. I am also chair of the Labourers' Pension Fund of Central and Eastern Canada.

To my right with me today is Lou Serafini, and he is president of Fengate Capital. Fengate Capital has $500 million in capital, $2 billion in assets and 100 employees. It has been recognized as one of Canada's top 50 managed companies. Its mandate is investing $200 million of LIUNA's pension plan dollars in infrastructure investing. In addition, Lou is our managing partner in LIUNA's $200-million infrastructure fund.

To my left is David D'Agostini. He is the administrator of LIUNA's pension fund for central and eastern Canada. This fund has assets of $2.2 billion and services our 90,000 members, 60,000 of which are here in Ontario.

Most of Ontario's infrastructure is over 50 years old. In fact, our experience with most communities right across the province is that the old infrastructure is deteriorating rapidly. It has been creating a risk to the public and causing extraordinary dollars to be spent on upkeep and repair. Our investments in infrastructure have resulted in a win-win situation for our communities, who have finally realized the construction of new hospitals; it's a win-win for government, which does not have to strain the public purse or budgets; and it's a win for our pension plan.

Our pension plan, through our infrastructure investment, will create thousands of jobs for workers in Ontario and in particular will create work for thousands of LIUNA members, who will then be remitting dollars back into the pension plan, which will ultimately be reinvested once again in our communities right across Ontario.

I personally have been a trustee on Hamilton Health Sciences' board for 12 years. I can tell you with absolute certainty that Hamilton Health Sciences is happy about the two hospitals that are finally being built in the Hamilton area. We have jumped from the 1950s to today's standards overnight because of the reinvestment infrastructure of those two hospitals. The community, of course, in that particular city is also ecstatic, and I can assure you that the economy in that particular city is booming because of the injection of infrastructure dollars into those projects.

Our LIUNA pension fund is looking for secure long-term investments. Working with Infrastructure Ontario gives us the security that we require and a forum and vehicle for patient, long-term investing. These programs have been a significant catalyst for economic renewal in many small communities. The economic impact cannot be understated. These large projects have given us an opportunity to train a large number of new workers, including many apprentices and First Nation youth. We would be pleased to show you, the committee members, any and all of our records, with complete transparency, that this is a very positive and effective experience for all involved.

This has been a great experience for our organization, representing 60,000 Ontario workers and their families. We are looking forward to working with Infrastructure Ontario as we move forward to fund the renewal of transportation infrastructure. We hope that the procurement process will be used in order to regenerate the roads, bridges and all infrastructure projects. We think that this is a win-win situation for government, communities and the investors involved.

I'd like to pass it over to Lou Serafini to expand on this very positive experience.

Mr. Lou Serafini: Thank you, Joe, and thank you to the committee for allowing me to speak today. As managing partner of LPF Infrastructure Fund, I can tell you that, to date, we have successfully partnered in 11 projects and pursued as many in seven provinces throughout Canada.

The greatest realization that we've experienced at our company since our involvement in this sector began in 2005. It was the dire straits of Canada's aging infrastructure.

Having dealt with several provincial agencies in a variety of projects in the social sector, transportation sector and energy sector, we can make several observations about this method of procurement. And that's what we think this is: a method of procurement.

One, the process adopted by Infrastructure Ontario is a high-level way of transferring risk to the private sector. What we are trying to achieve is long-term cost certainty. The problem that we encounter is that we're always comparing apples and oranges: a construction cost contract to a contract that predetermines your costs for a 33-year period.

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The second observation we'd like to make is that the mechanics adopted by Infrastructure Ontario create a bidding environment. This bidding environment promotes innovation in design, construction, facility management and financing. One small example: We are the successful bidder on the Sault Area Hospital. We brought in a technology that has 200% efficiency in lighting. It's an innovation that hasn't even hit the market. This came out of our consortium and will become a standard for hospitals throughout Ontario.

Third, this method of project delivery invites global players to partner with Canadian companies, ensuring maximum value for taxpayers. The P3 market is not new; it's 15 years old in the UK, it's 20 years old in Australia, and it's been adopted in a big way in Europe. One example that comes to mind is the Golden Ears bridge in British Columbia. It is the third time the bridge has been built—in Vietnam, in Panama and now in Canada. This drives value down and creates benefits for taxpayers.

The bottom line, in our experience, is the time that it takes to bring a project to delivery has improved significantly. Our bottom line is that they're finally getting built. When we go to these communities like Sudbury and Sault Ste. Marie, what we hear most is not how the project was delivered but that it finally is being delivered.

Thank you.

Mr. David D'Agostini: Pension funds are a natural investor in P3 projects. They have a wide variety of appeal for institutional investors. We believe that infrastructure investments are win-win for all stakeholders. In an investment world of 4% bonds and volatile equity markets, they make a great investment from a pension plan perspective.

Because pension funds have inherently long liabilities, infrastructure investments are an excellent match for those liabilities. They behave like a long-duration, fixed-income asset or bond with equity-like returns. They also provide stable and predictable cash flows, particularly in the investment credit environment that we are in currently. Infrastructure cash flows have a low correlation to equities and real estate and provide less volatility than equities and real estate. With an allocation of 5% to 10% in infrastructure space, a pension fund can substantially improve their overall returns. We expect to see that pension funds by the year 2015 have increased their allocation to about 15% in infrastructure space.

I'd just like to thank the committee on behalf of the board of trustees. Our board of trustees is extremely pleased to be participating in these infrastructure investments.

The Chair (Mrs. Julia Munro): Thank you very much, and we'll begin with Mrs. Albanese.

Mrs. Laura Albanese: Thank you for your presentation. I know that tomorrow you're breaking ground in Oakville, with the opening of a new building, so congratulations for that.

You have spoken about the importance of infrastructure. We were talking earlier about skilled trades. I wanted to ask you, do you believe that there is a shortage of skilled trades today in Ontario? We also heard earlier that there is a need for management education in this field, and I wanted to get your opinion on that.

Mr. Joseph Mancinelli: Through you, Madam Chair, of course there is a skills shortage. There has been in the province for quite some time with regard to construction trades. In fact, the absence of large projects, such as the infrastructure projects that we have, has been part of the problem. It's very difficult to train and get apprentices on small projects around the province, to get women involved in construction, to get aboriginal youth involved, because the projects are small. But when you have the opportunity, like a large infrastructure project, a large hospital that may be $200 million to $300 million, it allows us the opportunity to train new people. It allows us the opportunity to bring in a higher percentage of apprentices, and it allows us the opportunity to train youth, aboriginal youth, women and a number of folks who would not have access to those particular jobs. So I think that this infrastructure project is actually solving some of the problem. Of course, I have no pretensions that it is solving all of the problem, but it is solving some of it in the construction trades because we can finally get some of the training programs in place in order to get a higher percentage of folks into the workforce.

Mrs. Laura Albanese: Do you believe that the AFP model is working? We have heard that because of the magnitude of the projects at times, you can't get the small subcontractors to bid for these projects and that might be a problem. What is your opinion on that?

Mr. Lou Serafini: That's somewhat true, but the real driver of smaller contractors participating in these projects is not the method of procurement; it's the method of financing. Typically, the Ontario Financing Authority would issue lots of bonds, and if you use a smaller contractor and the government just issues the paper on that, you're taking the risk of that small contractor completing the job. Under the current AFP model, all this risk is transferred onto the consortium, so your contractor has to provide enough security—letters of credit, bonding, parent company guarantees, surety insurance, which a lot of times smaller guys can't qualify for—to secure the cost and completion schedules of these projects. So if this is a bigger player's game, that's because of the financial markets and what risk they're willing to take.

The other thing we've seen is that even the Canadian contractors are getting at their maximum level of capacity. So we have to ask ourselves, if the next phase of hospitals will be $1 billion and bigger, who's qualified to build them within Canada? We can tell you that you can count them on one hand. Now we're seeing expertise coming from Europe to partner with Canadian companies so that we can deliver these facilities that we need.

Mrs. Laura Albanese: You also seem to recommend AFP projects in the transportation field. Why is that? What would be the benefits of that?

Mr. Joseph Mancinelli: I think that if we had to highlight a sector within all of our communities that has experienced the highest level of deterioration, I would have to say that's the sector. Our bridges, our roads, our highways are in desperate, desperate need of repair. Now that the government has committed to an infrastructure program in order to rebuild that part of the infrastructure, we're convinced that this procurement process is a good process to use, moving forward, to get these projects done. If we rely on the public purse and on the government to come up with these funds, I'm afraid that our experience in the past kind of speaks for itself, it takes too long to get these projects off the ground, whereas with this process it takes an average of about three years to turn things around. Within a three-year period we could see our new bridges, new roads, new highways and expansion of the existing systems, which would have a dramatic impact not only on infrastructure, but on energy and on pollution and on a number of things. So the domino effect is very, very positive, and we're very much in favour of it. We have allocated an additional $100 million from our pension plan specifically earmarked for transportation infrastructure. We look forward to working with Infrastructure Ontario in that field as well.

The Chair (Mrs. Julia Munro): Any further questions here? Okay, thank you. Ms. MacLeod?

Ms. Lisa MacLeod: Thanks for coming today. I just have a quick question about the hard copy of your presentation and the sheet which says, "LPF Infrastructure Fund." I just want to go halfway down the page to the Royal Ottawa Hospital and the William Osler Health Centre, which are not part of Infrastructure Ontario; they're both part of the Ministry of Health and Long-Term Care. Could you explain the numbers to me, because I'm having trouble: Is the hospital worth $1.5 billion, and then your returns are $1.69 billion?

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Mr. Lou Serafini: I'll take that. Those investments were done post-construction, and these investments are actually equity-related to the construction contractor, as opposed to a direct investment in those projects.

The number you see on the right—total construction value—is the amount of the contract, not $2.5 billion. It's $447 million. What we find is that a lot of numbers that other interest groups present are nominal dollars. They will take the number of payments for 33 years, plus the interest, and add them up. The process adopted by Infrastructure Ontario is a net present value number. For instance, if you were to look at Sault Area Hospital, which is a $408-million project, the actual construction contract is $267 million—a lot different than $408 million. The $400-million number for a net present value that is disclosed by Infrastructure Ontario includes many things: financing costs; interest during construction; major maintenance reserve accounts so that we know that the boilers are going to be operating in year 33; debt service reserve accounts; and again, a fixed payment for 33 years so that we know we're going to have cost certainty.

Underneath that, what's not disclosed is the penalty regime if we don't perform. So if operating room 6 is 72 degrees and the doctors refuse to operate in it, we don't get paid. That's a reality of this process that's usually not disclosed.

Ms. Lisa MacLeod: With respect to the Royal Ottawa, then, the total construction value—what it cost the province—is $127 million.

Mr. Lour Serafini: At our involvement, that was the cost of the project. That's when—

Ms. Lisa MacLeod: So our total value is now $151 million? So the province of Ontario is actually making money off of this hospital; it's not large cost-overruns. Am I to assume that?

Mr. Lou Serafini: No, it wouldn't be right to assume that. That's really the markets and the value of that project based on a financial markets perspective. So there are risks during this process, and as they decline, the perception is that the risk is declining. For instance, many people would consider a higher-risk period during the construction period, which is a four-year period, typically.

Ms. Lisa MacLeod: So the province of Ontario, though, did not lose money in building the P3 in the Royal Ottawa Hospital?

Mr. Lou Serafini: No. It was a cost-certain, date-certain contract.

Ms. Lisa MacLeod: Thank you. No questions.

The Chair (Mrs. Julia Munro): Thank you very much. Ms. Gélinas.

M^me^ France Gélinas: Thank you for coming. Throughout your presentation, you referred to P3 and the experience in the UK where they've been doing this for 15 years, and in Australia. When you used the term "P3," you were really referring to the alternate financing and procurement? For you, they mean the same thing. So what you said about the P3, you really meant about AFP?

Mr. Lou Serafini: AFP in Ontario, PFI in the UK.

M^me^ France Gélinas: Okay. So P3 is the same as AFP?

Mr. Lou Serafini: Correct.

M^me^ France Gélinas: I have money in a pension fund. I'm hoping that they're risk-averse, that the money is going to be there when I need it. When the risk is being transferred, how could a risky investment be something that attracts you guys? I'm missing something here, because usually pension funds don't want risky investments.

Mr. Joseph Mancinelli: It's interesting that you use the word "risky," because we don't. Our members work in the construction industry and we don't view construction as a risky investment. Ideologically, we're opposed to that terminology. We don't see these as risky projects at all.

M^me^ France Gélinas: So when the government says—when Infrastructure Ontario talks about the transfer of risk, Infrastructure Ontario perceives it as risk, but you don't perceive it the same way? Is that it? Because otherwise, they would become risky investments.

Mr. Joseph Mancinelli: No. I think that the word "risk" is associated with the ability to deliver a product on time and for the dollars that you've committed to build it at. I think that's what "risk" refers to. And we're pretty confident that in any of the projects that we're involved with, we can deliver the projects on time and on budget, and that is big savings for the government, a feather in the cap of our workers and our members who are actually performing the construction work, and I think it's a win-win for everybody.

M^me^ France Gélinas: Okay, so from the financial perspective of your pension fund, you're not investing our money into a risky endeavour?

Mr. David D'Agostini: No. I think what Infrastructure Ontario means is that the risk is being transferred to the contractor. It's very similar to a fixed-cost bid, where you've taken the bid and now you take the risks that go along with it. If you overrun on your project, you're going to have absorb the cost of that.

M^me^ France Gélinas: But you're part of this consortium that includes the builder, so if the builder doesn't come in on time and on budget, your money is not coming in; like you said, there are penalties. Doesn't that make it risky?

Mr. Lou Serafini: It's an investment that has risk associated with it, that is true. The key, then, is doing enough assessment and enough analysis, like any investment: What is the risk and what is my tolerance for risk and am I getting an adequate return for that risk? In our case, we've been very satisfied where we are positioned today. But you're right: The consortium does take on risk; the lenders require equity because there is a risk component. That is the whole point, in our view: The government has taken this risk on in the past and now they are passing it off to the consortium. We do that as well. As an equity investor, we assess where the risk is and what our comfort level is, and then we make a decision. There are certain investments we have not gone after because we felt that the tolerance for our risk was lower than what this project would yield to us.

M^me^ France Gélinas: Okay.

Mr. Joseph Mancinelli: I'd just add to that, if I may, that there are different levels of risk. In fact, on a $2.2-billion plan—we invest in many different things so we don't have all of our apples in one basket, if I can put it that way. If you start comparing levels of risk, after yesterday's performance and the day before on the equity markets, I would think that infrastructure is a pretty good investment, compared to the money we had in the equity market. So you have to look at it that way as well. It's all relative.

M^me^ France Gélinas: It makes it look pretty good after what happened in the US.

Mr. Joseph Mancinelli: It does, it does.

M^me^ France Gélinas: I had one more question and it escapes me. Give me one second. No, it's not coming back. Sorry.

The Chair (Mrs. Julia Munro): This is it?

M^me^ France Gélinas: This is it unless it comes back to me in the next couple of seconds.

The Chair (Mrs. Julia Munro): Thank you very much for being here today and giving us the insights that you have. We appreciate you coming.

ONTARIO FEDERATION OF LABOUR

The Chair (Mrs. Julia Munro): I'd like now to call on Wayne Samuelson, the president of the Ontario Federation of Labour.

Mr. Wayne Samuelson: Good afternoon. I think I'm the last person. I should tell you that this is the high point of my month when I get to come here and share my views with you. My name is Wayne Samuelson. I'm president of the Ontario Federation of Labour. With me is Sheila Block, who is our director of research, recently appointed, and has worked as an economist.

I'm going to try to give you a sense of my views on this issue. I should tell you, I spent some time in Great Britain looking at the incredible disaster that has happened in that country because of the investment. I should tell you, whether you like them or not, it's probably going to be a contributing factor to that government suffering in the polls. All of the things that have happened, the disasters I've seen over there, are now catching up.

I want to begin by saying I'm really pleased to present you with my views on behalf of our 700,000 members. Your terms of reference for this agency review include improving the accountability of agencies and revising the mandate and the role of agencies. It's in that context that I hope you will consider what I'm about to say.

We are calling on you and hoping that this committee will take a closer look at the accountability of Infrastructure Ontario's P3 program and its mandate to use P3s to build public infrastructure. The OFL has a history of opposing P3s. We have done an incredible amount of work on the principle; you sometimes call them AFPs here in Ontario. Our view is that they are more expensive than traditional government financing; they make it harder to provide for good, quality public services by introducing profit providers into the system.

First, let me talk about accountability, because I think that is an incredible responsibility that all of you have. The government claims that Infrastructure Ontario has an open process and points to all of the information that is available on the Web, things like project agreements, contracts and value-for-money assessments. But when you look a little closer, it's clear that instead of transparency, you have a lot of smoke and mirrors. Oh, yes, the project agreements are on the website, but with almost all the information removed. An example is the 695 pages of the North Bay project agreement that Natalie Mehra talked about. The word "redacted," which means the information has been removed, appears 359 times.

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It's the same story for the value-for-money assessments. The government tells us that they've proved there's a good deal for P3s, but when you take a closer look there's not much information to really allow you to assess that and to prove anything. In fact, the government doesn't even give the accounting firms that do the assessments enough information to do them, and as you know, in their documents they actually provide a caution in that regard.

In my mind, the evidence is clear that P3s are a more expensive way to pay for public infrastructure. Governments can borrow money much more cheaply, they can insure against risk more cheaply, and the complexity of these agreements has the impact of increasing the costs. We know that when P3s get involved in the operation of public services, it's a recipe for poor quality. For-profit providers need to focus on the bottom line, not on the quality of public services.

This is why we have, I think, what are incredibly reasonable requests of this committee and, frankly, something that each of you has to agree is part of the responsibility you have for sitting on this committee; that is, we are recommending to this committee that you go to the House with a recommendation that the government provide true transparency by providing the public with enough information to really evaluate these deals. I don't think that's at all unreasonable. We are also asking that you recommend that Infrastructure Ontario suspend its program of P3s and investigate moving back to the traditional way that we've built this entire province.

We're very concerned about the current program of AFPs or P3s in health care and corrections, but I have to tell you that we're becoming even more concerned about the expansion of these programs into other areas.

I absolutely want to acknowledge the government members for standing up to all the political parties in Ontario that have been shortchanging workers for many,

many years. It's unfortunate that you've lined yourselves up with the Conservatives on this issue, because I think you would have a role to play in standing up to the federal government, which forces, through border crossing funds and Building Canada funds and various rules they put in place, all projects to be placed through a P3 screen. That would be something that I wish our government in Ontario would raise.

Having said all of that, I can tell you that in my experiences in my travels through the UK, when I've talked to people, when I've visited the facilities—most days you can go on the BBC website and you will find a story that either they're restructuring what you call LHINs here or P3s. Basically, the models you've followed here come from England. You will usually find stories about these disasters. Of course, because of the stock market crashes, those stories have all been pushed to the back pages over the last few days.

My final note is that I actually agree with some of the things, even though we agree in principle with the labourers' union. They're a no-win investment for a pension fund. This stuff about transferring risk—in today's marketplace with pension funds, I understand why a pension fund would invest in this. I guess from an investor's point of view, it makes a lot of sense. I think from a taxpayer's point of view, whether or not you want to actually get into it and find out now, sooner or later the truth will come out and the facts will be before the people and we'll find that while we may have built 10 hospitals, had we done this with some real accountability we could have built 15 hospitals. I think that's ultimately where this debate will end up. It's probably going to take a few more years, but experiences in other countries show that sooner or later the public will in fact find out what the true costs are.

I'd be pleased to answer any questions you have.

The Chair (Mrs. Julia Munro): Thank you. We'll begin with Ms. MacLeod.

Ms. Lisa MacLeod: Welcome to the committee. I'm just wondering if, in your experience with the United Kingdom, they've gone to the last of your recommendations, which is—in their case, did they bring in an auditor for an immediate review of the value-for-money assessment of their P3 projects?

Mr. Wayne Samuelson: Yes, there was. I'm sorry; I don't have it with me. There was one that the government held up for a while, but it's been completely discredited by most independent sources. So the government has tried to do some audits to justify their position. The problem they have is that even after they do the audits, when they find out that the consortium has cut down the size of the room so that they can't get the beds in—

Ms. Lisa MacLeod: So they didn't have an independent audit system like we would here? I would believe anything our Auditor General would say because he scrutinizes; I used to be on public accounts. So there was nothing like an Auditor General who would have reviewed these P3s in the UK?

Mr. Wayne Samuelson: I think many people have done reviews. I'm not so sure if they have an Auditor General structure. Many people have done reviews, and there are different viewpoints, depending on who they come from.

Ms. Lisa MacLeod: I'm simply interested in the Auditor General—

Mr. Wayne Samuelson: Are you suggesting that this committee's willing to support the Auditor General going into this file and finding out and releasing all this equipment?

Ms. Lisa MacLeod: I do support the Auditor General reviewing, and they have it within their mandate. I understand the Brampton hospital may be one of the subjects of a future audit. When you're talking about this amount of money, I think that it would behoove the government or the Auditor General to review that. I'm just wondering, in the experience that you've related to this committee, if you have any specific instances where there have been cost overruns. I didn't hear any specificity.

Mr. Wayne Samuelson: I can get it to you. We've produced the documents, which I think I mailed to all MPPs a few years ago. I can certainly send that up to the committee.

Ms. Lisa MacLeod: I think we would appreciate that, and I would have no problem seeing that this particular organization or agency of the government receives the same type of scrutiny that any other ministry or department or agency would receive. I think that's just good governance, and I think it's a good, fundamental piece of democracy. I wouldn't draw any conclusions at this point in time, though, because I've seen the P3 at the Royal Ottawa Hospital. It was something I fought for and something I think is working; I'm very pleased about it. In terms of the last recommendation you make, I think that a review of the value-for-money assessment is reasonable.

Mr. Wayne Samuelson: Thank you. I appreciate your support. I think it's reasonable as well.

Ms. Lisa MacLeod: Thanks, Madam Chair.

The Chair (Mrs. Julia Munro): Ms. Gélinas.

M^me France Gélinas: Thank you for coming, Mr. Samuelson. It's always a pleasure. Certainly, we've had the opportunity to hear a lot of people talk about P3s today. When the president and CEO of Infrastructure Ontario was here, I questioned him as to needing to be more transparent and accountable on the financing part of the design, build, finance and maintain. He came out and said, "We can't do this," because it would give some kind of advantage to some people he didn't want to give an advantage to. When I asked about the assessment of the value-for-money audit, he said that the assessment is for the way the value-for-money is conducted, not for the actual numbers that will go through. Is this the type of assessment you're looking for, or are you looking for more than that?

Mr. Wayne Samuelson: Unfortunately, I wasn't here this morning, but I'm sure the committee must have been outraged to hear that kind of response. As people who are entrusted with ensuring accountability, I think to have one of your own department heads or the leader of one of your commissions or whatever come here and tell you—

have I got this right? He told you that he didn't want to do a value-for-money audit?

M^me^ France Gélinas: No, that the value-for-money audit was an assessment done on the process used, not on the actual numbers.

Mr. Wayne Samuelson: I share the outrage you must all have expressed. Yes, you must have been all outraged at that. I'm sure that will be number one in your recommendations.

M^me^ France Gélinas: It'll be right up there.

Mr. Wayne Samuelson: For sure.

M^me^ France Gélinas: Given that you represent the Ontario Federation of Labour, certainly building hospitals and infrastructure gives jobs, and I think everybody around this table agrees that having a job is a good thing. How do you balance your recommendation with the fact that building hospitals gives people jobs?

Mr. Wayne Samuelson: I completely agree that building hospitals gives people jobs, and more importantly, it serves a really important need in communities and society. I think there are ways that we could find to invest pension funds into some kind of an investment tool the government could use to do that if there were some shortages of capital. I think the experience is, in most places in the world that I've looked at, that once you move toward putting control not only into a consortium, what actually happens is that the control goes into a big, long pile of documents that lawyers spend all their time fighting through. I think ultimately you dramatically increase costs, you destroy any sense of accountability, and on scrutiny, these kinds of projects ultimately are proven to be far more expensive. That's been the history. I just think it's the wrong way to go.

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Listen: The government was opposed to them before the election; after the election they changed the name a little—we all admit that a PPP is a P3—and now they support them and they're building them. I've been around long enough to know that that's what's happening.

At the very least, I can't believe that people who were elected by citizens, like you, shouldn't be out there ensuring that there is accountability for that money and that you're making the right decision, instead of blindly following the sort of ideological view that's been forced on us by the federal Conservative government and was part of the previous Conservative government, although they didn't have the guts, at the end, to actually do it. But it makes common sense to me.

I just spent a few years as a politician, a long time ago, and when I went home at the end of the day I felt I had some responsibility to make sure the money that was being spent by the people who worked hard to pay taxes was actually being spent in a most efficient manner. I think on any analysis this P3 model is not being tested, and there's no accountability.

M^me^ France Gélinas: The model that's called design, build, finance and maintain I understand has been used in other areas, such as in the UK. I don't know if you're up to date on all of this, but can you talk to us about the maintenance part of those 25-year deals and some of the stories coming from abroad?

Mr. Wayne Samuelson: Yes. I don't think we're there yet, but if you look at the British experience, you know where it'll end up. It ends up with the consortiums that build the facilities actually looking to what they call—a pretty common term now—bundling. We see it with our cable TV and telephones. The move towards bundling ultimately has an impact on the people who work there, and I think that's where the process traditionally has always led. I don't know if I'll be around long enough, but I suspect the day will come when I'll be sitting before a committee, saying, "I remember when I was here one other time telling you that this is where we would end up."

I think it just moves control away from taxpayers; it places in these consortiums—and I was surprised to hear that now the consortiums are actually going to be more international players. As somebody who's been around employment issues for a long time, I'm not so sure I'm really comfortable with more companies from wherever in the world getting control of our economy.

M^me^ France Gélinas: The fact that US health care companies are going to be bundling up services in the maintenance agreement that will include not only maintaining the hospital, but doing the parking lot and doing food services and security and portering on a for-profit basis, is not warm and fuzzy to my heart at all either, not my idea of a Canadian public health care system.

Mr. Wayne Samuelson: Yes, and people are going to say that's not going to happen. It will happen; it's happened everywhere else in the world, and sooner or later there will be a public debate about this. I suspect that it's not going to be too far off. It's outrageous to think that a small community organization had to go out and get people to help finance four years in the courts to find out what it cost to build a hospital. I think most people, once they realize that, just think it's not right.

The Chair (Mrs. Julia Munro): Thank you very much. We must move on. Mrs. Van Bommel.

Mrs. Maria Van Bommel: I think for clarification we certainly need to—you made the statement that P3s and AFPs are the same, but they're not. Through the AFP system, there's a lot more public control of these buildings, and we're going to make sure they're publicly owned, publicly controlled and publicly accountable. Under the AFP system, the private sector never touches the patient. I think that's really paramount here. As I said earlier, as a former chair of a hospital board, I think patient care was always the most important thing we had to deal with.

We've heard two different versions of the numbers just in the two prior presentations that you brought forward. I think of myself as a bit pragmatic in the sense of how I deal with and approach things and I'm sure that the federation of labour is as well. Things like this are important to us. But when I look at this again—and I will say, again, as a pragmatic person—I look at it as, "Pay me now or pay me later," because if we want to build these hospitals as cheaply as possible, that's exactly what we'll get: cheap buildings. Those buildings will deteriorate and, as I know from my own personal experience as a hospital board chair, we end up paying over and over again to do the maintenance. At the end of the day, at the end of 25 or 30 years when we look at these costs, can we honestly say that having gone at it the old way of basically going for the cheapest bid is what really brought us the best building—or, as I said earlier, if I was building a house and I had the opportunity to decide between 15-year shingles because I wanted the cheapest house I could possibly build, or I took the 40-year shingles because I wanted to have a house that was going to last and I made my one investment and didn't need to worry about it because I made sure I put the proper materials in place. How do we tell the taxpayers that this is just the beginning of a long time of paying for a hospital over and over again?

Like I said, I've seen it. I've seen the blistering paint; I've seen the leaking roofs; I've seen the equipment damaged by water because of those leaking roofs; and I've seen the bills to pay for that, which had to come out of the community as well. That didn't come just out of the taxpayers; that came out of fundraising by the community through the foundation. Those things had to be paid for. Over the long term, somebody pays. So why wouldn't we look at a system whereby we take that risk away from the public and we give that to a consortium and we say, "You do your best job at calculating what it's going to cost to put that building up and maintain it for 30 years and you tell us what that's going to be, and then it's your responsibility, and if you're wrong, it's your problem."

Mr. Wayne Samuelson: Well, you've said a lot. First of all, the comments about P3s: I heard it pretty clearly; I can go back and check Hansard. From the investors' point of view, they don't see any difference between an AFP or a P3; the guy who just said that was sitting right here, two minutes ago. So you can use whatever term you want, but from the investors' point of view, it's a P3.

Your comments about the bad decisions you made when you built buildings wherever you're from: I was involved in building buildings. I thought we made pretty good decisions, actually. If you drive around Kitchener, when I was involved in politics there and fundraising, I'm quite proud of the buildings we built. We made the right decisions.

I don't know how you deal with people who make wrong decisions and don't know enough to buy the better shingles, frankly, but I can tell you one thing: You certainly don't send it off to some international company to decide. I think it's a decision you should make. Frankly, I think our whole argument has been exactly as you characterized it: It's "Pay me now or pay me later." As you increase the cost because of the financing, all of the costs that are associated with these private-public partnerships, you end up paying in the long run anyway.

I don't know how you deal with local politicians who don't know enough to buy the right shingles. That's a problem and maybe we should look at that.

Mrs. Maria Van Bommel: But that's the way we do these things. We look at the tendering and we bring in the lowest bid, don't we? That's how we handle all these sorts of things.

Mr. Wayne Samuelson: When I did it—I don't know where you're from, frankly, but before you put out the request for tenders, you tell them what they're bidding on.

Mrs. Maria Van Bommel: Absolutely—

Mr. Wayne Samuelson: I find what you're saying kind of bizarre, frankly.

Mrs. Maria Van Bommel: But is it not true? I've been involved municipally as well. Our ratepayers expect us to take the lowest bid or be able to explain why we didn't because there's the assumption that, as you say, the specs are handed out. When we do the requests, specs are given out. Everybody knows what they have to deliver. So if we say we want a roof, most people would not go to the trouble—

Mr. Wayne Samuelson: Maybe there are examples where somebody who makes these decisions bases them on inadequate specs and a tender, but my experience is that usually there are standards around what kinds of specs you would ask for. I find your argument kind of bizarre, personally, but maybe you have different experiences.

Mrs. Maria Van Bommel: Well, like I said, I've worked in a rural community with rural hospitals, and those were well-built hospitals. But they were also built because people were very careful with the money. We're very pragmatic in rural Ontario. After we had built those hospitals, then the maintenance was the issue. People still had to keep going into their pockets to keep paying. At the end of the day, was the cost of the hospital any cheaper because we did it that way?

Mr. Wayne Samuelson: My experience in all of the things I've been involved in is that you issue a tender with specs in it that protect you from the long-term consequences and make sure you get the right material in the building. If you're more confident that some international company is going to do that better than you or our local politicians, I guess we'll just have to respectfully disagree.

The Chair (Mrs. Julia Munro): Further comments? All right. Thank you very much.

Mr. Wayne Samuelson: It's been a pleasure. I just wish we had more time.

The Chair (Mrs. Julia Munro): Thank you very much for coming.

That completes the presentations and the question-and-comment period. Is there any other business? If not, this committee stands adjourned until 9 a.m. tomorrow, here.

The committee adjourned at 1601.

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