



Challenges in Cost Certainty for Public Infrastructure Procurement

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Ontario's AFP program

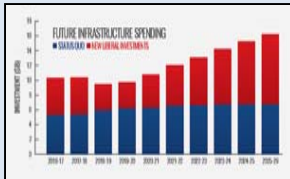


Since 2005, Infrastructure Ontario has been assigned more than 90 Alternative Financing and Procurement (AFP) projects worth nearly \$40 billion

- IO continues to refine its AFP model as it makes a transition from social to civil infrastructure projects; delivering larger, more complex projects and delivering them successfully
- **44 of the first 45 projects were completed on budget** (within the contract award plus post-contract contingency)
- **33 of the first 45 projects were completed on time** or within one month of their scheduled completion date

Key infrastructure issues/opportunities going forward

Accelerated infrastructure spending



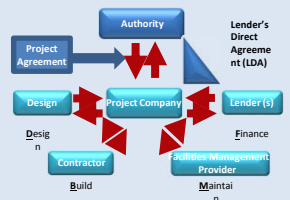
- Commitment to infrastructure at all levels of government is an exciting opportunity – but will create challenges as well (financial capacity; project oversight capabilities; supply of skilled trades)

Shift to linear infrastructure



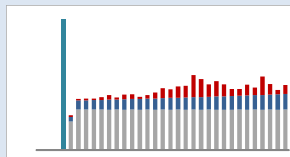
- Projects through urban environments have significantly different public interaction and risk profile than other types of infrastructure
- AFP can be used to manage these risks

Increasing project and partnering complexity



- Larger and more complex projects result in more complex structures for both owners (e.g., multiple funders) and project companies

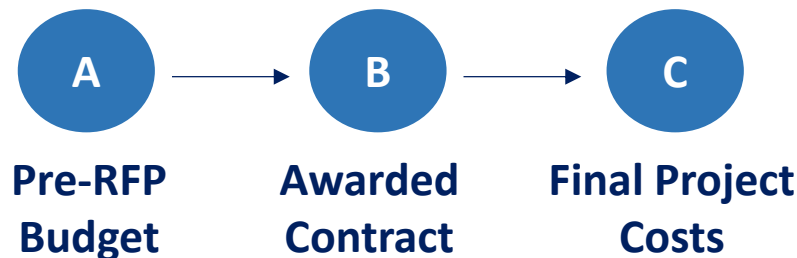
Ongoing need to balance risk transfer and cost of financing



- Ongoing tension between creating fully aligned incentives and ensuring sufficient skin-in-the-game, while minimizing the cost of private financing

AFP budget process

- Under AFP delivery, IO is assigned a project by the Government following Treasury Board approval, with a set budget and delivery date.
- Once an AFP project, the following budget process is undertaken with checks at key milestones:



Quantity surveyor roles on AFP projects

1. Quantity surveyors assist IO in developing project budgets

- Quantity surveyors develop preliminary estimates on behalf of IO and the client ministry, which are used by IO to develop project budgets
- Budget review and analysis is conducted by quantity surveyors acting as external cost consultants
- Following external review, final project budgets are confirmed by the ministry and IO's Board of Directors, and presented to Treasury Board for approval
- IO does not seek project budget approval from its Board of Directors without first obtaining an independent evaluation from a quantity surveyor

Quantity surveyor roles on AFP projects

2. Quantity surveyors act as Independent Certifiers (ICs)

- ICs are hired jointly by IO and ProjectCo to determine when substantial completion is achieved and project payments are made
- Final determination of substantial completion must reside with independent third party: lenders and ProjectCo need to know they will be treated fairly
- ICs monitors design development and process of work throughout the project to verify that construction is in line with project requirements
- To make a determination re substantial completion, ICs review client/ ProjectCo submissions to determine if contractual requirements are met
- Where owners and ProjectCos enter into disputes, ICs adjudicate claims to facilitate speedy resolution
- At substantial completion, ICs evaluate any deficiencies and determine how much money should be held back from the contractor to ensure completion of work in a timely fashion

Quantity surveyor roles on AFP projects

3. Quantity surveyors are hired by lenders as technical advisors

- Quantity surveyors monitor projects on behalf of lenders — who may lack technical expertise — to ensure that lenders' risks are identified and ProjectCo performs appropriately
- Lenders receive independent review of the project addressing project risks:
 - assessment of development team's ability to execute the project
 - confirmation of the adequacy of the project budgets
 - assessment of timelines
 - review of statutory requirements and compliance with construction standards
- IO considers lenders as having an alignment of interests with IO

The challenge of civil infrastructure projects

- Quantity surveyors mostly specialize in building construction. To add value, they should acquire more experience working on civil infrastructure projects (e.g., highways, transit lines)
- The volume and cost of civil infrastructure AFP projects has steadily increased in the past five years
 - Last year, for the first time, IO's market update included more highway and transit projects than social projects - \$4.43 billion worth of civil projects
- Given surveyors' lack of comfort, past estimates on civil infrastructure projects have been generous
- Quantity surveyors need to learn from engineers and develop their expertise



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