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Mercredi 30 mars 2011

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Public Accounts**

2010 Annual Report,
Auditor General:
Ministry of Infrastructure

**Comité permanent des
comptes publics**

Rapport annuel 2010,
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Ministère de l'Infrastructure

Chair: Norman W. Sterling
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STANDING COMMITTEE ON PUBLIC ACCOUNTS

COMITÉ PERMANENT DES COMPTES PUBLICS

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The committee met at 1232 in committee room 1, following a closed session.

2010 ANNUAL REPORT, AUDITOR GENERAL

MINISTRY OF INFRASTRUCTURE

Consideration of section 3.07, infrastructure stimulus spending.

The Vice-Chair (Mr. Peter Shurman): Good afternoon, everyone. This is the Standing Committee on Public Accounts. We are here for consideration of section 3.07, infrastructure stimulus spending, in the 2010 annual report of the Auditor General.

You haven't handed out a presentation of any type. I wondered if you had one.

Mr. Drew Fagan: I do. I have a speech to make about some points, about 15 minutes, I think, and then we can open it up.

The Vice-Chair (Mr. Peter Shurman): Sounds perfect. Why don't you go ahead with that? And before you start, for the purposes of Hansard recording, please identify yourself and your co-participants.

Mr. Drew Fagan: Thank you, Mr. Vice-Chair. I'm Drew Fagan. I'm the Deputy Minister of Infrastructure. With me this afternoon are Bill Hughes, the assistant deputy minister of the infrastructure policy and planning division; Heather Fraser, who's the director of the infrastructure implementation secretariat; and Oliver Jerschow, who's the manager of the intergovernmental policy group. All of us are at the Ministry of Infrastructure.

Let me begin by thanking the members of the committee for inviting us and for giving me the opportunity to speak with you today about the infrastructure stimulus programs and the Auditor General of Ontario's recent report.

In my presentation I'll give you some background on the stimulus programs and discuss the Auditor General's recommendations and our response to them. Then, of course, I'll be pleased to respond to questions from the committee on chapter 3.07 of the AG's report.

Let me speak, on background, about the stimulus programs for a moment. The infrastructure stimulus programs have been a success. They were timely, targeted and stimulated Ontario's economy when it needed it most. In the 2009 budget, the government responded to the global economic crisis by launching significant short-

term infrastructure investments to stimulate economic growth and help preserve and create jobs across the province. The province matched federal funding made available through the federal economic action plan, for a total federal-provincial stimulus investment of \$6 billion.

There are five streams of federal-provincial stimulus funding: the infrastructure stimulus fund, known as ISF; the Building Canada Fund's communities component top-up; the Recreational Infrastructure Canada program, known as RInC; the knowledge infrastructure program, KIP; and the social and affordable housing programs.

The Ministry of Infrastructure has worked closely with our partner delivery ministries—the Ministry of Agriculture, Food and Rural Affairs; the Ministry of Tourism; the Ministry of Health Promotion and Sport; the Ministry of Training, Colleges and Universities; and the Ministry of Municipal Affairs and Housing—which are responsible for program implementation and regular monitoring and tracking of project progress.

The infrastructure stimulus programs were implemented to ensure funding was allocated in a transparent, accountable and fair manner that achieved value for taxpayers' money.

Projects approved under the infrastructure stimulus programs were selected using a competitive, application-based process. This type of process ensured we were able to generate a list of projects that reflected infrastructure priorities across the province, and that the final list of approved projects was fair and balanced.

Project recipients included municipalities, colleges and universities, First Nations, not-for-profit groups and provincial ministries and agencies. Recipients also made funding contributions to their projects. In total, nearly 10,000 stimulus projects have been approved across the province.

In December 2010, Ontario and the federal government announced an extension to the deadline for stimulus projects to October 31, 2011. This has given eligible project proponents another construction season to finish work on their projects. Virtually all of the projects are expected to be completed by the new October deadline.

I'd like to turn my attention to the Auditor General's report on infrastructure stimulus spending. In his report, the Auditor General and his staff focused on three of the five stimulus programs: the infrastructure stimulus fund, the Building Canada Fund-Communities Component Top-up, and the Recreational Infrastructure Canada program.

It's important to note that the audit was done as the programs were being implemented. It was a snapshot in time, with fieldwork completed a year ago. Considerable progress in the construction of projects has taken place since then.

As the audit was done while the programs were rolling out, we were able to take immediate steps and make improvements to the programs based on the work of the Auditor General's office and experience gained during program implementation. I'll highlight some examples of these changes, as I discuss each of the recommendations.

Let me go through the recommendations.

Recommendation 1, related to assessing the applications: The auditor's first recommendation focused on the time taken and the process followed in assessing project applications and project selection.

In particular, the Auditor General noted the need, first, for a more risk-based approach to designing and implementing future infrastructure programs and consideration of factors affecting program delivery, including timelines and ministry resources; second, for applicants to better demonstrate the benefits of their proposals; and, third, to strengthen due diligence in assessing applications.

As the programs were designed to stimulate the economy, projects needed to be approved quickly and rolled out within a short period. The deadline put in place by the federal government made the timelines for approval and assessment of projects tight.

Despite these tight timelines, the province used a risk-based approach when evaluating applications to ensure that all stimulus programs were compliant with the requirements of the province's transfer payment accountability directive. This directive establishes the principles and requirements to achieve accountability for transfer payments, and supports the efficient and effective delivery of services provided through transfer payment programs.

In his report, the auditor made note of the significant efforts made by ministries to adhere to the directive and to establish appropriate systems and processes.

Project applications were reviewed by staff in both the federal and provincial governments. At the provincial level, applications were reviewed by delivery ministries, in addition to the Ministry of Infrastructure. Projects were reviewed for such things as readiness, share of funding, environmental assessments, aboriginal consultation, start date and project size.

As part of their applications, proponents signed attestations confirming the projects would be completed by the deadline. If proponents could not meet the deadline, the project was not approved.

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In response to the auditor's recommendation, the ministry will continue to expand the use of risk-based program design and analysis for future infrastructure programs. The ministry will also assess the resource implications of program design decisions and work to incorporate additional technical due diligence where warranted. As well, the ministry will look to place a

greater onus on applicants in future programs to demonstrate that the claims in their applications are achievable.

Recommendation 2, approval of applications: The auditor's second recommendation dealt with documentation and ensuring that the rationale for decisions is documented.

The approval process was a joint one negotiated by both the federal government and the province. The final project selection decisions were negotiated and made jointly with the federal government. It was extremely important to us that the process was fair and accountable.

The ministry agrees that increased documentation would support the ability to demonstrate that selection processes are fair and transparent. In response to this recommendation, MOI has already taken steps as part of the deadline extension approval process to strengthen documentation.

The auditor also recommended that providing additional information to the public on projects would enhance transparency. The ministry agrees that providing timely and accurate information on the progress and success of the stimulus projects is essential.

To support this, in November 2009, the ministry launched a public website called Revitalizing Ontario's Infrastructure to provide current information about thousands of stimulus projects all across Ontario, including details such as project cost, location and completion status. The website is updated monthly to ensure that the most up-to-date information on project progress is available to the public. In December 2010, we launched an enhanced version of the site with new features and additional information about stimulus projects.

Recommendation 3, which deals with project management: The auditor's third recommendation was that the ministry should ensure recipients report project information consistently and on a timely basis, follow up on projects at risk of missing the deadline, and consider raising the deadline issue with the federal government.

The government requires recipients to report monthly on status updates and any changes to expected completion dates. This reporting is made public on the Revitalizing Ontario's Infrastructure website. As of February 2011, funding recipients had submitted the required reports for virtually all stimulus projects. The province raised concerns with the federal government about the ability of some proponents to complete their projects by the original March 31, 2011, deadline and the need for flexibility so projects were not left unfinished. As I noted earlier, the deadline has been extended to October 31, 2011; 832 projects have been approved for an extension, and virtually all of these are expected to be completed by the new deadline.

Recommendation 4, costs to meet the funding deadline: The auditor's fourth recommendation was for the Ministry of Infrastructure and delivery ministries to work with recipients experiencing project delays to evaluate options to meet stimulus program objectives and ensure value for money in completing the projects.

MOI, along with the delivery ministries, is engaged with project proponents on an ongoing basis. Special

attention has been paid to projects identified as delayed or otherwise at risk. This has included working with proponents to identify options such as changing the scope of projects so that they can meet the stimulus deadline and requesting more detailed construction documentation.

Delivery ministries have conducted site visits to physically assess and validate project progress. Ultimately, project proponents are accountable under binding contribution agreements for the procurement, management and delivery of their own projects.

Recommendation 5, financial and claims administration: In his fifth recommendation, the AG recommended that the Ministry of Infrastructure work with the internal audit division to ensure that funds are spent wisely and for the purpose intended, as well as to develop appropriate monitoring and audit coverage.

The ministry recognizes the important role the internal audit division has played in helping ensure the accountability of the stimulus programs, including monitoring and audit considerations. The ministry proactively engaged the services of the internal audit division early in 2009 to provide advice on the design and implementation of the stimulus programs. We have been working with the internal audit division continuously since then, and it has provided the ministry with detailed advice on appropriate program design and risk mitigation. We will continue to seek the advice of the internal audit division as the government continues to implement the stimulus programs, and in the design and implementation of future programs, where appropriate.

Recommendation 6, measuring and reporting on program effectiveness: In his final recommendation, the auditor highlighted the need for timely and accurate information on project progress. He also focused on the methodology the ministry uses to estimate the jobs impact of the stimulus funding and noted that it should be adjusted to reflect actual spending.

Measuring the effectiveness of the stimulus programs is important in determining whether the government has met its goals. We agree with the AG that providing timely and accurate information on the progress and success of the stimulus projects is essential. As I mentioned earlier, current information about thousands of stimulus projects all across Ontario, including details such as the project cost, location and completion status, is available on the public website Revitalizing Ontario's Infrastructure.

Our ministry works with the Ministry of Finance and revisits the job calculation methodology regularly to ensure that the most up-to-date information about the structure and outlook for the Ontario economy is used in job calculations. We continue to refine the methodology and will ensure that job impact results are reported to the public in an appropriate way.

In conclusion, I'd like to thank the Auditor General and his staff for their report and recommendations. I also want to thank the members of the committee for their interest in the stimulus programs and for inviting us here today to discuss them.

Thank you, Mr. Vice-Chair.

The Vice-Chair (Mr. Peter Shurman): Thank you very much, Deputy. We will go ahead with questioning on a rotation basis, with 20 minutes, or up to 20 minutes, per party, beginning with the NDP.

Mr. Peter Tabuns: I thank all of you for coming in today. We appreciate it.

Could you first give me a picture of the approval process? Say I'm the city of Guelph and I've sent in an application. Tell me how it's processed.

Mr. Drew Fagan: I'll turn to my staff who were here at the time; I wasn't deputy at the time. But we began with the decision that we were actually going to have an intake process, an application-based process; that isn't always done, but it's best practice, so we started with that. We started with a series of parameters, some of which I mentioned, with regard to how to assess those projects: readiness, for example; financial history—financial capacity and history with projects of like capacity; certain risk factors that we knew we wanted to take into account—environmental aspects, environmental assessments and whether we were up to date with that; consultations with First Nations; size of project. There were a whole series of parameters that we analyzed in the process.

Of course, this was also being done at a time when we were coordinating an extra step, coordinating with the federal government, so even before the intake process began. The entire process, going back to 2009, was actually done in about six months.

The first step, of course, was both the federal and provincial governments announcing the stimulus programs and then agreeing to the parameters, and then the intake process, and then decision-making was done and recommendations were made by staff with appropriate programs to the ministers involved. I know there was a discussion among ministers, obviously, with regard to final agreement.

I don't know if my staff want to add anything.

Mr. Oliver Jerschow: Sure. Just to add to that, as the deputy said, we had established with the federal government a fairly detailed framework of how we intended to evaluate applications, even before they came in, so if your question is really about what happened after that submission happened, we set to work immediately and basically began a kind of two-stage process of evaluating the applications. We had very detailed information from the applicants through their application forms for the programs audited here. We had two cases, applications, coming in through websites, so a database was immediately populated. That let us set to work quite quickly on evaluating the applications.

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The first stage really involved a kind of basic eligibility review, because the program design criteria had established fairly clear standards for that. So there was an initial screening done to ensure that projects were eligible. Then the second stage really got into the prioritization. We knew that we wanted to present a recom-

mendation to the federal and provincial ministers. We knew, as well, that for some of these programs there were limits on the amount of money available, so we tried to take that into account in developing our recommendations. So over a period of weeks after the applications came in, we worked very collaboratively with the federal government to do the two stages of that assessment.

I think it's important to note that because we had agreed on that process, we were able to deploy the resources both of provincial staff and federal staff to get that work done. Essentially, we worked towards a consensus recommendation among both federal and provincial officials that we presented to both ministers.

Mr. Peter Tabuns: Were the federal and provincial officials working in parallel? Did you have a division of labour? Did you both do exactly the same assessment? How was it that both sides came to their conclusion?

Mr. Oliver Jerschow: We absolutely did work together. Before the application intakes closed, we had determined what steps we were going to follow and who would do which work. For example, in the infrastructure stimulus fund program, because the database and the web page that we used to receive applications was a federal database, we basically agreed that they would do a lot of that initial screening for us. We agreed on how it would be done, so we knew we could trust the outcome of those results.

The province did undertake additional review beyond that kind of joint review. We looked at provincial policy priorities, for example, and the extent to which a project may have helped to achieve certain provincial policy objectives. So while the federal government may not have been interested in that, we added that to the review process.

Mr. Peter Tabuns: In one part of the process—and this is something that the Auditor General commented to us on—apparently, there was a review of several hundred million dollars' worth of projects in a four- or five-hour session. My guess is that those were not raw applications that had just been taken off the website—I'm getting the "correct" nodding of heads, which could be recorded. Hansard will show heads were nodded.

Interjection.

Mr. Peter Tabuns: It's the afternoon.

That process, which sounded awfully compressed, in which something like \$500 million or \$600 million was decided on—what exactly was that stage? I'm assuming that you were going through and prioritizing. That's an awful lot of money to prioritize and a lot of projects to prioritize in a very short period. Can you tell us a bit more about that particular incident?

Mr. Drew Fagan: Oliver and Heather can probably address that in detail. But you're absolutely right: This was just one stage in the assessment process. I believe all the preliminary reviews had been done along the lines of what Oliver is talking about, and this was getting down to detail. This is one instance involving one of the assessment ministries, I think, as is outlined in the report.

Mr. Oliver Jerschow: That's correct. The entirety of the review process took several weeks, so the portion of that review process that's cited in the auditor's report does reflect one step on that road to reviewing all of the applications.

In the specific case, we tried as much as possible to engage parties who had relevant expertise to give us good advice on these applications, and we asked staff at the Ministry of Agriculture, Food and Rural Affairs, who are our delivery partners in the program, for their review of those projects.

So, as the process went on, there was a compressed period of time, and there was a specific request that they look at certain aspects of the application in what was about a four-hour period. That's accurately reflected in the auditor's report—but it is a portion.

Mr. Peter Tabuns: What were they assessing in that period? That's a short time to go through a lot of big-ticket items.

Mr. Oliver Jerschow: Well, from my recollection, it had to do with some of that additional provincial assessment around provincial policy objectives being achieved. It didn't have to do with the basic eligibility screening, for example. It was really just trying to get as much technical information as possible. As the deputy mentioned, we did look at the scope of work. We wanted to try and be assured that projects would be able to get finished, trying to validate the claims of the proponents as much as possible.

Mr. Peter Tabuns: In other commentary, the Auditor General points out that a number of decisions were made about going forward with or not going forward with projects, decisions made at the ministerial level for which there seemed to be little documentation. And to be fair, the Auditor General said that there didn't seem to be a political bias in the way the funds were allocated.

Can you give us any insight into why there was no recording of why some projects were cancelled at the ministerial level and some weren't?

Mr. Drew Fagan: I'll make a couple of points. You yourself noted, Mr. Tabuns, that the Auditor General did a review of, I think, about 100 projects worth somewhere around 50% or more of the total cost, and found no political pattern. Of course, there were two levels of government involved with regard to the decision-making.

I think it's also important to note that, at the end of the day, all the projects had to meet the same criteria with regard to attestations, with regard to expectations around completion dates and everything else. Obviously, it's our job as public servants to provide the best advice we can. Under the circumstances, there was a very scientific, if I could, input process with regard to this. We agree that the maximum amount of paperwork and file documentation is important.

Mr. Oliver Jerschow: I would just reinforce that answer, to say that, as officials, we did document as much as we possibly could, acknowledging that we would be presenting a recommendation, not making a final decision. We were not party to the discussions at the

ministerial level, so I don't think we were in a position to document that.

Mr. Peter Tabuns: I note that you've responded to the recommendations of the Auditor General. How are you going to structure things so that those recommendations are alive the next time we have to deal with a situation like this?

Mr. Drew Fagan: We've already got a track record, actually. One of the things that's interesting, and obviously, the secretariat will be—if you're thinking about best practices for down the road, there are processes within the bureaucracy to ensure that these things aren't forgotten. One of the interesting things—and the point we were making about this being a point in time, it was a live audit, and the program was well under way—was that when we approached the process around the extensions in November, December and into January—really, a process that's just been completed; tomorrow's March 31—we took on a lot of the advice from the Auditor General.

With regard to something like technical expertise, one of the challenges in working to such tight deadlines was there was a balance between timeliness and a broad process. I think we hit the mark with regard to that as best we could. But one of the things we did in the extension process was ensure that there was greater technical expertise. So every one of the 800-plus projects had to be attested to by an architect or an engineer, I think, and the documentation is more complete. So I'd say beyond sort of passing along that best practice, we've actually applied it in the next stage of the process.

Mr. Peter Tabuns: Okay. I don't have further questions in this round.

The Vice-Chair (Mr. Peter Shurman): That's fine. Thank you very much, Mr. Tabuns. Let's move on the Liberals. Mr. Arthurs.

Mr. Wayne Arthurs: I'll start with a question or two, and I know Mr. Zimmer may, as well as others.

First, I want to, if I can, just thank the ministry staff for being here. It's certainly the first opportunity I've had—and I'm not sure our caucus generally has had one—to thank you for the work that you did collaboratively with others in making these programs work at a critical juncture in the economic climate, not only in the province but, frankly, in the world at that point in time as we worked through a recovery period from the deep recession. To you, your staff and those who worked with you, my personal thanks for that work, which sets out particular kinds of challenges when you're asked to do that in particular time frames.

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I want to explore a little bit more the job creation numbers: the observations by the Auditor General that, in doing this, it was a necessity to, as the phrase goes, move the money out the door fairly quickly in relative terms to be able to have shovel-ready projects, as they're described—although it doesn't really mean that the shovel is necessarily ready to go into the ground, but there's a process one has to work on to achieve a timeliness of all

these kinds of activities—and try to achieve the job target goals set out from that, so there's some measurable outcome in the economy by virtue of jobs being created and people actually working and churning money through the economy. One of the big challenges, obviously, is meeting those job expectations in the time that was allocated or identified early on.

Can you speak a little bit to the issue of, once the approvals are done, the expectations of the recipients—municipalities and others—from the context of being able to get into the ground, the ability to actually physically create those jobs? Both the jobs where there was some planning left to be done in many cases, some engineering work, as well as the shovel itself that would have to go into the ground to make that happen, and then subsequently, the work that went on to look at the need for—I think people recognized early on the need for an extension on the program when it was evident that it would be very hard to achieve the limitations of the two years as being critical, but it would be hard to achieve all of those to their end date. But at the same time, I think there was sort of a thumbs-on for a long period of time to ensure the partners did everything they could to expend those monies effectively and efficiently and to meet the target of creating jobs, but at the same time to not waste the resources they were being supplied with.

Mr. Drew Fagan: Thank you, Mr. Arthurs. Let me take a shot at that and then turn it over to officials for more details, if they'd like.

With regard to the job impact, our best estimate is that the five stimulus programs have created or preserved 70,000-plus jobs, which is not inconsiderable, given the challenge that the global economy and Canada have been facing over the last while.

We do an assessment. That number comes from an assessment methodology that, as I mentioned in my opening statement, comes from the Ministry of Finance and the Ministry of Infrastructure. Similar estimates come from independent organizations like the Conference Board, which we've used for analyzing various aspects of our long-term and shorter-term infrastructure programs.

There were 10,000 stimulus projects in the end. The vast majority of those are completed or will be completed by tomorrow; by the original deadline of March 31. Our estimate is that over 9,000 of the 10,000 projects will be completed by the original date of tomorrow. Some 830 or so were extended. And, of course, the impact on the economy, given the continuing challenges—the rebound in the economy—still continues.

Now, of those 830, a large number of those, probably to reduce costs, took advantage of an extra construction season. Construction costs are often more expensive in the winter than in the summertime. We expect the absolute vast majority of those projects to be done in good time, with only a handful at most possibly not meeting the new October 31 deadlines. Those responsible for those projects know that there will be no additional federal or provincial funding after October 31, and they

have attested to taking responsibility for any costs after that period.

Mr. Oliver Jerschow: The only comment I would add is, going back to 2009, we went from zero to 60, if you will, quickly, in terms of getting these programs up and running; the application processes under way and all that. The announcements were made in June 2009, and that's when proponents found out that they had an application approved. So one important step that we took was to notify all proponents with a joint ministers' letter in June 2009, saying, "Your approval is confirmed. Get your project going," because we do have quite rigorous contribution agreements. They're 43 pages long, in the case of the ISF program. Usually it takes a while to get those kinds of agreements in place, and no funding flows to proponents until that agreement is in place. But we wanted to signal to proponents that they should get their projects started and to take advantage of as much of the 2009 construction season as possible. That letter was issued in an effort to encourage the proponents to get those projects under way and get the jobs created as soon as possible.

Mr. Wayne Arthurs: The capacity of the partners to execute—the approvals are there; the letters are going out to make sure that they're ready to go; they're doing their work. Did the ministry have some capacity, was there some involvement jointly or with the feds, to monitor what's going on—they've gone on the website—to encourage their capacity to execute?

What did you find to be that kind of experience? Were they effective in doing the execution you expected? Were there any delays, substantively, so that they couldn't meet this March 31 deadline? Or the fact that those who couldn't meet the deadline—the 800 or so—was simply because of the scope and scale of the project more than anything else? I'm interested in the capacity of the partners to actually execute on the approvals.

Mr. Drew Fagan: Let me start, Mr. Arthurs, and I'll turn to staff for details, if they can add additional points.

The first point that I think is important to make is that every one of these project proponents attested to their capacity to do these projects after a very rigorous analysis was made by us with regard to their capacity. They attested to their ability to meet the project deadline on time, on budget.

When the Auditor General talks about a risk-based approach, what that means is that we spend more and more time looking at those projects that we assess as being riskier than others. There were plenty of large municipalities and others with lots of experience that we weren't worried about; others, you start to winnow down the numbers.

There were site visits. We went out to various sites. We brought in third parties in a number of instances to do their own analysis, organizations like Infrastructure Ontario, which is an agency of this ministry, with long capacity now with large projects.

We maintained the ability to do audits, where necessary, and we went back and forth with them with regard

to expectations around detailed information, regular monthly assessments of their progress and the like.

As we headed to the March 31 deadline, in certain cases we ramped up the amount of engagement we had. In a number of cases, for example, as we were agreeing on the extension, I actually called a series of city managers around Christmastime to get very particular information on how many projects they thought they'd want to seek extensions for, their confidence about their ability to finish those projects and the like.

Mr. Bill Hughes: Maybe I'll add just one thing to that. In terms of the quality of the attestations received from municipalities and others, one important feature of the program was that they got to pick their own projects. Everybody knew what the deadline was. There was quite a broad range of types of projects that were eligible, so there was a fair amount of freedom and ability on the part of project applicants to pick the projects that were, first of all, most important to them and that they felt confident could actually be completed by the deadline. That led us to place initially a reasonable amount of weight on the quality of the attestations we received.

Mr. Wayne Arthurs: Thank you, Mr. Chairman. Now Mr. Zimmer, if there's time in our round, has a question.

The Vice-Chair (Mr. Peter Shurman): Thank you. We have about 10 minutes left, so go ahead.

Mr. David Zimmer: I just have a short question of a more general context. The stimulus money was, of course, put out there in the context of an economic crisis that, in many ways, literally happened overnight. One of the ideas behind the infrastructure investments was to quickly do what we could to kick-start the economy. I think it's important to consider how the programs and the various criteria of the programs were administered and so on, in the context of that crisis; that is, we've got to quickly get the money out there and doing things was the whole premise of the stimulus package.

I'd be interested in your observations, general and perhaps some specific, of how that context may have altered how you would have otherwise approached the spending initiatives.

1310

Mr. Drew Fagan: There's no question that the downturn in the economy happened across the western world quickly. The federal budget that announced their intent to launch stimulus programs on a shared-cost basis with the province was in January 2009. The provincial budget, which responded by noting that we would participate on a shared-cost basis, was in March 2009. Decisions were being made on projects by late spring and money was starting to flow shortly after that.

There was no question that we wanted to move quickly, but as the Auditor General notes in his report, we wanted to move responsibly as well. As he notes, we took significant steps and actions to ensure that we were abiding by the transfer payment accountability directive, which is fundamental in terms of the provincial government's engagement with transfer payment partners.

We tried to find that balance between speed and responsibility. My assessment is that we did fairly well on that.

Mr. David Zimmer: Thank you, Chair.

The Vice-Chair (Mr. Peter Shurman): It is now the Progressive Conservatives. Mr. Ouellette.

Mr. Jerry J. Ouellette: Thank you for your presentation. A couple of questions about your presentation. You mentioned the five stimulus programs. Can you just name those five stimulus programs?

Mr. Drew Fagan: Sure. The ISF, the infrastructure stimulus fund; the Building Canada Fund's, community component top-up; the RInC program—I like it because it's a nice acronym—which is recreational programs; the KIP program—it stands for the knowledge infrastructure program—which is post-secondary, by and large; and a series of housing programs. In total, as I said, close to 10,000 projects were funded under those five programs.

Mr. Jerry J. Ouellette: Some of the things, then—I'll get back to that a little later.

The impact of the injections of the funds in the communities: I spoke to local municipal officials at the time, and those who have been around at a municipal level certainly know that all of a sudden a large influx of funds has a tendency to increase the value of the projects that are out there. Did you find this when it took place? For example, all of a sudden, there's a huge demand for construction and there are no workers out there or the individuals or the companies, and "If you want my business, you've got to pay for it now." Was that noticed during this entire project?

Mr. Drew Fagan: The Auditor General himself in the report notes a couple of examples like that. Our best understanding is that these were exceptional. It does happen in the construction sector, so as people were moving to tough deadlines, getting up and going fast, hit the March 31 deadline—there are examples where construction companies will expect to be paid extra to move quickly. So there were some examples of that, and the Auditor General notes it in the report. But our best estimate is that it was by no means a majority of the cases, and in most cases, the program was rolled out not on that basis.

Mr. Bill Hughes: If I could just add a couple of things. As the deputy said, and as the Auditor General pointed out, that happened in some instances, but there were some mitigating factors. It didn't happen nearly as much as it otherwise would have happened if the economy was robust. If you're in a tight economy and there's lots of demand for the construction sector and you're trying to get people to hit deadlines, then of course you'll get a lot of contractors demanding premiums in order to hit the deadline. When people are really hungry for work, not so much. They just want the work and they will bid to get it. So the fact that the economy was doing poorly was a mitigating factor that helped on the value-for-money side of this equation.

Mr. Jerry J. Ouellette: When I talk to construction companies throughout my constituency, as I'm sure

everyone does, I find out that they're not overly concerned about whether they're getting the projects—just that the projects are out there—because if they're not receiving them, they're tying up another construction company that is utilizing their skilled labour to work on that. That frees them up to bid on other contracts. So I was just trying to find out the spinoff effect and how it would affect others.

Were you finding that some of these projects were new projects, or were they just ones on the shelves that were going to happen anyways, and it sped up the funds? Was there an actual new injection or was it projects that were going to happen regardless, within the time frames and parameters that were established?

Mr. Drew Fagan: My staff can talk to the details, but it was important to us, particularly in the context of the transfer payment accountability directive, that there was a new intake. That took a bit of time. I think that was launched in about March or April 2009. Everybody applied.

As the Auditor General notes, some municipalities made a large number of applications. Most were pretty responsible with regard to prioritizing what their application should be, but we felt the fairest way to engage in a large program like this—billions of dollars—was to have a fresh intake process. I think that was the best process we could have had under the circumstances.

Mr. Bill Hughes: It was permissible for municipalities and others to bring capital projects forward in time. The point of the program was to provide economic stimulus at a time of economic crisis. If a municipality was planning to do a project in, say, year 3, 4 or 5 of its capital plan, but they had done enough work that they could deliver the project now, it was acceptable for them to bring that project forward in time.

Mr. Jerry J. Ouellette: Deputy, you mentioned you called the city managers regarding the times for completion for the extension. Do you know if there were calls made to city managers to encourage applications to be made?

There was a certain number of municipalities that had a large influx of applications and, as elected officials, we regularly hear about the fact that somebody's always getting the heads-up or the tipoff about this. Can you enlighten us as to whether there were calls made to encourage applications?

Mr. Drew Fagan: My calls were made in December 2010 to get the best assessment we could of the desire of municipalities to take advantage of the extension.

The process in 2009, I think, was pretty open, pretty fair, pretty broad. It was well advertised. This was a different process, I suppose, that I'm talking about.

Mr. Oliver Jerschow: To add to that, from the officials' perspective, no calls were made to encourage particular municipalities or to give them a heads-up. In fact, as the deputy mentioned, we really tried to make sure that everyone was equally aware of the opportunity as soon as possible.

In addition to doing our own communication as a provincial government, we worked very closely with the

Association of Municipalities of Ontario to have them send an alert to every municipality in the province so that everyone would be aware of what was coming, what opportunity was available and what they had to do to take advantage of it.

Mr. Jerry J. Ouellette: Did you experience any problems with the volume of applications coming from specific communities? It's been brought to our attention that a significant number of limited municipalities, I think predominantly four, was responsible for the largest percentage of funds required. Was that a problem from your perspective at all?

Mr. Oliver Jerschow: I'll start. Having a large number of applications obviously increased the total volume of assessment that had to be done. But I think from a program design perspective, it was important, when you think about the fact that the infrastructure stimulus fund alone was making available \$1.5 billion in provincial funding and another \$1.5 billion in federal funding—we didn't want to presume the size of the projects that municipalities or other proponents were going to want to bring forward.

I think that was the rationale for offering that flexibility to say to municipalities and to councils, "You tell us the projects and priorities that you think you can accomplish within the context of this program in this time frame." Leaving that flexibility left certain municipalities in that situation where they did choose to apply for a large number of projects.

So, yes, it created some work, but we intentionally structured the program to result in that.

Mr. Bill Hughes: I'm just going to add a little bit to that. I'm going to say that the small number—and it was actually a very small number—of large municipalities that submitted several hundred applications each was a problem.

I think the Auditor General correctly pointed out that that was, perhaps, more applications from individual municipalities that we had anticipated. If we were doing it again—when we do it again—in response to the Auditor General's recommendations, we will put a cap on the number of applications from the large municipalities so that we're not seeing hundreds and hundreds of applications from one municipality.

Mr. Jerry J. Ouellette: So, from that perspective, was there difficulty in managing the sheer volume of applications that came in? Did you have the staff in line, or was that part of the delay process, the fact that you had 1,100 applications from four municipalities? Would it alleviate that problem by limiting the number?

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Mr. Bill Hughes: I'll start. Clearly, fewer applications would make the application review process easier, no question about that. I would say, though, that we were pretty efficient, despite the large number of applications, in doing the review process.

As the deputy and Oliver have said, there was a trade-off involved in this program. The mandate was to get stimulus activity going in communities around the

province, so we acted as quickly as we could, but we had a view about how to do these kinds of programs that perhaps was not totally shared across the country, and it actually was the result of work that the Auditor General had done previously and the fact that we have in place now, as a result of that work, a transfer payment accountability directive. In order to live within our understanding of the content of that directive, we felt it was absolutely essential that we have an intake process.

What does that mean? The basic point of having an intake process is so that everyone has a fair chance at getting a project. Other provinces didn't necessarily do it that way, but we thought it was essential to do it that way. So what that means is, it takes a little bit of time. Like I said, it's a bit of a trade-off. It takes you a bit more time to do an intake process—in other words, to be fair to everybody—and then that means you have to do your evaluation or your review part of the process very quickly in order not to have it drag out so long that you then wind up not being able to get the stimulus projects out the door in a timely way.

So we had all those things in mind as we were designing the process, and as I think the deputy said, our view is that we struck a pretty good balance. Are there things we could have done better? Sure, and the Auditor General found some of them, and we'll do better next time.

Mr. Jerry J. Ouellette: Yes, we always realize that in everything we do, we can always do it a little bit better, and it's good that we have individuals who bring attention to that once in a while.

There was discussion around the table regarding the four hours to review \$600 million worth of programs. Can you elaborate on that a bit and just kind of give us a perspective? Did the sheer volume play into it to require that, or how did that process come to be—as a number of us would know, there's usually a considerable amount of process that has taken place before a four-hour time window comes to light.

Mr. Drew Fagan: Well, I would just note off the top, and then turn it over to Oliver or Bill, that, as the Auditor General himself notes, that was just one stage in the evaluation process. It involved one ministry at one stage of their evaluation. The first vetting of projects after the intake process was completed had already taken place.

Mr. Oliver Jerschow: Yes, I think that's true. It was a multi-week process, as we talked about earlier, and, as Bill mentioned, there are trade-offs in establishing an intake process, because it obliges us to take time to do as much review as we can to make sure that the process is fair, which was our fundamental objective.

When you think about it, could we have taken another month to review all those applications? Sure. And would we have been able to do more review and assessment in that time, consult with more people? Sure. But it would have delayed the announcements, and it perhaps would have made it even less likely that any projects got under way in the 2009 construction season. So that was the fundamental kind of trade-off that we had to struggle with.

Mr. Jerry J. Ouellette: Would a delay in the review for that extra month you're speaking about have changed the outcome of what had taken place with the volume or the number of projects out there?

Mr. Oliver Jerschow: I think that's a hypothetical question, "What might you have found had you had the time?" I'm not sure we could really answer that.

Mr. Jerry J. Ouellette: In other words, were there any projects out there in the \$600 million for which maybe, in hindsight, you should have taken more time?

Mr. Oliver Jerschow: The thing that I would say is that our oversight of the projects didn't end when the projects were announced; in fact, we have quite a bit of oversight, every day of every week, of these programs as they are delivered. Those contribution agreements are legal agreements that provide remedies for the province if we find that our funds are not being well used. We have a claims-based payment process we haven't talked much about, but it basically makes sure that any expenditure on the part of proponents is legitimate, that it's an eligible cost. No funds are flowed to proponents until they can demonstrate that and that's been verified by both the province and the federal government.

I think that's the other thing to keep in mind, that the accountability components of these programs didn't end up when the application period ended; they continue throughout the programs.

Mr. Jerry J. Ouellette: Another question on the evaluation process, particularly regarding the RInC project: I know that municipalities compete with each other for things such as ice time. For example, in the community of Oshawa, Clarington and Whitby regularly utilize a substantial amount of the ice that's found in Oshawa.

When they did the process—when you look at the RInC program, for example, do you take into consideration that three municipalities catering to the same individuals would be making application for the same facilities, so that they're now competing with each other and their viability becomes much less if all three get an allocation?

Mr. Oliver Jerschow: I think the approach for this program, and the RInC program in particular—there were a number of eligible applicants, so not just municipalities, but also not-for-profits, for example, and a number of types of recreational infrastructure that were eligible, so we wouldn't necessarily know in advance what people would be applying with.

In the due diligence process, we do rely—and we've mentioned the attestations a number of times—on municipal councils having that kind of discussion and insight, bringing their local community knowledge to the table and having a sense of which projects to prioritize.

When we review the applications, we do our best to try and find those areas of overlap, if we're aware of them. That's part of why it's important to consult with other ministries, as we did. For example, the Ministry of Health Promotion and Sport, who are familiar with that sector, were very involved in the RInC program as well, so they brought some of that knowledge to the table. I

think that really helped to mitigate the kind of risk that you're describing.

Mr. Jerry J. Ouellette: Okay. I think those are pretty much my questions for now, Mr. Chair.

The Vice-Chair (Mr. Peter Shurman): Thank you very much, Mr. Ouellette. I noticed that you didn't use all of your time, and the other two parties used quite a bit less than was allocated. So I think, on this rotation, we'll go around with a maximum of 10 minutes for each party, if you have that many questions.

Mr. Tabuns: up to 10 minutes.

Mr. Peter Tabuns: Thanks, Mr. Chair.

Can you give us a sense of how many jobs were created by this whole stimulus program?

Mr. Drew Fagan: Our best estimate of the five programs is somewhere around 70,000-plus jobs.

Mr. Peter Tabuns: And that's 70,000 person-years of employment?

Mr. Drew Fagan: Person-years of employment, either created or preserved. Again, that's done based on methodology and modelling that's standard of use by the Ministry of Finance and the Ministry of Infrastructure.

Independent organizations like the Conference Board, which we've used for various studies of infrastructure, would not be wildly off with regard to—would agree, roughly, with those numbers, I think.

Mr. Bill Hughes: Sorry. Can I add one?

Mr. Peter Tabuns: Absolutely.

Mr. Bill Hughes: Our estimates are actually relatively conservative, compared to something like the Conference Board. The basic reason is this: When we model job creation, we model direct jobs and indirect jobs. Direct jobs are jobs right on the site, like actual construction jobs. Indirect jobs are suppliers, so those are the steel, the engineering and consulting services, things that directly supply the project. When the deputy says 70,000 person-years of employment is what our models show, what we're modelling are direct and indirect jobs.

What the Conference Board does, if you look at its data—and this is fairly common in the US as well, actually—is they model direct, indirect and induced jobs. Induced jobs are the jobs that are created by the money spent by the first two groups. If you are a construction worker or you are a lawyer or whoever, getting paid for work you're doing in relation to this project, and you then go out and spend that money—maybe you go to a restaurant, maybe you buy clothes, or whatever you do—that's called induced job creation, and the conference board and lots of folks in the States count induced jobs as well. That gets the numbers up, obviously. We think that it's not as analytically clean to count those jobs, so we only count direct and indirect when we're doing our estimates.

Mr. Peter Tabuns: I understand from your response that you've been refining your job estimates. Can you tell us about those refinements?

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Mr. Bill Hughes: Sure. I should have brought one of my technical economists, actually, but I can do a little bit.

The way that the modelling works is, we use input-output tables from Statistics Canada. Input-output tables sound complicated, but basically all they are is a bunch of tables that show the relationship between one sector of the economy and another sector of the economy. They would show, for example, the amount that the steel industry contributes, say, to the car industry. You use an input-output table to establish those relationships.

It takes StatsCan forever to figure that stuff out—I probably shouldn't have said it that way for the record. It takes a substantial period of time for Statistics Canada to analyze all those relationships with the data that they have, so there's always a significant lag.

The most recent refinement we've made to our job numbers was in December 2010. We updated, based on Statistics Canada's latest version of their input-output tables. That changes a few things.

The input-output tables allow us to estimate job creation for different types of activity. For example, the social housing projects, because they tend to be repair and rehabilitation projects and relatively small-scale, tend to create more jobs than, say, a highway project, which tends to be very capital-intensive, with lots of machines and so on. So the methodology that we use takes all of those kinds of factors into account as best we can. It's not just one number multiplied by another number; it's actually a little model.

Mr. Peter Tabuns: That's it.

The Vice-Chair (Mr. Peter Shurman): Thank you, Mr. Tabuns. I've got two here; you decide. Mr. Arthurs?

Mr. Wayne Arthurs: Thank you, Mr. Chairman.

Sort of a political comment first, which I don't expect you to respond to. We know that both Mr. Smitherman and Mr. Baird on occasion in this place would spar, but the capacity that they found to co-operate certainly set, in my view, the right political tone for governments at both levels to work together to make this a success. That's the political commentary. The bureaucracy, the ministry, separates itself from all of those things and does its job effectively.

Just tell me a little bit about whether the structure that was in place, the agreements, made your job easier in working with your federal counterparts or more difficult, or whether it had no impact on that whatsoever.

My second question—I'll pose it now and then you can respond to it. Given the fact that we were not the only jurisdiction—Canada, or Ontario—in the world that was facing this economic situation and there were others also trying to find ways to stimulate their economies, what would be your observations, to the extent that you had the opportunity, as to our program, maybe compared to other jurisdictions, in attempting to flow monies for the purpose of stimulating their economies and rebuilding infrastructure, which seemed to be a pretty common focus?

Mr. Drew Fagan: Mr. Arthurs, let me take a shot at the second question and then maybe turn to Bill for the first question, because I wasn't actually there in terms of the process in 2009.

One of the things that's been really striking to me in my six months in this role is the degree to which the province is investing in infrastructure and capital planning. You noticed, for example, in the budget yesterday that our capital budget for 2011-12 is \$12.8 billion. That's big money invested in health care and education, in terms of transportation, in terms of the types of things that we need to invest in to maintain the competitiveness of the Ontario economy. That comes after a number of years, now, of more than \$10 billion in infrastructure investment annually.

So stimulus was definitely a core part of that, particularly in the last two years. The numbers ramped up to about \$26 billion over that two-year period. Part of that was stimulus, but I'd note that not the majority of it was stimulus.

After a period of, really, decades—the 1980s, the 1990s—in which governments across the western world underinvested, I think it's fair to say, in infrastructure, over the last decade there's been a big ramp-up. You can actually see it across the province. You think about our own experience, going back to the 1960s, when we built the community college programs, for example; or our high-profile constructions like Ontario Place and the 400-series highways. That was done at a particular point in time—it was true in the States and it was true in Europe—and then everybody started spending less. That's been ramping up across the western world, and what has been striking to me is that we're keeping pace with that and stimulus was part of that.

With regard to the first question?

Mr. Bill Hughes: Absolutely, intergovernmental agreements are really important in making these kinds of joint projects roll out. I and my staff spent quite a bit of time negotiating with Canada on the agreements that we have related to the stimulus projects and also related to other federal-provincial infrastructure programs.

I think the federal government would agree that we have a good relationship with them, but we also have good negotiating sessions with them. I think they always find that Ontario and Quebec are the most challenging provinces to come to agreement with. That's because we spend a lot of time thinking about what the potential implications of the agreements are for the province, and then we have conversations about that with them. In some cases, the agreements that Ontario reaches tend to get replicated in other provinces as well.

The Vice-Chair (Mr. Peter Shurman): Thank you. Over to Mr. Zimmer.

Mr. David Zimmer: A question about the modelling: I gather, given the context and speed with which the money had to get out the door for its intended purposes and so on, that there wasn't any modelling done before on the job creation and so forth that you referred to in your remarks. The modelling would be after the event. I'm not being critical of that. It's just the question—

Mr. Bill Hughes: We would have done overall modelling for the total infrastructure spend over the next two years in the March 2009 budget, and if you look

back to the March 2009 budget, those numbers are there. They would have included the stimulus projects. We did model—

Mr. David Zimmer: Going into the—

Mr. Bill Hughes: Yes. We did model the stimulus projects going into the March 2009 budget, but we wouldn't have had the same kind of project detail because the decisions hadn't been made. As we get more project detail, we can refine the model and get better job numbers, but we did have some approximation in the budget.

Mr. David Zimmer: And was there any outside modelling done—I guess that would necessarily have to be done after the event—from the universities or the private sector?

Mr. Bill Hughes: That's interesting. In the last couple of budgets there has been outside modelling from the Conference Board of Canada published in the budget, and that's partly why I explained the difference in methodology, because their numbers look a little different than ours.

Mr. David Zimmer: And when you compare your ministry modelling with the outside modelling, what sorts of things do you see?

Mr. Bill Hughes: As I was explaining earlier, we tend to be conservative. We try not to overstate any numbers, including the job numbers. We try to make sure that the estimates we provide are valid, analytically defensible estimates.

Mr. David Zimmer: But allowing for that conservative approach, are the models more or less in agreement?

Mr. Bill Hughes: I understand. Sorry, I missed the point there. Yes. If you abstract from the modelling differences, what the conference board found is roughly consistent with what we found as well.

Mr. David Zimmer: The last question: Did you do any sort of best-practices approach with other jurisdictions, be they other provinces, other European jurisdictions or other state jurisdictions in the US, about how they approached the decision-making to get the best bang for the buck when they sent the money out?

Mr. Bill Hughes: I'll ask Oliver or Heather to speak more about that, but I would say that one key difference is that we chose to run an intake process, and that was for a couple of reasons. One was to make sure that we were compliant with the transfer payment accountability directive, and the second was to make sure that the process overall was fair.

I remember discussions at treasury board, for example, where ministers made the point, which I thought was really compelling, that right now the question being put to us was: How fast can you get the money out the door? But a year or two from now the question would be: Did you spend the money properly? So we had to bear both those things in mind as we were working on rolling out the programs.

Mr. David Zimmer: Thank you, Chair

The Vice-Chair (Mr. Peter Shurman): Thank you very much, Mr. Zimmer. Mr. Ouellette for the PCs.

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Mr. Jerry J. Ouellette: Under "Reporting and Monitoring of the Progress of Projects," it specifically states that the highway and local road is a \$404-million allocation. Is there any overlap with the Flow agreement in this allocation, or are there any funds for similar projects that are being used for one that are just renamed under another?

Mr. Bill Hughes: There's no overlap between Flow and stimulus, none.

Mr. Jerry J. Ouellette: Some of the aspects, and the concern is that—for example, in our constituency, the 407 extension in the Flow agreement was to go to 35/115; however, the response came back that there weren't funds available. In order to complete that entire routing, do you think funds have been removed from the one program in order to assist the other stimulus program?

Mr. Bill Hughes: No, I believe the government has announced a commitment to extend the 407 all the way to 35/115.

Mr. Jerry J. Ouellette: Just to Harmony Road for now, eventually making that distance. So not in the one phase; it's a phased-in approach as opposed to—

Mr. Bill Hughes: I understood. In phases, yes.

Mr. Jerry J. Ouellette: Yes, the phased-in approach as opposed to the one-time.

So the concern was that—my understanding, having been the parliamentary assistant, was that because it was a toll road, it was not added to provincial debt. I believe it—although I can't verify because I can't seem to dig up my notes from 1995, when it was Kevin Pask who was the chief engineer at the time. Do you know anything about whether that's one of the actual cases or not, that because of the toll road the 407 expansion is not added to provincial debt? Is it eventually going to—the funds would come back.

Mr. Bill Hughes: It's a provincial asset.

Mr. Jerry J. Ouellette: Yes. Based on the fact that it's a toll road, funds would come back to the province, so it was not added as part of the provincial debt during the construction phase of it.

Mr. Bill Hughes: The question of tolling and what happens to toll revenue is a separate question. The cost of the highway would be something that the government would have to fund somehow, either through ongoing revenues or through borrowing or whatever other mechanism, but it's not something, based on my understanding, that you can offset against toll revenue.

Mr. Jerry J. Ouellette: Okay. It's somewhat different from what I recall.

It doesn't really give a lot of explanation as to the allocation of funds at that particular time.

There were 21 projects initially deemed ineligible by yourselves that came back and then were turned over by the minister's office. Can you give us examples of what those reasons were?

I should clarify something as well. Quite frankly, my belief is that ministers are elected and appointed to make

decisions in process, and that's why they review these things on a regular basis, because they would contact members in their local riding to find out something that—the municipality is pushing off an issue on to the province here and eliminating their problems that they should be dealing with, and sometimes those decisions are necessary.

Can you give us a breakdown as to some of the reasoning for the 21 projects that were initially deemed ineligible, that were overturned?

Mr. Drew Fagan: I'll leave it to the other officials with regard to any detail they can provide. Obviously, the decisions were made at the political level. I'd note again the point made by the Auditor General with regard to no political pattern. Officials make their best assessment and best advice with regard to what projects should take place.

I'd also note that regardless of the process by which projects were chosen, every one of those projects had to attest and had to meet the same standards with regard to expectations around legal obligations and the rollout of programs.

Mr. Oliver Jerschow: I would add to that that in giving our advice to the ministers, we wanted to be as clear as possible as officials in our assessment of the process and not give ambiguous advice. So we tried to say clearly, for each project, if we thought it was eligible

or not. But determining that was actually difficult in some cases and required judgment in terms of interpreting the guidelines that had been published.

In many cases, there were simple problems with the applications. For example, through our not-for-profit intake under the ISF program, we required additional documentation from those proponents, things like audited financial statements or information on the people who would be managing the project if it were to be funded. There were cases, for example, where that documentation didn't accompany the application. We took a conservative approach and said that that wasn't eligible. If that project were funded, we would have followed up with that proponent to get that information and mitigate the risk.

Mr. Jerry J. Ouellette: I think that's all, unless you have some questions, Chair.

The Vice-Chair (Mr. Peter Shurman): I haven't got anything more, and I'm assuming there's nothing more around the room. Does anybody have any more? No. The Liberals? No.

Then that's the end of the open part of this presentation. We'll stay, in closed session, after our guests leave.

Thank you very much for your appearance, and we'll be talking to you.

The committee continued in closed session at 1346.

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