



RESIDENTIAL AND
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Public Sector Can Save More Than an Estimated \$1 Billion a Year in Ontario Through More Efficient Construction Contract Procurement Practices

TORONTO (October 29, 2009) – Governments at all levels can save millions of dollars each year in infrastructure spending with more realistic and efficient construction contract procurement practices, concludes a major new study released today by the Residential and Civil Construction Alliance of Ontario (RCCAO).

“While the study conservatively estimates that taxpayers are paying at least five per cent more than they should because of these practices, that’s very much on the low side. At the upper end, it could be as much as 20 per cent,” says Stephen Bauld, author of the report and President of Purchasing Consultants International Inc., one of Canada’s leading experts in the public procurement field.

In the Greater Toronto-Hamilton Area, approximately \$2.6 billion is spent annually on construction by federal, provincial and municipal governments, their respective boards and agencies, as well as school boards, universities, community colleges and hospitals. At the upper end of the scale, that means all governments are possibly paying an additional \$500 million a year more than is necessary for construction projects in the GTHA alone.

Extrapolated on a provincial basis, the annual figure is more than \$1 billion for Ontario (this assumes that GTHA construction value represents about half of the Ontario total). These savings can be used to fund additional needed infrastructure work or be used to reduce looming deficits.

“This is a matter of concern, not just to the governments of the day, but to all taxpayers — since it is they who must eventually foot the bill,” notes the study, *Towards A Fair and Balanced Approach: A Commentary on Government Procurement of Construction in the GTHA*.

Government purchasing policies and contract documents are at the root of the problem. These have become so onerous – transferring virtually all of the risk to construction contractors – that many qualified companies simply do not bid. The result has been a less competitive marketplace for public sector work, with governments paying in excess of prevailing private sector prices for the goods and services that they purchase.

According to the study, many government tenders now attract only one to three bids. Those contractors that do bid have to raise their prices as protection against the extra risk assumed.

Thus while the public procurement process is designed to secure a good deal, ironically it frequently works against the interests of governments and taxpayers.

There are other unintended consequences of one-sided government procurement practices. For example:

- Governments lose exposure to new technology and the full range of development capability.
- A contractor may perceive that the only way that it can secure a contract (much less make a reasonable return on its investment) is to slash costs by taking 'short cuts' in the construction of the project, and to attempt to make money through change orders and corrective work following project delivery.

“Recent news reports have highlighted the very real benefits of meaningful competition in government procurement.” says RCCAO Executive Director Andy Manahan. “This study makes some important recommendations with respect to ensuring a more open and fair market, and securing better value for taxpayer dollars.”

The study urges all levels of the public service and the construction industry to work together to develop revised contract language and practices that are broadly acceptable to government **and** allow contractors to offer competitive bids for government work.

“Governments have properly responded to the infrastructure deficit through increased spending. However, there now has to be a better balancing of interests, a better balancing of risk, so governments can ensure they are getting top quality products and services for the best prices possible,” notes Manahan.

Shahid Minto, the federal government’s procurement ombudsman, has reviewed the RCCAO study and provided the following comment: “Several topics raised in this report are of interest to the Office of the Procurement Ombudsman.”

The Residential and Civil Construction Alliance of Ontario (RCCAO) is an alliance composed of management and labour groups that represent all facets of the construction industry. Its stakeholders stem from residential and civil sectors of the construction industry, creating a unified voice. The RCCAO’s goal is to work in cooperation with governments and related stakeholders to offer realistic solutions to a variety of challenges facing the construction industry. For more information please visit www.rccao.com

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The full study is available on the RCCAO website. For further information, contact:

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