

CRD Wastewater Treatment Project:
Observations and Recommendations on Project Governance

Background

In early April 2016, the Minister of Communities, Sport and Cultural Development offered to assist the CRD in finding a way forward with addressing the need for a sewage treatment solution for the Region. The CRD accepted the offer and the Minister asked Partnerships BC and Peter Milburn (former Deputy Minister of Finance, with experience in significant capital infrastructure projects) to assist in conducting due diligence and making recommendations.

Since April 2016, Jacquie Dawes (DM Community, Sports and Cultural Development), Peter Milburn and Partnerships BC (led by Amanda Farrell) have held meetings with many of the parties involved in the CRD Wastewater Project (“the Project”) to date.

This note has been prepared by Peter Milburn and Amanda Farrell, and summarizes observations on the current project governance model and makes a number of recommendations for moving forward.

Project Governance: Observations

Our observations regarding the project governance are as follows:

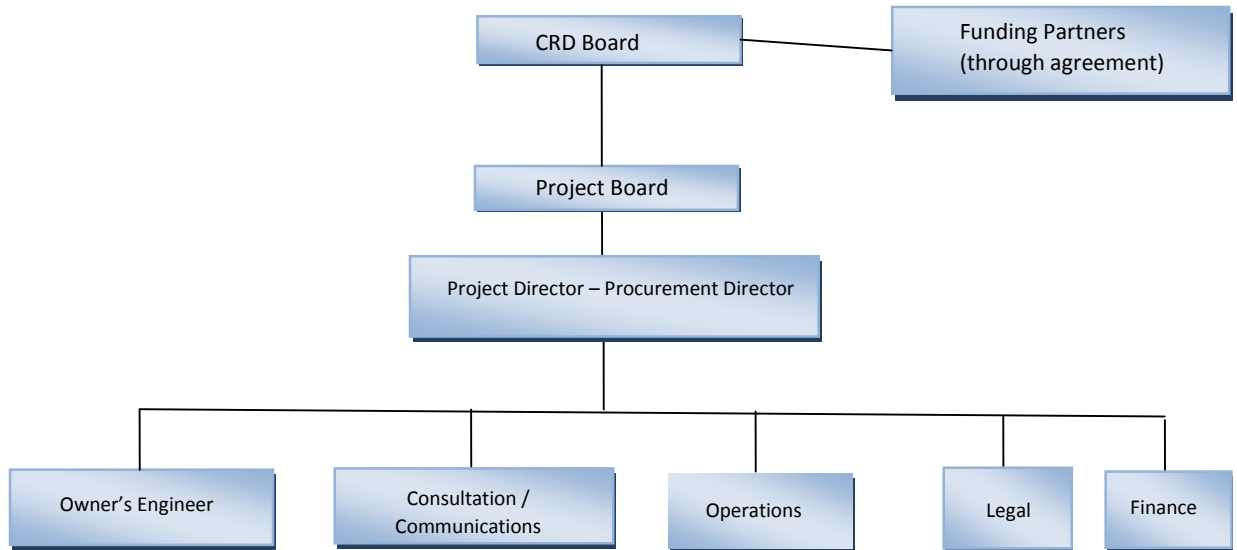
1. The Project has a complex governance model which has undergone numerous changes; it is difficult to determine how specific roles and responsibilities lie between different committees, and where and how critical project decisions will be made.
2. The individuals currently governing the Project have not worked on projects of this scale and complexity before.
3. Project governance is divided into “phases” such as planning (CRD) and implementation (Seaterra) resulting in changes in project governance as the Project progresses, raising continuity and accountability issues.
4. No project plan exists and initiatives are undertaken without understanding the overall impact to funding, scheduling or other critical success factors.
5. There is currently no Project schedule.
6. The Project is currently out of compliance with Provincial funding requirements.
7. No Project Manager is currently in place, nor is there any single interim Project lead.

Project Governance: Recommendations

Our initial recommendations are as follows:

- a. **The project should be governed by a standard project management framework**

The project governance structure should look similar to the typical example shown below:



This type of structure supports three important principles:

1. **Single point accountability.** This is fundamental for the success of any project. The accountability should be consistent through all phases of the project and is especially important during the project initiation phase. It is at this critical stage that the right individual can drive the important decisions necessary to place the project on a firm footing. The concept of a single point of accountability is the first principle of effective project governance.
2. **Decisions through project structure as opposed to committees.** The decision making effectiveness of a committee is often inversely proportional to its size. Not only can large committees fail to make timely decisions, they often struggle to handle divisive issues and tend to coalesce around compromises that sacrifice scope, schedule, or budget. Project decision making should follow a very clear well process.

The project team should develop the consultation and communications process and use the results to inform the project plan.

3. Separation of project governance from other organizational governance.

Projects require flexibility and speed of decision making and the mechanisms associated with organization charts do not tend to enable this. Project governance structures overcome this by drawing the key decision makers out of the organization structure and placing them in a project decision making forum thereby avoiding the serial decision making process associated with hierarchies while ensuring that the interests and perspectives of the organization are represented. Projects should avoid situations where decisions are referred to individuals or groups outside of the decision making process.

b. The CRD board should create a Project Board and provide it with the delegated authority to provide for largely independent decision making.

In creating the Project Board the CRD should clearly set out:

- The vision, objectives, scope and deliverables;
- Stakeholders, authority, roles and responsibilities;
- Resource, financial and quality plans;
- Major constraints or assumptions;
- Division of financial responsibilities;
- Legal boundaries of the project board;
- Any other legal constraints (such as referenda);
- Communications and information protocol;
- Points of decision, or changes that should be referred to the CRD board.

The Project Board should conform to the following principles and rules:

- Effective and clear decision making;
- Clearly articulated roles and responsibilities;
- Formal process to keep stakeholders informed and engaged;
- Oversight of the project management team and empowered to make decisions;
- Clear and appropriate record of key decisions;
- One member is to be appointed chair. This member will have more direct day to day interaction with the project manager and the CRD;
- Progress reports and other documentation to be provided to CRD board as required; and
- Fairness advisor to be retained to provide an unbiased opinion.

- Conflict of interest adjudicator to be retained.

c. Individuals on the Project Board should possess the skills and abilities required to guide a project of this magnitude and complexity as follows:

- Experience in the delivery of major capital projects. Ideally there should be a mix of members with experience from both the owner and contractor perspective;
- There should also be individuals who are familiar with the operation and governance of the CRD. This may include a senior staff member (the CAO) and an elected official. We recommend that the Chair of the CRD Finance Committee would be an appropriate CRD elected official representative; as well as representing the CRD perspective, it is helpful to have an individual familiar with project finance and accounting principles;
- Project Board members should have the ability to understand and interpret complex project plans and have the insight to be aware of warning signs of issues pertaining to project budget or deliverables;
- It would be helpful to have members with experience and skills in managing relationships and developing consultation strategies;
- Project Board members should be able to assist the project director with the development of strategies to accomplish project objectives;
- A functional project board should be comprised of seven or fewer individuals, with one person assuming the role of Chair;
- The Project Board need to meet *in camera* to ensure that thorough and robust discussions can occur regarding items that may involve commercial confidentiality and project risk; and
- The CRD Board needs to have confidence in the Project Board and its collective ability to deliver the Project on their behalf.

d. The Project Board is accountable for securing and supervising the Project Director.

- In keeping with the principle of single point accountability, the choice of Project Director should be determined by the Project Board;
- The Project Director selected should be an individual who has the confidence of industry (both construction and finance), which will improve price competition on the Project;
- The Project Board will provide direction to the Project Director including the decision making framework, business priorities and strategy, and resource approval;
- The Project Board will clearly set out the milestone events requiring Board approval (business case, contracts, etc.);

- The Project Board should assist the Project Director in strategy development, relationship management, and resolving issues as they arise;
- All aspects of project deliverables and resources (scope, schedule, and budget) will be clearly set out for the Project Director by the Board.
- The project board will set out all communications protocols clearly for the project team.

We have also made the following general observations regarding the project:

Legal Obligations

The CRD has the legal obligation to provide sewage treatment for the partner municipalities in the region. There is a clear timeline within which these legal obligations must be met, with significant consequences arising if there is a failure to do so.

The CRD Chair and Board are accountable for all aspects of the Project and its operation and maintenance after construction.

Major Strategic Considerations

- a. Federal legal requirements for waste water treatment by January 1, 2021;
- b. Provincial funding which will require the development of a new business case;
- c. Federal funding will be subject to a new business case and is required by September 2016;
- d. This Project is on a very tight timeline and requires a detailed, realistic project schedule. Issues such as business case development, funding approvals procurement processes, and the potential referendum may have a profound effect on limiting the range of viable project options.
- e. The issue of siting is one of the most significant outstanding issues on this project. We strongly recommend that this issue is resolved prior to going back to the marketplace.

CRD Wastewater Treatment Project:
Observations and Recommendations on Procurement Process

Background

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This note has been prepared by Peter Milburn and Amanda Farrell, and summarizes observations on the procurement process and makes a number of recommendations for moving forward.

Proposed “Concept Call”: Observations

Our observations regarding the proposed technology “concept call” are as follows:

1. We agree with the CRD team and its advisors that there would be no benefit in conducting a market sounding at this time;
2. The proposal to move forward with a concept call raises a number of significant concerns:
 - a. The proposal appears to be for an open-ended concept call, with potentially multiple technology, site and delivery options. For example, the CRD has also indicated it is open to a private partner undertaking operations and maintenance. Under the concept call, therefore, would a full DBFOM be a requirement, or could multiple delivery options be proposed? It is very difficult to understand what evaluation criteria would be used to compare and rank responses to a concept call, given that the responses will be conceptual in nature, and based on this range of options;
 - b. It is likely that any responses received would be general and high level in nature and will lack the detail required to assure the CRD that performance requirements, cost and schedule can be met.

- c. The concept call is not mapped to an overall procurement process that would lead to a contract. As a result, it is unclear to us how such a concept call could lead to a fair, open and transparent procurement process and ultimately a contract in a timely manner. These principles will underpin eligibility for senior government funding (provincial and federal);
- d. We have not been provided with a draft concept call or even an outline of the document, so it is very difficult to envisage or comment on the actual process that is proposed.
- e. There is no schedule evident for the concept call or broader process. We have concerns that such a process may not be able to meet the federal 2021 regulatory deadline for sewage treatment.
- f. Confidence in the process and the credibility of the CRD will be a significant issue with the private sector market following the termination of the previous process. There will be a reluctance to invest further development dollars without a clear commitment to proceed or without significant compensation if the process is terminated.

Procurement Process

Our initial recommendations are as follows:

- 1. A bone fide business case must be developed before September to secure senior government funding and approval of a governance, procurement and implementation strategy.**
 - a. The current “base-case” involves two treatment plants at Macaulay/McLoughlin and Clover Point. This option was proposed in very short order (about a week after the tabling of the “Amendment 10” document) and lacks the diligence required to underpin a business case. For example the costs estimate is very high level and would not meet the diligence required for a business case (generally a Class C estimate is required);
 - b. For provincial funding, a Capital Asset Management Framework compliant business case is required – similar levels of diligence are required for federal funding approvals;
 - c. The business case should include zoning, environmental and public consultation strategies, as well as the confirmation of an overall governance framework and procurement strategy.
- 2. The project should follow a standard, proven procurement framework, incorporating a performance based approach to encourage innovative technology solutions.**

- a. We recognize, and support, the desire to ensure that all feasible technology options should be on the table to reduce costs and improve outcomes, with the caveat that the selected technology must be proven to meet the needs of the CRD in terms of capacity and treatment quality as well as important community considerations (noise, odour etc.);
 - b. We believe a two stage process, including a Request for Qualifications (RFQ) followed by a Request for Proposals(RFP), can be tailored to meet the needs of this Project;
 - c. The RFQ process must be strategic to ensure that all shortlisted technologies will be able to meet critical CRD needs; the RFP can then follow with a detailed examination of the shortlisted options to determine which best meets the CRD's more detailed needs and priorities.
- 3. Specific sites should be identified that will be available for use; these sites MUST be rezoned prior to release of an RFP to foster confidence in the process.**
- a. In our view this commitment is critical to underpin a successful procurement process and a predictable and manageable project schedule;
 - b. We believe that any commitment to access to sites short of rezoning will not be sufficient to provide process confidence to the market, and the procurement may fail as a result.
- 4. The issue of whether there can be a single site or whether there must be a minimum of two sites MUST be resolved before a procurement process can begin.**
- a. If a single site is to be precluded, this must be very explicit with both funding partners and the market;
 - b. We are concerned that such a position may not be acceptable to senior government funding partners. If such a position would not attract funding from senior government then it will be important that residents of the CRD understand and accept the potential financial implications before proceeding to market;
 - c. If a single site is precluded, It would be necessary to explicitly communicate this restriction from an RFP. If not explicitly stated, it is possible that a single site solution would offer the best value from a capital cost/operating and maintenance cost perspective, putting the CRD in a very difficult position from an evaluation perspective if a single site is proposed.