Briefing Note for

The Auditor General of British Columbia

And

The Public Accounts Committee of the British Columbia Legislature

Regarding

Recent reports from British Columbia and other jurisdictions on the use of public private partnerships

Presented by

The Canadian Union of Public Employees
BC Division
Barry O'Neill, President

January 2010

Briefing note regarding recent reports from British Columbia and other jurisdictions on the use of public private partnerships

Executive Summary

1. British Columbia, through Partnerships BC, has become Canada's leading proponent for public private partnerships (P3s or PPP) with $10 billion worth of such projects identified in the province.
2. The methodology to determine whether to use a P3 or public procurement has come under increasing criticism in the past year both in British Columbia and in reports by Auditors General in other jurisdictions who have found bias in the methodology.
3. The most important flaw in the methodology, in terms of value, is the combined use of an inappropriately high discount rate and the assumption that the government pays for public projects "upfront" without borrowing and paying back over time. These two things combined have the effect of assuming that the government borrows at the same rate as the private sector.
4. One of the key arguments from P3 proponents is that they allow the transfer of risk to the private sector. However, Auditors General from Quebec and Ontario found that first, the risk is overvalued, and second, the risk could be transferred with public procurement. As well, the value of risk is double counted against public procurement. This is done by both adding the value of risk to the public sector comparator and then by adding the value of risk to the discount rate.
5. There are indications that the use of public private partnerships leads to less, not more competition.
6. In both Ontario and British Columbia governments imposed the use of public private partnerships before any analysis had been done. This creates, "a risk that the estimates and reviews could be biased in favour of the P3 approach over the traditional approach."
7. Partnerships BC performs multiple roles in the P3 process including advising, procuring and evaluating. This creates a risk of bias and conflict of interest.
8. Auditors General in other provinces have found that P3s increase costs and that published reports do not make it possible to conclude that P3s are preferable to public procurement.
9. Because of the secrecy involved in P3s, only the Auditor General has the power to obtain the necessary information to review both individual projects and the methodology that was used to choose P3s.
10. We believe independent analysis by the Office of the Auditor General will find that public private partnerships in British Columbia use the same methodology as that used in other provinces and suffer from the same flaws found by other Auditors General.

Introduction

Since the creation of Partnerships BC in 2002 British Columbia has become Canada's leading proponent for the use of public private partnerships (PPPs or P3s) for the financing, construction and management of public assets. As of September 2009 the province was involved with $10 billion worth of such projects.[1]

Over approximately the past year a number of reports have been published that raise serious questions about the value for money citizens in British Columbia have achieved from these projects. Auditors General in both Ontario and Quebec have issued reports raising very serious questions about individual P3 projects and the methods used to evaluate them. In British Columbia both academic accountants and forensic auditors have challenged the claims being made in support of these projects.

Most important, however, in August 2009 for the first time since its creation Partnerships BC published the methodology by which it chooses between using a P3 or traditional procurement. The published methodology makes clear that all of the problems identified by other Auditors General and by reports in British Columbia are present in BC's public private partnerships. This methodology amounts to systemic bias in favour of using P3s despite the fact that other options would provide better value for money.

The Canadian Union of Public Employees (CUPE) is aware from comments by the Auditor General before the Public Accounts Committee that the Office of the Auditor General is currently working on public private partnerships and examining different projects. In the light of reports published in the past year CUPE would like to encourage the Auditor General to look more broadly at P3s and the process by which they are chosen.

While the Office of the Auditor General will be aware of the reports cited in the following paragraphs CUPE would like to make some comments as to how these reports specifically relate to issues raised in the *Methodology for Quantitative Procurement Options Analysis* published by Partnerships BC in August.

[1] Partnerships British Columbia, 2009/10 – 2011/12 Service Plan Update, 2009 page 3.

The most significant flaw in the methodology:
Assumptions about public up-front costs and high discount rates

The methodology used by Partnerships BC will almost inevitably favour a P3 over traditional procurement. There are a number of reasons for this, but the most important in terms of value is the method by which comparable costs are brought to net present value.

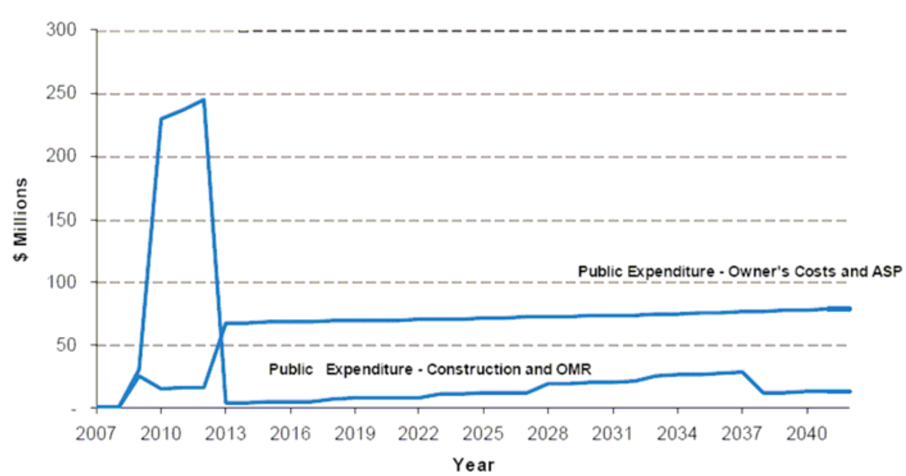
Partnerships BC assumes that all construction costs in public projects are paid out during construction, while construction costs in the public private partnership are paid for with borrowed money that is paid out over the life of the entire project. This assumption, combined with the use of a high discount rate where the present value of payments in the future fall away dramatically, creates a built in bias against traditional procurement.

In terms of the front end loading of public costs, Partnerships BC uses these words:

> The VFM table compares the two procurement approaches based on the payment streams described above. When the cash flow streams for the two models are discounted to their NPC, the heavier, up-front and lower annual costs of the PSC can be compared to the more even ASP stream from the shadow bid.[2]

PBC illustrates this with the following graph on the same page:

Figure 4: Public Sector Cash Flow Streams – Direct Comparison



[2] Partnerships BC, Methodology for Quantitative Procurement Options Analysis: Discussion Draft, August 2009, page 74.

In his examination of the William Osler Health Centre (WOHC) P3 Ontario's Auditor General questioned the assumption that construction costs were paid up-front in a public project. The Auditor General said:

> In comparing the design and construction costs of the two options, WOHC assumed that there would be no financing if the government undertook the project itself, but that the [P3] arrangement would be financed over 25 years. It justified this assumption by noting that in the past, hospitals were required to have their share of project costs available before the Ministry would approve any projects.
>
> Governments do have the capacity and the option of financing and typically obtain a lower debt interest rate than private-sector borrowers do. The province's 5.45% cost of borrowing at the time the agreement was executed was cheaper than the weighted average cost of capital charged by the private-sector consortium. Had the province financed the design and construction costs under the same terms as the private-sector partner but used its lower rate, we estimate that the savings in financing costs would be approximately $200 million ($107 million in 2004 dollars) over the term of the agreement.[3]

Quebec's Auditor General comments on the use of a high discount rate in his discussion of Montreal's University Health Centres public private partnership. He said:

> It has been recognized that the higher the discount rate used to convert the cash flows associated with the two options into today's money, the more attractive PPP will appear compared to traditional public-sector project delivery. The reverse is also true. This is because the RP (PPP Reference Project) spreads expenses over a longer period than the PSC. The United Kingdom's Legislative Auditor expressed this observation in 2000 while emphasizing the importance of choosing an appropriate discount rate within the context of a value-added analysis...[4]

[Note: Unfortunately, only the summary of the report from the Quebec Auditor General is available in English. Translation of material taken from the body of the report was provided by Mosaic Translation Services.]

Economist Dr. Marvin Shaffer analyzed the Partnerships BC methodology in a November 2009 report. He summarized the impact of both applying a high discount

[3] Auditor General of Ontario, 2008 Annual Report, Chapter 3.03 Brampton Civic Hospital Public-private Partnerships Project, page 115.

[4] Rapport du Vérificateur général du Québec à l'Assemblée nationale pour l'année 2009-2010, tome II, paragraph 5.101

rate and assuming public money is paid upfront rather than borrowed and paid back over time. He says:

> The problem is that PBC's evaluation procedures do not recognize any difference in the cost of capital between privately-financed P3s and publicly financed projects. The cost comparison should be between the lease and other payments for the P3, adjusted for risk transfer and other factors, versus the debt service and other costs government would incur if it were to finance the project in a PSC. However, PBC's methodology does not estimate the debt service charges under the more traditionally procured, publicly-financed alternative. It incorrectly assumes in this case that all capital costs would be paid upfront, with no debt financing.
>
> The effect of this assumption in PBC's methodology (combined with its discount rate assumption discussed below) is equivalent to assuming that whatever financing takes place under the traditionally procured PSC is not at the government borrowing rate, but rather at the higher cost of capital the private consortium incurs. PBC's methodology effectively ignores any difference in the cost of capital between the two procurement models. In other words, PBC's evaluation model analyzes the potential benefits of a P3, but does not even attempt to estimate the costs. It is an extraordinary failing in a methodology aimed at objectively assessing the relative merits of the alternative procurement models.[5]

Forensic accountants Ron Parks and Rosanne Terhart made the same point in an analysis of four BC public private partnership projects published in January 2009. They said:

> … the discount rate applied to the respective costs of the P3 and Public Sector Comparator is a critical element in determining value for money. Since the cash costs to the public of the P3 option occur much later in the project life than in the Public Sector Comparator option, the application of a high discount rate will almost always serve to portray the P3 as offering more value for money.[6]

The methodology of combining a high discount rate with an assumption that capital costs are paid upfront in a public project does not offer a fair comparison between a P3

[5] Shaffer, PhD, Marvin, Review of Partnerships BC's Methodology for Quantitative Procurement Options: Discussion Draft, November 2009, page 3.
[6] Parks, Ron and Rosanne Terhart, Evaluation of Public Private Partnerships: Costing and Evaluation Methodology, January 2009, page 4,

project and what is described as traditional procurement. Two things are required for a comparison to be fair.

1. Assume that the government borrows money for projects and pays the money back over the life of the project.
2. Assume the discount rate is the government's cost of borrowing. Dr. Shaffer says, "The issue is what trade-off taxpayers are willing to make between current and future tax obligations. There is considerable evidence that many taxpayers don't even accept the trade-off implied by the government borrowing rate. That suggests that at most, future tax obligations should be discounted at the government borrowing rate, a rate that is much smaller, giving greater weight to future costs, than PBC's private sector rate.

   "In very simple terms PBC's analysis is shortsighted, doing a disservice to future taxpayers who must pay the extra costs of the P3 for the full length of the contract."[7]

Risk Transfer

One of the most important arguments put forward in support of public private partnerships is that they permit project risk to be transferred to the private sector. In their methodology, Partnerships BC makes it explicitly clear that in developing a public sector comparator they assume risk cannot be transferred to the private sector using traditional procurement.

Partnerships BC says:

> Traditional procurement has typically involved construction management (CM) and design bid build (DBB), representing points along a continuum of possible procurement methods where <u>there is very little or no transfer of project-related risk to a private partner</u>.[8] (Emphasis added)

Partnerships BC outlines further how the assumption that no risk can be transferred under traditional procurement

> Since the purpose of the PSC model is to estimate the cost of a project to the owner if it were procured traditionally, with no transfer of risks assumed to be

[7] Shaffer 2009
[8] Partnerships BC Methodology for Quantitative Procurement Options Analysis,2009, page 2

> allocated to the private sector under a PPP, the expected value of these retained risks must be added to the cost of the PSC.[9]

The value of this risk that is added to the public sector comparator can be very significant. For example, in the case of the Canada Line P3 project $242 million worth of risk and contingencies were added to the cost of the public sector comparator.[10] This was 13.8% of the total estimated cost of the project if it were procured traditionally.

In the case of the Royal Jubilee Hospital a $33.4 million risk adjustment was added to the public sector comparator making up 9.2% of the estimated cost of a publicly delivered project.[11]

The reports written over the past year make clear that the assumptions used by Partnerships BC are in error and that they once again bias the process.

First, even if one were to accept the assumption that risk cannot be transferred in a traditionally procured project, Ontario's Auditor General finds that the value of risk added to the public sector comparator is far too high.

He says:

> Another concern we had was the $67 million in transferred risks that was added to the November 2004 government design-and-build estimate. This amount was arrived at on the basis of the judgment and experience of management and consultants. Owing to the subjective nature of these estimates, it is virtually impossible to substantiate the validity and accuracy of the quantified amounts. We were concerned that the transferred risks for this project amounted to almost 13% of the November 2004 government design-and-build estimate of $525 million. In comparison, actual cost overruns (a major component of risk transfer) in the design and construction of the Peterborough Regional Health Centre—a hospital built under the traditional procurement approach during the same period—were about 5% of the total contract value.[12]

Second Auditors General for both Ontario and Quebec question the assumption that risk cannot be transferred in a publicly delivered project. Ontario's Auditor General identified the design/build process as a form of traditional procurement that might have offered better value. He said:

---

[9] Partnerships BC Methodology for Quantitative Procurement Options Analysis,2009, page 23
[10] Canada Line Rapid Transit Inc., Canada Line Final Project Report: Competitive Selection Phase, 12 April 2006, page 20.
[11] Partnerships BC, Project Report: Achieving Value for Money – Royal Jubilee Hospital Patient Care Centre, October 2008, page 18.
[12] Auditor General of Ontario, 2008, page 112

> With a contract of this size, best practices call for a business case to assess the costs and benefits of a range of alternative procurement models, to allow the option that offers the best value for money to be chosen. One approach is a value-for-money assessment that captures the total estimated cost of the traditional public-sector delivery of an infrastructure project through a design-build approach and compares that to the estimated delivery cost of the same project using a P3 model.[13]

Quebec's Auditor General reached a similar conclusion finding PPP Quebec had chosen to compare the P3 project only to the most traditional of public procurement without evaluating other possible project modes such as turnkey procurement. The Quebec AG said:

> Indeed, choosing a different conventional project delivery method - such as the turnkey approach - could also have improved public sector efficiency by giving a design and construction contract to a group of companies. It would also allow construction to be fast-tracked. In such a case, calls for tender are issued as soon as detailed plans and estimates for a lot are completed, thereby saving time.[14]

The Quebec AG went on to point out that even the hospitals had questioned this approach.

> For example, once the initial business case was written, the CHU (university medical centres) questioned the wisdom of limiting the choice to a single traditional method as a basis for comparison with the PPP approach. One of the medical centres stated that one should examine all the viable options so as to choose the conventional method that best fits the circumstances. By only considering one option in the analysis, namely the traditional approach, other possibilities were ignored and the comparison was distorted in favour of the PPP approach.[15]

Partnerships BC's methodology is exactly the same as the practice Auditors General have questioned in other provinces. The assumption is made that risk cannot be transferred if a project is delivered publicly and then the cost of "risk transfer" is added to the price of the public sector comparator. Dr. Shaffer notes:

[13]Auditor General of Ontario, 2008, page 108
[14] Rapport du Vérificateur général du Québec, paragraph 5.67.
[15] Rapport du Vérificateur général du Québec 5.142

PBC's methodology fails to consider the extra costs of a P3. It also fails to consider whether the risk transfer and efficiency benefits couldn't be achieved in other, less costly ways.

> Appropriately structured design-build competitions may achieve the efficiency benefits PBC states P3s may provide. Arguably there may be potential for greater efficiencies in the bidding process because of the larger number of firms that are able to participate. The requirement for financing in a P3 can limit the number of bidders involved.
>
> Bonding and warranty arrangements can be used to ensure cost and performance guarantees are met in more traditionally procured processes – that risks the builders can manage are effectively transferred. The model PBC has recently turned to, whereby the winning bidder must provide some equity, but the balance of the capital cost is financed by government can also ensure long term performance guarantees are met. PBC recognizes this is a lower cost arrangement than their preferred P3, particularly with the recent turmoil in the private capital markets, but alternatives like this aren't even considered in its standard methodology.
>
> The point is that PBC's methodology makes no effort to determine the optimal procurement arrangement, one that minimizes cost to the taxpayer, while still achieving appropriate, cost-effective risk transfer and private sector participation in the project.[16]

In almost all cases if it had been acknowledged that risk could be transferred in the public sector comparator the value for money analysis would have favoured public procurement.

A second issue with regard to risk is the double counting of risk. The previous paragraphs have outlined how Partnerships BC's methodology quantifies risk and transfers the value of this risk to the cost of the public sector comparator. However, Partnerships BC also adds, incorporates the value of risk into the discount rate. The Partnerships BC methodology says:

> The discount rate reflects the time value of money as well as any risk premium associated with a project, and is determined based on the risk profile of a project and prevailing market conditions.[17]

[16] Shaffer 2009
[17] Partnerships BC Methodology for Quantitative Procurement Options Analysis, 2009, page 8.

PBC's methodology states later that:

> Partnerships BC uses a standard approach to determining an appropriate discount rate. This approach involves basing the discount rate on the cost of capital for a particular project, expressed as a percentage.[18]

Partnerships BC argues that this approach is justified because:

> Although the discount rate takes into account the overall risk of a project, it is not directly related to the specific risks quantified in the risk analysis, and continues to address several sources of remaining uncertainty (risk) associated with a project. First, although the risk analysis is comprehensive, it is not possible to quantify the potential cost of every risk associated with a project. There remains the potential for unknown unknowns and additional, un-quantified risks that can affect the outcome of a project. Second, with respect to the estimated cost of risks that are quantified, their expected cost is based on a specific probability level (i.e., P50). This estimate, although very useful for determining the potential financial impact of identified risks, still leaves some variability, or uncertainty, regarding the actual outcomes around that value. Finally, correlation can exist between risks. This means that, although the expected cost of individual risks are estimated, additional risk lies in the degree of correlation between these risks (i.e. the extent to which they interact and move together when they occur), which can have the effect of amplifying their outcome. For these reasons it would not be appropriate to use a risk-free discount rate to evaluate project cash flows, even though an estimate of the potential cost of many key risks is included in the cost estimate.[19]

However, since the cost of capital to the private partner already incorporates all of the risks foreseen by the lender, the cost of private capital would also include "the specific risks quantified in the risk analysis." In effect, the risk is being double counted in a way that is biased against a public project. This is one more reason why the discount rate used should be the government's cost of borrowing.

Competition

P3 proponents argue that public private partnerships have the advantage of bringing competition to the process. In 2004 BC Finance Minister Gary Collins in a speech to the Canadian Council for Public Private Partnerships said:

[18] Partnerships BC Methodology for Quantitative Procurement Options Analysis, 2009, page 24
[19] Partnerships BC Methodology for Quantitative Procurement Options Analysis, 2009, page 26

> One of the key benefits of building infrastructure through public private partnerships is the advantage we gain from putting our private sector partners through a robust, competitive selection process.
> When we have that kind of competition, we get innovation and we get cost efficiencies.[20]

However, as Dr. Shaffer suggested above, the complex demands of public private partnerships may actually reduce the number of firms able to bid and as such reduce the degree of competition for these projects.

This was an issue identified in the United Kingdom. A 2007 report from the National Audit Office found:

> There are signs that the private sector is becoming more selective in developing detailed bids for PFI projects, in part due to the cumulative impact of lengthy tendering periods and high bid costs. One in three projects that closed between 2004 and 2006 had two detailed bids competing for the business, compared with one in six authorities prior to 2004.[21]

The NAO suggests projects need at least three bidders to be competitive. It offers guidance for where this does not happen:

> Public sector procurement teams have in the past aimed to receive detailed bids from at least three bidders. Under Competitive Dialogue, there may be circumstances in which, after eliminating weaker bidders, it makes sense to undertake the later stages of the dialogue with the two strongest bidders. However, where only two viable bids for a project are received early on, or if bidders pull out of the competition, leaving the procuring authority with only two bids to choose from there should be a review by the relevant sponsor department. The review should consider whether:
>
> - there are any defects in the scoping or management of the project that may explain the low level of market interest and could be remedied in time for a re-run of the competition; and whether
> - the bids on the table offer a good competition and are likely to lead to a value for money solution.

There have been fewer than three bidders in a number of Partnerships BC's projects. In the case of the Abbotsford Hospital there was only a single bidder.[22]

---

[20] Collins Gary, BC Minister of Finance, Speech to the Canadian Council for Public Private Partnerships, November 22, 2004
[21] National Audit Office, Improving the PFI Tendering Process, March 2007, page 5.
[22] Partnerships BC, Project Report: Achieving Value for Money – Abbotsford Regional Hospital and Cancer Centre Project, February 2005, Page 10.

Ontario's Auditor General expressed concern about the potential of public private partnerships to actually reduce competition. He said:

> There was no formal analysis of whether the market had sufficient capacity and was competitive enough to support a P3 arrangement for the project. Our review of available information suggested that only a limited number of construction contractors in the province are able or willing to undertake a project of this size. The same construction companies would be involved in the bidding and work regardless of whether WOHC followed the traditional procurement or P3 approach.
>
> At the direction of the Ministry, WOHC was also asked to engage the private sector not only to design and build the new hospital, but also to provide maintenance and non-clinical services for it. As most private-sector companies specialize in providing either capital construction or operational support services, the mingling of the two further limited the number of companies qualified to deliver the P3 arrangement.[23]

We are also seeing evidence in British Columbia that the P3 model is preventing firms from bidding on projects. John Knappett of Victoria based Knappett Projects Inc. has said with regard to P3s, "They (the government) are for the most part taking work that we used to access, wrapping it up and it's going to very large consortiums from out of the province or out of the country."[24] He continued:

> The P3 model is really questionable in terms of my business and I am very opposed to it. Frankly, it is impossible for us to adjust to some of these projects. We are just not going to be invited to the table period

This is a company that builds highways and bridges and has worked on many major highway construction projects around the province, including the Coquihalla, the Island Highway and the Richmond Freeway.

Potential bias in the decision process

In Ontario, the choice of a public private partnership for the hospital project was imposed by the government before any analysis was done. Ontario's Auditor General raised concerns that this may have biased subsequent analysis as to which procurement process offered the best value for money. He said:

---

[23] Auditor General of Ontario, 2008, page 108

[24] Gilbert, Richard, Constructor raises concerns over procurement process for public-sector projects, Journal of Commerce, March 9, 2009, http://www.journalofcommerce.com/article/id32922

> Both WOHC's estimates and the Ministry's review of them were completed only after critical stages of the Project's P3 procurement process had passed. They were therefore not very useful in suggesting possible improvements to the process. Moreover, since the decision to follow P3 had already been made, there was a risk that the estimates and reviews could be biased in favour of the P3 approach over the traditional approach.[25]

This is exactly what happened with the Canada Line P3 and potentially other P3s in British Columbia as well. In June 2002 Deputy Minister of Transportation Dan Doyle wrote to TransLink President Pat Jacobsen explicitly stating that, "Any project constructed using provincial funding will be a public private partnership."[26] This was confirmed in an April 20, 2004 letter to CUPE from Ken Dobell, Deputy Minister to the Premier, who said:

> In response to your question concerning possible provincial conditions placed on the province's funding of the Richmond Airport Vancouver (RAV) rapid transit project, please accept this as a confirmation that the precondition of a public private partnership is still valid.[27]

News reports and other documents obtained under Freedom of Information requests suggest other projects have been similarly imposed by the province.[28]

As Ontario's Auditor General suggests, when a decision is made prior to evaluation there is a serious risk of bias. Auditors General in other jurisdictions have also found this to be the case.[29] This risk of bias is compounded by the involvement of Partnerships BC in every aspect of the process.

The role of Partnerships BC

Partnerships BC play a central role in almost every aspect of public private partnerships in British Columbia.

This arises both from PBC's original 2002 contract with the province and from subsequent mandates.

---

[25] Auditor General of Ontario, 2008, page 114.
[26] See Tab 2
[27] See Tab 2
[28] See Tab 3
[29] Audit Scotland, Taking the Initiative: Using PFI Contracts to Renew Council Schools, June 2002, http://www.audit-scotland.gov.uk/publications/pdf/2002/02ar03ac.pdf

The contract (see attached Tab 4), dated for reference at April 1, 2002, specifies Partnerships BC's services to the province to include the following:

> Clause 3.01 The Company will make the following services available to the Province with respect to Projects and, in accordance with this Agreement, will carry out and perform such of those services as are identified in Project Engagement Documents signed by the parties.
>
> (a) expert advice, professional guidance and related services with respect to the identification, development and execution of asset disposition and Public Private Partnerships…

A subsequent section specifies work to be done:

> Clause 3.01 (d) without limiting the generality of the services described in paragraphs (a) to (c), those services will include but not be limited to, the following activities and functions:
>
> i. development of Public Private Partnership of asset disposition proposals;
> ii. financial and business case analysis
> iii. management of projects through the public sector decision making process;
> iv. negotiations
> v. tax, accounting and legal analysis
> vi. development of business deal structures and agreements…
> viii. marketing of partnership business opportunities…
> xii. assessments and evaluation on completion of projects[30]

In short, Partnerships BC is mandated to develop P3s, to prepare their business cases, to manage the public sector decision making process, to advise the government on the use of P3s and to evaluate their success.

Partnerships BC's authority was subsequently extended to local governments. This policy was reiterated November 3, 2009 in an updated statement by the Minister of Finance which said:

> All capital projects with a provincial contribution of $50 million or more will be considered first by Partnerships BC to be built as public-private partnerships (PPPs) unless there is a compelling reason to do otherwise.[31]

[30] Public Private Partnerships Agreement, between Her Majesty the Queen in right of the Province of British Columbia as represented by the Minister of Finance and Partnerships British Columbia Inc., 1 April 2002, page 5.

Quebec's Auditor General expressed concern over the fact that the same agency performed these multiple roles in the case of Montreal's University Health Centres public private partnership. He said:

> In the first place, PPP Québec cannot exercise the role of independent critic while being so closely involved in the preparation of value-added analyses. The responsibilities that it has been assigned are incompatible with this role: • It establishes the significant assumptions upon which the value-added analyses are based. • It oversees the work of the firms who prepare the technical reports on whose conclusions these analyses are based. • It supervises the accounting firms who perform the analyses and prepare the business cases. • It recommends that the government select a PPP approach to project delivery.[32]

In making these observations, the Quebec Auditor General echoed concerns expressed earlier in a document published by the World Bank. The document observed that:

> Risks of a conflict of interest arise with crosssectoral PPP units that both provide input into the approval process for PPPs and play a role in identifying and preparing projects. Conflicts also can arise if a PPP unit promotes or assists in developing projects and then is asked to carry out ex post evaluations. The best solution may be to split the functions.[33]

The report identifies Partnerships BC as such a crosssectoral unit. The report points out that "in British Columbia the Treasury retains approval powers rather than delegating them to Partnerships British Columbia," however, Partnerships BC still provides input into the approval process while identifying and preparing projects. It both develops projects and prepares evaluations – Value for Money (VFM) reports.

At an absolute minimum, by performing these multiple roles Partnerships BC is at risk of conflict of interest. This is particularly true as compensation within the organization is somewhat based on a bonus structure.

Conclusion

Public private partnerships are becoming increasingly controversial as more independent analysts review their operation. Some of the commentary has been quite blunt.

---

[31] Ministry of Finance and Ministry Responsible for the Olympics, Province Raises Capital Standard Threshold for PPPs, (November 7, 2008) updated November 3, 2009, http://www.partnershipsbc.ca/documents/IB-50m-cap-std-update-03nov09.pdf
[32] Rapport du Vérificateur général du Québec, 2009, paragraph 5.137
[33] Dutz, Mike, Clive Harris, Inderbir Dhingra, and Chris Shugart, Public Private Partnership Units: What are they and what do they do, Public Policy for the Private Sector, World Bank, September 2006, page 3.

In his English language summary of his report on P3 hospitals Quebec's Auditor General said:

> In our opinion, the analysis of value added by PPP Quebec do not make it possible to support the conclusion that their completion using the PPP delivery method is preferable to carrying out the work under the conventional method (public sector).[34]

In his review of the William Osler Health Centre Ontario's Auditor General said "We found that the cost estimates for the government to do the project were overstated by a net amount of $634 million"[35] In his summary he concludes:

> We noted that, before this decision was made, the costs and benefits of alternative procurement approaches, including traditional procurement, were not adequately assessed. This, along with a number of other issues we had with respect to this first P3 project at WOHC, led us to conclude that the all-in cost would have been lower had the hospital and related non-clinical services been procured under the traditional approach, rather than the P3 approach implemented in this case."[36]

Accountants and academic writers have reached the same conclusion in BC, where the same methodological approach is used for public private partnerships.

Unfortunately, while Partnerships BC's methodology is now public, the details of how it reaches its conclusions are not released. While net present value figures are released the critical comparative nominal cash flows used in their comparisons has been kept secret using the Cabinet secrecy provisions of the Freedom of Information and Protection of Privacy Act. In many cases details of the value of risk transfer have not been released. In their review of four P3 projects forensic auditors Ron Parks and Rosanne Terhart found that:

> Critical information and documentation in support of the Value for Money reports was for the most part denied in response to Freedom of Information requests. In our view this suggests a general lack of transparency and public accountability.[37]

This is of particular concern given that the same agency identifies possible P3 projects, advises government on whether or not the process should be used and then evaluates their "success" through value for money reports.

---

[34] Vérificateur général du Québec, English Summary, 2009
[35] Auditor General of Ontario, 2008, page 104.
[36] Auditor General of Ontario, 2008, page 104
[37] Parks, Ron and Rosanne Terhart, Evaluation of Public Private Partnerships: Costing and Evaluation Methodology, January 2009, page 2.

British Columbians over the last seven years have been locked into $10 billion worth of public private partnerships in contracts as long as 35 years. There has been no independent analysis of individual projects, or of the methodology used including the potential conflict of interest on the part of Partnerships BC.

In British Columbia, as in Quebec and Ontario, only the Auditor General has the ability to require that information be made available to him so that he may analyze and comment on value for money received by citizens.

We believe independent analysis by the Office of the Auditor General will find that public private partnerships in British Columbia use the same methodology as that used in other offices and suffer from the same flaws found by other Auditors General.

Documents Cited

Auditor General of Ontario, 2008 Annual Report, Chapter 3.03 Brampton Civic Hospital Public-private Partnerships Project, page 115, http://www.auditor.on.ca/en/reports_2008_en.htm

Canada Line Rapid Transit Inc., Canada Line Final Project Report: Competitive Selection Phase, 12 April 2006, page 20, http://www.canadaline.ca/uploads/NewsReleases/News113.pdf

Collins Gary, BC Minister of Finance, Speech to the Canadian Council for Public Private Partnerships, November 22, 2004, http://www.pppcouncil.ca/pdf/collins2.pdf

Dobell, Ken, Deputy Minister to the British Columbia Premier, letter to Pat Jacobsen, TransLink President and CEO, April 20, 2004, see Tab 2.

Doyle, Dan, British Columbia Deputy Minister of Transportation, letter to Pat Jacobsen, TransLink President and CEO, June 2002, see Tab 2.

Dutz, Mike, Clive Harris, Inderbir Dhingra, and Chris Shugart, Public Private Partnership Units: What are they and what do they do, Public Policy for the Private Sector, World Bank, September 2006, Tab 5, http://rru.worldbank.org/documents/publicpolicyjournal/311Dutz_Harris_Dhingra_Shugart.pdf

Ministry of Finance and Ministry Responsible for the Olympics, Province Raises Capital Standard Threshold for PPPs, (November 7, 2008) updated November 3, 2009, http://www.partnershipsbc.ca/documents/IB-50m-cap-std-update-03nov09.pdf

National Audit Office, Improving the PFI Tendering Process, March 2007, page 5, http://www.nao.org.uk/publications/0607/improving_pfi_tendering.aspx

Parks, Ron and Rosanne Terhart, Evaluation of Public Private Partnerships: Costing and Evaluation Methodology, January 2009, page 4, http://www.cupe.bc.ca/sites/default/files/bw-final-report.pdf

Partnerships BC, Project Report: Achieving Value for Money – Abbotsford Regional Hospital and Cancer Centre Project, February 2005, Page 10, http://www.partnershipsbc.ca/files_2/documents/020705_PBCAbbotsford.pdf

Partnerships BC, Project Report: Achieving Value for Money – Royal Jubilee Hospital Patient Care Centre, October 2008, page 18, http://www.partnershipsbc.ca/files/documents/RJHPCCProjectReportVFMFINAL_002.pdf

Partnerships BC, Methodology for Quantitative Procurement Options Analysis: Discussion Draft, August 2009,
http://www.cupe.bc.ca/sites/default/files/nov_19_shaffer_oct_09_pbc_evaluation_methodology.pdf

Partnerships British Columbia, 2009/10 – 2011/12 Service Plan Update, 2009 page 3,
http://www.partnershipsbc.ca/files/documents/partnershipsbc2009-10to2011-12serviceplanseptemberupdatefinal_001.pdf

Public Private Partnerships Agreement, between Her Majesty the Queen in right of the Province of British Columbia as represented by the Minister of Finance and Partnerships British Columbia Inc., 1 April 2002, page 5. (See Tab 4)

Shaffer, PhD, Marvin, Review of Partnerships BC's Methodology for Quantitative Procurement Options: Discussion Draft, November 2009, page 3,
http://www.cupe.bc.ca/sites/default/files/nov_19_shaffer_oct_09_pbc_evaluation_methodology.pdf

Vérificateur général du Québec, Rapport à l'Assemblée nationale pour l'année 2009-2010, tome II, paragraph 5.101
http://www.vgq.gouv.qc.ca/fr/publications/rapport-annuel/2009-2010-T2/Rapport2009-2010-T2-Chap05.pdf

Vérificateur général du Québec, English Summary of Rapport à l'Assemblée nationale pour l'année 2009-2010, tome II, paragraph 5.101
http://www.vgq.gouv.qc.ca/en/publications/rapport-annuel/fichiers/Highlights2008-2009-V2.pdf