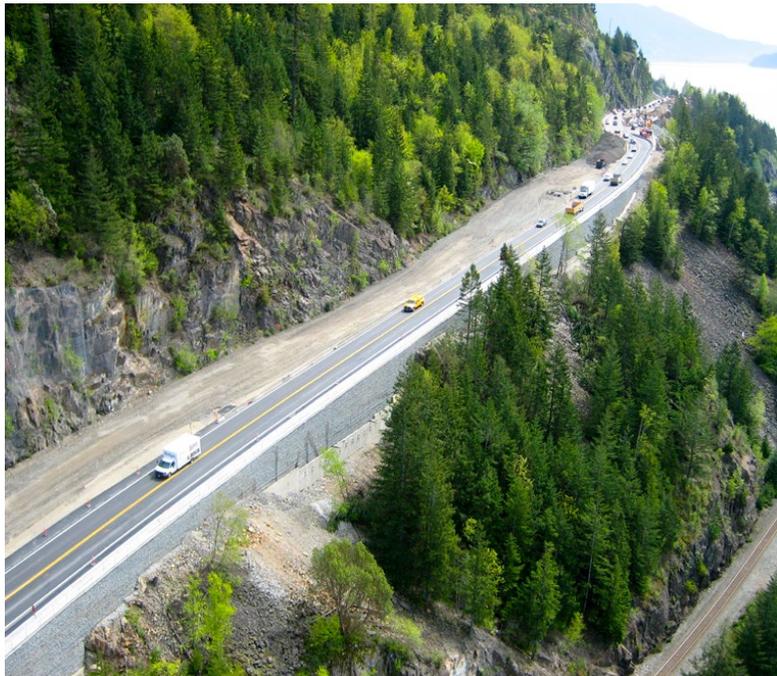




Public-Private Partnerships in British Columbia

UPDATE 2018



by Keith Reynolds
2018

For almost two decades, many of British Columbia's major public infrastructure projects have been built through public-private partnerships (P3s) in which private corporations fully or partially finance the projects and operate or maintain them through multi-decade contracts.

For most of this time, the real cost of these projects was withheld from the public.

Persistent freedom of information requests about P3s between 2003 and 2016 has led to the release of financial information for 17 public-private partnership projects, revealing that British Columbians are not only paying a high price for P3s today, but will continue to do so for decades.

PUBLIC-PRIVATE PARTNERSHIPS IN BRITISH COLUMBIA: UPDATE 2018

By Keith Reynolds

June 2018

This document was reviewed by five individuals with extensive knowledge in the area of public-private partnerships. Their contributions have made for a significantly stronger document. Any errors that remain are the responsibility of the author.

We wish to express our appreciation to the Hospital Employees' Union for its financial support of this project.



Graphic design: Nadene Rehnby, Hands on Publications

ISBN: 978-0-9781918-8-7

Cover photos: Province of BC and Partnerships BC



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PHOTO PROVINCE OF BC/FLICR

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Introduction



If the 17 projects were procured through the public delivery of projects rather than public-private partnerships, they would have cost \$3.7 billion less through the decades of the contracts.

PHOTO MICHAEL TAM/
WIKIMEDIA COMMONS

INFORMATION RELEASED from persistent freedom of information requests shows that the province of British Columbia will pay an additional \$3.7 billion¹ as a result of contracts signed between 2003 and 2016 to deliver 17 infrastructure projects through public-private partnerships (P3s) rather than traditional procurement.

With an \$18.2 billion price tag, these 17 projects all involved multi-decade contracts in which private companies managed a combination of the design, building, financing, operation, and maintenance of the public infrastructure. Of the 17 projects, 10 were in health care and three were for roads. The others were for the environment, transit, education, and corrections. If the 17 projects were procured through the public delivery of projects rather than public-private partnerships, they would have cost \$3.7 billion less through the decades of the contracts.

While \$3.7 billion may seem like an enormous amount of money — approximately \$1,800 for every BC household — the number underestimates the additional cost BC will pay as a result of the P3 projects currently on the books.

Information provided on these 17 projects represents only half of the 33 P3 projects undertaken by Partnerships BC, the province’s P3 agency, for multi-year contracts that involve operating, maintaining, and/or building facilities.² In public-private partnership terms these would be DBFO (design/build/finance/operate) or DBFM (design/build/finance/maintain) contracts. Information has not been yet been released for an additional 16 P3 projects.

1 To establish whether a P3 should be used, Partnerships BC calculates the actual annual dollar cost over the life of the project of using a P3 versus traditional procurement. This is the information released under FOI. The \$3.7 billion figure is found by adding the total annual costs of the 17 projects for both P3s and traditional procurement and then subtracting the long-term cost of traditional procurement from the multi-decade cost of the P3s. While this is subsequently “discounted” in a way that shows an advantage for P3s, \$3.7 billion is the actual saving in dollars Partnerships BC FOI responses find. The discounting issue is discussed later in the report.

2 Partnerships British Columbia, Projects Page, partnershipsbc.ca/projects/, (accessed 29 January 2018).



To put this in context, Partnerships BC estimates the capital cost for the Royal Inland Hospital at \$79.8 million. The Surrey Memorial Hospital redevelopment project had an estimated capital cost of \$512 million. The Emily Carr University project had an estimated capital cost of \$134 million.³ Savings from public delivery of these projects could have built more hospitals and schools in British Columbia.

Historically, Partnerships BC has favoured public-private partnerships based on the assumption that the private sector partner carries the dollar value of risk for a P3 project. PBC assumes this risk cannot be reduced in a publicly delivered project, an opinion rejected by auditors general in Saskatchewan, Ontario, and Quebec.

Partnerships BC is a private company owned by the government. It makes its money by advising the government on the use of P3s and then delivering projects, a potential conflict of interest. In that context, it's not surprising that Partnerships BC's methodology has tended to favour P3s. In 2014, a Ministry of Finance review of the agency found that PBC frequently compares the cost of P3s with the most expensive possible form of public delivery, rather than the most likely form.⁴

Many other jurisdictions have raised serious questions about the use of public-private partnerships. In the United Kingdom, some projects have been returned to the public sector⁵ while others have had their profits clawed back.⁶

BC's auditor general has yet to examine BC-based projects and the methodology behind them in the same rigorous fashion. The release of information on 17 public-private partnerships reveals that the real risk is that generations of British Columbians will continue to pay the inflated price of these 30-year P3 contracts for many years to come.

BC LEGISLATURE, PHOTO MICHELLE LEE/FLICHR CREATIVE COMMONS

³ Ibid.

⁴ BC Ministry of Finance Internal Audit and Advisory Services, Review of Partnerships BC, Date of Fieldwork Completion, July 2014, <https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/services-policies-for-government/internal-corporate-services/internal-audits/partnerships-bc-review.pdf>.

⁵ Martin Beckford, "Hospital saves £14m by getting out of PFI deal," *The Telegraph*, 2 February 2011, telegraph.co.uk/news/health/news/8296685/Hospital-saves-14m-by-getting-out-of-PFI-deal.html.

⁶ Local Partnerships LLP, "Report and Financial Statements for the year ended 31 March 2014," 2, http://localpartnerships.org.uk/images/files/LP_signed_accounts_2013.14.pdf.

Early in the century, the BC provincial government compelled health boards and the Greater Vancouver Transit Authority to deliver projects by offering a choice of using P3s or losing provincial funding.

ABBOTSFORD HOSPITAL,
PHOTO PARTNERSHIPS BC



BC's auditor general has yet to examine BC-based projects and the methodology behind them in the same rigorous fashion. The release of information on 17 public-private partnerships reveals that the real risk is that generations of British Columbians will continue to pay the inflated price of these 30-year P3 contracts for many years to come.

Early in the century, the BC provincial government compelled health boards and the Greater Vancouver Transit Authority to deliver projects by offering a choice of using P3s or losing provincial funding (see case study on page 16). The BC government originally said that any project worth more than \$20 million that had provincial funding was a potential public-private partnership.

Today, for the most part, the threshold for P3s has been raised to \$100 million; Partnerships BC can only be involved with lower levels of government at their invitation. Despite the threshold, and particularly with the public-private partnership agenda of the federal government's infrastructure bank, new P3s remain a possibility in BC. And, of course, current projects will continue for decades.

What is a public-private partnership?

THE CANADIAN COUNCIL FOR PUBLIC-PRIVATE PARTNERSHIPS (CCPPP), Canada's leading lobbyist for the use of P3s, defines P3s as:

partnerships between governments and the private sector to build public infrastructure like roads, hospitals or schools, or to deliver services. Unlike traditional procurement, the public sector integrates all parts of a P3 project into one contract. Depending on the preferred P3 model, this approach requires the architect, the builder, the lender and the maintenance and/or operations provider to form a team.⁷

CCPPP lists a number of models for public-private partnerships including what would normally be considered contracting out work. For the most part, however, CCCPP's focus is on longer term arrangements involving both private financing and operation or maintenance. It specifically rejects design/bid/build projects with no long-term financing or operation in its definition of a P3.

In essence, public-private partnerships are not really partnerships — they are contracts.

For the purpose of this report, a public-private partnership is defined as a public sector infrastructure project that is fully or partially financed by the private sector on a long-term basis and in which the private sector takes a long-term operation and/or maintenance role.

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⁷ Canadian Council for Public-Private Partnerships, "What are Public-Private Partnerships (P3s)?," pppcouncil.ca/web/Knowledge_Centre/What_are_P3s_/web/P3_Knowledge_Centre/What_are_P3s.aspx?hkey=2c6597c6-53bf-4a9d-adf0-86e108d003bb (accessed 29 January 2018).

Abbotsford Hospital

The Liberals were determined to try out their new model of public-private partnerships, which was announced with the creation of Partnerships BC in 2002. But their own report on the project anticipated a savings of less than 1 per cent by using a P3—and there was a strong possibility even this was optimistic.

A YEAR AFTER THE LIBERAL GOVERNMENT WAS ELECTED IN 2001, a hospital needed to be replaced in Abbotsford. The Liberals were determined to try out their new model of public-private partnerships, which was announced with the creation of Partnerships BC in 2002.

But the government had two problems. First, their own report on the project anticipated a savings of less than 1 per cent by using a P3—and there was a strong possibility even this was optimistic.⁸

Second, the government received push back from the Fraser Health Authority. Professor Daniel Cohn conducted an intensive review of the process and reported on his findings in 2008.⁹ Cohn discovered that some FHA board members with substantial private sector and real estate experience found problems with the

“...Even if the project doesn’t work well, it’s unlikely that Fraser Valley farmers will elect an NDP government next time around.” — Then Finance Minister Gary Collins

proposed P3. One interviewee said the board had preferred more traditional procurement and was concerned that savings through competition would not materialize. Cohn wrote, “the provincial government ordered the board to accept the project as a DBFO P3 or face removal. Either way, the province had lost confidence in the ability of the FHA board

to lead the project and transferred some FHA staff members and responsibility for executing the project to Partnerships BC.”¹⁰

In a 2002 interview with the *Journal of Commerce*, Finance Minister Gary Collins said P3s were the wave of the future and that “part of the appeal of beginning the province’s P3 learning curve with this project is that there’s little

8 Vaughn Palmer, “Liberals’ pet ‘P3s’ a long way from reality,” *Vancouver Sun*, 10 May 2002, A14.

9 Daniel Cohn, “British Columbia’s capital asset management framework: moving from transactional to transformative leadership on public-private partnerships, or a ‘railroad job’?,” *Canadian Public Administration*, 51 (1), March 2008, 71–97.

10 *Ibid.*, 77.



political risk: even if the project doesn't work well, it's unlikely that Fraser Valley farmers will elect an NDP government next time around."¹¹

Some of the concerns raised by board members turned out to be real. The promised competition for the project failed to materialize and the government ended up with a single bidder. Costs escalated from an estimated \$211 million in 2001 to \$369 million in 2004. There had been some changes in scope, but the proposed number of 300 beds did not change.¹²

Project risk, shown by using a high discount rate, played a large role. Using an 8.1 per cent discount rate to account for project risk, Partnerships BC suggested that using a P3 would save \$30 million over 33 years. If the government's cost of borrowing at the time, 5.42 per cent, had been used as a discount rate, not using the P3 was shown to save the public more than \$50 million.

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PHOTOS: PARTNERSHIPS BC

11 Rachel Goldsworthy, "Objective based government remains liberal target in B.C.," *Journal of Commerce*; 91 (92), (November 2002).
12 Partnerships British Columbia, "Project report: Achieving value for money - Abbotsford Regional Hospital and Cancer Centre Project," February 2005.

Comparable cost of P3s and public service delivery

In 2018, with more available data, these conclusions still stand. Using appropriate discount rates and less biased assumptions, few P3s show value for money.

SINCE 2002, WHEN DECIDING whether a new public infrastructure project will be at least partially financed with private sector capital and operated or maintained by the private sector, the government has gone through an evaluation process.

This process is based on two assumptions. Both involve risk and make finding value in public projects as opposed to P3s almost impossible.

The first assumption is that publicly-delivered projects pay for construction costs up front without borrowing. The second assumption is the use of a high discount rate (a rate used to discount or weight future expenditures in order to calculate their equivalent present value). Because it is assumed that public projects pay for construction up front without borrowing, there is little discounting of this money. Yet, it is assumed that a private partner borrows the money and pays it back over the long term, meaning that over 30 years the value of their costs are discounted deeply.

In 2009, when data was less available than now, two prominent British Columbia forensic accountants reviewed four BC public-private partnerships and reached some notable conclusions. They observed that the difference in cost (in undiscounted dollars) between a publicly-delivered project and a P3 could be substantial. They found that the elevated discount rates used by Partnerships BC were not appropriate. And, that the methodology used by Partnerships BC was biased in favour of public-private partnerships.¹³

In 2018, with more available data, these conclusions still stand. Using appropriate discount rates and less biased assumptions, few P3s show value for money.

While discount rates are critical to rationalizing P3 projects, it is also important to consider the actual number of dollars spent over the life of these projects. Looking at 17 projects, roughly half of Partnerships BC's DBFO (design/build/finance/operate) or DBFM (design/build/finance/maintain) developments, P3s cost \$18.3 billion. If those 17

¹³ Ronald H. Parks and Rosanne E. Terhart, "Evaluation of Public Private Partnerships: Costing and Evaluation Methodology: Blair Mackay Mynett Valuations," 5 January 2009, http://d3n8a8pro7vhmx.cloudfront.net/cupebcvotes2014/legacy_url/1044/bw-final-report_0.pdf?1460990529.

projects were procured through traditional means with public financing, those projects would have cost \$3.7 billion less, a saving of roughly 20 per cent. It is important to note that this 20 per cent saving was arrived at despite large values of risk that were already loaded onto the assumed cost of publicly-delivered projects.

It was only after loading even more risk onto the cost of public projects (project risk) through an elevated discount rate that Partnerships BC was able to find value for the P3s.

These findings are supported by a 2014 BC Ministry of Finance evaluation of Partnerships BC. The report found that in comparing costs, Partnerships BC frequently used the most expensive possible form of public procurement to compare with a P3 rather than the most likely one.

The report raised the possibility of bias in Partnerships BC's work.

PBC is mandated to be both an advisor and service provider to government, and to also be a self-sustaining organization. These multiple roles have created the perception that PBC's advice to government could be biased towards solutions that create opportunities for PBC to earn revenue.¹⁴

Two other observations raised questions about the wisdom of using a P3 for some of the projects. A supplementary report from the Partnerships BC evaluation steering committee said, "Given the significant resources required by both the public sector and private sector to participate in a P3 procurement process, it is recommended that the preliminary threshold identified in the capital asset management framework for P3 screening be increased from the current \$50 million to \$100 million."¹⁵

Using the Partnerships BC discount rates, the Britannia Mine Water Treatment Plant, the Diamond Health Centre, and the Cancer Centre for the North would have failed to meet the \$100 million threshold. The same is true for one of the earliest P3s, the Sierra Desan Road.

The 2014 BC Ministry of Finance study says, "Given the inherent uncertainty of the assumptions made in the value for money calculations, at least one jurisdiction in Canada has set a minimum value for money threshold (5 per cent) that is required to go forward as a P3, and the government could consider doing the same."¹⁶

Even when using the Partnerships BC methodology, several projects came close to the 5 per cent advantage threshold, including the South Fraser Perimeter Road (5 per cent), the Kelowna and Vernon Hospitals Project (5.7 per cent), the Prince George Cancer Centre (6.3 per cent), and the Royal Jubilee Hospital (6.1 per cent). The Golden Ears Bridge was simply reported as "very close." A small reduction in risk assumptions would have put these projects below the 5 per cent threshold.

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14 BC Ministry of Finance, "Internal Audit and Advisory Services, Review of Partnerships BC, Date of Fieldwork Completion," July 2014, 13, <https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/services-policies-for-government/internal-corporate-services/internal-audits/partnerships-bc-review.pdf>.

15 Peter Milburn, Chair Executive Steering Committee, Ministry of Finance Review of Partnerships BC, Correspondence to Michael de Jong of the BC Ministry of Finance, 23 October 2014. Document no longer available on the Internet.

16 Ibid., 24.

Direct risk adjustments

In reality, regardless of P3 contracts, the public carries the final risk. The public will have to pick up the pieces if the private partner fails.

PART OF THE JUSTIFICATION for the use of public-private partnerships is that risk, which would be carried by the public in traditional project delivery, is transferred to the private sector. The risk involved — both in terms of construction and operation — is given a value. Because it is assumed the public would carry the risk in traditional project delivery, it is then added to the assumed cost of delivering the project publicly rather than through a P3.

In reality, regardless of P3 contracts, the public carries the final risk. The public will have to pick up the pieces if the private partner fails. To the degree that risk can be transferred, such as penalties for late delivery, auditors general in other jurisdictions have found it can be done in a publicly-delivered project.

In short, PBC methodology overstates the risk carried by the public sector project because it fails to consider how risk could be shed under traditional procurement. And it understates the risk associated with the P3 because it fails to address contract failure. The value of that assumed risk can be very high.



SOUTH FRASER PERIMETER ROAD AT PORT MANN BRIDGE, PHOTO ALEXANDER POPE/FLICHR CREATIVE COMMONS

**TABLE 1: COMPARABLE COSTS FOR A P3 AND TRADITIONAL DELIVERY
SOUTH FRASER PERIMETER ROAD**

| ESTIMATED PUBLIC SECTOR COMPARATOR | | FINAL CONCESSION AGREEMENT | |
|--|----------------------------------|---|----------------------------------|
| | \$Millions (Net Present Cost) | | \$Millions (Net Present Cost) |
| Phase 2 Capital Costs | \$ 412 | Availability Payments | \$ 233 |
| Life Cycle and Operating Costs | \$ 66 | Provincial Milestone Payments | \$ 174 |
| Risk Adjustment | \$ 102 | Federal Milestone Payments | \$ 183 |
| Competitive Neutrality Adjustment | \$ 18 | Province's Phase 2 Project Management Costs | \$ 13 |
| Province's Phase 2 Project Management Costs | \$ 39 | | |
| Total Phase 2 Public Sector Comparator | \$637 | Total Phase 2 under Final Concession Agreement | \$603 |
| Value for Money (Millions Net Present Cost)³ | | \$34 | |
| Percentage Savings from PSC | | 5% | |

Source: Project Report, South Fraser Perimeter Road, June 2011

Table 1 illustrates the assumed comparable cost of delivering a project publicly (public sector comparator) with the cost of using a P3 (final concession agreement).

In this case, the assumed value of risk of \$102 million has been added to the assumed cost of delivering the project publicly. That \$102 million comes to 16 per cent of the total cost of delivering the project publicly. This is more than three times the assumed 5 per cent saving involved in using a P3.

As with many other aspects of public-private partnerships, the details of how to achieve these risk assumptions are often kept secret. Ontario's auditor general, who has access to many of these details, found, "there is no empirical data supporting the key assumptions used by Infrastructure Ontario to assign costs to specific risks." The auditor general also found that in some cases risk assumed to be transferred was not actually transferred. Finally, some of the risks assumed to be transferred were not appropriate.¹⁷

This "risk adjustment" can be smaller in other projects. In the Kelowna and Vernon Hospitals Project, the net risk adjustment came to roughly seven percent of the value of the public sector comparator. Even this, however, was more than the 5.7 per cent advantage found for using a P3.

17 Auditor General of Ontario, "Chapter 3: Infrastructure Ontario — Alternative Financing and Procurement," 2014 Annual Report, auditor.on.ca/en/content/annualreports/arreports/en14/305en14.pdf.

**TABLE 2: COMPARABLE COSTS FOR
A P3 AND TRADITIONAL DELIVERY
KELOWNA AND VERNON
HOSPITALS PROJECT**

| | Final Agreement | PSC |
|---|-----------------|-----------------|
| Capital Costs (includes RHD and IH) | | \$256.9M |
| RHD and IHA Contribution to Capital Cost | \$178.6M | |
| Lifecycle Costs | | \$44.8M |
| Facility Maintenance Costs | | \$113.8M |
| Risk Adjustment | \$1.2M | \$33.5M |
| Competitive Neutrality Adjustment (includes GST, insurance and public sector procurement costs) | \$9.3M | \$19.1M |
| ASP Payment to Infusion | \$253.6M | |
| Total | \$442.7M | \$468.1M |
| Cost Differential | \$25.4M | |
| Percentage saving from PSC | 5.7% | |

NOTE: all numbers are NPC discounted at 7.8%

Source: Project Report, Kelowna and Vernon Hospitals Project

The information on this “risk adjustment” is not available for all the Partnerships BC projects. In Appendix B, however, the information is listed for 17 of the projects. The value of this risk identified and transferred to the estimated cost of public procurement varies from a low of 6.9 per cent of the cost of public procurement to a high of 16.2 per cent.

Curiously, projects in the same sector do not carry the same amount or even similar amount of risk. Both the lowest risk adjustment (Kelowna and Vernon Hospitals Project – 6.9 per cent) and the highest (Interior Heart and Surgical Centre – 16.2 per cent) are among the nine hospital projects carried out by Partnerships BC.

The importance of risk adjustment in justifying the use of P3s is particularly apparent in transit, road, and bridge projects. The Golden Ears Bridge anticipated savings of \$6.3 million by using a P3. It anticipated a risk transfer of \$170.6 million from risk adjustment – nearly 3,000 per cent of the amount of money claimed to be saved with a P3. The South Fraser Perimeter Road project assumed risk transfer was 300 per cent of anticipated savings. With the Canada Line it was 253 per cent more.

Each of these projects lists the anticipated saving from using a P3 as opposed to public procurement. These range from an anticipated savings of 5 per cent for the South Fraser Perimeter Road Project to 19.1 per cent for the Interior Heart and Surgical Centre Project with an average claimed savings of 7.4 per cent. The comparative cost of a P3 vs. public procurement for the Golden Ears Bridge was described in its value for money report as “very close.”¹⁸

In eight of the 15 projects, the amount of the risk adjustment is higher than the claimed savings from using a public-private partnership. This, however, is only one element of risk used by Partnerships BC. The other element is addressed in the next section.

This use of a direct risk adjustment is used in jurisdictions with public-private partnerships. However, in other jurisdictions, government auditors have examined the value of risk assumed to be transferred and found it to be inflated.

In the United Kingdom’s National Audit Office, a study found that adjustments to value for money reports, such as “risk transfer,” “were not evidenced and increased the relative cost of the public sector comparator more than the private finance option. An important part of these adjustments relates to the benefits of transferring construction risk but there is little evidence that overall construction cost is lower under PFI.”¹⁹ PFI, or private finance initiative, is the term used for public-private partnerships in the UK.

Ontario’s auditor general has questioned the amount of risk transfer being loaded onto public sector comparators. The 2010 Ontario auditor general looked at the procurement of the Brampton Hospital and questioned the potential 13 per cent in savings that had been achieved by transferring risk to the private sector.

The report said, “We questioned the inclusion of such a large amount because a properly structured contract and sound project management under a traditional

18 Fred Cummings, “Golden Ears Bridge Project, Golden Ears Bridge: Value for Money Report,” Memo to the GVTA Board of Directors, 16 June 2006.

19 National Audit Office, “Report by the Comptroller and Auditor General, PFI and PF2,” 18 January 2018, 20, <https://www.nao.org.uk/wp-content/uploads/2018/01/PFI-and-PF2.pdf> (accessed 2 February 2018).



procurement agreement could have mitigated many of the risks of cost overruns.”²⁰ In her 2014 report, Ontario’s auditor general also included serious concerns about the amount of risk that was assumed to be transferred with projects.²¹

In 2015, Saskatchewan’s auditor general found the assumed cost of risk transfer was high. The auditor general said, “SaskBuilds valued the cost savings from using a P3 approach, as compared to using the PSC, from just under 10 per cent to over 30 per cent of the cost of each project. For all four projects combined, SaskBuilds estimated the cost of the risks that the public sector would retain, if it used conventional approaches, to be six times higher than if it used P3s.” The auditor general continued that any benefits obtained from public-private partnerships, “could be used in conventional procurement processes (e.g., more efficient building designs, facilities maintained at required levels).”²²

SaskBuilds was a client of Partnerships BC in developing its approach to the use of public-private partnerships.

The comparative cost of a P3 vs. public procurement for the Golden Ears Bridge was simply described in its value for money report as “very close.”

GOLDEN EARS BRIDGE,
PHOTO MARCIN CHADY/
FLICKR CREATIVE COMMONS

20 Auditor General of Ontario, “Chapter 4: Brampton Civic Hospital Public-Private Partnership Project,” 2010 Annual Report, 307.

21 Auditor General of Ontario, “Chapter 3: Infrastructure Ontario—Alternative Financing and Procurement,” 2014 Annual Report, auditor.on.ca/en/content/annualreports/arreports/en14/305en14.pdf.

22 Auditor General of Saskatchewan, “Chapter 16, SaskBuilds—Evaluating Potential use of P3s,” 2015 Annual Report, https://auditor.sk.ca/pub/publications/public_reports/2015/Volume_1/16_SaskBuilds-Evaluating%20P3s.pdf.

Canada Line

The province added more pressure and, in June, the project failed again in a tie vote. The Canadian Union of Public Employees (CUPE) was offered a right of first refusal for union members, who would work on the line if they would end their opposition. They refused. Finally, in July, two directors switched their votes to 'yes' and the project was passed.

IN 2000, British Columbia and local government jurisdictions began discussing the possibility of building a rapid transit line along the Richmond-airport-Vancouver corridor. Once again, the province was determined from the outset that it would be a public-private partnership — regardless of what anyone else wanted.

In June 2002, BC's deputy transportation minister wrote to Metro Vancouver's transportation agency, TransLink, saying "Any project constructed using provincial funding will be a public-private partnership."²³ Two years later, the deputy minister to the premier wrote one more time to TransLink and once again linked the P3 to any provincial funding. He said, "the Province's funding commitment to the project does assume and is conditional on a public-private partnership."²⁴

The board of directors was resistant. In May 2004, the Greater Vancouver Regional District voted the project down, citing concerns about cost, the choice of system, and the use of a P3.

Costs for the project escalated from \$1.5 billion in 2004 to a final cost of more than \$2 billion, despite a surprise, controversial decision to use a trench for construction rather than tunneling, cuts in the number of stations, and shifting costs to other agencies.

The province added more pressure and, in June, the project failed again in a tie vote. The Canadian Union of Public Employees (CUPE) was offered a right of first refusal for union members, who would work on the line if they would end their opposition. They refused.²⁵ Finally, in July, two directors switched their votes to 'yes' and the project was passed. The province's distrust of the transportation authority finally played out in 2007 when the

23 Dan Doyle, BC Deputy Minister of Transportation, Correspondence to Pat Jacobsen, President and CEO TransLink, 19 June 2002.

24 Ken Dobell, BC Deputy Minister to the Premier and Cabinet Secretary, Correspondence to Pat Jacobsen, CEO of the Greater Vancouver Transportation Authority, 8 March 2004.

25 Jeff Lee, "Union reps turn down RAV jobs," *Vancouver Sun*, 25 June 2004.



transportation minister announced legislation that would strip elected directors of their authority in favour of an appointed board.²⁶

Meanwhile, costs for the project escalated from \$1.5 billion in 2004 to a final cost of more than \$2 billion, despite a surprise, controversial decision to use a trench for construction rather than tunneling, cuts in the number of stations, and shifting costs to other agencies.

In the end, the value for money report found a limited advantage for the public-private partnership over a public sector comparator only because it assumed there would be \$148 million (net present value) greater ridership revenue on a P3. One reason offered was that the P3 idea of running more trains at midday and eliminating stations was considered to be too innovative for a publicly-delivered project.²⁷ This was despite the fact that the VFM report acknowledged, “it is possible that the PSC ridership could be increased by increasing midday train frequencies...”²⁸

In the end, the value for money report found a limited advantage for the public-private partnership over a public sector comparator only because it assumed there would be \$148 million (net present value) greater ridership revenue on a P3. One reason offered was that the P3 idea of running more trains at midday and eliminating stations was considered to be too innovative for a publicly-delivered project.

TOP PHOTO: DENNIS TSANG/
FLICKR CREATIVE COMMONS

BACKGROUND PHOTO: TED MCGRATH/
FLICKR CREATIVE COMMONS

26 Miro Cernetig and William Boei, “Province unveils TransLink redesign: new council of mayors will oversee transit across Lower Mainland and beyond,” *Vancouver Sun*, 8 March 2007.

27 Canada Line Rapid Transit Inc., “Final project report: competitive selection phase,” April 2006, 17, 20.

28 *Ibid.*, 18.

Adding more risk transfer with the discount rate

ANOTHER ELEMENT OF RISK used by Partnerships BC lies in its assumptions related to government borrowing and use of the discount rate.

The first issue is the assumption about borrowing. When Partnerships BC compares the cost of using a public-private partnership with traditional project delivery, it assumes the government does not borrow money to finance construction of traditionally delivered projects. In contrast, it assumes with a P3, the private partner borrows the money and pays the money back over the life of the project. These inconsistent assumptions favour public-private partnerships.

In its published methodology, Partnerships BC includes a chart that demonstrates the effect on cash flows from this assumption.²⁹ In this chart, the “Construction and OMR” (operating, maintenance, and rehabilitation)” line represents the public sector comparator. The “Owner’s Costs and ASP” (annual service payment) line represents the public-private partnership.

As the chart shows, with traditional public delivery, it is assumed that construction costs are paid upfront and not borrowed.

This has not been the case. Governments do not have a mountain of cash they can dip into when they want to build something. In fact, the BC government has published a spreadsheet of its borrowing showing the amount borrowed, the cost of borrowing, and when the borrowing comes due. Millions of dollars are borrowed annually for capital projects.³⁰

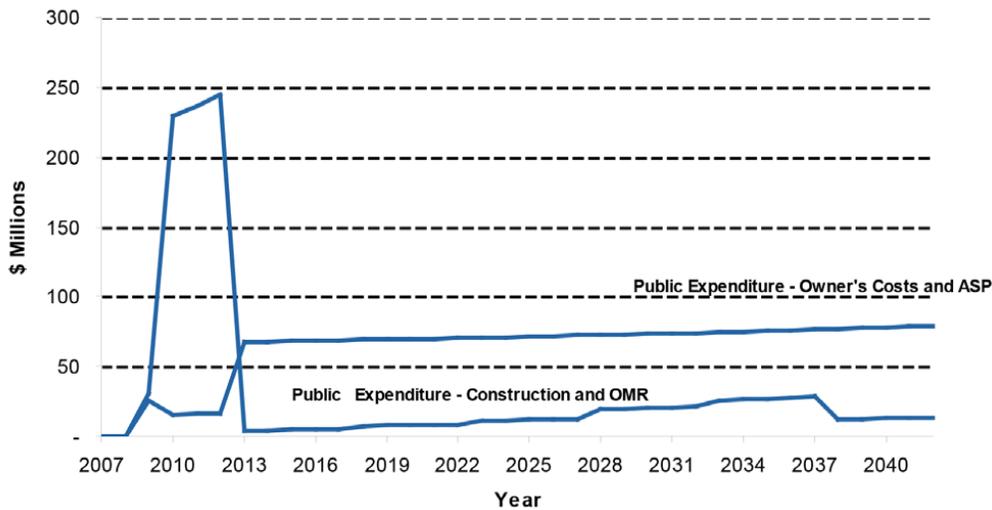
Partnerships BC offers three reasons to explain why it used an “unfinanced” public sector comparator when the government does not borrow to build the project.³¹

29 Partnerships BC, “Methodology for quantitative procurement options analysis: discussion paper,” Updated, April 2014, 76

30 Previously found at: fin.gov.bc.ca/PT/dmb/capmarkets.htm. The author has a copy of the information, but at the time of writing, was waiting for a response to a request about the new location of the information.

31 Partnerships BC, “Methodology for Quantitative Procurement Options Analysis,” April 2014, 48.

FIGURE 1: PUBLIC SECTOR CASH FLOW STREAMS – DIRECT COMPARISON



Source: Partnerships BC, Methodology for Quantitative Procurement Options Analysis, April 2014, 76.

Notes: The term Public Expenditure— Owners Cost and ASP (annual service payment) represents the P3. The term Public Expenditure— Construction and OMR (operations, maintenance and rehabilitation) represents the publicly delivered project, or the public sector comparator.

First, PBC says it would be difficult to figure out the source and cost of public borrowing. But the Ministry of Finance would certainly have this information. Second, it suggests that because the government can borrow more cheaply than the private sector, public borrowing costs do not actually reflect the cost of borrowing. Government borrowing, in fact, is much cheaper than borrowing by the private sector where companies regularly go bankrupt and leave debt behind. Third and most important, Partnerships BC says that using the first two assumptions “implicitly accounts for the project risk in the PSC model.”³² This “project risk” is in addition to the risk adjustment listed in value for money reports. Because “project risk” is loaded on top of risks already assumed to have been transferred, this in effect amounts to double counting of the risk value.

Project risk is where the second assumption mentioned at the beginning of this section comes into play: the discount rate.

The methodology used by Partnerships BC defines the discount rate as the following:

*Discount Rate: A rate used to relate present and future dollars. Discount rates are expressed as a percentage and are used to reduce the value of future dollars in relation to present dollars. This equalizes varying streams of costs and benefits, so that different alternatives can be compared on a like-for-like basis.*³³

Discount rates are sort of like inflation.³⁴ A dollar next year is not worth as much as a dollar today. With 2 per cent inflation, next year’s dollar is only worth 98 cents. But

32 Ibid., 48.

33 Ibid., 78.

34 Discount rates are more complicated than inflation. They go beyond adjusting for the falling real value of money. They reflect time preference and the opportunity cost of capital—the fact that real (inflation adjusted) dollars today are worth more than the same amount of real dollars in the future. The issue with the discount rate is how much more.

governments do not use inflation when they are figuring out the cost of a project over its lifetime.

Overwhelmingly, governments use their own cost of borrowing as a discount rate when they are looking at P3 projects. Alberta, Saskatchewan, Ontario, and the federal government all use their own cost of borrowing as their discount rate. Even in the United Kingdom, which is the model for Partnerships BC and which used to use a 6 per cent discount rate, has reduced its own discount rate to 3.5 per cent.³⁵

From the beginning British Columbia has used a discount rate much higher than the government's cost of borrowing. Partnerships BC, however, uses a discount rate equal to the private partner's weighted average cost of capital (WAGG).

The private partner's cost of capital is higher than the government borrowing rate for two reasons. First, government can borrow more cheaply than the private sector because governments have less risk of going out of business. Second, usually 10 per cent of the money coming from the private partner is equity and returns on equity are expected to be 15 per cent or higher.³⁶

A simplified example of the impact of the combined assumptions of the government not borrowing money for a project and a high discount rate can be found in Appendix C. In this example, using BC assumptions in the first column, a traditionally-delivered project spends \$25 million over 12 years to build and operate a project. The P3 spends \$30 million. Forgetting about inflation for a moment, the public sector comparator has an advantage of \$5 million.

But in the second column, using an 8 per cent discount rate, which Partnerships BC has used (e.g., Britannia Mine project and Abbotsford Hospital), the public-private partnership has a \$2.3 million advantage. By using Partnerships BC's two assumptions, we get a \$7.3 million turn around that justifies the P3.

While Appendix C is a simplified example, getting the actual numbers for British Columbia's public-private partnerships was a challenge. For more than a decade, the province and the agencies it worked with refused to release this information, claiming it was a cabinet secret. BC's information commissioner agreed with the province's arguments and declined to order the release of the information.³⁷

Despite this, the province published this information in its value for money report on the Sea-to-Sky Highway.³⁸ FOI requests were successful with the Canada Line project and the Diamond Health Centre. In 2017, the Ministry of Finance produced the figures for several reports, bringing the total to 17.³⁹ While provincial



These 17 projects represented roughly half of the DBFO or maintain public-private partnerships that have involved Partnerships BC. It is unclear why the information was not available for the remaining projects.

SEA-TO-SKY HIGHWAY
PHOTO PROVINCE OF BC

35 Byers, S., "Full-text of Stephen Byers' speech: the former transport and local government secretary's speech to the Social Market Foundation in London today," *Guardian Unlimited*, 3 June 2003, <https://www.theguardian.com/society/2003/may/28/publicservices.politics1>

36 Partnerships BC, "Methodology for Quantitative Procurement Options Analysis," April 2014, 72. Major P3 actor John Laing Infrastructure makes the same point here: cityam.com/feeds/tags/john-laing-infrastructure-fund-ltd.xml.

37 Correspondence from Northern Health 27 February 2008, Interior Health 26 May 2008 and Office of the Information and Privacy Commissioner Order Number F09-26, 25 November 2009.

38 Partnerships BC, "Project Report: Achieving Value for Money Sea-to-Sky Highway Improvement Project," December 2005, partnershipsbcc.ca/pdf/SeatoSkyFinal.pdf.

39 BC Ministry of Citizen Services, Correspondence with the author, 7 November 2017, Partnerships BC, Correspondence with the author, 20 July 2017.

government agencies often make FOI files public at the time of release, they chose not to do so in these cases.

These 17 projects represented roughly half of the DBFO or maintain public-private partnerships that have involved Partnerships BC. It is unclear why the information was not available for the remaining projects, however, there are some indications. In at least some cases, the government claimed it simply did not have the information, raising serious questions about the level of scrutiny that went into deciding whether a project would proceed as a P3.⁴⁰

Appendix A shows information for the 17 projects with available data before discounting. Only two of these projects (the Britannia Mine Water Treatment Plant and the Emily Carr University campus) showed that the P3 had an advantage in nominal spending terms, before discounting, over public delivery. In the Emily Carr case, the saving was only 2.5 per cent. In seven cases, public delivery showed an advantage of more than 25 per cent. In the case of the Diamond Health Centre, a public project showed an advantage of 55 per cent. On average, the public projects showed an advantage over the P3 by nearly 20 per cent.

Appendix A also shows the impact of what happens when the value of these cash flows is discounted.

When the Partnerships BC discount rate is applied, all the public-private partnerships show an advantage over the public sector comparator. The average advantage for the P3, with discounting, is 10.99 per cent. The discounting brings a 31 per cent turnaround in favour of the public-private partnership. The Diamond Centre shows a 75 per cent turnaround. Ten of the projects show a turnaround of 25 per cent or greater.

As noted at the beginning of this section, two practices make finding value in public projects, as opposed to P3s, almost impossible.

First, for traditional public sector procurement, it is assumed that construction costs are not financed over the long term, but paid out immediately. Second, using a high discount



In seven cases, public delivery showed an advantage of more than 25 per cent. In the case of the Diamond Health Centre, a public project showed an advantage of 55 per cent. On average, the public projects showed an advantage over the P3 of nearly 20 per cent.

GORDON AND LESLIE DIAMOND HEALTH CARE CENTRE AT VGH, PHOTO PARTNERSHIPS BC

40 BC Ministry of Economic Development, Correspondence with the author regarding the Sierra Yoyo Resource Road project, 7 June 2007, BC Ministry of Transportation Correspondence with the author regarding the Bennett Bridge project, 19 June 2008.

rate means that the early spending by the public sector, which is assumed not to be borrowed, receives very little discounting.

In contrast, financing by the private partner, assumed to be borrowed and paid back over the life of the project, is discounted heavily after the first few years. Interestingly, Alberta, which uses public-private partnerships, specifically rejects the idea of using an inflated discount rate to account for “project risk.” Doing this, according to Partnerships BC, accounts for the risk of the project. But, as the Alberta Treasury Board points out:

[I]ncreasing the discount rate by adding a risk premium would lead to illogical results when evaluating project costs as a riskier project (with a higher discount rate) would have a lower net present value cost than a less risky project (with a lower discount rate).⁴¹

In other words, the riskier the project, using the Partnerships BC methodology, the cheaper it looks.

However, all governments do use a discount rate when assessing the value of possible projects. In most cases, governments use their own cost of borrowing as the discount rate. Partnerships BC uses a higher discount rate to account for “project risk.” Appendix A also shows the actual discount rate and the government cost of borrowing at the time for the projects. The average cost of government borrowing for these projects was 4.4 per cent. The average discount rate used was 6.71 per cent, more than 50 per cent higher than the cost of government borrowing.

In five cases, the discount rate was more than 3 per cent higher than the government cost of borrowing. With a \$50 million loan, a 3 per cent increase in the cost of borrowing would boost annual payments by more than a million dollars annually. In the case of the North Island Hospitals Project, the discount rate was almost double the cost of government borrowing.

All four of the projects with the extremely high discount rates were for hospitals. Given that the use of the higher discount rate is to account for project risk, these hospitals must have been high risk. It is curious, however, that three other hospital projects had smaller differences between the cost of borrowing and the cost of the discount rate. As the Fort St. John Hospital case study demonstrates, it is also questionable as to how much risk was involved.

Appendix D and E compare the impact of applying the government borrowing rate as the discount rate to using the higher Partnerships BC discount rate. In six of the 17 cases, using the government borrowing rate as a discount rate still shows an advantage to the P3. However, while using the government’s borrowing rate as a discount rate eliminates the “project risk” assumed by using a higher discount rate, there is still the original cost of risk transferred to the public sector comparator at the beginning of the process before discounting.

For example, looking at the North Island Hospitals Project, using the government rate of borrowing as a discount rate shows an advantage to the P3 of \$36.8 million

⁴¹ Alberta Treasury Board, Alberta’s Public-Private Partnership Framework and Guideline, March 2011, 38, <https://tinyurl.com/yd3p4q2q>.



All four of the projects with the extremely high discount rates were for hospitals. Given that the use of the higher discount rate is to account for project risk, these hospitals must have been high risk.

NORTH ISLAND HOSPITALS PROJECT, ARCHITECTURAL RENDERING PARTNERSHIPS BC

(Appendix D). However, risk valued at \$95.2 million had already been added to the public sector comparator before discounting.

Unfortunately, the amount of that original risk transfer is still not public for five of the projects: the Abbotsford Hospital, the Britannia Mine Water Treatment Plant, the Sea-to-Sky Highway, the Surrey Outpatient Project, and the Diamond Health Centre. In the case of the Surrey Outpatient Hospital, development period costs were lumped together with “retained risks” in the value for money report.⁴²

Where the information is available on the risk adjustment before discounting, after adjusting for the original “retained risk,” only the Emily Carr Campus continues to show value for the public-private partnership.

A final example of the impact of discounting is worth noting. The value for money report on the South Fraser Perimeter Road states that the capital cost of the project was \$666 million. However, the same report shows the total discounted project cost as \$603 million. In other words, this discounting makes the cost of the whole project, which can run for more than 30 years, appear to cost less than the cost of constructing the facility.⁴³

42 Partnerships BC, “Project Report: Achieving Value for Money — Surrey Outpatient Hospital,” June 2009, 16.

43 Partnerships BC, “Project Report — South Fraser Perimeter Road,” June 2011, 2, 17.

Fort St. John Hospital Project

The 2008 financial crisis saw the cost of borrowing by corporations jump dramatically. Suddenly, public borrowing became even more affordable compared to P3s. Still, the provincial government wanted public-private partnerships and it found a way to make them happen.

AFTER THE ABBOTSFORD HOSPITAL, the province received little push back from health board members, although in 2007, Capital Regional District politicians complained that decisions about the Royal Jubilee Hospital were being made in secret.⁴⁴

The next stumbling block, however, was the 2008 financial crisis, which saw the cost of borrowing by corporations jump dramatically. Suddenly, public borrowing became even more affordable compared to P3s. Still, the provincial government wanted public-private partnerships and it found a way to make them happen.

In 2008, there was an agreement to deliver a new 55-bed acute-care hospital and a 123-bed residential care facility for seniors in Fort St. John.

A memo obtained under freedom of information suggested that the private partner was only putting in about 14 per cent of construction costs.

Normally, financing from public-private partnerships comes in a mix of roughly 10 per cent equity investment and 90 per cent borrowing by the private partner. The new higher borrowing costs, however, would have made the project exceed the province's affordability limits. In response the province moved to a "wide equity" model in which, theoretically, the private partner would put up 20 per cent in equity while

the province would do the necessary borrowing.

However, a memo obtained under freedom of information suggested that the private partner was only putting in about 14 per cent of construction costs.⁴⁵

Another memo received under FOI questioned the amount of money the private partner expected to get for taking on risk: "There is no revenue risk in a hospital project; counter-party risk is the province; so as long as the proponent manages

44 Cindy E. Harnett, "VIHA unveils hospital tower plans, location; Proposals for public-private funding and building site made in secret, regional politicians complain," Times Colonist, 12 April 2007.

45 Fort St. John — Technical Notes on Financial Structures, undated. Obtained under Freedom of Information.



the projects minimal equity risk; and only political risk, which is relatively low.”⁴⁶

Remember, the province and the health authority were now putting in a lot of money — into a public project nonetheless. As this was government spending, presumably construction spending should show up as spending in the first few years and receive little discounting. So, the government then structured its spending as a “synthetic loan” to the private partner. The memo obtained under FOI explained, “The Affordability Model is necessary to demonstrate to Treasury Board that the Affordability Ceiling has been met, however, it does not reflect the deal structure that will be in the Project Agreement.”⁴⁷

When looking at public projects Partnerships BC accounts for public borrowing in a way that makes it look expensive. But with this project they accounted for the government’s borrowing to make it look cheap and to make sure the P3 went through.

Fort St. John got a hospital, the private partner got a 30-year contract with a minimal contribution, and BC taxpayers got the bill. The wide equity model was also used for the BC Cancer Agency’s Centre for the North Project.

Fort St. John got a hospital, the private partner got a 30-year contract with a minimal contribution, and BC taxpayers got the bill.

PHOTOS: PARTNERSHIPS BC

46 Felix Amerasinghe, “Options for Fort St. John, Corporate and Project Finance,” undated. Obtained under Freedom of Information (confidential draft).

47 Fort St. John, Ibid.

Impact of risk

Is there really that much risk involved in these projects? Many people don't think so.

CLEARLY, RISK PLAYS AN ENORMOUS ROLE in justifying the use of public-private partnerships. Again, turning to the Okanagan Correctional Centre as an example, using the government borrowing rate as a discount rate shows an advantage to the P3 of \$14.4 million. Using the Partnerships BC elevated discount rate, it jumps to an advantage of \$46.6 million, a \$32.2 million or 222 per cent increase for “project risk.”

The original, undiscounted \$26.6 million “risk adjustment” for a total risk value of \$58.8 million must be added to the \$32.2 million. This comes to nearly a quarter of the total value of the discounted public sector comparator.

Is there really that much risk involved in these projects? Many people don't think so.

In 2008, Ontario's auditor general criticized the provincial government's decision to assume “an estimated \$67 million in risks transferred to the private sector. This is equivalent to expecting a 13 per cent cost overrun if the traditional construction method was used.”⁴⁸

This is a much lower level of risk than those estimated in Partnerships BC projects. The Ontario auditor general said, “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 per cent of the total contract value.”⁴⁹

In 2009, Quebec's auditor general raised similar concerns and found assumptions about risk in P3 projects, “vary greatly and from decisions based on studies carried out in other administrations without checking their applicability to Québec's context.”⁵⁰ The Quebec auditor general also criticized the use of an elevated discount rate saying:

48 Auditor General of Ontario, “Chapter 3: Brampton Civic Hospital Public-private Partnership Project,” 2008 Annual Report, auditor.on.ca/en/content/annualreports/arreports/en08/303en08.pdf.

49 Ibid., 112.

50 Auditor General of Quebec, “The Auditor General of Québec presents the conclusions of his watch over the projects to modernize Montréal's University Health Centres—Public-private partnerships (PPP)” —Press release no. 5, 18 November 2009, vgq.gouv.qc.ca/en/en_salle-de-presse/en_Communiquees/en_index.aspx?Annee=2009.



It is recognized that the higher the discount rate used to convert to today's dollars the cash flows associated with the two options, the more the PPP will appear preferable over a conventional public sector method, and conversely, because the PPP method permits the spreading out of expenses over a longer period than does the conventional method.

For the CHUM and MUHC [two hospital projects] business cases, PPP Québec chose a higher discount rate (8 percent) than the one it adopted for other PPP projects (6.5 percent) during a similar period, without justification.”⁵¹

In January 2018, Britain’s auditor general published a detailed examination of public-private partnerships, or private finance initiatives as they are called in the United Kingdom.

We have criticized the use of adjustments in the VFM assessment model, such as “optimism bias” and “risk transfer”, that were not evidenced and increased the relative cost of the public sector comparator more than the private finance option. An important part of these adjustments relates to the benefits of transferring construction risk but there is little evidence that overall construction cost is lower under PFI...⁵²

Finally, an undated memo from the BC Ministry of Finance has also questioned inflated assumptions about risk transfer. Looking at the Fort. St. John Hospital project the memo suggested that the bidder should reduce their expected returns because:

- There is no revenue risk in a hospital project;
- Counter-party risk is the province, so as long as the proponent manages the projects minimal equity risk; and
- Only political risk, which is relatively low.⁵³

Turning to the Okanagan Correctional Centre as an example, using the government borrowing rate as a discount rate shows an advantage to the P3 of \$14.4 million.

OKANAGAN CORRECTIONAL CENTRE,
ARCHITECTURAL RENDERING
PROVINCE OF BC/FICKR

51 Ibid.

52 National Audit Office, “Report by the Comptroller and Auditor General, PFI and PF2,” 18 January 2018, 20, nao.org.uk/wp-content/uploads/2018/01/PFI-and-PF2.pdf (accessed 2 February 2018).

53 Felix Amerasinghe, “Corporate and Project Finance, Options for Fort St. John” (undated, obtained under Freedom of Information).

Some conclusions

THIS REPORT SET OUT TO EXAMINE how the Partnerships BC public-private partnership methodology shows bias in the way it compares costs of P3s versus publicly-delivered projects. By investigating a range of examples, it found that when using appropriate discount rates and less biased assumptions, almost no P3s show value for money. It was only after loading even more risk onto the cost of public projects (project risk) through an elevated discount rate that Partnerships BC was able to find value for the P3s.

Other issues still need to be explored. For instance, in many cases, public-private partnerships have been sold to new owners, often for a substantial profit. The impact of these ownership changes has not been examined, even in cases where the new owner is in a tax haven, thus reducing the claimed benefits of taxation to the government.⁵⁴

Studies in other jurisdictions have found major problems and costs in managing the relationship between the partners in a P3. This has not yet been examined in British Columbia.

More analysis needs to be done on the claim that public-private partnerships deliver projects “on time and on budget.” In BC, costs have tended to escalate dramatically in the negotiation process. The Canada Line, for example, estimated at an initial cost of \$1.5 billion, came in at a cost of \$2 billion. That figure was achieved after reducing the number of stations and transferring other costs to TransLink.⁵⁵

As for on time, the Evergreen Line project was delivered late, but despite this, the province agreed to waive the penalties that might have been imposed.⁵⁶

Finally, Partnerships BC has said, “There has been an evolution towards greater transparency in the way the components comprising the value for money calculation are disclosed... In more recent projects, such as the Emily Carr University of Art + Design

54 Keith Reynolds, “Are tax havens robbing the government of revenue from P3s? Nobody seems to care,” *BC CCPA Policy Note*, 2 January 2013.

55 Vaughn Palmer, “Canada Line ‘on budget.’ How DO they do it?” *Vancouver Sun*, 20 April 2009.

56 Jennifer Saltman, “Evergreen Line late but under budget, says province,” *Vancouver Sun*, 29 November 2016.

By investigating a range of examples, this report found that when using appropriate discount rates and less biased assumptions, almost no P3s show value for money. It was only after loading even more risk onto the cost of public projects (project risk) through an elevated discount rate that Partnerships BC was able to find value for the P3s.

Redevelopment Project, the information is provided in significant detail and is consistent from project to project.”⁵⁷

This move toward greater transparency is welcome and overdue. It is also inadequate. Much of the process, particularly the risk calculations that add to the assumed cost of public delivery of projects, remains hidden from public view. Had Partnerships BC’s new transparency been present in 2002 it is unlikely than many of these P3 projects would have gone forward.

More remains to be done. Further transparency would be evident if information were disclosed proactively and not bundled in such a way as to prevent identification of important figures such as initial risk adjustment.

Had Partnerships BC’s new transparency been present in 2002 it is unlikely than many of these P3 projects would have gone forward.

EMILY CARR UNIVERSITY
ARCHITECTURAL RENDERING
PROVINCE OF BC/Flickr



57 Partnerships BC, Correspondence with the author, 5 March 2018.

Recommendations

1. **Dissolve Partnerships BC**, move its function to a ministry, and improve the capacity of ministries delivering infrastructure to evaluate and deliver projects.

As the 2014 Ministry of Finance review of Partnerships BC noted, creating Partnerships BC as a private company owned by the Ministry of Finance and dependent on earned revenue created the risk of bias within the organization toward forms of project delivery that could deliver revenues to the agency.

Partnerships BC also promotes the development of P3s, provides recommendations to government on infrastructure procurement, conducts procurement options analysis, and develops value for money reports on projects. A report published by the World Bank suggests,

*Risks of a conflict of interest arise with cross-sectoral 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.*⁵⁸

The government could fund an agency delivering infrastructure advice and services under a ministry in order to eliminate any possible conflict of interest generated by the need to earn revenue for the agency. Such an agency would have a role in supporting and achieving infrastructure efficiency, but it should also focus on other factors that bring value to the project, such as sustainable development, apprenticeships, and job provisions for women and indigenous workers.

“Risks of a conflict of interest arise with cross-sectoral PPP units that both provide input into the approval process for PPPs and play a role in identifying and preparing projects.”
— World Bank report

58 Mark Dulz, Clive Harris, Inderbir Dhingra and Chris Shugart, Public-private partnership units: what they are what they do?, Public Policy for the Private Sector,” Note 311, World Bank, Washington, DC, September 2006, 3, http://web.worldbank.org/archive/website01021/WEB/IMAGES/311DUTZ_.PDF.

At a minimum, there should be a moratorium on such projects, until the process has been fully reviewed by the auditor general.

2. **Consider ending the use** of long-term public-private partnerships in which the private partner fully or partially finances the project and is responsible for management, operations or rehabilitation. At a minimum, there should be a moratorium on such projects, until the process has been fully reviewed by the auditor general. The review findings could be shared with the public.
3. Similar to other provinces, ask British Columbia's **auditor general to review the impact of Partnerships BC's methodology** for determining the use of public-private partnerships rather than simply examining individual projects. Such a study would include an examination of the relationship between public bodies and private partners, including the movement of personnel between government and corporations involved in P3s, and disputes with private sector companies over interpretations of the operation and maintenance portion of their agreements.
4. Follow the lead of other jurisdictions and **end the practice of using a discount rate higher than the province's borrowing rate** when addressing value for money issues.
5. Adopt a policy of prompt and **full proactive disclosure of all procurement records**, including preliminary analyses, business case documents, successful and unsuccessful bids, evaluations of bids, and contracts.
6. Move to a **discretionary standard for the release of information** that has gone before cabinet or cabinet committees. Give information commissioners access to these documents and the ability to rule on whether such documents should be released.
7. **Examine the costs and benefits of buying back** existing public-private partnerships including the possibility of purchasing such contracts if the private partner fails and of more rigorously policing performance guarantees.

Methodology

PURSUING A LONG-TERM ANALYSIS of public-private partnerships in British Columbia is challenging. Over time, the type and quality of information reported on these projects has changed, making comparisons difficult. For more than a decade critical information was withheld as cabinet secrets under S.12 of the BC Freedom of Information and Protections of Privacy Act. In a number of earlier projects, some important information was not created or subsequently lost.

In the case of the Abbotsford Hospital, Partnerships BC was unable to provide information on the value of initial risk adjustment and other issues, saying that despite extensive reviews it could not provide the information. In the case of the William R. Bennet Bridge, the Britannia Mine Water Treatment Plant, and the Diamond Health Centre, Partnerships BC said it did not have source files that would have allowed it to create tables of information that were made available in later documents.⁵⁹

Even in the case of some later files, it was not possible to obtain information on the value of the initial risk adjustment. In the Surrey Outpatient facility case, for example, risk adjustment values were rolled into development and operating period costs and not reported separately.⁶⁰ For this reason, the following appendices do not report on the impact of initial risk adjustment for the cases cited.

Additionally, the reported net present value for money figures in Partnerships BC reports do not match the net present value for money figures calculated using the actual cash flow data retrieved under freedom of information requests and figures reported in the most recent value for money reports. In a 2013 memo, the President and CEO of Partnerships BC explains the differences:

It is important to note that the cash flows used to derive the net present cost numbers for the PSC and PPP delivery models in the Project Reports are based on a combination of monthly, quarterly and semi-annual cash flows. The cash

⁵⁹ Partnerships BC, Correspondence with the author, 5 March 2018.

⁶⁰ Ibid.

flows in the attached tables have been annualized. Discounting the annual cash flows will produce net present cost number similar, but not exactly the same as in the as in the Project Report. The calculation of net present cost numbers is dependent on the timing of cash flows, so a difference in the net present cost numbers is to be expected.⁶¹

Tables A and B show the discounted net present cost figures from the value for money reports. However, Tables D and E are based on discounting both the actual reported flows of money of the public sector comparator and the public-private partnership to permit the use of comparable numbers. This discounting was done using the net present value formula in Excel. As Partnerships BC suggests, the resulting numbers are not the same, but the relative impact of the results is similar to the Partnerships BC project reports.

61 Sarah Clark, President and CEO, Partnerships BC, Memo to the Minister of Finance, 21 August 2013.

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APPENDIX A

Undiscounted costs of public sector comparator and public-private partnership based on cash flows, comparison of government borrowing cost and Partnerships BC discount rate

| Project | Undiscounted costs | | | | Discount rate vs. government borrowing costs | | | |
|---|-----------------------|-----------------------|----------------------|------------------------|--|----------------------|--------------------------|----------------|
| | PSC total | PPP total | Difference PSC - PPP | Saving of PSC over PPP | Discount rate | Gov't borrowing rate | Discount minus borrowing | |
| Abbotsford Hospital | 1,181,485,000 | 1,696,139,000 | 514,654,000 | 30.3% | 8.12% | 5.42% | 2.70% | |
| BC Cancer Agency's Centre for the North | 130,239,000 | 217,203,000 | 86,964,000 | 40.0% | 7.43% | 4.75% | 2.68% | |
| BC Children's and BC Women's Project | 1,025,182,000 | 1,133,529,000 | 108,347,000 | 9.6% | 6.87% | 3.88% | 2.99% | |
| Britannia Mine | 71,446,000 | 61,987,000 | -9,459,000 | -15.3% | 8.12% | 5.42% | 2.70% | |
| Canada Line | 4,143,300,000 | 5,231,600,000 | 1,088,300,000 | 20.8% | 6.00% | 5.42% | 0.58% | |
| Diamond Centre | 89,903,000 | 203,446,162 | 113,543,162 | 55.8% | 7.12% | 5.98% | 1.14% | |
| Emily Carr | 271,612,000 | 264,982,000 | -6,630,000 | -2.5% | 4.80% | 3.18% | 1.62% | |
| Fort St. John Hospital | 608,656,000 | 748,455,000 | 139,799,000 | 18.7% | 7.32% | 4.31% | 3.01% | |
| Kelowna and Vernon Hospitals Project | 1,004,067,000 | 1,154,534,000 | 150,467,000 | 13.0% | 7.80% | 4.75% | 3.05% | |
| Kicking Horse Canyon | 155,565,000 | 253,332,000 | 97,767,000 | 38.6% | 6.95% | 4.68% | 2.27% | |
| North Island Hospitals | 1,242,903,000 | 1,394,251,000 | 151,348,000 | 10.9% | 6.24% | 3.18% | 3.06% | |
| Okanagan Correctional Centre | 393,300,000 | 466,113,000 | 72,813,000 | 15.6% | 5.92% | 3.18% | 2.74% | |
| Penticton Hospital | 580,751,000 | 583,187,000 | 2,436,000 | 0.4% | 4.98% | 2.46% | 2.52% | |
| Royal Jubilee Hospital | 589,461,000 | 855,978,000 | 266,517,000 | 31.1% | 6.87% | 4.75% | 2.12% | |
| Sea-to-Sky Highway | 1,670,700,000 | 1,982,900,000 | 312,200,000 | 15.7% | 7.50% | 4.68% | 2.82% | |
| South Fraser Perimeter Road | 989,759,000 | 1,386,286,000 | 396,527,000 | 28.6% | 7.41% | 4.17% | 3.24% | |
| Surrey Outpatient | 449,134,000 | 640,860,000 | 191,726,000 | 29.9% | 7.50% | 4.31% | 3.19% | |
| | Totals | | | | Average | | | Average |
| | 14,597,463,000 | 18,274,782,162 | 3,677,319,162 | 20.1% | | | 2.50% | |

Sources: Responses to Freedom of Information requests to Partnerships BC, the BC Ministry of Finance, the Greater Vancouver Transportation Authority, and the Vancouver Coastal Health Authority. Information on the Sea-to-Sky Highway was published in Partnerships BC's 2005 value for money report. After 2005, this information was withheld as being a cabinet secret.

Appendix A table continued

| Project | Discounted costs PBC discount rate reported in VFM reports | | | |
|---|--|----------------------|--------------------|----------------|
| | Net present cost PSC | Net present cost P3 | NPC P3 advantage | % advantage |
| Abbotsford Hospital | 463,000,000 | 424,000,000 | 39,000,000 | 8.42% |
| BC Cancer Agency's Centre for the North | 83,600,000 | 78,700,000 | 4,900,000 | 6.30% |
| BC Children's and BC Women's Project | 525,800,000 | 471,500,000 | 54,300,000 | 10.30% |
| Britannia Mine | 39,700,000 | 27,200,000 | 12,500,000 | 31.49% |
| Canada Line | 1,750,000,000 | 1,658,000,000 | 92,000,000 | 5.26% |
| Diamond Centre | 81,000,000 | 64,000,000 | 17,000,000 | 20.99% |
| Emily Carr | 189,250,000 | 151,118,000 | 38,132,000 | 20.10% |
| Fort St. John Hospital | 327,100,000 | 306,400,000 | 20,700,000 | 6.30% |
| Kelowna and Vernon Hospitals Project | 468,100,000 | 442,700,000 | 25,400,000 | 5.70% |
| Kicking Horse Canyon | 184,400,000 | 166,300,000 | 18,100,000 | 10.00% |
| North Island Hospitals | 767,300,000 | 635,800,000 | 131,500,000 | 17.13% |
| Okanagan Correctional Centre | 280,900,000 | 241,600,000 | 39,300,000 | 14.00% |
| Penticton Hospital | 379,000,000 | 315,100,000 | 64,500,000 | 17.00% |
| Royal Jubilee Hospital | 363,000,000 | 340,800,000 | 22,200,000 | 6.10% |
| Sea-to-Sky Highway | 744,000,000 | 789,000,000 | -45,000,000 | -6.05% |
| South Fraser Perimeter Road | 637,000,000 | 603,000,000 | 34,000,000 | 5.00% |
| Surrey Outpatient | 256,700,000 | 234,200,000 | 22,500,000 | 8.80% |
| | Totals | | | Average |
| | 7,539,850,000 | 6,949,418,000 | 591,032,000 | 10.99% |

APPENDIX B

Risk adjustment calculated and added to the public sector comparator cost (\$millions)

| Project | Net risk adjustment | Discounted public sector comparator cost | Discounted P3 project cost | Claimed savings of P3 | Risk adjustment as % of savings | Risk adjustment as % of PSC cost | Claimed savings of PPP |
|--|---------------------|--|----------------------------|-----------------------|---------------------------------|----------------------------------|------------------------|
| BC Cancer Agency Centre for the North | 78.7 | 83.6 | 78.7 | 4.9 | 159.2% | 9.3% | 6.3% |
| BC Children's and BC Women's Project | 47.9 | 525.8 | 471.5 | 54.3 | 88.2% | 9.1% | 10.3% |
| Canada Line (Net of increased ridership) | 233 | 1750 | 1658 | 92 | 253.3% | 13.3% | 5.3% |
| Emily Carr University | 18.44 | 189.25 | 151.118 | 38.132 | 48.4% | 9.7% | 20.1% |
| Fort St. John Hospital | 30.2 | 327.1 | 306.4 | 20.7 | 145.9% | 9.2% | 6.3% |
| Golden Ears Bridge | 170.6 | 1132.9 | 1126.6 | 6.3 | 2707.9% | 15.1% | 0.6% |
| Interior Heart and Surgical Centre | 28.1 | 173 | 140 | 33 | 85.2% | 16.2% | 19.1% |
| Kelowna and Vernon Hospitals Project | 32.3 | 468.1 | 442.7 | 25.4 | 127.2% | 6.9% | 5.7% |
| North Island Hospitals | 95.2 | 767.3 | 635.8 | 131.5 | 72.4% | 12.4% | 17.1% |
| Okanagan Correctional | 26.5 | 280.9 | 241.6 | 39.3 | 67.4% | 9.4% | 14.0% |
| Penticton Regional Hospital Tower | 37.7 | 379.6 | 315.1 | 64.5 | 58.4% | 9.9% | 17.0% |
| Royal Jubilee Hospital | 30 | 363 | 340.8 | 22.2 | 135.1% | 8.3% | 6.1% |
| Sea-to-Sky Highway (1) | 4 | 744 | 789 | -45 | | 0.5% | |
| South Fraser Perimeter Road | 102 | 637 | 603 | 34 | 300.0% | 16.0% | 5.0% |
| Surrey Memorial Hospital | 29 | 417 | 386 | 31 | 93.5% | 7.0% | 7.4% |
| Surrey Pretrial | 19 | 148 | 133 | 15 | 126.7% | 12.8% | 15.0% |
| Average | | | | | 126.7% | 9.6% | 8.9% |

Sources: Net risk adjustment from value for money (VFM) reports; discounted public sector comparator and project costs from published VFM reports.

APPENDIX C

Simple example comparison of undiscounted project with upfront public spending versus 8% discounted project

Twelve year project
No discounting of annual spending

| Year | Public sector comparator | Public-private partnership |
|--------------|--------------------------|----------------------------|
| 1 | 7,500,000 | 2,500,000 |
| 2 | 7,500,000 | 2,500,000 |
| 3 | 1,000,000 | 2,500,000 |
| 4 | 1,000,000 | 2,500,000 |
| 5 | 1,000,000 | 2,500,000 |
| 6 | 1,000,000 | 2,500,000 |
| 7 | 1,000,000 | 2,500,000 |
| 8 | 1,000,000 | 2,500,000 |
| 9 | 1,000,000 | 2,500,000 |
| 10 | 1,000,000 | 2,500,000 |
| 11 | 1,000,000 | 2,500,000 |
| 12 | 1,000,000 | 2,500,000 |
| Total | 25,000,000 | 30,000,000 |

Twelve year project
Discounted at 8 per cent annually

| Year | Discounted 8 per cent annually – value of payment | Public sector comparator | Public-private partnership |
|--------------|---|--------------------------|----------------------------|
| 1 | 0.920 | 6,900,000 | 2,300,000 |
| 2 | 0.846 | 6,348,000 | 2,116,000 |
| 3 | 0.779 | 920,000 | 1,946,720 |
| 4 | 0.716 | 716,393 | 1,790,982 |
| 5 | 0.659 | 920,000 | 1,647,704 |
| 6 | 0.606 | 606,355 | 1,515,888 |
| 7 | 0.558 | 920,000 | 1,394,617 |
| 8 | 0.513 | 513,219 | 1,283,047 |
| 9 | 0.472 | 920,000 | 1,180,403 |
| 10 | 0.434 | 434,388 | 1,085,971 |
| 11 | 0.400 | 920,000 | 999,093 |
| 12 | 0.368 | 367,666 | 919,166 |
| Total | | 20,486,022 | 18,179,591 |

APPENDIX D

Effect of discounting (government borrowing rate) and risk adjustment on public-private partnerships

| Project | Discount rate | Gov't borrowing rate | Discount minus borrowing | Net present cost (FOI provided cash flows) using gov't borrowing rate as discount (\$thousands) | | | Risk adjustment before discounting | Discounted P3 advantage minus original risk adjustment |
|--------------------------------------|---------------|----------------------|--------------------------|---|----------------------------|-----------------------------------|------------------------------------|--|
| | | | | Public sector comparator | Public-private partnership | Advantage to P3 after discounting | | |
| Abbotsford Hospital | 8.12% | 5.42% | 2.70% | 574,390 | 626,643 | -52,253 | | |
| BC Children's and BC Women's Project | 6.87% | 3.88% | 2.99% | 581,007 | 574,843 | 6,164 | 47,900 | -41,736 |
| Britannia Mine | 8.12% | 5.42% | 2.70% | 46,755 | 34,739 | 12,015 | | |
| Canada Line | 6.00% | 5.42% | 0.58% | 2,445,595 | 2,509,020 | -63,425 | 233,000 | -296,425 |
| Diamond Centre | 7.12% | 5.98% | 1.14% | 84,053 | 86,265 | -2,212 | | |
| Emily Carr | 4.80% | 3.18% | 1.62% | 200,563 | 165,792 | 34,772 | 18,440 | 16,332 |
| Ft. St. John Hospital | 7.32% | 4.31% | 3.01% | 375,509 | 414,510 | -39,000 | 30,200 | -69,200 |
| Kelowna and Vernon Hospitals Project | 7.80% | 4.75% | 3.05% | 583,951 | 598,831 | -14,881 | 32,300 | -47,181 |
| Kicking Horse Canyon | 6.95% | 4.68% | 2.27% | 195,106 | 192,300 | 2,806 | 17,200 | -14,394 |
| North Island Hospitals | 6.24% | 3.18% | 3.06% | 887,470 | 850,660 | 36,810 | 95,200 | -58,390 |
| Okanagan Correctional Centre | 5.92% | 3.18% | 2.74% | 305,475 | 305,792 | -318 | 26,500 | -26,818 |
| Penticton Regional Hospital | 4.98% | 2.46% | 2.52% | 441,646 | 403,610 | 38,036 | 37,700 | 336 |
| Prince George Cancer | 7.43% | 4.75% | 2.68% | 84,293 | 99,314 | -15,021 | 7,800 | -22,821 |
| Royal Jubilee Hospital | 6.87% | 4.75% | 2.12% | 400,894 | 429,385 | -28,491 | 30,000 | -58,491 |
| Sea-to-Sky Highway | 7.50% | 4.68% | 2.82% | 400,894 | 429,385 | -28,491 | | |
| South Fraser Perimeter Road | 7.41% | 4.17% | 3.24% | 804,390 | 860,700 | -56,310 | 102,000 | -158,310 |
| Surrey Outpatient | 7.50% | 4.31% | 3.19% | 315,068 | 349,720 | -34,653 | | |
| Totals | | | | 8,727,059 | 8,931,511 | -204,452 | | -777,098 |

Effect of discounting (Partnerships BC discount rate) and risk adjustment on public-private partnerships

| Project | Net present cost (FOI provided cash flows) using PBC rate as discount (\$thousands) | | | Shift to advantage of P3 of using higher PBC discount rate over government borrowing rate | Total risk adjustment including discounting and adjustment before discounting | Risk % of PSC with adjustment and PBC discount |
|---|--|-------------------------------|--------------------|---|--|--|
| | Public sector comparator | Public-private partnership | Advantage to P3 | | | |
| Abbotsford Hospital | 449,978 | 419,148 | 30,829 | 83,083 | | |
| BC Children's and BC Women's Project | 419,782 | 379,977 | 39,806 | 33,642 | 81,542 | 19.4% |
| Britannia Mine | 39,860 | 27,177 | 12,683 | 668 | | |
| Canada Line | 2,348,780 | 2,366,921 | -18,141 | 45,284 | 278,284 | 11.8% |
| Diamond Centre | 83,460 | 65,932 | 17,528 | 19,740 | | |
| Emily Carr | 178,257 | 136,178 | 42,079 | 7,307 | 25,747 | 14.4% |
| Ft. St. John Hospital | 316,389 | 298,860 | 17,529 | 56,529 | 86,729 | 27.4% |
| Kelowna and Vernon Hospitals Project | 452,857 | 432,187 | 20,670 | 35,550 | 67,850 | 15.0% |
| Kicking Horse Canyon | 184,491 | 168,237 | 16,254 | 13,448 | 30,648 | 16.6% |
| North Island Hospitals | 703,675 | 588,024 | 115,651 | 78,840 | 174,040 | 24.7% |
| Okanagan Correctional Centre | 260,942 | 221,507 | 39,435 | 39,752 | 66,252 | 25.4% |
| Penticton Regional Hospital | 356,802 | 296,399 | 60,404 | 22,368 | 60,068 | 16.8% |
| Prince George Cancer | 70,084 | 67,732 | 2,351 | 17,373 | 25,173 | 35.9% |
| Royal Jubilee Hospital | 355,927 | 338,112 | 17,815 | 46,306 | 76,306 | 21.4% |
| Sea-to-Sky Highway | 750,000 | 848,000 | -98,000 | -69,509 | | |
| South Fraser Perimeter Road | 716,900 | 636,170 | 80,730 | -137,040 | 239,040 | 33.3% |
| Surrey Outpatient | 268,561 | 249,855 | 18,706 | 53,358 | | |
| Totals | 7,956,744 | 7,540,415 | 416,329 | 346,701 | | |

History of public-private partnerships in British Columbia

While many other countries have used public-private partnerships, British Columbia's model for the use of P3s was largely borrowed from the United Kingdom. In one of the earliest P3 value for money reports for the Abbotsford Hospital, Partnerships BC acknowledged, "The U.K. model for partnership delivery was adopted as a general baseline with adaptations for B.C. and Canadian circumstances."⁶² In early Partnerships BC annual reports, PBC also spoke of its "strategic links" to Partnerships UK and the fact that staff had been recruited from the United Kingdom.⁶³

The UK had a significant lead on BC and Canada when it came to P3s. The UK's public-private partnership initiative, called Private Finance Initiative (PFI), was announced in 1992 under the Conservative government; however, it was enthusiastically taken up by the Labour government when they came to power in 1997.⁶⁴

For both political parties in the UK, one of the big advantages for P3s or PFI was that expenditures on public-private partnership assets did not show up on the books as debt. For political parties under pressure because of growing public debt, this was attractive. Even today, as the UK's National Audit Office said in a January 18, 2018 report, "most private finance debt is offbalance sheet for National Accounts purposes. This results in short-term incentives for the government and public bodies to use private finance procurement."⁶⁵

Like most provinces, British Columbia perceived the province as having debt issues and, in the late 1990s, it began to look seriously at public-private partnerships.

In 1997, Employment and Investment Minister Dan Miller announced the release of a task force report examining the potential of P3s. Miller, the then newly appointed minister for P3s, said he would implement many of the task force recommendations, including the government move to implement P3s. Early targets were to include a school in Burnaby, the Vancouver Trade and Convention Centre, and improvements to Lions Gate Bridge.⁶⁶ None of these came to fruition.

One of the first targets for a P3 announced in 1999 was Auguston Public School in Abbotsford; however, the government found the lease cost too expensive and paid to buy it back.⁶⁷

The province's rush to public-private partnerships did not begin until after the provincial election in 2001. In May 2002, the government announced the creation of Partnerships BC, "a publicly owned company that will bring together ministries, agencies and the private sector to do P3 projects."⁶⁸ P3

62 Partnerships British Columbia, "Project report: Achieving value for money- Abbotsford Regional Hospital and Cancer Centre Project," February 2005, 19.

63 Partnerships BC, Annual reports, 2002/2003 and 2003/2004.

64 Richard Seymour, "A short history of privatization in the UK: 1979-2012," *The Guardian*, 29 March 2012, <https://www.theguardian.com/commentisfree/2012/mar/29/short-history-of-privatisation>.

65 Report by the Comptroller and Auditor General of the United Kingdom, PFI and PFI2, 18 January 2018, 11, <https://www.nao.org.uk/wp-content/uploads/2018/01/PFI-and-PF2.pdf> (accessed 29 January 2018).

66 Government of British Columbia, "Miller releases task force report on public -private partnerships," 31 January 1997, <https://archive.news.gov.bc.ca/releases/archive/pre2001/1997/nrs97/00897nr.asp>.

67 Janet Steffenhagen, "Seeking help with Auguston traditional school," *Vancouver Sun*, 11 November 2008, <http://vancouver.sun.com/news/staff-blogs/seeking-help-with-auguston-traditional-school>

68 Government of British Columbia, "New framework, agency to provide public building," 30 May 2002, <https://archive.news.gov.bc.ca/releases/archive/2001-2005/2002FIN0001-000023.htm>.

plans took an early hit in 2003 when plans for a 55-year partnership to run the Coquihalla Highway were abandoned.⁶⁹ Still, plans were quickly in place for projects such as the Abbotsford Hospital and Britannia Mine Water Treatment Plant.

Public statements and reports also made it clear that the government hoped that borrowing for P3 projects could be kept “off book” as it was in the UK.

In his 2003 budget speech, finance minister Gary Collins told the legislature that his government would invest \$650 million in transportation projects and that, “we will make these investments without increasing the overall public debt.”⁷⁰

The 2004 budget and fiscal plan which accompanied that year’s budget pointed to P3s as a reason taxpayer supported capital spending was declining, noting, “Although total expenditures will be relatively unchanged, taxpayer-supported capital spending will decline from \$1.9 billion in 2004/05 to \$1.6 billion in 2006/07. The decrease reflects completed projects and the impact of P3s on capital spending costs.”⁷¹

In a 2004 value for money report on the Sierra Yoyo Desan Resource Road Upgrade Project, Partnerships BC expressed its hope that, “the property and improvements will be recorded as assets on Ledcor’s financial statements and will not appear on the financial statements of the Province or any of the road users,” despite the fact the road was owned by the government.⁷²

By 2005, however, it was becoming clear the government would not be able to use P3s to hide provincial debt. Speaking in the legislature, transportation minister Kevin Falcon said:

*how the accounting profession looks at P3s and how debt is treated has actually been evolving since 2003 when there was generally a widespread assumption that the debt would be treated off-book. Given the accounting rules at the time, that was very much the assumption that would have been in play within the industry. What we are seeing on the projects that we’ve done to date is that the capital costs of our P3 projects will be treated as assets and liabilities on the [government’s] books. But the issue to me as the Minister of Transportation and the issue to us as government is that P3s have never been about how debt is treated. P3s have been all about two other issues that are really critical: one is risk transfer, and the other is value for money.*⁷³

While the BC government relied increasingly on Partnerships BC and P3s, it also began to push local governments and agencies to use public-private partnerships. According to one study, the government was forced to order the board of the Fraser Health Authority to accept the use of a P3 for the Abbotsford Hospital or face removal.⁷⁴

In 2002, BC’s deputy minister of transportation wrote to Metro Vancouver’s transportation agency (Translink) saying the province would not contribute its promised \$550 million for the Canada Line

69 John Greenwood, “B.C. stops highway’s private lease: other projects in doubt,” *National Post*, 24 July 2003, FP1.

70 Gary Collins, BC Minister of Finance, Budget Speech, 18 February 2003, bcbudget.gov.bc.ca/2003/speech/default.htm (accessed 29 January 2018).

71 BC Ministry of Finance, Budget and Fiscal Plan, 17 February 2004, 39.

72 Partnerships BC, Project Report: Achieving Value for Money for the Sierra Yoyo Desan Resource Road Upgrade Project, November 2004, 14.

73 Legislative Assembly of British Columbia. Official Report of Debates of the Legislative Assembly (Hansard). 3 (5), 1169, 25 October 2005.

74 Daniel Cohn, “British Columbia’s Capital Asset Management Framework: Moving from transactional to transformative leadership on public-private partnerships, or a “railroad job”?,” *Canadian Public Administration*, 51 (1), March 2008, 71–97.

unless the project was built as a P3.⁷⁵ While there was initial resistance from the Translink board, faced with the loss of provincial funding they eventually capitulated.

Four years later, in a speech to the Union of BC Municipalities, Premier Gordon Campbell told local governments that any provincially funded projects with a value of over \$20 million were required “to be considered first by Partnerships BC to be built as public-private partnerships unless there is a compelling reason to do otherwise.”⁷⁶ These rules applied to local government projects with provincial funding. In the same speech, he said the province’s one third funding for sewage treatment in Victoria would also be subject to oversight by Partnerships BC.

In two years, however, BC’s public-private partnership program found itself facing the economic headwinds of the 2008 global financial crisis. On 7 November that year, the government issued a statement saying the threshold for provincial P3s was being raised from \$20 million to \$50 million. The reason given was to accelerate capital infrastructure projects.⁷⁷

The largest program in the pipeline was the Port Mann Bridge/Highway 1 Improvement Project that had seen a request for qualifications issued in 2007. By February 2009, negotiations with a potential builder had fallen apart with the government saying in its value for money report, “The inability of the parties to reach an agreement reflected the challenging and unprecedented economic and financial market environment at the time. Despite the significant commitments of debt and equity capital to the Project, and the strength of the consortium partners, Partnerships BC ultimately recommended that the Province not proceed.”⁷⁸ The project proceeded with a short-term design/build model instead.

Despite the failure of the flagship Port Mann P3 project, the government was still determined to proceed with the partnerships. Faced with the problem that economic conditions meant that the government’s P3 model no longer made economic sense, the government changed the model. Using a new “wide equity” model, the government proceeded with hospital P3s in northern and central BC. The issues with this wide equity model are addressed in a separate note on the Fort St. John Hospital project.

P3s in British Columbia were also beginning to draw criticism. While unions, academics and think tanks were among the first to criticize the projects they also began to draw critical remarks from business groups. In 2008, Phil Hochstein of BC’s Independent Contractors and Business Association (ICBA) complained to a business group that P3s were so large that smaller companies were being cut out of the process.⁷⁹

Four years later, in 2012, Hochstein and the ICBA were still raising issues about Partnerships BC’s objectivity and possible conflict of interest when it came to decide how projects would be built. He accused PBC of “mandate creep” for taking on project management of design-build projects. Hochstein

75 Dan Doyle, BC Deputy Minister of Transportation, Letter to Pat Jacobsen, President and CEO of Translink, 19 June 2002.

76 Government of British Columbia, “Highlights of Premier Gordon Campbell speech to the UBCM: Background,” 27 October 2006, https://archive.news.gov.bc.ca/releases/news_releases_2005-2009/2006otp0152-001301-attachment1.htm (accessed 31 January 2018).

77 Government of British Columbia, “Province raises capital standard threshold for PPPs,” 7 November 2008, https://archive.news.gov.bc.ca/releases/news_releases_2005-2009/2008FIN0019-001677.htm.

78 Partnerships BC, Project Report: Achieving Value for Money, Port Mann Bridge/Highway 1 Improvement Project, March 2011, 12.

79 “P3 projects draw concern from small contractors,” *Business Edge News Magazine*, 21 March 2008, businessedge.ca/archives/article.cfm/p3-projects-draw-concern-from-small-contractors-17460 (accessed 31 January 2018).

said PBC's practice of "bundling" smaller projects so they would be large enough to support a P3 was hurting both taxpayers and small builders.⁸⁰

In 2012, the BC Construction Association also raised concerns about "a Partnerships BC bias to P3 and design-bid procurement due to their reliance on P3 fees, and because government agencies provide services in competition with the private sector."⁸¹

By 2013, the BC government was listening. In January, the government announced the creation of an infrastructure forum to "consult, discuss and share information and ideas related to improving government's infrastructure procurement practices and use of construction-industry resources."⁸² Both the ICBA and the Construction Association, along with Partnerships BC, were represented at the forum.

The BC Ministry of Finance established a review of Partnerships BC and the Construction Association and ICBA were represented on the review body.⁸³ In June 2014, the report expressed concern that PBC was potentially biased "towards certain procurement methodologies." The committee recommended removing some of PBC's decision making powers. It called for an increase in the P3 threshold to \$100 million and for a reduction in the use of "bundling."⁸⁴ Virtually all the construction industry's concerns were addressed and, to a degree, Partnerships BC's wings were clipped. On December 16, the government issued a release saying it would carry out the recommendations of the review committee.⁸⁵

PUBLIC-PRIVATE PARTNERSHIPS were originally seen in BC as a mechanism to use private funding for public projects in a way that would hide government debt. Unlike the situation in the United Kingdom, however, Canada's auditors insisted that money borrowed to pay for public projects, whether or not it was done through private operators, was public debt. Despite this change in accounting, BC continued to promote P3s with increasing pressure. The use of P3s was somewhat interrupted by the global financial crisis of 2008 and by increasing opposition from the BC construction industry.

Despite these setbacks, Partnerships BC has continued to promote the use of P3s, particularly for larger projects. Pressure from the federal government to use public-private partnerships through the Canada Infrastructure Bank may also play a role in the future.

It remains to be seen how a new government in British Columbia will proceed with the management of its infrastructure.

80 Peter Caulfield, "Industry leaders looking for changes in government procurement," *Journal of Commerce*, 17 September 2012, <https://canada.constructconnect.com/joc/news/government/2012/09/industry-leaders-looking-for-changes-in-government-procurement-joc051852w>.

81 BC Construction Association, "Fair and transparent: implementing the CAMF for construction procurement: A partnership approach to public sector procurement policy in British Columbia," 30 November 2012, bccassn.com/media/bcca-report-fair-transparent-camf-public-sector-procurement-2012.pdf (accessed 31 January 2012).

82 Government of British Columbia, "Working together: BC & BCCA launch infrastructure forum," 25 January 2013, <https://news.gov.bc.ca/stories/working-together-bc-bcca-launch-infrastructure-forum> (accessed 31 January 2018).

83 Government of British Columbia, Freedom of Information Request on the composition of stakeholders chosen for the review of Partnerships BC, http://docs.openinfo.gov.bc.ca/d7637215a_response_package_fin-2014-00310.pdf (accessed 31 January 2018).

84 BC Government, "Review of Partnerships BC, Ministry of Finance," July 2014, <https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/services-policies-for-government/internal-corporate-services/internal-audits/partnerships-bc-review.pdf> (accessed 31 July 2018).

85 Government of British Columbia, "Crown review finds Partnerships BC fulfilling its mandate," 16 December 2014, https://archive.news.gov.bc.ca/releases/news_releases_2013-2017/2014FIN0060-001901.htm.



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Columbia
INSTITUTE

Suite 510 - 1155 Robson Street, Vancouver, BC V6E 1B5
t: 604.408.2500 / e: info@columbiainstitute.ca
columbiainstitute.ca