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P3s

FACT SHEET

The Saskatchewan P3 Secretariat

March 2009

Saskatchewan has had little experience with public-private partnerships or P3s, but the Brad Wall government is hoping to change that. Earlier this year, the *Saskatoon Star-Phoenix* reported that the Saskatchewan Party government would be establishing a secretariat to “explore the possibility of private sector companies being involved in large-scale infrastructure projects such as roads, schools and health-care facilities.”¹

The provincial government has yet to formally announce the establishment of the secretariat through a news release, but the recent budget allocated \$650,000 to the secretariat, which will form a branch inside the Ministry of Government Services. Mike Shaw, a former bureaucrat in the ministry of health, became the head and first employee of the Saskatchewan P3 Secretariat on January 1, 2009.

The Saskatchewan P3 Secretariat will be charged with developing the criteria for assessing private sector proposals and will make recommendations to cabinet for approval. Any infrastructure project with a minimum total cost of \$25 million will be screened by the secretariat for consideration as a P3. (It’s interesting to note that the B.C. government recently raised its threshold for capital projects requiring a mandatory P3 review from \$20 million in provincial funding to \$50 million to “accelerate capital infrastructure projects.”²)

Government Services Minister Dan D’Autremont told the *Star-Phoenix* that the province will proceed with caution when it comes to P3s. For instance, he specifically rejected toll roads as a possibility.

However, according to an October 15, 2008 government briefing note, obtained through a freedom of information request, “Any and all areas of traditional P3s (design, build, finance, own, and operate) will be considered for projects over \$25 million with a term of at least 20 years that do not fit well within the traditional procurement approach. It is anticipated that Government will own the facilities, or have ownership transferred at the pre-determined time in the contract, that are procured using P3s.”³

While details are sketchy, the government briefing note puts forward the following guidelines or key messages for the Saskatchewan P3 Secretariat:

- Government Services will be conducting the necessary due diligence required before entering into any long-term P3 contracts.
- P3 contracts will be considered for various infrastructure projects in which government will benefit from sharing the risk with the private sector, and when it is in the best interest of the province and taxpayers.
- P3 contracts are an innovative procurement tool for building financial and operational infrastructure for the delivery of public services.
- P3 contracts will be considered when it can be demonstrated that a P3 can be cost affective (sic) as compared to traditional construction.⁴

Partnerships B.C. and other P3 agencies

Saskatchewan is not the first provincial government to establish a formal body to promote public-private partnerships.

In 2002, the Gordon Campbell Liberal government established Partnerships B.C., a private company owned by the Ministry of Finance, to promote P3s in British Columbia. Since then, Partnerships B.C. has overseen 25 P3 projects worth over \$10 billion.⁵

Partnerships B.C. also provides advice to other provincial governments. The Nova Scotia government is paying the organization \$200,000 to assess the viability of P3 projects for that province. According to freedom of information requests, Partnerships B.C. has also recently provided advice on P3s to at least one Saskatchewan government ministry - the Ministry of Highways and Infrastructure.

In Ontario, The Dalton McGuinty government established Infrastructure Ontario, an arm's length Crown corporation that promotes P3s through the Alternative Financing and Procurement (AFP) model.

Québec (PPP Québec) was created in 2005 by the Jean Charest Liberal government to advise the government on any public-private partnership matter.

Most recently, the Stephen Harper federal government established PPP Canada, a crown corporation that will promote the further development of Canada's P3 market and administer the government's \$1.25 billion P3 Fund, a key component of the Building Canada infrastructure plan established in the 2007 budget. The Building Canada plan also requires all projects seeking \$50 million or more in federal funds to consider the P3 option.

The B.C. P3 experience

Minister D'Autremont's favourable comments regarding B.C.'s Sea-to-Sky P3 highway improvement project,⁶ the government's recent communications with Partnerships B.C., and the October 15, 2008 government briefing note suggest that the Brad Wall government will be looking to B.C. for advice on its approach to P3s.

“P3’s have a history in B.C. and around the world of delivering on-time, on-budget and of the highest quality,” the briefing note claims.

However, a 2009 review of four high profile P3 projects in B.C. by forensic accountant Ronald Parks and chartered accountant Rosanne Terhart found that the nominal costs – the actual dollars spent over the life of the contract - exceeded those of the public sector comparator for the Abbotsford Hospital and Cancer Centre, the Canada Line Rapid Transit Project, the Diamond Health Care Centre and the Sea-to-Sky Highway P3 projects.

The Diamond Centre, for instance, cost \$114 million (or 130%) more over the life of the contract than if it had been built publicly.⁷

The accountants examined the “Value For Money” reports, prepared by Partnerships B.C., which compared the estimated cost of the P3 project to the cost of traditional public procurement – referred to as the public sector comparator. The Value For Money process claims to estimate the value of risk transferred from the government to the private sector and uses a discount rate to determine net present value.

Parks and Terhart found that Partnerships B.C. used higher discount rates in the Value For Money assessments, which favoured the P3 option, instead of a discount rate that would approximate the province’s actual cost of borrowing. They concluded, “...if a more appropriate discount rate were used, public delivery of the project presented greater value for money than the P3.”⁸

Sea-to-Sky P3 more expensive

As for the Sea-to-Sky highway improvement project, which Minister D’Autremont has cited as a P3 success story, Simon Fraser University Professor Marvin Shaffer, estimated that the P3 project cost B.C. taxpayers \$220 million more than a traditionally procured and financed project.⁹

Parks and Terhart corroborated Shaffer’s findings. Moreover, the accountants found the Value For Money report for this project was seriously flawed.

“Although the Value for Money report did not disclose a favourable cost savings in net present value terms, a risk factor of \$42.9 million was added to the net present value of the Public Sector Comparator to account for additional risk of public procurement. This added risk factor is in addition to the risk factor inherently included in the discount rate of 7.5 percent used to calculate the net present value of the project. We find this methodology faulty as it double counts risk in this project.”¹⁰

Furthermore, the accountants found no explanation of how the \$42.9 million risk factor was determined.

Flawed methodology was not restricted to the Sea-to-Sky assessment. Parks and Terhart found that the “value” of transferred risk was double-counted in the other Value For Money reports they analyzed.

Parks and Terhart bluntly concluded: “the methodology used by Partnerships B.C. to compare the P3 projects to the Public Sector Comparator is biased in favour of the P3 projects.” Further, they stated, “critical information and documentation in support of the Value for Money reports was for the most part denied in response to Freedom of Information requests. In our view this suggests a general lack of transparency and public accountability.”¹¹

Biased Value for Money Reports

The manipulation and bias that is typically part and parcel of Value For Money reports has come under fire by others as well.

Jeremy Coleman, deputy controller and auditor general at the U.K.’s National Accounting Office, has harshly criticized the Value For Money process. He stated that many public sector comparators suffer from “spurious precision” while others involve “pseudo-scientific mumbo-jumbo where the financial modeling takes over from thinking...It becomes so complicated that no one, not even the experts, really understands what is going on.”¹²

Even Larry Bain, CEO of Partnerships B.C., has admitted, “Public sector comparators won’t do you much good anyways, because I can make the public sector comparator as bad as we want to, in order to make the private sector look good.”¹³

Stuart Murray, a researcher with the B.C. office of the Canadian Centre for Policy Alternatives, has also identified the timing of the release of the Value For Money reports and the objectivity of the party producing the report as two other causes for concern.

“Ideally, Value For Money comparisons would be done early in projects, in order to determine if P3s are a better option,” Murray writes. “If reports were released to the public before the signing of the contract, there would be an opportunity for open and transparent debate about whether P3s are preferable to public procurement...However, the B.C. government has developed a practice of approving P3s, and releasing Value For Money reports only after the project is beyond the point of return. This is not a mistake; Partnerships B.C. recommends this process. Moreover, in practice there is little risk of Value for Money reports coming out against a P3, because the reports are typically prepared by those with vested interests in advancing P3s.”¹⁴

Partnerships B.C. usually produces the Value For Money reports in B.C. even though the promotion of P3s is central to its mandate. Furthermore, CEO Larry Bain is partly compensated with performance pay, which would provide even more disincentive to produce a negative Value For Money report of a P3 option.

The Value For Money report for the Abbotsford Hospital P3 project was actually prepared by Partnership B.C. after the contract was signed and construction had already begun. The decision to use a P3 for the Abbotsford hospital delayed the completion of the project by three years and cost B.C. taxpayers an additional \$328 million.¹⁵

A more transparent P3 process?

The Wall government would do well to reconsider its decision to establish the P3 Secretariat in light of the overwhelming evidence that shows P3s cost more, deliver less, and reduce public accountability.

At a minimum, the Saskatchewan Government should commit to a transparent, consistent, and objective approach to evaluating potential P3 projects. While a strong critic of P3s, Murray has made a number of suggestions that could mitigate some of the worst features of the Value For Money process, including:

- Value For Money reports should be completed and released publicly before any P3 project gets final approval.
- Value For Money reports should be conducted by an independent body such as the office of the Auditor General (the Provincial Auditor in Saskatchewan) and this office should be funded with the necessary resources.
- Value For Money reports should use a discount rate that is consistent, transparent and reviewed regularly. (The United Kingdom, for instance, now uses a standardized discount rate of 3.5 percent for projects up to 30 years duration.)
- In Value For Money reports, the costs associated with “risk transfer” should be separated from interest rates and discounting to ensure transparent, credible calculations (and to avoid double counting).
- Value For Money analysis must create a standard and acceptable method of evaluating “risk transfer.”¹⁶

It remains to be seen what methodology the Saskatchewan P3 Secretariat will use to ensure the “necessary due diligence” is undertaken when evaluating potential P3 projects. It’s clear though that Saskatchewan citizens would not be well served if the Wall government decided to model the P3 Secretariat after Partnerships B.C.

It’s also clear that Saskatchewan citizens have a deeply rooted commitment to public ownership and a well-placed suspicion of privatization. A Viewpoints Research poll commissioned by the CUPE Saskatchewan in December 2008 found strong opposition to public-private partnerships with 63.7% of Saskatchewan residents opposed to P3 schools and 65.6% against P3 hospitals and health care facilities. Almost three out of every four respondents (73%) believed facilities like schools and hospitals should be publicly owned and controlled.¹⁷

Public opinion aside, the Saskatchewan Party government could not have picked a worse time to jump on the P3 bandwagon. The current credit crisis is making it difficult for private-sector P3 partners to access capital and credit, which threatens to leave their public partners in the lurch. Furthermore, private sector borrowing rates have become even more expensive than government borrowing rates.

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¹ James Wood, “Gov’t explores public-private partnerships; New secretariat to evaluate proposals,” *The Saskatoon StarPhoenix*, January 2, 2009.

² Government of British Columbia news release, “Province raises capital standard threshold for PPPs,” November 7, 2008.

³ “Air Ambulance hangar could be Sask.’s first P3 project; D’Autremont lauds B.C. Sea-to-Sky Highway that reportedly cost taxpayers an extra \$220 million,” *Owls and Roosters*, February 16, 2009, <http://owlsandroosters.blogspot.com/2009/02/air-ambulance-hangar-could-be-sasks.html>

⁴ Ibid.

⁵ Jonathan Fowlie and Lori Culbert, “B.C.’s P3 projects not immune to world financial meltdown,” *Vancouver Sun*, January 23, 2009.

⁶ “Gov’t explores public-private partnerships; New secretariat to evaluate proposals,” *Saskatoon StarPhoenix*, January 2, 2009.

⁷ Blair Mackay Mynett Valuations Inc., *Evaluation of Public Private Partnerships: Costing and Evaluation Methodology*, Prepared for Canadian Union of Public Employees, January 5, 2009, p. 3.

⁸ Ibid., p. 3-4.

⁹ Marvin Shaffer, *The Real Cost of the Sea-to-Sky P3: A Critical Review of Partnerships BC’s Value for Money Assessment*, Canadian Centre for Policy Alternatives, B.C. Office, September 2006.

¹⁰ Blair Mackay Mynett Valuations Inc., p.13.

¹¹ Ibid., p.5.

¹² As cited in Stuart Murray, *Value for Money? Cautionary Lessons About P3s From British Columbia*, Canadian Centre for Policy Alternatives B.C. Office, June 2006, p. 28.

¹³ Kathy Corrigan, “To privatize or not: The case against,” *Canadian Consulting Engineer*, Jan/Feb 2005.

¹⁴ Murray, p. 26.

¹⁵ Blair Mackay Mynett Valuations Inc., p.10.

¹⁶ Murray, p. 53-54.

¹⁷ Viewpoints Research, poll conducted November 13 to 19, 2008, http://cupe.ca/updir/Poll_by_Viewpoints%2C_December_8_release%5B1%5D.pdf