



Is There Value in Value for Money Assessments?

Testing the VfM Test in Western Canada

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By Simon Enoch

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About the Author

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Cover Photo: New Saskatchewan Hospital North Battleford (SHNB) under construction, 2016.

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Introduction

Public-private-partnerships (P3s) remain a controversial method for building our public infrastructure. The United Kingdom, the birthplace and pioneer of the P3 for almost 30 years, has recently decided to scrap the model for all new public infrastructure. Facing over £200 billion (approximately \$346 billion Canadian) in P3 debt over the next 40 years, the U.K. Treasury abolished the use of the P3, calling the schemes “inflexible and overly complex” and a “source of significant fiscal risk to government.”¹

While Canada has a shorter history with the P3 model, it has still been met with intense criticism in the wake of highly publicized failures such as Nova Scotia’s P3 school buyback, the Brampton Civic Hospital and most recently Ottawa’s Confederation LRT Line. In Saskatchewan, the ongoing debacle of the Saskatchewan Hospital North Battleford, which has required ongoing repairs and total roof replacement, has further taken the sheen off the P3 model in this province.²

For governments and industry proponents that seek to defend the P3 model and their continued use of it, the “value for money” (VfM) report is often the primary means by which governments seek to assuage public skepticism and justify their decision in opting for a P3.

In Saskatchewan, “value for money” is often held up as the determining factor in government decisions to pursue a P3. Minister of Education, Don Morgan, introducing the P3 model for public school builds in Saskatchewan argued the

VfM test would determine whether the government would opt for a P3:

“I can advise that there would be a detailed and expert value for money calculation. That money calculation would be provided by a professional, external, expert financial advisor, somebody from KPMG, Deloitte’s, or somebody like that. They would have a fair, open and transparent process to determine whether it is value for [sic] taxpayers in using the P3 model.”³

Speaking in defence of the decision to use the P3 model for the Regina Bypass project, Minister for SaskBuilds Gord Wyant pointed to the value for money report as evidence:

“The report confirms what our government has said many times — that a P3 was the right decision for this project.”⁴

Most recently, asked about what model might be used to complete the newly announced renovations of Prince Albert’s Victoria Hospital, Premier Scott Moe deferred to the upcoming VfM assessment:

“We have a process to decide how the project will be built,” he said. “Whether it will be a traditional build, P3, what level of design-build will come into that. It’s an audited process that we go through, the best value for money on behalf of the taxpayers and residents of Saskatchewan. That process will be beginning shortly, so I won’t preclude the outcome of that process.”⁵

1 Rob Davies (2018). “Hammond abolishes PFI contracts for new infrastructure projects.” *The Guardian*. October 29. Available at: <https://www.theguardian.com/uk-news/2018/oct/29/hammond-abolishes-pfi-contracts-for-new-infrastructure-projects>. Jonathon Owen (2015). “Crippling PFI deals leave Britain £222 billion in debt.” *The Independent*. April 12. Available at: <https://www.independent.co.uk/money/loans-credit/crippling-pfi-deals-leave-britain-222bn-in-debt-10170214.html>

2 Alex MacPherson (2020). “Early ‘concerns’ over roof at Sask. Hospital ‘were well-founded’: email.” *Regina Leader-Post*. January 21. Available at: <https://thestarphenix.com/news/local-news/early-concerns-over-roof-at-sask-hospital-were-well-founded-saskbuilds-project-director/>

3 Legislative Assembly of Saskatchewan, Debates and Proceedings. Thursday, November 7, 2013. Available at: <http://docs.legassembly.sk.ca/legdocs/Legislative%20Assembly/Hansard/27L3S/131107Debates.pdf>

4 CBC News (2015). “P3 model for Regina bypass project saves \$380M: third-party review.” *CBC News*. November 24. Available at: <https://www.cbc.ca/news/canada/saskatchewan/p3-model-for-regina-bypass-project-saves-380m-third-party-review-1.3332483>

5 Brad Jennings (2020). “Prince Albert’s Victoria Hospital Sees Significant Investment for Addition and Renovation.” *CJWW Radio*. March 6. Available at: <https://www.cjwwradio.com/2020/03/06/86777/>

What is a P3?

A Public-Private Partnership (P3) is a long-term contract between a government agency and a consortium of private sector firms whereby the consortium provides a range of project services — such as design, construction, maintenance, operations and at least some private capital (financing). This is why P3's are often referred to by an acronym of what project services they deliver. For instance, DBFM refers to "Design, Build, Finance and Maintain." A traditional, or public, build is usually referred to as a "DBB," or "Design, Bid, Build." This means that the government commissions a design for a building from an architect, then has private construction companies "bid" on the design to determine which one will "build" the actual structure. The important difference here is that in a traditional build, the government finances the entire project and controls the maintenance and operation once the build is complete. Under the P3 model, the P3 consortium finances (at least part of) the project itself at higher interest rates and may provide other services, like operations or maintenance over decades-long contracts while receiving annual payments from the government in return. As Boardman, Siemiatycki and Vining explain, "the private sector offers the public sector the ability to "rent to own," that is, the public sector pays the private sector an annual rental fee for a specified period and then owns the asset at the end of that period."⁸

Given how important the VfM test is for justifying the P3 model, we wanted to determine just how impartial the test is by identifying how often it recommends for the P3 model. We identified 47 publicly-available VfM assessments from P3 projects in Saskatchewan, Alberta and British Columbia conducted over the past 15 years. Of these 47 VfM assessments, only one recommended against the P3 model in favour of a traditional public build. **That is a 98 percent approval rate for P3s versus the public model.**

In what follows, we demonstrate that the VfM assessment is a poorly constructed tool to guide government procurement decisions, inherently biased in favour of the P3 model and too often used to justify government decisions after they have already been made. By understanding how compromised the VfM test is as an impartial measure, we can better understand how VfM has served to softly "lock-in" the P3 model in government procurement decisions to the degree that it recommends the P3 model 46 out of 47 times.

Understanding Value for Money

So what are these "Value for Money" reports that appear to determine how our public infrastructure is built? Value for Money (VfM) assessments are presented as an impartial measurement of the potential costs of pursuing a project through traditional means or via a public-private partnership. Indeed, VfM tests have been described as "the key public interest test as to whether the infrastructure procurement should proceed as a P3."⁶ As such, governments are keen to assure the public that P3 projects will only proceed if they demonstrate "positive value-for-money."⁷

6 Mario Iacobacci (2010). *Dispelling the Myths: A Pan-Canadian Assessment of Public-Private Partnerships for Infrastructure Investments*. Conference Board of Canada, 11.

7 However, P3s are sometimes recommended even when the public sector comparator is less than the estimated cost for the P3 model. Both the Sea to Sky Highway and the Capital Regional District Wastewater Treatment Plant in British Columbia went ahead with the P3 model despite recording a negative VfM based on other qualitative considerations.

8 Anthony Boardman, Matti Siemiatycki and Adrian Vining (2016). "The theory and evidence concerning public-private partnerships in Canada." *The School of Public Policy Research Papers*. University of Calgary, 2.

Essentially, the VfM test is an estimated cost comparison between what it would take to build a project via the traditional public build model (called the “public sector comparator” or PSC) versus a P3 model. The VfM compares the estimated costs of building, and financing, the amount of risk retained and transaction costs for both the PSC and the proposed P3.⁹ A discount rate is also applied to account for the cost of future expenditures in current value dollars. If it can be demonstrated that the PSC would be more expensive than the P3 option, then the VfM is said to have demonstrated that the P3 option proves “value for money,” justifying the P3 option (see Figure 1).¹⁰

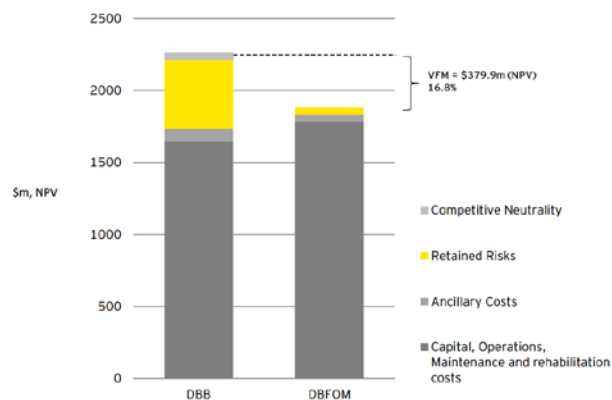
The VfM is not the only test for whether a project should proceed as a P3. Many provinces employ

specific screening procedures to determine whether a project could be viable as a P3 prior to the VfM test. Nevertheless, the VfM is considered the “main tool used by all Canadian jurisdictions active in P3s to assess whether procurements are suitable for the P3 approach.”¹¹ They are thereby the primary means by which governments legitimize their decision to pursue P3s to the public.

It is important to note at the outset that P3 proponents regularly concede that the model is not right for all kinds of public infrastructure. Gord Wyant, the minister responsible for SaskBuilds, states that “sometimes a P3 is the best procurement option for a project and sometimes it’s not.”¹² The P3 screening measures that provincial governments employ prior to the VfM test usually consist of an investment threshold below which a P3 will not be considered. In Saskatchewan, P3 assessments will generally be targeted at large-scale, complex projects, typically with a capital cost of \$100 million or greater. Projects with a capital cost of \$50 million or greater may be screened for potential P3 viability if there is a significant maintenance and, potentially, operations component.¹³ Thus, P3s are often deemed more suitable for larger, more complex infrastructure projects that can demonstrate “value for money.” According to John McBride, former president of the P3 Council of Canada “only 15 percent to 20 percent of infrastructure projects are suitable to become P3s.”¹⁴

Granted, early P3 screening measures will reduce the scope of projects under consideration for the P3 model. But for those projects that are considered viable, the VfM test will be the

Figure 1: Regina Bypass VfM Visual



“Value for Money” is often represented via a graph in VfM assessments, purporting to illustrate the cost differences between pursuing the project via the public model (public sector comparator) or via the P3 model. In this graphic from the Regina Bypass VfM report, the public sector comparator (DBB) is shown to be \$379.9 million more expensive than the P3 model (DBFOM).

⁹ Transaction costs refer to the cost of structuring the P3 deal — such as the cost of ensuring contract compliance, monitoring and the mediation of penalties and contract disputes. Retained risk and discount rates will be explained in greater detail below.

¹⁰ During the procurement process, a VfM assessment may be calculated more than once. Often there is a VfM assessment done prior to the Request for Proposals (RFP) using a shadow bid, and again once the bids by prospective partners are received or at financial close. This is sometimes referred to as “refreshing” the VfM assessment. See Iacobacci, 2010, 42.

¹¹ Iacobacci, 2010, 40.

¹² Gord Wyant (2019). “Government will stick with P3s under Sask. Party.” Regina *Leader-Post*. July 26.

¹³ SaskBuilds (2016). *Public-Private Partnership Project Assessment and Procurement Guideline*.

¹⁴ Graham Lanktree (2018). “Public-private projects ease the load for cities.” *Globe and Mail*. May 9.

Figure 2: Checklist of P3 Recommendations

SK	Swift Current Long-Term Care Facility	✓	BC	Canada Line Rapid Transit	✓
SK	Joint-Use School Project 1	✓	BC	Emily Carr University of Art + Design Campus	✓
SK	Joint-Use School Project 2	✓	BC	Evergreen Line Rapid Transit Project	✓
SK	Saskatchewan Hospital North Battleford	✓	BC	Fort St. John Hospital and Residential Care	✓
SK	Regina By-Pass	✓	BC	Golden Ears Bridge Project	✓
SK	Regina Wastewater Treatment Plant	✓	BC	Interior Heart and Surgical Centre	✓
SK	North Commuter Parkway	✓	BC	Surrey Outpatient Hospital Project	✓
SK	Civics Operations Centre	✓	BC	Kelowna and Vernon Hospital Projects	✓
AB	Alberta Schools Phase One	✓	BC	Kicking Horse Canyon Phase Two	✓
AB	Alberta Schools Phase Two	✓	BC	Millenium Line Broadway Extension*	✓
AB	Albert Schools Phase Three	✓	BC	North Islands Hospitals Project	✓
AB	Calgary Green Line LRT*	✓	BC	Okanagan Correctional Facility	✓
AB	Evan-Thomas Wastewater Treatment	✓	BC	Pattullo Bridge Replacement Project*	✓
AB	Building Alberta Schools Phase One	✗	BC	Penticton Regional Hospital Patient Care Tower Project	✓
AB	Northeast Anthony Henday Drive Ring Road	✓	BC	Royal Canadian Mounted Police E Division Headquarters Relocation Project*	✓
AB	Southeast Stoney Trail Ring Road	✓	BC	Royal Jubilee Hospital Patient Care Centre	✓
AB	Valley Line LRT Phase One	✓	BC	Sea to Sky Highway	✓
AB	Stoney CNG Bus Storage and Transit Facility Project	✓	BC	South Fraser Permieter Road	✓
BC	Abbotsford Law Courts	✓	BC	Single Room Occupancy Renewal Initiative	✓
BC	Royal Inland Hospital Patient Care Tower Project	✓	BC	Surrey Memorial Hospital Redevelopment	✓
BC	Abbotsford Regional Hospital and Cancer Care Centre	✓	BC	Surrey Pretrial Services Centre Expansion Project	✓
BC	BC Cancer Agency Centre for the North	✓	BC	Capital Regional District Core Area and West Shore Wastewater Treatment	✓
BC	BC Children's and BC Women's Redevelopment Project	✓	BC	William R Bennett Bridge Project	✓
BC	Britannia Mine Water Treatment Plant	✓			

**Project VfM report was redacted or incomplete, but still recommended the P3.*

primary means to evaluate whether a project should be pursued via the P3 model. If the VfM test is an impartial and objective measure, and if only a small proportion of P3 projects are suitable for the P3 model, what would we expect the rate of P3 recommendation to be for potential P3 projects subjected to the VfM test?

We wanted to discover how often VfM tests recommend the P3 model by evaluating publicly available VfM reports in western Canada. We identified 47 publicly-available VfM assessments from P3 projects in Saskatchewan, Alberta and British Columbia conducted over the past 15 years (see Figure 2).¹⁵ Of these 47 VfM assessments, only one — Building Alberta’s Schools Phase One — recommended against the P3 model in favour of a traditional public build. That is a **98 percent approval rate** for P3s versus the public model. If the VfM is an impartial measurement, shouldn’t the recommendation rate be substantially less than almost 100 percent?

Given the importance of the VfM to decisions on whether to pursue a P3 or a traditional public build, it is of utmost importance that they are an objective and impartial measure that can guide government’s procurement decisions. But a test that nearly always finds in favour of one particular outcome doesn’t seem to meet that standard. Indeed, the fact that the VfM tests we evaluated so overwhelmingly recommended the P3 model in virtually every instance lends credence to a longstanding criticism that these tests are often biased *in favour* of the P3 model.

What about the one outlier we found? Does the existence of one public build recommendation out of 47 redeem the VfM test at least somewhat? There are reasons to be skeptical. Firstly, some background on the outlier in question, Building Alberta Schools Phase One Project (BASCP), which was a bundle of 19 schools to be constructed in southern and north central Alberta. The project was designated by Alberta Infrastructure to be a DBFM P3 in August of 2013. The final VfM report, published in June of 2014, includes the initial shadow bid that expected the P3 project to cost \$522.95 million in comparison to the PSC which was calculated to cost \$556.64 million.¹⁶ So the initial VfM test clearly favoured the P3 model. Once the project entered the Request for Qualifications (RFQ) stage however, only one potential bidder came forward.

In October of 2013, Alberta Infrastructure requested the accounting firm Deloitte to undertake a post-RFQ debrief to determine why only one bidder emerged for the project. That review, which was released publicly thanks to an Alberta Federation of Labour freedom of information request, found that the size of the project limited potential bidders. The review notes that there are “likely only two teams with the local capacity to be successful for a project of this type and size.” Moreover, some participants in the review believed that previous bid winners had “a competitive advantage” in future bids, reducing their desire to bid.¹⁷ Despite these concerns, the process went forward. It wasn’t until the single

15 Two projects were removed from our sample because they did not conduct a proper VFM test with a public sector comparator. Both the Charles Jago Northern Sport Centre and the Port Mann Highway 1 Improvement Project in B.C. were initially recommended for a P3 by Partnerships B.C. Both were subsequently constructed using the public build approach due to problems with the fitness of the initial P3 contractors. However, the choice to use the public build approach rather than a P3 was not based on a positive VFM test for the public sector comparator.

16 A hypothetical “shadow bid,” is the government’s internal estimate of what the P3 contractors ultimate bid for the project will be. It attempts to predict the bidder’s costs, financing structure, and other factors at the pre-procurement stage. Government of Alberta (2014). P3 Value for Money Assessment and Project Report: Building Alberta Schools Construction Program – Phase I. August. Available at: <https://open.alberta.ca/publications/p3-value-for-money-assessment-and-project-report-building-ab-schools-construction-program-phase-1>

17 View the documents here:

<https://d3n8a8pro7vhmx.cloudfront.net/afl/pages/979/attachments/original/1392910225/2013-G-0096%20P3%20Schools.pdf?1392910225>

bidder — Build to Learn — submitted a bid in June of 2014 almost \$50 million more than the shadow P3 bid and \$14 million more than the PSC that the government hit the brakes on the project and decided to use the traditional public build approach for the schools. The final VfM report was released a month later, recommending against a P3 and in favour of the government’s decision to pursue the project through a traditional build.

Despite ultimately recommending against the P3 model, we believe even this outlier lends credence to Heather Whiteside’s argument that there exists a “soft lock-in” of the P3 model in government procurement decisions.¹⁸ As we can see, the P3 model was the government’s preferred means to construct these schools throughout the process, even when considerable red flags went up. It was only at the very end, when the numbers couldn’t be made to work, that the P3 model was ultimately jettisoned and the final VfM report was ironically used to justify the Alberta government’s decision to *not* go ahead with a P3. It illustrates that while the VfM process does not *guarantee* the selection of the P3 model, it appears heavily weighted in favour of it. From our evidence, 46 out of 47 times.

Assessing the Value for Money Assessment

In order to understand how the VfM test is weighted in favour of the P3 model it is important to understand two key aspects of the value for money test and how it forecasts the costs of P3s versus a traditional public build.

The first is the **discount rate**, which reduces the value of payments made into the future. As inflation, interest rates and other factors can impact the value of money over time, payments made long into the future would not have the same “net present value” as today. Traditional public builds tend to make large payments up front, at the start of a project, whereas P3 contracts — which can be 30 years in length — make regular payments over a longer period of time. A discount rate is applied to these future payments in order to estimate the “net present value” of these future payments in today’s dollars. The question is what discount rate should be used to determine the future value of these payments. The higher the discount rate, the lower the estimated value of future payments.¹⁹ Higher discount rates will favour the P3 model, as it makes the long-term payments for a P3 appear less expensive than the present up-front costs for the public sector comparator.²⁰

Figure 3: Discount Rate Chart

Discount Rate	Today	1 Year	5 Years	10 Years	25 Years	50 Years
5%	\$1,000,000	\$952,400	\$783,500	\$613,900	\$295,300	\$87,200
8%	\$1,000,000	\$925,900	\$680,600	\$463,200	\$146,000	\$21,300
Difference relative to 8%	–	+3%	+15%	+33%	+102%	+309%

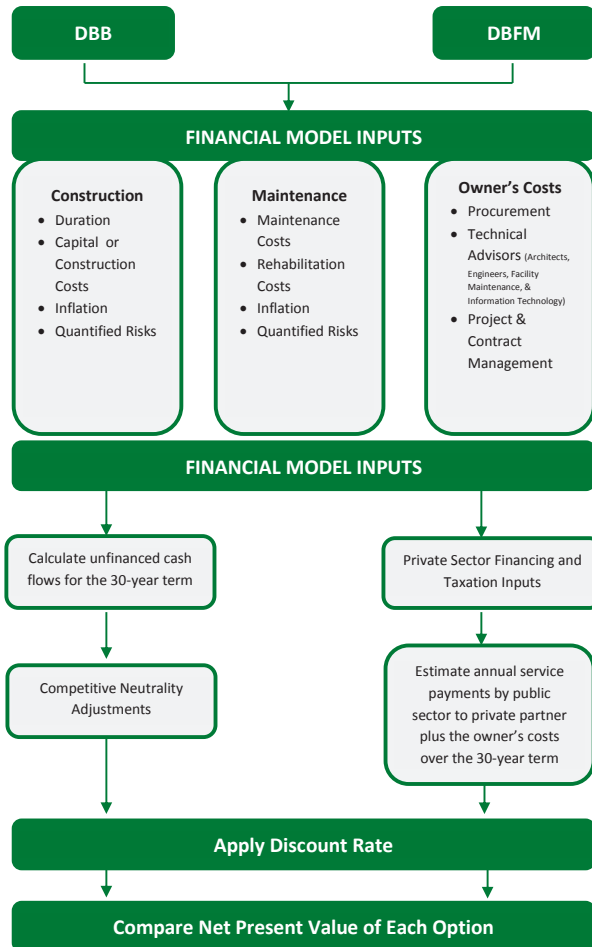
This chart illustrates the future value of money depending on the discount rate used. One million dollars today would be worth \$783,500 in five years using a 5 percent discount rate, while only \$680,600 using an 8 percent discount rate. Source: U.S Department of Transportation.

18 Heather Whiteside (2013). “Stabilizing Privatization: Crisis, Enabling Fields, and Public-Private Partnerships in Canada.” *Alternate Routes*. Vol, 24, p. 86.
 19 U.S Department of Transportation (2012). *Value for Money Assessment for Public-Private Partnerships: A Primer*.
 20 Keith Reynolds (2017). “The enormous cost of public-private partnerships.” *BC Policy Note*. August 3rd.

There is no universal standard for what discount rate to apply VfM assessments.²¹ VfM reports might use different discount rates for different projects, greatly influencing the estimated cost of the P3 versus the public sector comparator.²² Governments have come under criticism for this, and many are now beginning to apply a standardized rate to all projects. In Saskatchewan, the government now uses its long-term borrowing rate as the discount rate when comparing net present value costs of a P3 delivery to a traditional delivery. While this is a welcome development and may exert more fairness into the VfM process, it is important to note that the public sector comparator often receives little or no discounting in the assessment. While it is true that traditional public builds spend more money up-front, they also often borrow the money for the project and pay it off over many years. Yet, the public sector comparator is often considered “unfinanced” and therefore not subject to the same discount as the P3 model — even though the government would also be making long-term payments for any borrowing to finance a traditional build.²³

The second aspect of the VfM assessment that has been subject to sustained criticism is the estimated value of **risk transfer**. For P3 advocates, the idea of “risk transfer” is often a key selling point and plays a major role in how P3s realize “value for money” in these assessments. Put simply, risk transfer is the cost of things going wrong. Risk transfer is the supposed amount of potential dollars in risk the government transfers to the private sector for things like cost-overruns, construction delays, supply shortages, etc., that might inflate the overall cost of the project were it solely in public hands. The government pays the private partner a “risk premium” in exchange

Figure 4: Procurement Comparison Chart



This procurement model comparison from the Swift Current Long term Care Facility VfM report identifies how government borrowing for the PSC is often considered “unfinanced.”

for the private partner accepting responsibility for any cost inflation associated with the project. As others have observed, it is often the risk transfer that “tips the scales” in the VfM comparison to the P3 model.²⁴ Due to the increased costs of private financing and greater transaction costs for a P3, the traditional build is almost always less expensive than the P3 model initially. It is often

21 U.S Department of Transportation, 2012, 3-3.

22 See Stuart Murray (2006). *Value for Money? Cautionary Lessons about P3s from British Columbia*. Canadian Centre for Policy Alternatives – BC Office.

23 Murray, 2016, 22.

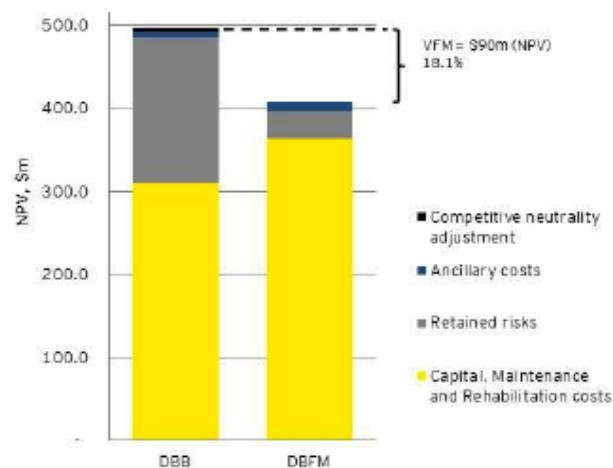
24 Matti Siemiatycki and Naeem Farooqi (2012). Value for money and risk in public-private partnerships: Evaluating the evidence. *Journal of the American Planning Association*. 78(3), Summer, 289

only when the estimated value of retained risk is factored in that the VfM comparison favours the P3 model. For example, of the eight P3 projects developed in Saskatchewan, six obtained positive “value for money” due solely to the estimated amount of risk transfer. Due to the importance of risk transfer in VfM comparisons, it is essential we understand how governments and P3 accounting consultancies calculate the value of this risk.

How risks are monetized by P3 agencies and consultancies is often a closely guarded secret and rarely subject to public scrutiny. Usually stakeholders are invited to a “risk workshop”

Figure 5: Risk Tips the Balance

	DBB	DBFM
Payments to the Private Sector Partner	309.8	363.4
Retained Risks	176.1	33.8
Ancillary Costs	6.6	10.0
Competitive Neutrality Adjustment	4.7	–
Total Net Present Value (\$ million)	497.2	407.2
VfM (compared to DBB, \$ million)		90.0
VfM (compared to DBB, %)		18.1%



This VfM test for the Saskatchewan Hospital North Battleford illustrates how retained risk often tips the balance of the financial comparison of the two models to the P3.

25 Ibid., 291.

26 Office of the Auditor General of Ontario. “Alternative Financing and Procurement.” 2014 Annual Report.

Available at: <https://www.auditor.on.ca/en/content/annualreports/arreports/en14/305en14.pdf>

27 Auditor-General of Alberta. *Report of the Auditor-General Of Alberta*. April 210.

Available at: <https://www.oag.ab.ca/reports/report-auditor-general-april-2010/>

where participants identify all of the possible risks facing the proposed project. They then estimate the potential impact that each risk might have on the different procurement options, expressed as a percentage of project base cost. The probabilities for each risk are also calculated, often using specialized software.²⁵ Provincial Auditors have been some of the few people that have been allowed to peer inside the black box of risk assessment in VfM tests. What they discovered is not comforting. The process appears to be notoriously subjective, with empirical evidence rarely provided to substantiate the risk allocations. As Ontario’s auditor general notes in a 2014 report on P3s in the province:

“There is no empirical data supporting the key assumptions used by Infrastructure Ontario to assign costs to specific risks. Instead, the agency relies on the professional judgment and experience of external advisers to make these cost assignments, making them difficult to verify. In this regard, we noted that often the delivery of projects by the public sector was cast in a negative light, resulting in significant differences in the assumptions used to value risks between the public sector delivering projects and the AFP [P3] approach.”²⁶

The Alberta auditor general noted a similar failure to incorporate the actual historical costs of past projects into risk assessments for a P3 school build in that province:

“We did not find evidence that estimated risk costs were, in total, validated against actual experience from prior school construction projects. Historical project cost information would provide additional validation of estimated risk costs, or serve as a means to refine those estimates.”²⁷

This practice of “blue-skying” the costs of risk without supporting empirical evidence has also been a concern of the Saskatchewan’s provincial auditor in her audit of SaskBuilds’ use of VfM assessments:

“Rather, we found that participants and external experts made decisions about identified risks, and calculation of related costs based primarily on the results of verbal discussions. Not making information available in writing or maintaining key empirical data makes it difficult to substantiate or scrutinize decisions, particularly those that require a high level of expertise and professional judgement.”²⁸

Commenting on the fact that for four projects the Auditor reviewed, SaskBuilds estimated the costs of the risks to the public sector at nearly six times higher than if it used P3s,²⁹ the Auditor observed that “these problems may contribute to currently creating a more favourable environment for the use of the P3 approach.” Or, in less diplomatic terms: the process is biased in favour of the P3 model.

That these risk assessments are often based on anecdotal evidence and the opinions of participants that have a vested interest in the P3 model only further undermines the pretense that VfM assessments are an actual impartial measure. U.K. academics Jean Shaoul, Allyson Pollock, and Neil Vickers are even more critical, arguing that “risk transfer” is primarily an accounting trick designed to make the P3 model more attractive:

“What is striking, however, is that in all cases risk transfer almost equals the amount

required to bridge the gap between the public sector comparator and the PFI. [P3s in the U.K. are referred to as ‘private finance initiatives,’ or PFIs.] This suggests that the function of risk transfer is to disguise the true costs of PFI and to close the difference between private finance and the much lower costs of conventional public procurement and private finance.”³⁰

The above gives us compelling evidence that in combination, the use of discount rates and risk transfer will tend to favour the P3 model in any VfM assessment. However, as Stuart Murray observes, perhaps the best comment on the “objectivity of the Value for Money process” comes from Partnerships BC CEO Larry Blain. Speaking at a meeting of BC’s Municipal Finance Authority, Mr. Blain declared that “I could make the public sector comparators as bad as I want to, in order to make the private sector look good.”³¹ Certainly not a ringing endorsement for impartiality.

Consultocracy

Lastly, we should identify the striking conflict of interest in who actually develops VfM reports. VfMs are almost exclusively produced by either provincial agencies charged with promoting the P3 model or by one of the large accounting and consulting agencies that actively lobby for the P3 model. For instance, in a 2014 audit review, BC Finance flagged this very conflict-of-interest with Partnerships BC (PBC) — British Columbia’s dedicated agency for P3 infrastructure:

28 Provincial Auditor of Saskatchewan. “SaskBuilds- Evaluating Potential Use of P3s.” 2015 Report: Volume One, 200. Available at: https://auditor.sk.ca/pub/publications/public_reports/2015/Volume_1/16_SaskBuilds-Evaluating%20P3s.pdf

29 Ibid, 199-200.

30 Allyson Pollock, Jean Shaoul and Neil Vickers (2002). “Private finance and “value for money” in NHS hospitals: A policy in search of a rationale?” *British Medical Journal*. 324(7347):1205-9.

31 Cited in Stuart Murray (2006). *Value for Money? Cautionary Lessons about P3s from British Columbia*. Canadian Centre for Policy Alternatives – BC Office, 28.

“PBC is mandated to be both an advisor and service provider to government, and 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 to create revenue.”³²

This is of equal concern to Saskatchewan, as SaskBuilds has turned to PBC for advice on virtually every aspect of P3s in the province, contracting the agency for a host of consulting services.³³

The independent consulting firms that produce VfM reports for governments are also compromised. All of the “big” accounting firms that advise governments on P3 proposals — KPMG, Deloitte, Ernst & Young and PricewaterhouseCoopers (PwC) — are sponsoring members of the Canadian Council for Public-Private Partnerships. Described as the premier lobbying organization for the P3 industry, the council’s explicit mandate is the promotion and facilitation of public-private partnerships across Canada and with all levels of government.³⁴ One has to question the ability of an organization to impartially assess P3 proposals when they have a stated commitment to their expansion.

As Stuart Murray explains, “because of their historic role as auditors, these major accounting firms have established a reputation for fair dealing and independence.” However, as these firms have branched out into general consulting services, the dual role of both auditor and consultant creates a “potential conflict-of-interest” because accurate auditing — such as

counseling against a P3 — might result in conclusions that could jeopardize potential millions in consulting fees.³⁵ And those fees are substantial. The much-beleaguered Brampton Civic Hospital P3 registered \$34 million in consulting fees alone.³⁶ So it is perhaps not all that surprising that these accounting/consulting firms would regularly counsel governments on the superiority of P3s.

Conclusion

All together, these institutional interests and P3 friendly procedures conspire to create what Heather Whiteside refers to as the “soft lock-in” of the P3 model in government procurement decisions.³⁷ Certainly, the results of our research lend credibility to this insight. With a 98 percent recommendation rate, the P3 model is not *guaranteed* selection, but the VfM process certainly appears heavily weighted in its favour.

Given how compromised these tests are, it is all the more concerning that governments continue to wield the VfM report as the ultimate sanction of the P3 model. As Matti Siemiatycki and Naeem Farooqi argue, the VfM is an essential part of a “suite of persuasive planning documents used to build support for the merits of P3 procurement with a skeptical public.”³⁸ The VfM assessment is essential to this process, as it is often used to convince the public that the choice of the P3 model is merely a pragmatic decision, not guided by any ideology, but by simple math.³⁹ Bolstered by this faux-armour of impartiality and objectivity,

32 B.C. Ministry of Finance. *Review of Partnerships BC*. July 2014, 13.

33 See the contracts here:

<https://sk.cupe.ca/files/2015/06/Contracts-obtained-through-Access-to-Information-Requests-between-SaskBuilds-and-Partnerships-BC.pdf>

34 See Canadian Council for Public-Private Partnerships, available here:

https://www.pppcouncil.ca/web/About_Us/web/About_Us/About_Us.aspx?hkey=98be3d80-2b17-4dab-800c-63bcffe76aa7

35 Murray, 2016, 32.

36 Office of the Auditor-General of Ontario (2008). *Annual Report*. 114.

Available here: <https://www.auditor.on.ca/en/content/annualreports/arreports/en08/303en08.pdf>

37 Whiteside, 2013, 86.

38 Siemiatycki and Farooqi 2012, 296.

39 *Ibid.*, 103.

governments often charge critics of the P3 model as the real ideologues. This is a recurrent theme in Saskatchewan, where Minister Wyant often frames the government's procurement decisions as guided by evidence while opposition critics are guided by ideology. Writing in justification of the P3 model, Mr. Wyant argues:

"Most governments understand that infrastructure procurement can't be about ideology or pre-conceived ideas about what might work best. It has to be evidence-based to provide best value for taxpayers and the best outcomes for communities and citizens ... Infrastructure procurement can't be ideological."⁴⁰

We certainly agree with Mr. Wyant that government decisions should be evidence-based. What the evidence tells us is that the VfM assessment is fatally flawed as an impartial measure to guide government procurement decisions. A test that finds in favour of one outcome 98 percent of the time should not be the primary determinant of these decisions. The sad truth is that the VfM test is more valuable to governments as a post hoc justification for the P3 model rather than as an impartial assessment of available procurement options. Given the huge amounts of public dollars spent on P3 projects in our province, the public deserves a much more rigorous and fair assessment tool to guide how we build our public infrastructure. The value for money test as currently constituted demonstrates poor value as the ultimate arbiter for these extremely important decisions.

⁴⁰ Wyant, 2019.

⁴¹ Boardman, Siemiatycki & Vining (2016), 26.

Recommendations

1. VfM tests should not be conducted by parties that have a stake in one particular outcome. Provincial Auditors' offices should be commissioned to perform value for money tests for all potential P3 projects in order to assure the public that these assessments are conducted by an independent, impartial third-party.
2. Provincial P3 agencies should not have the contradictory mission of promoting the P3 model, administering the contract process and evaluating the success of these projects. The separation of these functions into different organizations may help dispel the appearance of conflict-of-interest. Boardman, Siemiatycki and Vining argue that P3 administering agencies need to be flanked by "junkyard dogs" to duly protect the public interest.⁴¹
3. The Provincial Auditor should develop their own risk assessment model that employs historical data for past projects and fairly allocates risks between models. This model should be used for all VfM assessments in Saskatchewan.
4. The government of Saskatchewan should be commended for standardizing its discount rate to that of its long-term borrowing rate. This ensures a modicum of fairness. However, it should also apply this discount rate to public borrowing for the public sector comparator and not assume that traditional builds are "unfinanced," when they clearly are not.
5. VfM assessments should be conducted and released to the public prior to the selection of the model. Releasing VfM reports after the financial close of a project serves as a post-hoc justification for the government's decision and allows for no democratic deliberation by the public.

Appendix A: VfM Comparison

Prov.	Project	VfM Author	P3	P3 Type	Contract Amount	Positive VfM	Date of VfM
SK	Swift Current Long-Term Care Facility	Deloitte	YES	DBFM	108.5 million	16.5	Apr-15
SK	Joint-Use School Project 1	KPMG	YES	DBFM	202.3 million	30.9	Dec-15
SK	Joint-Use School Project 2	KPMG	YES	DBFM	432.9 million	69.4	Dec-15
SK	Saskatchewan Hospital North Battleford	Ernst & Young	YES	DBFM	407.2 million	90	Dec-15
SK	Regina By-Pass	Ernst & Young	YES	DBFOM	1.88 billion	379.9	Nov-15
SK	Regina Wastewater Treatment Plant	Deloitte	YES	DBFOM	377.1 million	94.6* (VfM w/o PPP Grant)	Jul-14
SK	North Commuter Parkway	KPMG	YES	DBFOM	252.6 million	26.6	Jan-14
SK	Civics Operations Centre	Deloitte	YES	DBFOM	235 million	92.3	Dec-14
AB	Alberta Schools Phase One	PWC	YES	DBFM	634 million	96.8	Apr-10
AB	Alberta Schools Phase Two	Deloitte	YES	DBFM	253.2 million	105.35	Mar-10
AB	Albert Schools Phase Three	PWC	YES	DBFM	288.7 million	42.86	Jul-12
AB	Evan-Thomas Wastewater Treatment	KPMG	YES	DBFO	59.6 million	2.4	Jul-13
AB	Building Alberta Schools Phase One	Deloitte	NO	DBB	570.7 million	-14.07	Jun-14
AB	Northeast Anthony Henday Drive Ring Road	Deloitte	YES	DBFOM	1.808 billion	371.1	Mar-12
AB	Southeast Stoney Trail Ring Road	Deloitte	YES	DBFOM	769 million	1,063	Jan-10
AB	Valley Line LRT Phase One	KPMG	YES	DBFVOM	2.172 billion	574	Apr-16
AB	Stoney CNG Bus Storage and Transit Facility Project	Deloitte	YES	DBFM	305.3 million	162.5	Oct-16
BC	Abbotsford Law Courts	Partnerships BC	YES	DBFM	178.2 million	14	Aug-18
BC	Royal Inland Hospital Patient Care Tower Project	Partnerships BC	YES	DBFM	383.8 million	63.5	May-19
BC	Abbotsford Regional Hospital and Cancer Care Centre	Partnerships BC	YES	DBFOM	424 million	39	Feb-05
BC	BC Cancer Agency Centre for the North	Partnerships BC	YES	DBFM	78.7 million	4.9	Jun-10
BC	BC Children's and BC Women's Redevelopment Project	Partnerships BC	YES	DBFM	471.5 million	54.3	Nov-14
BC	Britannia Mine Water Treatment Plant	Partnerships BC	YES	DBFO	27.2 million	12.5	Mar-05
BC	Canada Line Rapid Transit	PWC	YES	DBFOM	1.658 billion	92	Apr-06
BC	Charles Jago Northern Sport Centre*	Partnerships BC	YES/NO	DBFO/DBB	29 million	N/A	Mar-07
BC	Emily Carr University of Art + Design Campus	Partnerships BC	YES	DBFM	151 million	38.1	May-15

Prov.	Project	VfM Author	P3	P3 Type	Contract Amount	Positive VfM	Date of VfM
BC	Evergreen Line Rapid Transit Project	Partnerships BC	YES	DBF	1.19 billion	134	Mar-13
BC	Fort St. John Hospital and Residential Care	Partnerships BC	YES	DBFM	306.4 million	20.7	Dec-09
BC	Golden Ears Bridge Project	Golden Ears Bridge Project	YES	DBFO	1.1 billion	6.1	Jun-06
BC	Interior Heart and Surgical Centre	Partnerships BC	YES	DBFM	140 million	33.4	Oct-12
BC	Surrey Outpatient Hospital Project	Partnerships BC	YES	DBFM	234.2 million	22.5	Jun-09
BC	Kelowna and Vernon Hospital Projects	Partnerships BC	YES	DBFM	442.7 million	25.4	Nov-08
BC	Kicking Horse Canyon Phase Two	Partnerships BC	YES	DBFO	166.3 million	18.1	Jun-06
BC	North Islands Hospitals Project	Partnerships BC	YES	DBFM	635.8 million	131.5	Jan-15
BC	Okanagan Correctional Facility	Partnerships BC	YES	DBFM	241.6 million	39	Jul-14
BC	Penticton Regional Hospital Patient Care Tower Project	Partnerships BC	YES	DBFM	315.1 million	64.5	Jan-16
BC	Port Mann Highway 1 Improvement Project*	Partnerships BC	YES/NO	DBFO/DBB	2.46 billion	N/A	Mar-11
BC	Royal Jubilee Hospital Patient Care Centre	Partnerships BC	YES	DBFM	340.8 million	22.2	Oct-08
BC	Sea to Sky Highway	Partnerships BC	YES	DBFO	789 million	-45.8	Dec-08
BC	South Fraser Perimeter Road	Partnerships BC	YES	DBFO	603 million	34	Jun-11
BC	Single Room Occupancy Renewal Initiative	Partnerships BC	YES	DBFM	202.2 million	5.2	Jun-13
BC	Surrey Memorial Hospital Redevelopment	Partnerships BC	YES	DBFM	386 million	31	Aug-11
BC	Surrey Pretrial Services Centre Expansion Project	Partnerships BC	YES	DBFM	133 million	15	Sep-11
BC	Capital Regional District Core Area and West Shore Wastewater Treatment	Ernst & Young	YES	Hybrid (DBB/DBFO)	934.7 million	-5	Mar-10
BC	William R Bennett Bridge Project	Partnerships BC	YES	N/A	170 million	25	Sep-05
AB	Calgary Green Line LRT** (remains confidential)	N/A	YES	DBF	N/A	N/A	N/A
BC	Millennium Line Broadway Extension**	Partnerships BC	YES	DBF	N/A	48	Mar-18
BC	Pattullo Bridge Replacement Project**	Partnerships BC	YES	DBF	N/A	41	Jan-18
BC	RCMP E Division Headquarters Relocation Project**	PWC	YES	DBFM	N/A	68	Jan-10

*Removed from sample due to lack of proper VfM test (see footnote 15).

**Project VfM report was redacted or incomplete, but still recommended the P3.

