VALUE FOR MONEY?

CAUTIONARY LESSONS ABOUT P3s FROM BRITISH COLUMBIA

By Stuart Murray

JUNE 2006

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CANADIAN CENTRE
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Summary

Public-private partnerships, or P3s, are an increasingly popular infrastructure development model with governments in many provinces and countries. In BC, they are now strongly encouraged for most new capital projects.

This study examines BC's experience with P3s, as well as evidence about their effectiveness from other jurisdictions, in particular the United Kingdom. The research focuses on the financing, bidding and evaluation processes for P3s. It does not explore in detail issues that arise from the private operation and maintenance of P3 facilities.

Key Findings

- P3s are being aggressively pursued in BC in spite of a lack of objective evidence that they are a superior option.
- P3s are less cost-effective, timely and transparent than traditional government procurement processes.
- Partnerships BC, whose mandate is both to promote P3s and evaluate whether they are appropriate for use on specific projects, is unable to adequately protect the public interest due to its inherent conflict of interest.
- The normal deliberations that go into making sound decisions about infrastructure projects are being influenced by "Value For Money" assessments (produced by Partnerships BC) that have limited use. These reports are so subjective, so susceptible to manipulation by vested interests, so complicated, and so consistently withheld from appropriate public scrutiny that they must be done by the Auditor General's office to be of any legitimate use.

Higher Costs are Built Into the P3 Model

Cost of private borrowing: In P3s, the private partner typically takes on the debt. Interest rates are higher for private borrowers than for government.

Profits: Private companies do not embark on P3 projects as a goodwill gesture; they do so to generate profits, which must be built into the cost of P3 contracts one way or another. Investment advisors estimate P3 profit margins at 10 to 15 per cent.

Time-consuming and costly procurement process: Proponents, including Partnerships BC, argue that P3s are more likely to be completed "on time and on budget." However, the scope and complexity of P3s more often leads to delays and greater costs:

- With the design-build-finance-operate functions of infrastructure projects bundled together into multi-decade contracts, P3s involve extremely complex and time-consuming bidding and negotiation processes. This is more expensive for both government and private partners than traditional public procurement.
- The complexity and cost of bidding also reduces competition from potential partners. P3s with only two or three bidders are common; in the case of the Abbotsford Hospital, a contract was awarded to the sole bidder.
- The complex process can lead to significant delays before a contract is even signed. For example, the 10 Mile Bridge project in Kicking Horse Canyon was announced in March 2003; Partnerships BC then initiated the P3 process, adding nearly three years. The project is scheduled for completion in 2009. With public procurement, it would likely be finished by now.

What are "Public-Private Partnerships"?

P3s are a form of privatization in which a private company (or consortium) takes over the design, building, operation, and in many cases financing, of public infrastructure projects (hospitals, bridges, etc).

P3s are quite different from direct public procurement, where government finances a capital infrastructure project (using either existing tax dollars or by borrowing), contracts with one or more companies to design and build it, and hires public employees to maintain and operate the physical structure once it is complete.

In contrast, P3s use "Design-Build-Operate" and "Design-Build-Finance-Operate" arrangements to bundle all or most of the infrastructure development and operation processes into a single contract with one company (usually a consortium formed specifically for the purpose of bidding on a P3 project). The government pays the company monthly fees for its services over the lifetime of the contract, which is usually multi-decade.

This study focuses on "Design-Build-Finance-Operate" P3s, which are are increasingly common in BC.

- These pre-contract delays tend to be overlooked by P3 proponents when they characterize projects as “on time and on budget.” Such is the case with both the Canada Line and the Abbotsford Hospital—both experienced delays and cost increases before the contracts were finalized that were directly related to the nature of the P3 process.
- Private partners are willing to provide contractual guarantees that they will deliver on time and on budget, but for a price. This can result in inflated bids by developers who anticipate potential contract penalties in advance.
- A UK Association of Chartered Accountants study found that public health bodies were paying a premium of 30 per cent on construction costs to ensure P3 hospitals were completed on time and on budget. However, because it is debatable whether P3s actually achieve cost or time savings, paying a 30 per cent premium for those dubious savings makes little sense.

Flawed Value For Money Reports are Being Used to Justify P3s

“Value For Money” (VFM) reports are a specialized analysis that compares the predicted costs of a P3 project and traditional public procurement (referred to as a “public sector comparator”). The VFM process relies on two problematic tools—discount rates and the value of risk transfer—that can be manipulated to favour P3s.

Discount rates: Value For Money analysis uses a “discount rate” to calculate the current value of future payments to be made by the government to a P3 contractor. This is to some extent reasonable, because factors such as interest rates and inflation change the value of money over time. Just as $100 has less value as each year passes, and was at one time a small fortune—likewise, a monthly payment of $10,000 by government to a private partner becomes less costly, in real terms, as time passes.

The way discount rates are used in Value For Money analysis is flawed:

- Value For Money reports use discount rates that are inappropriately biased in favour of P3 contracts. The reports compare a series of P3 contract payments to the upfront capital costs government would face with traditional procurement. The discount rates applied to P3s greatly understate the current value of future P3 contract payments, making them appear less costly. In addtion, the assumption that government would pay for a project up-front in the case of traditional procurement (instead of financing it over time at the government’s borrowing rate) greatly overstates the relative cost of traditional procurement.
- Small variations in discount rates result in large differences in the total estimated costs of projects. In BC, the discount rates being used in VFM analyses are quite varied and arguably higher than appropriate.
- The UK Treasury now requires that Value For Money comparisons use a standardized discount rate in a consistent and transparent manner. This rate is lower than those used previously. BC has not followed suit, but if it did, P3s would look less favourable than Partnerships BC’s analyses suggest.

Risk transfer: In a P3, the private sector is allegedly responsible for taking on several risks that would otherwise be carried by government. There are costs associated with those risks, and P3 advocates claim that government gets additional "value for money" by paying extra to take such risk out of the government's hands. However, the benefit to government is questionable:

- It is debatable whether there is in fact a meaningful transfer of risk. A P3 consortium typically exists for only one project. If the project goes awry the consortium can simply go bankrupt. To complete the P3 project, or continue its operation, the government has to step in to cover remaining costs. (This obligation is established by the legal concept *force majeure*.) There are several examples of governments having to step in and cover the remaining costs of a P3, including the La Trobe and Modbury hospitals in Australia.

- The private sector is skilled at evaluating risks, and will charge the government the full cost of the risks they take on. The healthy profit margins of P3s reveal that firms are not taking on risks at a loss—if anything, the private sector is likely charging a premium for risk transfer.

- After the construction phase is completed, the multi-decade operating agreements provide the contractor with a guaranteed client who will not go bankrupt. This makes the post-construction P3 an extremely low-risk investment, which enables P3 contractors to refinance at much lower rates and increase substantially the profit they earn.

- P3s are generally more expensive in cash terms than traditional public procurement. Value For Money analysis typically relies on the arbitrary "quantification" of risk transfer to make up the difference and position the P3 option as favourable.

Three BC Case Studies

This study includes a detailed look at three P3s in BC: the Abbotsford Hospital, the Canada Line (known as "RAV") and the District of Maple Ridge Core Project.

A recurring theme in these projects is that the normal deliberations that go into making sound decisions about public expenditures and infrastructure projects are being influenced by questionable Value For Money reports. In all three cases, the VFM analyses were not prepared by an independent third party, nor were they released to the public before the contracts were finalized. Instead, Value For Money analyses were produced at the wrong time, by the wrong people, and with limited transparency.

In the cases of the Abbotsford Hospital and Canada Line projects, the Auditor General has been limited to providing "reviews" of the VFM reports, while the scrutiny assumed to be inherent in his office's role as auditor is used to whitewash the credibility of P3s. Projects are proceeding at times when they need to be stopped and reconsidered, such as when there are major changes in scope, or when competitive bidding is reduced to a sole bidder. The Maple Ridge project was cancelled after major problems in the P3 process.

The case studies find that in all three projects, the P3 approach leads to delays and higher costs.

Accountability and Transparency are Lacking in P3 Decision-Making

The aggressive pursuit of P3s by the BC government compromises due process and the public interest.

- If Value For Money reports are to be of even limited use, they must be undertaken by an independent public body mandated to uphold the public interest. In BC, VFM reports are typically produced by Partnerships BC, which has the dual and contradictory role of both assessing the value of P3s and pursuing and implementing them. The CEO of Partnerships BC is partially compensated based on his ability to secure and advance P3 contracts.
- Several VFM reports have been produced *after* a contract has been signed with the private sector (for example, the Abbotsford Hospital) or withheld from public scrutiny until after a P3 has passed the point of no return (for example, the Canada Line).
- Currently, BC's Auditor General provides opinion letters on Value For Money comparisons created by Partnerships BC based on a "review" instead of a full and proper audit. (Audits can look only at real past transactions; Value For Money reports are forecasts.) Reviews are limited in scope and do not provide the scrutiny that P3s warrant—they do not question the underlying assumptions, only how they are used. A review could provide a positive opinion of a Value For Money analysis that has faulty assumptions.
- P3 proponents have used the Auditor General's reviews to imply that P3 projects have his stamp of approval, which is highly misleading.
- P3s are stimulating private sector activity by diverting public funds into overpriced projects. If government is paying more for something than it is worth, it raises the question of whether the new industry is adding to the public interest.

Recommendations

- While P3s may be appropriate under some limited circumstances, in general they are unnecessarily costly and do not serve the public interest. The government should abandon its ideological commitment to P3s and take a more objective approach.
- All major public infrastructure projects should undergo a cost-benefit analysis that assesses the value of undertaking a project in the first place.
- If the government then wishes to consider a P3, the Value For Money process should be carried out by an independent public body such as the Auditor General's Office.
- Value For Money analysis must do a better job of measuring a P3's worth compared to traditional public procurement. Use of a standardized discount rate, and a critical review of the true value of risk transfer, including separating risk transfer from interest rates and discounting, should be a priority.
- The Office of the Auditor General must be sufficiently funded to ensure its ability to effectively and independently scrutinize the P3 model of infrastructure development, and individual P3 projects.
- The Auditor General's Office should evaluate the role and mandate of Partnerships BC.

Glossary of Acronyms

ABN AMRO	A bank involved in several P3s
ACCA	The Association of Chartered Certified Accountants in the United Kingdom
AHCC	Abbotsford Hospital and Cancer Centre, also known as Abbotsford Hospital
BDO DUNWOODY	A major accounting firm
CAMF	Capital Asset Management Framework, the BC government guidelines regarding procurement of public capital projects, among other things
CICA	Canadian Institute of Chartered Accountants
CITI	China International Trade and Investments Ltd., a company that was involved in the Maple Ridge downtown redevelopment project
CLCO	Canada Line Project Management Ltd., a subsidiary of TransLink that is responsible for building the Canada Line, previously known as RAVCO
CUPE	Canadian Union of Public Employees, a public sector union
DB	Design-Build projects, where the private sector is involved in only the designing and building of a capital project
DBFO	Design-Build-Finance-Operate projects, a P3 where the private sector is involved in the building, designing, financing and operation of a capital project
DBO	Design-Build-Operate projects, a type of P3 where the private sector is involved in the designing, building and operations of a capital project
GVTA	Greater Vancouver Transportation Authority, the organization responsible for transportation planning, operations and financing for the greater Vancouver area (also known as TransLink)

HEU	The Hospital Employees' Union, a public sector health union in British Columbia
KPMG	A major accounting firm
MOU	Memorandum of Understanding, a legal document signed by two parties
NHS	National Health Service, the government agency in the United Kingdom that governs health care
NPV	Net Present Value, a financial calculation that converts a series of future payments into current-dollar terms, applying a formula that uses a discount rate
OMERS	The Ontario Municipal Employees Retirement System, a pension fund for public employees in Ontario
P3 OR PPP	Public-Private Partnerships
PBC	Partnerships British Columbia, the provincial agency whose role is to advance Public-Private Partnerships
PFI	Private Finance Initiative, the UK name for Public-Private Partnerships
PSC	Public Sector Comparator, a hypothetical model of traditional public procurement, used as a baseline for determining the relative value of a Public-Private Partnership
PWC	Pricewaterhouse Coopers, a major accounting firm
RAV	Richmond-Airport-Vancouver rapid transit line, now known as the Canada Line
RAVCO	The previous name of CLCO, the agency that is responsible for the implementation of the Canada Line
SNC-LAVALIN	A Canadian corporation that is involved in several Public-Private Partnerships
SPV	Special Purpose Vehicle, a corporation created for one purpose only. For P3s, an SPV describes a consortium which bring together several companies that play distinct roles in a Public-Private Partnership project
TRANSLINK	The public label for the Greater Vancouver Transportation Authority, the organization responsible for transportation planning, operations and financing for the greater Vancouver area
UNISON	A major public sector union in the United Kingdom
VFM	Value For Money, a type of analysis or report that compares the value of a Public-Private Partnership to a Public Sector Comparator

Introduction

This paper contains a critical analysis of public-private partnerships (P3s). P3s have increasingly become the model of choice for governments when it comes to new infrastructure development. This is particularly so in BC, where P3s are strongly encouraged for new capital projects. As the first P3s get underway or near completion, it is increasingly possible to take lessons from these experiences. Such lessons should be of great interest to British Columbians, and to citizens around the world, where this capital project model has taken root.

Much of this report cites studies and experiences in the United Kingdom, where there is both a longer history of P3s and also a larger body of research providing insights about P3s.

This paper focuses on the financing, bidding and evaluation processes of P3s. Many of the critiques that apply to contracting-out government services also apply to the privatization of operations that occurs in the case of P3s. However, a discussion of contracting out operations is beyond the scope of this paper.

As this report will show, there is a greater need for public scrutiny of these partnerships. Hopefully, more people will take an active interest in this policy option, and contribute to a more involved public discussion about whether P3s are a good idea.

The paper begins with an overview of P3s in Section 1. This section contains a definition of P3s, and an explanation of the changes in policy that contributed to the proliferation of P3s in BC.

Section 2 provides more detail about the history of rationales supporting P3s. It includes information about off-book financing, the higher costs associated with P3s, and a discussion of whether P3s are more likely to be completed on time and on budget.

Section 2 also focuses on the "Value For Money" process that is currently supporting P3s. This section explains concepts such as Net Present Value and discount rates, and discusses risk transfer. It highlights the need for due process in Value For Money analysis, in particular, the need for reports to be completed and made public before a contract is finalized. This section also emphasizes the need to have Value For Money reports produced by an independent body, under greater scrutiny from the Auditor General.

Section 3 contains an explanation of the various ways companies profit from P3s. A recurring theme in the P3 debate is the claim that P3s stimulate industry. This section discusses the pitfalls associated with improving corporate profits with public funds and how "risk transfer" is not a result of private sector generosity. Because P3s tend to involve multiple-decade concession contracts, the long-term contracts reduce competition and provide the private sector with a stable, low-risk client. Also, many P3 firms benefit from the refinancing of debt, due to the reduced risk profile of P3 projects that have completed construction. This section also discusses the inappropriate role of the major accounting firms in advising governments on P3s while simultaneously profiting from them.

Sections 4, 5 and 6 deal with case studies. Section 4 contains a case study of the Abbotsford Hospital P3. This project saw a 94 per cent increase in cost before the contract was awarded, although the number of beds remained the same. The project experienced a three-and-a-half-year delay prior to construction, and the delays had an impact on project cost escalation. Abbotsford Hospital had a deeply flawed Value For Money process that lacked transparency, used artificially high discount rates, relied heavily on the value of risk transfer to justify higher cost, and attached the Auditor General's credibility to the project in spite of that office having only provided a review.

Section 5 is a case study of the Canada Line, a rapid transit rail line that will connect Richmond, the Vancouver International Airport and Vancouver. The provincial government made its funding for this project conditional on TransLink using a P3 model. This project also suffered from project cost escalation. As is common with P3s, there was a flawed Value For Money process, which lacked transparency and once again relied on "reviews" from both private auditors and the Auditor General. The analyses of financial feasibility also used overly-optimistic ridership forecasts.

Section 6 is a case study of the District of Maple Ridge Core Project. The Core Project was a plan to build a high-density downtown core, including an office tower and several new public facilities. It was designed for a sole source bidder with the hopes of involving the People's Republic of China, a partner that ultimately withdrew. This project's Value For Money report overlooked several cost factors and was misrepresented by those attempting to advance the project. This project was affected by changes to the Municipal Act, which ultimately required an opportunity for a referendum. The off-book financing rationale was used to argue that the District could circumvent the Municipal Act. The project was ultimately deemed illegal by the BC Court of Appeal.

Section 7 contains several insights about P3s, including recommendations that the policy option be abandoned as the preferred approach to infrastructure projects. As an alternative, this section provides some recommendations regarding how the P3 process, if not abandoned, could at least be improved.

This paper also contains a glossary of acronyms (of which there are many in the world of P3s) located at the beginning of the paper. There is also a catalogue of P3 lessons in the conclusion.

Overview of Public-Private Partnerships

What is a Public-Private Partnership?

While definitions vary, in most cases a Public-Private Partnership, or P3, is a form of privatization. They generally involve a public infrastructure project where a private for-profit company takes over some element of the project that would normally have been run by the public sector. P3s have been used for schools, hospitals, bridges, rail lines, hospitals, highways and other facilities.

P3s are quite different from direct public procurement of capital infrastructure, which is an activity all Western governments commonly engage in. Under public procurement, a government hires one company to design the facility, and a second company to build the facility. Once the facility is built, the government generally hires public employees to maintain and operate the physical structure. All the money for the project comes from taxpayers, although in some cases governments go into debt by issuing bonds to private lenders, paying off the principal and the interest on the bond over time.

Sometimes projects that involve the private sector in the design and build (DB) of a facility are described as P3s, but this is generally an inaccurate categorization.[1] Designing and building public infrastructure is often done by private sector contractors. Therefore a "design" or "design-build" P3 is generally the same as traditional public procurement.

"Design-Build-Operate" (or DBO) P3s are projects where the private sector designs, builds and operates the facility. These P3s include a multi-decade contract where governments pay the private provider to operate the facility for a fee. In this case, operations and maintenance work typically done by unionized government employees is instead done by private sector employees, who tend to be non-union. A DBO

The Many Names of Public-Private Partnerships

Public-Private Partnerships go by many different names. In the United Kingdom, they are referred to as Private Finance Initiative or PFI projects. In Nova Scotia, P3 schools were called "Leaseback Schools". In Ontario, a Liberal government that campaigned against P3s in opposition has relabeled and supported P3s as "alternative financing and procurement projects." P3s also fall under the category of "alternative service delivery," which includes a variety of new methods for contracting out the delivery of public services.

The branding of P3s is important because of the positive associations that people have with words like "partnership," "initiative" and "alternative." P3s are a form of privatization, and many people dislike having their public institutions privatized. If P3s were presented to the public as "privatization" they would likely draw greater criticism and opposition.

At the end of a P3's long-term contract period, the final ownership of the facility can be either public or private. Usually, facilities remain under public ownership or revert back to public control at the end of the contract. In other cases, after the government has paid the private contractor for lease payments that the contractor has used to pay off the debt, the private company ends up owning the facility "free and clear." There is often much debate about whether the facility should be called "public" or "private" depending on who will own the facility at the end of the lease.

While P3s privatize some things, they do not privatize everything. In the case of schools and hospitals, the public services that are provided within the facility typically remain under public control and public funding. These are distinctions that can confuse the central issue.

Sometimes projects that involve the private sector in only the design and/or building of a facility are described as P3s. Historically, the design of public facilities was done by the public sector, and the construction was delivered by the private sector. More recently, designing has been done by private sector contractors. A "design" or "design-build" P3 is now fairly similar to public procurement. This adds to the confusion because it attaches the P3 label to a practice that is common, effective and popular.

Other types of projects are often described as P3s, including the contracting-out of public services, joint public and private ownership of enterprises, and long-term leases such as the 990-year lease on BC Rail (which is better understood as outright privatization).

The issue is further clouded when the alleged virtues of P3s are wrapped up in the debate about whether a certain piece of infrastructure should be built at all. For example, during the controversy over the Abbotsford Hospital P3, proponents of the project sometimes skirted the P3 nature of the project, and emphasized how important it was that the new hospital was being built at all.[2] This approach turns the issue on its head, and often involves portraying defenders of public control of infrastructure as opposing of the creation of that same infrastructure.

Each infrastructure project must be assessed on its own merits and/or drawbacks, independent of whether P3s are a worthwhile method of procurement. Indeed, there is an increased need for cost-benefit analysis that weighs the merits of building a project or not, and if the project proceeds, there is a need for a separate analysis of whether the project should be built through a P3 or public procurement.

P3 is similar in nature to contracting-out the operations and maintenance of a government facility. Victoria's Save-on-Foods Memorial Centre is an example of a DBO P3.

"Design-Build-Finance-Operate" (or DBFO) P3s are similar to DBO projects, except the private sector also arranges the financing of the facility. The private company issues bonds to lenders and charges the government monthly fees that cover the costs of debt servicing, operations and profits. This is the most comprehensive form of P3 and is the flagship of the P3 debate. Abbotsford Hospital is an example of a DBFO P3.

One of the major differences between P3s and public procurement is that with P3s, activities that were previously covered by separate contracts are bundled into one. For example, a DBFO project typically brings together four different types of firms as joint owners of a consortium, which then contracts with government.

Public-Private Partnerships include a number of side-shows that make the debate confusing (see sidebar *The Many Names of Public-Private Partnerships*). It would be ideal if British Columbia could have an open and honest debate about whether the government should be privatizing the financing and operations of physical infrastructure.

For this reason, the remainder of this paper will focus on Design-Build-Finance-Operate (DBFO) P3 projects relating to physical infrastructure, as these are at the core of the P3 debate.

> Because P3s tend to involve multiple-decade concession contracts, the long-term contracts reduce competition and provide the private sector with a stable, low-risk client.

A Change in Policy

P3s have existed in several jurisdictions and at several levels of government—including in British Columbia—prior to 2001. However, a change in BC's provincial government in 2001 marked the beginning of an increased enthusiasm for P3s.

The current Liberal government was elected to its first term in 2001 amid promises it would improve the government's financial practices, particularly in capital procurement. The government moved quickly, and introduced new guidelines for procuring public assets. These changes are reflected in the creation of both a Capital Asset Management Framework and Partnerships BC.

Capital Asset Management Framework

In May 2002, the provincial government released its new Capital Asset Management Framework (CAMF). The new Framework is purported to support public sector agencies to "find the best solutions and apply best practices in managing capital assets."[3] The framework is particularly open to various approaches to asset procurement, "recognizing that traditional approaches are not always the most effective…"[4] The new framework "…promotes alternative service delivery options, including public-private partnerships…"[5]

In what has become a theme, CAMF simultaneously advances the need to find the best solutions while also advancing P3s. It is presumptuous for a government to issue guidelines that simultaneously argue that public agencies should seek the best solutions to building capital assets, and then encourage those same agencies to pursue a particular model—P3s. After all, if P3s are an inferior option, the guidelines are contradictory.

Partnerships British Columbia

To supplement the new guidelines, a new organization was created to advance P3s. Partnerships British Columbia (PBC) began operations on June 30, 2002. PBC is a private company wholly owned by the BC Ministry of Finance.[6] Since its creation, PBC has played an active role in many P3 projects that involve funding from the Province.

As with the CAMF guidelines, PBC has the dual (and potentially contradictory) role of both *improving* capital procurement processes and *implementing P3s*. On the one hand, PBC states that it plays "…an influential role by ensuring the Province has the information and materials it needs to make sound decisions regarding potential P3 arrangements."[7] In other words, they assert that they are providing useful information about whether or not P3s are appropriate.

However, if we look at their mission, they state that "Partnerships BC promotes, enables and helps to implement P3 projects."[8]

The President and CEO of Partnerships BC, Larry Blain, is partially compensated on the basis of performance, and his first performance criteria is to "Develop service contracts with clients on priority P3 projects and move projects forward."[9] For his efforts, Blain's total compensation was $499,132 in the 2004/05 fiscal year.[10] He is now the highest-paid civil servant in BC, partly due to performance pay that is linked to advancing P3s.

If Partnerships BC's role is to provide independent information and materials on the one hand, and to do so in a manner that promotes P3s on the other, this suggests that the function of Partnerships BC is to provide one-sided information to support a favourable view of P3s. Beyond providing information and materials, Partnerships BC acts as procurement managers and consultants, moving P3s forward in spite of any information that speaks against P3s.

Together, CAMF and PBC opened the door for increased private sector involvement in operating and maintaining public capital, and have facilitated the increasing use of P3s as a policy option.

Examples of P3s in British Columbia

Projects Under Construction or Operational

- Abbotsford Regional Hospital and Cancer Centre
- Academic Ambulatory Care Centre (Vancouver)
- Britannia Mine Water Treatment Plant
- Golden Ears Bridge (Across the Fraser River)
- Kicking Horse Canyon (Phase 2)
- Northern Sport Centre (Prince George)
- Pitt River Bridge & Mary Hill Interchange Project
- Canada Line (RAV Rapid Transit)
- Sea-to-Sky Highway Improvement Project
- Sierra Yoyo Desan Road
- William R. Bennett Bridge (Kelowna)

Note: There are additional projects in earlier stages of development, as well as several municipal projects that are not included in this list.

Source: Partnerships BC Web Site

The Ever-Changing Rationales Supporting P3s

When P3s were first introduced in the UK, there were several motives attracting governments to the P3 model. Some people were ideologically motivated to reduce the size of government. Commercial interests were also attracted to the prospect of new government contracts. However, in order for the P3 option to advance, a rationale as to why P3s would be good for the public and government was needed.

Often, when decision-makers are sincerely trying to solve a problem, they undertake a process of diagnosing the causes of a problem, developing alternative solutions, selecting the best alternative, implementing the solution, and possibly reviewing the success of this solution after the fact.

P3s, however, have been a solution in search of a problem. The problem P3s are supposed to solve has changed frequently. Each rationale, one after another, has been disproven or fallen into disrepute. Without fail, P3 enthusiasts invent new rationales for problems P3s allegedly solve.

Off-Book Financing

The early 1990s were characterized by a political environment, internationally, in which there was increasing resolve to prevent public debt from growing. In the UK, for example, the government set a self-imposed limit on how high it would allow debt to grow. At the same time, many jurisdictions faced a growing backlog of needed capital projects.

In this context, P3s offered a potential solution to the problem: allow a private partner to incur the debt for a given project, and thus keep the debt off the public books.

"Off-book financing" is a procedure whereby a parent company creates a separate legal and financial entity that has separate assets, debts and cash flow from the parent companies. Such an arrangement is called a Special Purpose Vehicle (or SPV) which often involves multiple companies that come together for a specific purpose of a P3. On behalf of the parent companies, the SPV generates profits or losses, and they can accumulate assets or debts.

The vast majority of the capital for P3 projects comes from debt financing. An important question is: Who carries the debt? Is the debt carried by the Special Purpose Vehicle? Or does the parent organization carry the debt? This issue was highlighted when the US energy company Enron went bankrupt after using off-book financing to hide their losses. Once the true losses came to light, the company quickly went bankrupt.

Recently, financial and accounting opinion leaders have become increasingly critical of off-book financing. Credit-rating agency Standard & Poor's is now counting P3 debt as government debt,[11] as are the auditors-general in several jurisdictions, including BC's Auditor General.

As a sign of the evolving consensus, BC's Minister of Transportation Kevin Falcon acknowledged the changing views on this matter in the Legislature in October 2005:

> *… 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.*[12]

This change of practice resulted in the 2005 BC Budget adding $185 million to the provincial debt to reflect a share of the Sea-To-Sky Highway that was financed by a P3 partner, but "for accounting purposes is included as part of the provincial debt…"[13]

The main problem with the "debt-free capital" argument is that the private consortium ends up charging governments a lease fee over the duration of the contract. Once the P3 contract is signed, the government is on the hook for a series of long-term payments. The future lease payments are therefore a liability.

In 2002 the Australian State of New South Wales Treasury Department said:

> *…both NSW and Victoria do not regard the use of private finance or public private partnerships as a means of expanding the overall level of resources available… Even though social infrastructure may be financed by the private sector, the government, through payments made through the contract's life will ultimate (sic) fund it.* These payment commitments are as real as those associated with servicing balance sheet debt… *Private provision of public infrastructure is therefore not a "magic pudding" that can alleviate the resource constraints all governments necessarily face. Unlike in the United Kingdom, where its "Private Finance Initiative" was introduced initially to circumvent strict fiscal constraints,* neither State views private provision of social infrastructure as a way of disguising borrowing off-balance sheet.[14] *(Emphasis added)*

While the "debt-free capital" argument can now be regarded as an anachronism, the argument does make regular re-appearances. In such cases, we must remember that P3s do not magically allow governments to have something for nothing.

Are P3s Cheaper?

Another argument made in favour of P3s is that they allow governments to save money. For example, in the BC legislature in March 2006, the Minister of Finance cited forecast cost savings for both the Abbotsford Hospital and the Sea-to-Sky highway.[15] Similarly, the Premier mentioned forecast cost savings for Abbotsford Hospital in the last provincial election.[16]

Claims that P3s "save money" tend to rely on Value For Money reports, which are only forecasts. However, those same Value For Money reports tend to show that P3s are more expensive in cash terms (in total dollars that will be expended by government). The alleged savings are due to the fact that adjustments for "risk transfer" to the private partner make the P3 look less expensive on paper.

In cash terms P3s are more expensive than public procurement for three reasons: profit margins are required to attract the private sector partners; the cumbersome procurement process involved with larger P3 contracts is more expensive than direct government procurement would be; and the cost of capital (borrowing) is higher for the private sector.

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Profits

Information about the profit margins of P3s comes from investors. The president of the pension fund OMERS expressed interest in investing in P3s because he and his managers thought they could generate more than a 10 per cent return.[17] An investor's guide to P3s in the UK noted that the profits range from 13-15 per cent during the construction phase and 10-12 per cent during the operational phase.[18]

There would normally be a profit margin during the construction phase of a traditional public procurement project, because even public procurement uses the private sector to build facilities. However, once a P3 facility reaches the operational stage, the profits are a new cost that would be non-existent under traditional public procurement.

The More Expensive Procurement Process

P3 projects tend to have more expensive and time-consuming procurement processes. According to the Treasury in the UK:

> *A PFI transaction is one of the most complex commercial and financial arrangements which a procurer is likely to face. It involves negotiations with a range of commercial practitioners and financial institutions, all of whom are likely to have their own legal and financial advisers. Consequently,* procurement timetables and transaction costs can be significantly in excess of those normally incurred with other procurement options.[19] *(Emphasis added)*

Increased bidding costs also reduce competition from potential partners. Because of the high cost of submitting bids, companies are reluctant to risk sinking money into a process where there is a large number of bidders or where their own bid is a long shot to win. As a result, P3s tend to have fewer bidders than traditional procurement, reducing the potential benefits of cost-competition between bidders. P3s with only two or three bidders are common, and in the case of the Abbotsford Hospital, the contract was awarded when there was only one bidder.

Private Sector Interest Rates are Higher

One of the problems with P3s is that the private partner typically takes on the debt, and interest rates are higher for private borrowers than for government.

Interest rates change over time, but in general private sector bonds cost at least one percentage point more than similar public sector debt. For example, for Government of British Columbia bonds maturing in 2027, the market yield at the time of writing was 4.67 per cent.[20] For comparable bonds for major corporations, the market yield ranged from 5.71 per cent to 5.90 per cent.[21]

The main reason corporate debt is more expensive is that corporations are more likely to default, making corporate debt higher-risk. Investors expect to be compensated for taking risks, and therefore the market requires higher interest rates on corporate debt.

The major corporate bonds in the comparison above included bond ratings that range from "BBB+" to "A". However, the Government of BC has a bond rating of "AA"[22] indicating a lower risk of default. Even before the risks associated with the infrastructure project are considered, P3s will have a higher interest rate because of the higher risk of private sector default.

On Time and On Budget?

Another argument frequently made for P3s is that they are more likely to be completed on time and on budget. This argument is put forward by Partnerships BC among others.[23] The main basis for this claim has been a central research document from the UK, which itself cites five reports showing that traditional public procurement is far more likely to face cost over-runs and project delays than P3s.[24]

In October 2005, British public sector union UNISON issued a report debunking the myth that P3s are more likely to be completed on time and under budget. They looked at each of the five reports presented by the Treasury and found that four of these studies had no underlying data to support their claim about cost and time over-runs.[25]

The fifth study had several methodological problems, such as selection bias, small sample size and the lack of an apples-to-apples comparison for the project timelines.[26] As projects' progress and more is known, overly-optimistic cost estimates tend to be revised upwards. The fifth study was comparing the entire life of public sector projects to a much shorter phase for P3 projects. There were several cost increases and delays in the earlier stages of both public and P3 projects. These over-runs were included in the public sector projects but omitted from the P3 projects. Therefore the comparison was meaningless.[27]

This is a problem governments constantly face with P3s. Project organizers announce delays and cost increases, as was the case with both the Abbotsford Hospital and the Canada Line. Once project organizers have worked out the details, they go ahead with it, insisting it will be "on time and under budget." Project supporters quietly overlook the delays and cost increases that pre-date the signing of the P3 contract.

Contractors are willing to provide guarantees that they will complete a project on budget and on time, but *for a price*. Budget and deadline guarantees require a contract with penalty clauses to be incurred by the private partner if delays or over-runs occur. The strength of these penalty clauses can result in inflated bids by developers, who anticipate potential cost increases or penalties in advance.

One study commissioned by the UK's Association of Chartered Certified Accountants found that public health bodies in the UK were paying a premium of 30 per cent of construction costs in order to ensure P3 hospitals were built on time and on budget.[28] However, because it is debatable whether P3s achieve cost or time savings, paying 30 per cent extra to achieve those dubious savings makes little sense.

While it is true that P3s allow the government to enter into fixed-price contracts, governments do not need P3s to negotiate fixed prices with builders and developers. In those cases where a government is willing to pay, such contract provisions can also be provided in traditional procurement.

There is the additional problem of the cost and time barriers caused by the complex P3 procurement process itself. According to the UK Treasury, "[p]rocuring through PFI can be complex and can involve lengthy negotiations before contracts are signed, although after signature construction periods tend to be shorter than in conventional procurement…"[29]

This phenomenon is also common in BC. For example, then-Prime Minister Jean Chrétien and Premier Gordon Campbell jointly confirmed the federal-provincial financing for the 10 Mile Bridge project in Kicking Horse Canyon in March of 2003. Then Partnerships BC began the P3 process, adding nearly three years to the procurement process. The project is scheduled for completion in 2009, meaning the entire project design, bidding and construction process will have taken six years.[30] With public procurement, the project would likey be finished by now.

In short, there is nothing particularly impressive about finishing a project on time and on budget if both the time and budget allotted are unreasonably generous.

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Value For Money vs. Cost-Benefit Analysis

When the government makes major investment decisions, good policy requires that some sort of test be applied to a project to determine if the benefits outweigh the costs. When looking at a variety of delivery mechanisms, governments need an objective way of comparing alternatives, ideally through a cost-benefit analysis.

Most P3 projects in BC have not been subjected to a cost-benefit analysis to determine whether a project should be built at all. For example, the Sea-to-Sky highway is arguably too expensive relative to the long-term public benefit it provides. If there had been an objective analysis of the cost and benefits of building the highway, it may never have gone ahead.

Instead, governments have produced Value For Money comparisons, a very specialized kind of analysis, which exclusively compares delivering a project through a P3 versus public procurement. The government has largely passed over the option of *not* building a given project.

In a Value For Money comparison, analysts compare the predicted cost of the P3 project to the cost of traditional public procurement.[31] The cost of traditional public procurement is measured by using a hypothetical Public Sector Comparator or PSC. The two cost estimates—P3 and PSC—reflect two different ways of doing a project and as a result will involve two different types of costs.

Two major items distinguish P3s from the PSC: the effect of *discount rates* on the value of payments, and the estimated value of *risk transfer*.

Discount Rates

Value For Money analyses use a tool called Net Present Value (or "NPV") that uses a "discount rate" to reduce the value of payments that are to be made by government to a private partner in the future.[32]

Discounting future payments is to some extent reasonable, because inflation, interest rates, and other factors change the value of money over time. Inflation makes today's dollars (or nominal dollars) worth less over time. A $100 bill has less value as each year passes, just as $100 was at one time a small fortune. A variety of economic and social values in addition to inflation are included in the rationale for discounting.

The higher the discount rate, the lower the present (i.e. today's) value of future expenses. For example, if you were considering a financing option that would cost you $1,000 in ten years, its net present value would be $632 if you use a discount rate of 4.7 per cent, but the net present value would be only $574 if you use a discount rate of 5.7 per cent. You might choose to go ahead with an option, or avoid it altogether, depending on the discount rate used.

Value For Money analysis unreasonably treats the public sector comparator's capital costs as a lump sum payment at the beginning of the project with almost no discounting, despite the fact that frequently the government will borrow money for a project and pay it off over many years. Meanwhile, the same analysis looks at a P3 project that has payments spread out over several decades, all of which are discounted.

> In BC, the discount rates being used in Value For Money analyses are arguably higher than appropriate, which raises the question: are the discount rates based on an objective standard, or are they being chosen to ensure a more favourable Value For Money evaluation?

Therefore discounting reduces the present cost (the cost in today's dollars) of a P3 while the PSC receives little or no discounting. This effect is more pronounced the higher the discount rate. As a result, adopting an unreasonably high or inflated discount rate "assumes from the outset what it is held to prove: the economic advantage of private finance."[33]

In BC, the discount rates being used in Value For Money analyses are quite varied, and are arguably higher than appropriate, which raises the question: are the discount rates based on an objective standard, or are they being chosen to ensure a more favourable Value For Money evaluation?

BC Transport Minister Kevin Falcon attempted to explain how discount rates were set, saying "… in many cases project specifics have a lot to do with it, because the inherent risks involved in the project will govern what the discount rate will look like."[34] Therefore the discount rate changes from project to project, based on the risk profile of the project.

This is problematic, because the discount rate is a public policy figure that indicates the government's opinion of the value of money over time. This rate would ideally be standardized across all projects, regardless of the many other elements that are considered for a project. While it may be appropriate to adjust the standard discount rate over time, the whole process becomes suspect when project planners pick a different discount rate from one project to the next.

In the UK, where P3 projects have been around for much longer, there has been a vigorous debate about the discount rate. There were concerns that high discount rates were favouring the private sector in Value For Money comparisons. The Treasury undertook an exhaustive analysis, and now requires Value For Money comparisons to use a discount rate of 3.5 per cent in real terms.[35] For projects over 30 years in duration, a discount rate of 3.0 per cent or lower is to be used.[36] The recommended rate must be applied to all projects in a consistent and transparent manner. This discount rate is lower than the rate used previously.

Because discount rates take into consideration a variety of elements that vary over time and by region or country, analysts cannot simply transplant the British discount rate for use in BC. However, it is helpful to see that the UK took the sensitivity of discount rates seriously, undertook an exhaustive study and recommended a stable discount rate.

It would be appropriate for BC to follow the UK example by undertaking a rigorous analysis of discount rates, and establish a policy that a fixed discount rate should be applied to all P3 projects. This rate would need to be reviewed on occasion to consider changing conditions. In all likelihood, this discount rate would be lower than some of the rates that have been used for past P3 projects in BC.

By creating an objective standard for discount rates, the government would strengthen the credibility of the Value For Money reports that are being used to justify P3s, and frequently, the economic case for a P3 approach would crumble.

The Impact of Risk Transfer on Interest Rates

In a P3, the private sector is responsible for taking on several risks that would otherwise be carried by government. There are costs associated with those risks, and P3 advocates say that the government gets additional "value for money" by paying extra to ensure the risk is taken out of the government's hands.[37]

The risks associated with infrastructure include (but are not limited to):

- Change in law;
- Default by concessionaire, contractor or third party;
- Cost overruns;
- Design/warranty/latent defects;
- Dispute risks;
- Site conditions, both geotechnical and environmental, and;
- War, civil disobedience, acts of god.[38]

P3 advocates argue that the reason interest rates are higher for the private sector is that the private sector takes on additional risk in P3 projects.[39] There are two problems with this argument.

First, as previously discussed, it is the private sector's higher risk of default that results in higher interest rates for private debt, independent of the risks associated with any one project. The higher risk of default is not one the government would normally have to compensate lenders for. But P3 projects may face additional pressure to offer higher interest returns to lenders to compensate for risk transfer.[40]

Second, when making Value For Money comparisons, decision-makers typically add a block of expenses onto the public sector comparator. This block of expenses, labeled "risk transfer," is intended to reflect the value of risk that is transferred from government to the private partner in a P3, but which is not transferred in the case of public procurement. Therefore, Value For Money comparisons make an adjustment for risk transfer in *both* the higher interest rate *as well as* the added block of expenses.

How Meaningful is the Risk Transfer?

All capital projects involve some risk, and it is a good idea for project planners to quantify such risk. P3s may indeed transfer some risk to the private sector, although the extent of this transfer is frequently overstated by P3 supporters. If a real risk transfer occurs, however, the public still pays – the private partner expects to be compensated for assuming risk, and this cost is reflected in the cost to government.

The measurement of risk is done one of two ways. In the case of a P3, the risk is supposedly calculated and included in a premium that is added on to the interest charges of a P3. For a Public Sector Comparator, this risk is estimated as a separate block of "risk adjustment" that is theoretically transferred to the private sector. The value of risk transfer normally covered by the private sector in a P3 is added to the cost of a Public Sector Comparator, allegedly in order to make the P3 and PSC comparable.

The value of the risk transfer from the government to the private partner is important when considering the merit of P3s. Because P3s tend to be more expensive in cash terms than traditional public procurement, the value savings from P3s tend to rely on the estimated value of risk transfer.

There is great difficulty in quantifying risk transfer. The study by Allyson Pollock, Jean Shaoul and Niel Vickers published in the *British Medical Journal* in 2002, found that there is "no standard method for identifying and measuring the values of risk, and the [UK] government has not published the methods it uses."[41] There was little clarity in how risks were measured, and "in over two thirds of the business cases for hospital PFI schemes the risk could not be identified."[42]

A study by the Association of Chartered Certified Accountants (ACCA) in the UK reviewed several studies and found that the Value For Money case tends to rest on risk transfer, and the ability to measure Value For Money in an unbiased way is questionable.[43]

Tellingly, when financial institutions finance P3 projects, they often provide a lower rate of interest than the P3 consortiums charge to government, on the basis that there is little inherent risk.[44] Indeed the ACCA report cited a report by Standard and Poor's in 2003 stating that PFI companies carry little effective risk.[45] This is because the government is seen to be guaranteeing the payments, meaning that if there are any difficulties getting payments from the private partner, the taxpayer will foot the bill.

A P3 consortium typically exists only for one project. If the project goes awry and liabilities exceed assets, the consortium can simply go bankrupt. In order to complete the P3 project or continue operations, the government has to step in and cover any remaining costs. This is a result of a legal concept called *force majeure*, which describes the obligation to cover the costs of freak events, such as an earthquake or a flood. Typically *force majeure* falls on the government. So, in a worst-case scenario, there is no risk transfer to the private sector.

When government wishes to terminate a P3 contract as a result of the provider's insolvency, the government still has to pay the consortium's financing costs.[46] There are several examples of governments having to step in and cover the remaining costs of a P3, including La Trobe Hospital and Modbury Hospital, both in Australia.[47]

There is also the problem of whether the government guarantees payments on the debt associated with the construction costs. In this respect, a report from bond rating agency Standard & Poor's is quite enlightening:

If a government were to guarantee a PFI in part or in full, this would unambiguously signal an incomplete transfer of risk to the private sector and the contracted debt would be consolidated within the government… Standard & Poor's will continue to consider individual PFI operations and include their value as contingent liabilities where bailout is considered likely in the event of private sector failure, irrespective of a government guarantee. [48]

The 2002 study by Allyson Pollock et. al. found that the value of risk transfer varied in absolute terms, but was fairly consistent in the degree to which it marginally favoured P3s in the Value For Money analysis:

What is striking… is that in all cases risk transfer almost equals the amount required to bridge the gap between the public sector and the PFI. 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.[49]

In some cases, after the allocation for risk transfer, the cost difference between the public sector comparator and the P3 project was less than 0.1 per cent.[50] This suggests risk transfer has been organized to make P3s look better.

The same study found that the methods for calculating the value of risk transfer are not revealed in the Value For Money analyses. Furthermore, the risk transfer was largely attributable to construction cost risk, which disappears after construction is completed.[51]

Auditors have questioned whether it is possible to ensure risk transfer actually takes place. Australia's Auditor General found:

…there is general consensus that, in order for a private financing deal to represent value for money, it needs to provide for the appropriate allocation of risk to the private sector and for the establishment of strong incentives for the private sector entity to achieve time and cost project goals and provide long-term delivery of reliable public services. An important question is whether there are appropriate arrangements in place to ensure that the private sector can be made fully responsible and accountable for these results. Experience to date in Australia and overseas at least suggests a qualified 'no'.[52]

A P3 consortium typically exists only for one project. If the project goes awry and liabilities exceed assets, the consortium can simply go bankrupt. In order to complete the P3 project or continue operations, the government has to step in and cover any remaining costs.

Also, the private sector aspires to do everything for a profit. Private bidders are agreeing to take on risks normally borne by the public sector, but they are also charging fees attributable to the higher risk. As a result of the additional fees, there is a strong possibility the government is not saving money on the risk transfer.

This phenomenon—that risk transfer comes at a cost—is best illustrated in a 2003 article interviewing the late Douglas MacKay, then a board member of Partnerships BC:

One of the attractions of P3s for governments has been the perception that it is a means of transferring the risk associated with a project from themselves as ultimate owners to the designer/builder/operator at little cost. However, MacKay thinks this perception is, if not misguided, at least misunderstood.

"If there is one thing that contractors do really well, it's assessing risk. If not, they don't stay in business very long. So to think you can transfer risk to a private sector contractor without paying for it is an unreasonable expectation. *The risk in any project, as much as possible, should be put where it can be managed best."*[53] *(emphasis added)*

It may be the case that P3s involve the transfer of risks from the public sector to the private partner. The important thing to remember is that this risk transfer is being done for a cost, and it is uncertain and indeed unlikely that the government is coming out ahead as a result of the risk transfer.

Due Process in Value For Money Analyses

In addition to the above, two procedural issues with Value For Money are suspect. These are the timing of the release of the reports, and the objectivity of the party preparing the report.

Ideally, Value For Money comparisons would be done early in projects, in order to determine if P3s are a better option. 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. Furthermore, if Value For Money reports were truly objective assessments of the relative value of different options for spending public money, there would be no risk associated with submitting such reports to public scrutiny during the decision-making process.

However, the BC government has developed a practice of approving P3s, and releasing Value For Money reports only after the project is beyond the point of no return. This is not a mistake; Partnerships BC recommends this practice.[54]

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.

A problem of bias has emerged in BC, where the organization that typically produces Value For Money reports, Partnerships BC, is openly biased in favour of P3s and has a mandate to advance P3s.[55]

The Role of the Auditor General

The BC Auditor General's mission includes "…providing independent assessments and advice that enhance accountability and performance across the provincial public sector."[56] One of the key roles the Auditor General performs is to "…carry out examinations focusing on, among other things, whether government or a government organization is operating economically, efficiently and effectively"[57] The Auditor General is therefore in an ideal position to provide independent advice on P3s.

In December 2003, the Auditor General went before the Legislature's Finance Committee asking for an additional $2 million so that his office could do its job. The request was made following a recent 5 per cent budget cut to the office, and in the face of a 10 per cent budget cut scheduled for the following year.

He explained that if he didn't get increased money "I will limit work on the government's approach to public-private-partnerships."[58] Instead of securing new funds, his office received the anticipated 10 per cent budget cut.

It is interesting to note that the Province will pay for Value For Money reports produced by Partnerships BC, but is unwilling to pay to have such reports produced by the Auditor General. After all, Partnerships BC and the Auditor General are both funded by the provincial government. What value does the government see in having the reports produced by a body that is openly biased in favour of P3s, when it could commit the same money to allow the Auditor General to produce an unbiased report?

The Auditor General is technically unable to provide audits of Value For Money reports. This is because audits look at real past transactions. Confirming the accuracy of historic financial statements is easier and more certain. Value For Money reports, on the other hand, are forecasts, and it is difficult to be certain about future-oriented information.

As a result, the Auditor General's office is limited to providing a "review."[59] A review reduces the level of scrutiny such that the Auditor General mostly assesses the plausibility of the data used in the analysis. According to accounting guidelines, a review "does not require the public accountant to seek supporting or independent evidence…"[60]

The standards for reviews provide that "Each page of the information on which the public accountant reports should be conspicuously marked as being unaudited."[61] However, with the Abbotsford Hospital Value For Money report, there was no indication that the data was unaudited.[62] The absence of the words "unaudited" on the report, in combination with the presence of a letter of approval from the Auditor General, likely contributed to an impression that the Value For Money report had received a higher level of scrutiny and approval than it actually did. This impression is particularly likely given the degree to which the Auditor General's work is, in the public mind, normally associated with rigorous audits.

The Auditor General's review of the Partnerships BC Abbotsford Hospital Value For Money report has become a major factor supporting the project's credibility. For example, during the last election campaign, Premier Gordon Campbell announced "The auditor-general said we saved $39 million on it [the Abbotsford Hospital]."[63] This claim was repeated throughout the election campaign, but it is simply incorrect.

While the VFM report did indeed say that there would be a projected $39 million cost savings, these were the words of Partnerships BC, not the Auditor General. The Auditor General merely provided a moderate level of assurance about the calculations feeding into the report.

In a letter to the Hospital Employees' Union (which had voiced concerns about this issue), the Assistant Auditor General stated in January 2006 that:

> *We are in agreement that some commentators have misinterpreted either the AHCC [Abbotsford Hospital and Cancer Centre] report or the meaning of our opinion of it. Unfortunately, this is a perennial problem for auditors… we have been looking for ways to minimize the risk of such misinterpretation in future performance attestations.*[64]

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According to accounting guidelines, an auditor must take active steps to mitigate the effects of the inappropriate use of the auditor's name. The guideline states that:

> *If the public accountant becomes aware of an inappropriate use of his or her name… the public accountant should discuss with the client what action the client intends to take to inform appropriate parties of the inappropriate use of the public accountant's name. …if the client fails to take appropriate action, the public accountant should consider what further steps, if any, should be taken, including obtaining legal advice.*[65]

Hopefully, in future, the Auditor General will take a more active role in correcting public misunderstandings about the level of assurance his office is giving to Value For Money reports prepared by Partnerships BC. Ideally, the Auditor General's office would either be given the resources and the opportunity to prepare Value For Money reports themselves, or decline having their reputation as rigorous auditors attached to such reports.

The Final Verdict on Value For Money

Jeremy Colman, deputy controller and auditor general at the National Accounting Office in the UK, had harsh criticisms about the Value For Money process. He commented 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."[66]

Mr. Coleman comments that public sector agencies in the UK are being forced to produce Value For Money comparisons that favour P3s: "People have to prove value for money to get a PFI deal… If the answer comes out wrong you don't get your project. So the answer doesn't come out wrong very often."[67]

This bears a striking resemblance to the situation in BC, where the province is strongly encouraging, or requiring, that new infrastructure development be built using P3s.

Mr. Coleman stated that although it is difficult to prove that public sector comparators are fiddled to make the case for PFI "there is scope to manipulate the figures."[68] Mr. Coleman stated in an interview that some public sector comparators were "'utter rubbish', and were reworked so late in the deal that the comparator had ceased to represent a realistic alternative. That, he said, made them 'utterly irrelevant.'"[69]

When individual accountants are asked by their professional association to state their opinions confidentially and without the public connection to their employers, accountants are mostly opposed to P3s.

These are strong words from a watchdog paid by government to provide non-partisan comment on the accuracy of public accounting methods. These comments imply that if one were able to look behind the veil of the published Value For Money reports, as Mr. Coleman can, they would have less confidence in the numbers, not more.

To add to the discussion, the Association of Chartered Certified Accountants (ACCA) in the UK surveyed its members to ask whether they thought P3s deliver a better value for money than direct public procurement.

The ACCA found that 57 per cent of their members do not agree that PFI provides value for money. Fifty percent disagree that the UK government is correct to promote the use of PFI for public sector investment. In addition, 57 per cent agree that public sector organizations are prevented from achieving value for money, as PFI is the only available way of obtaining the necessary investment in public services.[70]

We should distinguish between the institutional views of accounting firms and the personal views of individual accountants. One would expect major accounting firms to express public views that are closely aligned with their interests, as the companies themselves make much money on P3s. However, when individual accountants are asked by their professional association to state their opinions confidentially and without the public connection to their employers, accountants are mostly opposed to P3s.

Perhaps the best comment on the objectivity of the Value For Money process comes from Partnerships BC CEO Larry Blain himself. On March 26, 2003, when Blain was speaking at a meeting of BC's Municipal Finance Authority, he said "Us letting you see the public sector comparators won't do you much good. I could make the public sector comparators as bad as I want to, in order to make the private sector look good."[71]

How Companies Profit From P3s

Yet another argument in favour of P3s is that they stimulate industry. This argument stands up to some scrutiny. It may be desirable for governments to use public money to shape the economy; indeed this is the basis of modern industrial policy.

This Section investigates the various ways companies profit from P3s. Because P3s are presented as a way of stimulating industry, it is appropriate to take a closer look at the role governments play in attracting investors with the opportunity to profit at public expense.

There is healthy public skepticism about using public funds to pay more for goods and services than they are truly worth. There is also an increasing expectation that industrial policy be done transparently, with a mandate from voters.

When governments create a new industry with public funds, the citizens are unforgiving if the rationale is not clear, if the cash-flow is not transparent and if there is any attempt to distort the costs and benefits of the plan. P3s do not pass these tests of credible industrial policy.

P3s are "stimulating industry" by diverting public funds into overpriced projects, which raises the question of whether the public good is being sacrificed to benefit a chosen few. By elevating private interests the government may be sacrificing important public goals, such as accountability, transparency, increased equity amongst workers and the creation of unionized jobs.

Healthy Profits Imply Limited Risk Transfer

Profits for P3 investments tend to exceed 10 per cent.[72] The natural question is: how do investors secure these profits? After all, investors routinely make tradeoffs between risk and profit. The healthy profits of P3 investments can be taken as an indication that the investors are receiving revenues that exceed the cost of the risk. For example, when describing their risk profile to prospective investors in the UK, P3 consortia "…have even advertised that their projects contain 'little inherent risk' and have been able to issue bonds with a triple A rating, which indicates low risk."[73]

While the Value For Money reports claim that the public is benefiting from risk transfer, we can infer from investors that whatever the tradeoffs between profits and risks, the private sector is coming out ahead.

Impact of P3s on Public Services

P3s are often presented as a way of improving how public services are delivered. For example, the Partnerships BC web site claims that P3s are "…the best approach for some projects" by, among other things "Ensuring the public sector stays focused on delivering high quality public services that meet public policy objectives."[74] According to the web site of the Canadian Council for Public-Private Partnerships, "PPP's can provide much needed capital to finance government programs and projects, thereby freeing public funds for core economic and social programs."[75]

> By elevating private interests the government may be sacrificing important public goals, such as accountability, transparency, increased equity amongst workers and the creation of unionized jobs.

Supposedly, by allowing the private sector to focus on the infrastructure, the public sector can devote more time and money to delivering improved public services.

In practice, however, P3s often have a negative impact on public services.

With P3 hospitals in the UK, there were 25 to 30 per cent fewer beds in acute specialties for planned P3 hospitals.[76] Where the private partner is in a position to decide the number of beds, they will err on the side of making the facility smaller "…since from a commercial perspective excess demand is less of a problem than excess capacity, whereas lack of capacity may be the most serious problem from a public health viewpoint'."[77]

When Hamilton's water system was taken over by a P3, there was a major sewage spill into Lake Ontario shortly after deep staff cuts. The cost of cleaning up the spill fell entirely on the City. In addition, a contract loophole made the contractor responsible only for maintenance and repairs costing less than $10,000, "…creating an incentive for the corporation to let things slide until major repairs were needed."[78]

In a report on Nova Scotia's failed experiment with P3 schools, a CUPE report cited several problems with facilities run by the private sector. The report notes a perpetual problem of "passing the buck" where uncertainty about responsibilities left problems unresolved for long periods of time. Among those problems were the provision of garbage cans, the fixing of soccer fields, water quality (including arsenic in the drinking water), fixing problems with flooding and the payment of insurance premiums.[79]

Once the profit margin starts to affect the way public services are delivered, commercial motives take priority over the quality of public services.

As for the notion advanced by the Canadian Council for Public-Private Partnerships that P3s free up public funds for other programs, as discussed previously, this argument is simply false. P3s increase costs and draw additional funds from the public treasury.

Long-Term Service Contracts Reduce Competition

After a P3 has finished the construction phase, the project enters the operating phase, usually lasting several decades. Since the contractor has a guaranteed client with stable payments over the remainder of the contract, P3s quickly become low risk from a credit perspective and from a sales perspective as well. Where else can a company secure a 30-year client?

For example, the president of the pension fund OMERS commented that public assets tend to have a reliable source of public funds to support their operation once constructed.[80]

The long duration of P3 contracts prevents the government from benefiting from productivity improvements or further cost competition in future bidding processes. As one analysis of the British P3 hospital experience notes: "Local authorities were locked in for 30-60 years and therefore had less flexibility incorporating new technology or new practices."[81] Indeed, if new innovations were possible, it is likely the private sector would make the improvements and keep any cost savings for their shareholders.

The presence of a multi-decade service contract also turns the risk transfer issue on its head. While P3s are alleged to create value for the public sector by transferring risk to the private contractor, it appears that after the construction phase, the government is reducing the risk to the private contractor by providing a guaranteed revenue stream with no further bidding wars for decades.

Refinancing

After the completion of the construction phase of a project, a P3 partner can get a lower interest rate on the project's debt. The construction phase is the riskiest part of a P3 project, so once construction is completed, the P3 project has substantially lower risk.[82] As a result of the reduced risk, investors are willing to refinance the debt at a lower interest rate.[83]

Refinancing can dramatically improve the contractor's prospects. In the case of a prison in the UK, refinancing increased shareholders' rate of profit from 16 per cent to 39 per cent.[84] Changes to the terms of the loan can increase the contractor's profit by as much as 80 per cent.[85]

Refinancing is a controversial issue in the UK. Refinancing results in windfall profits, and the question arises: who should keep those profits? In the UK: "Both the House of Commons Public Accounts Committee… and the National Audit Office have stated that the benefits of refinancing should be split between the contractor and the client public body."[86]

Because the risk profile changes after the completion of construction, the types of companies that want to invest in the consortium often changes. As a result, there is a growing trend of investors selling their share of the consortium after construction ends.[87]

This kind of change in ownership occurred at Abbotsford Hospital, where Macquarie purchased an 81 per cent interest in the P3 partner consortium from the bank ABN AMRO in December 2005.[88] The P3 contract for Hamilton's water works also changed hands several times after the contract was originally awarded,[89] and reverted back to public ownership in January 2005.[90]

In the case of P3 projects, a company's involvement in the "partnership" can be sold off for cold, hard cash.

The Role of Major Accounting Firms

When discussing the major accounting firms, one generally thinks of “the Big Four” firms: Pricewaterhouse Coopers, KPMG, Deloitte & Touche and Ernst & Young. Before it ceased operations in 2002, Arthur Andersen was included as a member of “the Big Five.”

Because of their historic role as auditors, the major accounting firms have established a reputation for fair dealing and independence. However, there has been an emerging problem of auditing firms branching out into general consulting services. This dual role creates a potential conflict of interest, because accurate auditing would sometimes speak against corporate practices that yield general consulting revenues.

The major accounting firms have a substantial financial interest in seeing P3s continue. Their interest in P3s has been particularly extensive in the UK:

> *Accountancy firms …help devise and develop government policy by providing secondees and sitting on government working groups. They recommend which tender to accept on individual contracts. They advise bidders. In their own names they tender for and win contracts. They sponsor projects pushing for more use of PFI and PPPs… They advise foreign governments on the use of PPPs. And they produce supposedly independent reports claiming that the PFI reduces the public sector costs. The result of this cosy PFI circle for the big firms is that they each earn millions of pounds every year in fees. And they stand to earn millions more as the PFI model is sold into more countries worldwide …*[91]

The major accounting firms have long been involved in the promotion of P3s, and over time their role has become quite large. The major accounting firms make so much money on P3 projects, it seems unlikely they would ever speak against them.

The major accounting firms have long been involved in the promotion of P3s, and over time their role has become quite large. The major accounting firms make so much money on P3 projects, it seems unlikely they would ever speak against them. By December 2002 in the UK, the six largest accountancy firms had acted as advisors on 486 P3 projects with a total project capital value of 59.2 billion pounds.[92]

The accounting firms are often so heavily involved in P3s that they are advising both the government and the private provider. One report discovered “…45 cases where the advisor to the public sector was also the auditor to at least one of the consortium members.”[93] This problem can go to extremes. In one case, the consulting firm acted as a judge to evaluate tenders for a project where they themselves were a bidder, and sure enough, recommended their own bid be accepted. [94]

Given the interests of the major accounting firms, we should not be surprised that their analyses consistently come out in favour of P3s. In the UK, major accounting firms have in at least two cases produced reports that claim to prove that P3 projects are cheaper than traditional public procurement.

In 2000, Arthur Andersen produced a report claiming that “The average percentage estimated savings against the PSC in our sample of projects was 17 per cent.”[95] The projected savings were “sensitive to risk transfer valuations that accounted for 60 per cent of the forecast cost savings…”[96]

However, British public sector union UNISON uncovered that the majority of the total cost savings in the Arthur Andersen report came from only three of the 29 projects in the study. One of those projects “…predicted economies so large that 80 per cent of all savings ascribed to P3 risk transfer occurred in this one scheme.”[97] After the fact, the project in question ended up being significantly late and over budget.

A second report was produced by Pricewaterhouse Coopers, which also praised the virtues of P3s.[98] On closer inspection:

> *…PwC's evidence turns out to consist of 90 anecdotes about the benefits of PFI from senior managers directly responsible for introducing it… Asking those with the job of introducing PFI to their services whether the policy is good or bad is by any standards a pretty lame research method. But after nine years of PFI the government is still relying on evidence of this sort from one of the policy's main beneficiaries.*[99]

Case Study: Abbotsford Hospital

The Abbotsford Regional Hospital and Cancer Care Centre (hereafter referred to as "Abbotsford Hospital") is a 300-bed facility that will replace the aging MSA Hospital built in the Fraser Valley community in 1953.[100] Abbotsford Hospital is being built as a P3, with the private sector involved in the financing, design, building, operation and maintenance of the facility over 30 years. The final cost estimate for the construction of the facility is $355 million, and it is expected to open in the Summer of 2008.[101]

The private sector provider is the consortium Access Health Abbotsford, which includes such companies as PCL Constructors Westcoast, MCM Architects, Silver Thomas Hanley (a health facility design firm), Johnson Controls (a firm specializing in building automation and controls) and Sodexho (a well-known facilities management firm).[102] The financing originally involved the bank ABN AMRO, but their share of the consortium was purchased by Macquarie Group in December 2005. Macquarie is an international bank headquartered in Sydney, Australia, and is heavily involved in infrastructure investment in 20 countries.[103]

Project Cost Escalation

An interesting feature in the history of Abbotsford Hopsital is the problem of perpetually increasing costs and scale. Construction cost estimates went from $211 million in 2001 to a final cost estimate of $355 million when the final bid came in. Annual lease and service payments (to be paid by the Health Authority to the private partner over 30 years) increased from $21 million to $40 million. The total operating costs for the entire life of the project went from $720 million to $1.4 billion, a 94 per cent increase.

There are two items in the cost increases that are entirely attributable to the decision to use a P3. The first is the higher transaction cost of the P3 procurement process. According to the Value For Money report, the procurement cost of a conventional public sector project would be approximately $8 million, while the projected procurement cost of the P3 project is $24.5 million,[104] a difference of $16.5 million.

Also, the P3 procurement process delayed the project by several years. The delays moved the construction phase into the currently hot construction market with its associated higher costs. According to the Value For Money report, the total inflation costs associated with the delay between 2001 and 2004 adds up to $63 million. These delays are attributable to the P3.

Other cost increases are not entirely due to the decision to use a P3. For example, there were increases in project scope which had an estimated value of $46 million,[105] which is 32 per cent of the $144 million increase in capital costs. These changes included a variety of items such as more space for education/academic facilities, adding a rehabilitation room to the surgical floor, additional telecommunications facilities, separate entrances for ambulatory/cancer and emergency care, increasing environmental standards and several other items.[106]

However, it is also important to note that the project has expanded without a corresponding increase in the number of beds, which is a common measure of a hospital's size. There was a 94 per cent increase in costs, and one would have expected that if there was a substantial increase in cost, there would have also been an increase in the number of beds available to patients. Indeed, almost 40 of the beds will be opened at a date later than the rest of the hospital,[107] belying claims that the project will be completed on time.

> As the project progressed, many of the variables did indeed change, the scope and costs increased dramatically, and real data became available that would shed more light on the value of a P3. But the government refused to re-evaluate the project.

Flawed Value For Money Process

One of the biggest problems with Abbotsford Hospital is the flawed process for determining Value For Money. In September 2001, consulting firm Pricewaterhouse Coopers (PwC) prepared a project feasibility study for the proposed hospital. The report was originally confidential and when it was made public, much of the underlying data was blackened out.

Forensic accountant Ron Parks, on contract to the Hospital Employees' Union, prepared a report analyzing the PwC data. He noted that the PwC report contained cautions that the accuracy of the preliminary data was suspect, that the results were very rough and that in the absence of actual data the authors had to use rules of thumb in their analysis.[108]

The PwC report was sensitive to minor variations in the underlying assumptions.[109] As the preliminary estimate of the cost savings from a P3 was small, the margin could be "reduced or eliminated"[110] when more data became available. Parks also cautioned that the process "…would be compromised if decisions are based on early information and without the involvement of all stakeholders in an open and transparent forum…"[111]

As the project progressed, many of the variables did indeed change, the scope and costs increased dramatically, and real data became available that would shed more light on the value of a P3. But the government refused to re-evaluate the project using more current data. Instead, it relied on the favourable results of the very tentative PwC study until the project was beyond the point of no return.

Although the project originally had four bidders, by January 2004 there was only one proponent left: Access Health Abbotsford. This placed the Province in a vulnerable bargaining position relative to the sole bidder. As Parks indicated, "…at least three qualified bidders are required to ensure an equitable and competitive bidding process."[112] The prospect of having only one bidder should have given the government reason to reconsider the P3.

When Access Health Abbotsford submitted its final bid, the construction costs increased from $328 million to $355 million. It is unclear whether the additional $27 million was due to monopoly bidding or some other cost factor.

In March 2004, auditor Lewis Auerbach was hired by the Hospital Employees' Union to analyze the request for proposals. Mr. Auerbach was particularly critical of the 30-year operational contract, as it would provide the government "…fewer opportunities to share in the savings that could result from changing technologies, productivity improvements and similar developments."[113] Mr. Auerbach was also critical of the fact that there were "…truly serious and large risks that could put the project in financial jeopardy and require a government to bail out, step in, or result in bankruptcy."[114]

In December 2004, the Province awarded the final project, which included the (hopefully) final round of cost increases. Construction began the same month. The project was beyond the point of no return.

After all that had gone before, the government decided that *then* would be a good time to do a comprehensive Value For Money report that would be subsequently "reviewed" by the Auditor General.

The Value For Money Report

Only after the contract was signed and construction had begun did the government ask for a Value For Money report, which was later released to the public. The report was produced by Partnerships BC, which is openly biased in favour of P3s.

As discussed previously, the selection of a high discount rate can bias the Value For Money analysis in favour of a P3. The Abbotsford Hospital Value For Money report used a range of discount rates when estimating the Net Present Value of future payments. To their credit, the authors did show that the net savings from a P3 would be greater if a higher discount rate were used, and the authors also provided an analysis using lower discount rates. They compared discount rates of 5 per cent, 6 per cent and 7 per cent.

An analysis conducted by chartered accountant Robert Mackay for the Hospital Employees' Union reveals that the cost of a P3 would be significantly higher than the public sector comparator using a discount rate of 3.5 per cent (the discount rate currently recommended in the UK).[115] Using the 3.5 per cent discount rate, the P3 would cost at least $616 million, compared to the public sector comparator's cost of $464 million.[116]

As with most Value For Money reports, in the Abbotsford report it was risk transfer that tipped the balance in favour of a P3. For example, the final estimate of the actual capital cost for the Abbotsford

P3 is $355 million, while the final cost of the public sector comparator is $369 million, a savings of only $14 million on the capital costs.[117]

However, the report also shows that a total of $49 million in risk transfer was added to the value of the public sector comparator. In other words, without risk transfer the public sector comparator would have cost $320 million, or $35 million less than the P3. Therefore the alleged value of the risk transfer makes all the difference in estimating that the P3 would be cheaper than traditional public procurement. However, as addressed earlier, in many cases the risk transfer is questionable. Because of the lack of detail provided to the public about the methodology for measuring risk transfer, it is difficult to know whether the estimated value of the risk transfer is accurate or legitimate.

As discussed earlier in this report, the Auditor General's Office only provided a "review" of Partnerships BC's Value For Money Comparison. A review is limited in scope, and the Auditor General's office confirmed the findings presented by Partnerships BC.

Summary of Abbotsford Hospital P3

Although the Abbotsford Hospital has not yet been completed, there are already many reasons for concern. There are cost increases and project delays that are entirely attributable to the decision to go P3. The project relied heavily on a tentative report recommending the use of a P3, and the project planners did not reconsider their decision to use a P3 at points in the project where reconsideration was appropriate.

Only after the contract was finalized and construction had begun did the government arrange for a comprehensive Value For Money analysis. The government ensured that this analysis was completed by Partnerships BC, which has an explicit mandate to promote P3s. The Auditor General was involved in the project but only in the form of a "review" which did not require verification of the underlying data and assumptions. The Auditor General's credibility was then openly used for partisan purposes (i.e. during an election) as a stamp of approval that the project's cost-effectiveness had been confirmed.

> Although the project originally had four bidders, by January 2004 there was only one proponent left. This placed the Province in a vulnerable bargaining position relative to the sole bidder. The prospect of having only one bidder should have given the government reason to reconsider the P3.

The Value For Money analysis finds that a P3 would be cheaper than traditional public procurement. However, this finding is highly dependent on an artificially high discount rate and the questionable value of the risk transfer. In this regard, the Value For Money analysis contains many of the same problems as similar reports produced in the UK.

While it is possible that the hospital will be built "on time and on budget" it is important to bear in mind that the project faced cost escalations without increases in the number of beds, and a more than three-year delay in the start of construction. In addition, there remains a strong likelihood that when all is said and done, it will turn out that the project could have been done more cheaply through traditional public sector procurement.

Case Study: The Canada Line

The Canada Line is a rapid transit rail project, now in progress, which will connect Richmond, the Vancouver International Airport and down-town Vancouver (known as "RAV" for short). The project is expected to create a better transportation link between the Airport and downtown in time for the 2010 Winter Olympics. At the time of writing it is estimated that the project will have $2.05 billion in capital costs,[118] which is $300 million more than original cost forecasts. The project involves cost sharing and will be built with funds from TransLink, the federal government, the City of Vancouver, the Province of BC, the Airport authority and the private partner.

Because of the large amount of money committed to the project and the degree to which it is associated with the 2010 Winter Olympics, the Canada Line is extremely high profile, and is a banner project for the provincial government.

The Canada Line is being built by InTransitBC, a consortium involving SNC-Lavalin Inc., British Columbia Investment Management Corporation (bcIMC) and the Caisse de dépôt et placement du Québec.[119] InTransitBC is on contract to Canada Line Project Management Ltd (CLCO), a subsidiary of greater Vancouver's transit authority TransLink. (CLCO was previously known as RAVCO) The Canada Line is a design, build, partially finance, operate and maintain P3 with a contract duration of 35 years.[120] While the private consortium is contributing $720 million to the capital cost,[121] it will earn this back, along with a profit, over the 35 years in the form of operating grants from TransLink.

P3 Option Forced by the Provincial Government

Supporters of P3s are quick to acknowledge that not every project is suitable for a P3. Experts in P3s advocate establishing a business case that carefully considers whether a P3 offers Value For Money relative to direct government procurement.[122]

However, in the case of the Canada Line, a P3 was forced upon TransLink. In a 2002 letter to TransLink, BC's Deputy Minister of Transportation Dan Doyle indicated that the Province would commit $550 million to the Line only under certain conditions, including that the Line be a P3.[123]

This requirement was ultimately included in the funding agreement signed by TransLink and the Province in November 2004. Section 2.4 of the agreement says, "…the province will have no funding obligation whatsoever under this agreement if the design, construction, financing, operation and maintenance of the system is not procured through a 'public private partnership' ('P3')."[124]

Because the P3 was a prerequisite for provincial funding, the project lacked the opportunity to meaningfully consider traditional public procurement as an option. The P3 requirement also casts a shadow over the independence of the Value For Money process.

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Project Cost Escalation

In February 2003, Pricewaterhouse Coopers estimated that the total capital cost for a fully grade-separated line would be $1.6 billion,[125] of which the public sector would pay $1.326 billion.[126] Several subsequent reports also indicated a cost estimate of close to $1.6 billion.[127]

On March 30, 2003, a funding report by the Canada Line's project management agency RAVCO (now renamed CLCO) indicated that there was a funding shortfall of $283 million.[128] RAVCO recommended scope cuts (such as fewer stops) and further contributions from the funding partners.[129] These recommendations were later approved.

By November 2004 the price had gone up to $1.9 billion, meaning there was a $343 million funding shortfall.[130] TransLink recommended $179 million worth of scope reductions and a $101 million increase in funding, leaving a shortfall of $63 million.[131] In the years following, there were several reductions in the scope of the project, including fewer stops and changes in the physical nature of the line and the way it was built.

In addition, there was a fair amount of "scope transfer" which moved costs outside of the Canada Line project and onto the books of other public entities such as TransLink.[132] For example, while scope transfers do improve the books of the Canada Line, they really just change which public body pays for things. Scope transfers do not reflect a reduction in the burden on the taxpayer.

Since the first cost estimate in February 2003, the total project cost had gone from $1.6 billion to $1.9 billion, a $300 million increase equivalent to 18.8 per cent of the original expected cost. The public contribution declined from an estimated $1.326 billion to an estimated $1.247 billion. However if we add back in the $70 million in scope transfer (which is still being paid by public agencies), the real public cost is closer to $1.317 billion, which is close to the original estimate of the public cost.

While the reports currently indicate that the public cost is mostly unchanged, we should note that there is still an additional $300 million in costs within the overall project envelope. Since the Line includes a series of long-term lease payments made by public agencies to the concessionaire, it is likely that the $300 million will be paid by the public one way or another. This includes the fact that the private partner is guaranteed a fee flow from forecast ridership. With fewer stops, the already dubious ridership forecasts are placed increasingly at risk, with the likely outcome that the public will have to pay for the shortfall.

All cost estimates had until now been consistently in 2003 dollars. In March 2006, RAVCO increased its cost estimate, allegedly to reflect inflation. The total project cost increased 7.9 per cent, and the total public contribution increased 6.4 per cent.[133] The Consumer Price Index increased by only 5.9 per cent from January 2003 to February 2006,[134] and therefore the announced price increases exceed inflation.

The Canada Line Value for Money Process

One of the more disturbing elements of the Canada Line is the backward and convoluted nature of the Value For Money process. For example, the original reports on the cost-effectiveness of the Canada Line were produced without a Public Sector Comparator (PSC).[135]

On March 31, 2004 the Executive Summary of a Value For Money report produced by Pricewaterhouse Coopers was made public. An undated copy of the original Value For Money report became available in late 2005 under a Freedom of Information request.

However, for over a year, the original full report was withheld from the public. As a result, the public debate over the decision to go P3 had to turn exclusively on the contents of the Executive Summary. As a result, RAVCO was asking the public and major decision-makers to trust its portrayal of the analysis.

Perhaps because of the need for trust, RAVCO commissioned two "reviews" of the contents of the Value For Money Report. One was prepared by KPMG and released on February 9, 2004 (before the Executive Summary was made public). A second was prepared by former Auditor General George Morfitt on April 25, 2004.[136]

These two reviews do find that the Value For Money analysis is accurate and reasonable. However, the active word is "review." Reviews do not investigate the accuracy of the underlying data or the assumptions made, and are substantially less rigorous than a full audit. These reviews only provided a cursory review of the reasonableness of the calculations.

Indeed, the KPMG review elaborates on the fact that it did not conduct an audit, did not check detailed calculations, did not conduct a comprehensive survey of international practice and did not independently verify the information provided by the PSC team. [137]

The Value For Money report itself contains a notice to the reader that the report "…is based on information and assumptions, and hypotheses regarding future events, that have been provided by RAV Project Management, its management, staff and advisors… PwC cannot and does not offer any opinion, assurance, warranty or undertaking (express or implied) in relation to these Assumptions."[138] The projections produced in the report were not audited by an independent chartered accountant, and "No responsibility is taken or accepted for the adequacy, completeness or accuracy of the model or assumptions on which is (sic) based."[139]

In summary, the Value For Money report itself, which was kept from the public until after the project had started (and then only released under a Freedom of Information request), was based on assumptions and hypotheses provided by the RAV project team. The underlying assumptions have not been audited, and PwC takes no responsibility for the accuracy of the model. KPMG was asked to provide a review of this report but it did not investigate the underlying assumptions either. As a result, cost comparisons to date include no investigation into the underlying assumptions provided by those trying to advance the P3.

The PwC Value For Money analysis does however guide us toward interesting issues. The P3 proposal is forecast to have significantly higher projected ridership and revenue than the public sector would have delivered.[140] Some of the reasons for the expected higher ridership are the shorter forecast journey times, more frequent service and design innovations.

Therefore the degree to which the Canada Line can be done better by a P3 depends heavily on whether the ridership forecasts are accurate.

During the 2005 provincial election, and on occasion since then, the Province committed to publicly releasing a Value For Money analysis. A Project Report containing a Value For Money analysis was released by CLCO on April 12, 2006, and once again involved a review from the Auditor General's office.

While a public release of the Project Report has the potential to be helpful, the report was so overdue that its usefulness was greatly reduced. The final bidder and RAVCO reached an interim agreement in April 2005 and construction is now well underway. Therefore, the report has been released long after the project is past the point of no return.

The report was so overdue that its usefulness was greatly reduced. The final bidder and RAVCO reached an interim agreement in April 2005 and construction is now well underway. Therefore, the report has been released long after the project is past the point of no return.

The Auditor General's comments on the report are heavily loaded with disclaimers. Again, the Auditor General notes that he has only provided a "review" which "provides a moderate level of assurance."[141] The assurance the Auditor General provides is tentative and cautious:

> *Based on my review, nothing has come to my attention that causes me to believe that the report prepared by the Company does not fairly describe the assumptions, context, decisions, procurement process, and results to date of the Canada Line rapid transit project.*[142]

Even with this minimal support from the Auditor General, there is a technical problem with the content of the report itself. This is the problem that the Public Sector Comparator does not include a series of innovations and scope reductions that were included in the P3 model. For example "…the PSC does not include higher midday train frequencies, the elimination of a station at the airport, the single tracking of the line in Richmond and at the airport and the specific alignment and mixture of construction techniques in Vancouver and Richmond."[143] In addition, the PSC has lower ridership forecasts than the P3 project to which it is being compared.

Therefore the report lacks a proper apples-to-apples comparison of the PSC and the P3, which makes the analysis meaningless.

Ridership Forecasts

One of the biggest problems with the Canada Line is that it relies on overly optimistic ridership forecasts. A 2002 CCPA study by Blair Redlin noted:

> *…the forecast is for 90,000 to 100,000 passengers per day by 2010… [including] 37,200 new passengers on the corridor. Intuitively, the attraction of over 37,000 new passengers on the corridor per day will be extremely difficult. Today, there are 35,000 to 40,000 daily rapid/express riders on the corridor, 2,000 daily riders on the airport shuttle, and 40,000 riders on local trolley routes in the corridor.*[144]

Therefore the forecast ridership greatly exceeds the total number of transit users who currently use the corridor.

A report prepared by J.S. Belhouse, Director of Planning and Building for the City of Burnaby, explained that there are several risks associated with the ridership assumptions. These risks include the over-estimation of the number of riders who would first pay fares on the Line instead of transferring from the bus, a failure to account for ramp-up of ridership over time, a sensitivity to the value customers place on the time and an under-estimation of the number of air passengers transferring flights without leaving the airport.[145] According to the report:

> *Any of these assumptions taken in isolation may seem reasonable; however, the collective impact of aggressive ridership assumptions could be significant given that TransLink will be responsible for any gaps between ridership and actual revenues.*[146]

Since the Belhouse report was released, the risk structure was changed such that the private partner now takes on 10 per cent of the risk associated with ridership, and the public sector now carries 90 per cent.[147] Previously the public sector shouldered the entire ridership risk.

> One of the main alleged benefits of P3s is that they allow the transfer of risks from the public to the private sector. In the case of the Canada Line, one of the biggest and most controversial risks—ridership—is overwhelmingly borne by the public sector, and indeed constitutes a guarantee to the private provider.

Ridership projections are a major issue among rail projects worldwide. One study found that in over 90 per cent of rail projects, the passenger forecasts are overestimated, [148] and that these overestimations average 105.6 per cent.[149] The report notes that

> *…planners and decision makers are well advised to take with a grain of salt any traffic forecast that does not explicitly take into account the uncertainty of predicting future traffic. For rail passenger forecasts, a grain of salt may not be enough.*[150]

An earlier study by the same authors found that underestimates of the cost of transportation projects are deliberate and not accidental. Looking at a large sample of projects in several countries over several decades, the authors show that among the many possible causes of cost underestimation, "lying" is the explanation that is most consistent with the data.[151] The report found that the cost of rail projects is underestimated by an average of 45 per cent.[152]

The reason why the high ridership projections for the Canada Line are illustrative of P3s is that the government has guaranteed payment to the private partner based on these projections. As discussed, one of the main alleged benefits of P3s is that they allow the transfer of risks from the public to the private sector. In the case of the Canada Line, one of the biggest and most controversial risks is overwhelmingly borne by the public sector, and indeed constitutes a guarantee to the private provider.

Financial Implications

The 2003 Belhouse report notes that the estimated revenue from ridership is $40 million per year. However, the project faces two different costs that they must pay for out of the additional revenues: the estimated $25-$34 million in annual operating costs for the Canada Line, and the private sector's capital servicing costs of approximately $32 million.[153] Although the ridership revenues can cover *either* the operating costs *or* the cost of servicing capital, the ridership revenues cannot cover the costs of both.

This means that the Canada Line will likely run at a loss, even if it meets its ridership forecasts. If ridership falls below forecasts, the project will run at an even greater loss to the public purse.

Summary – The Canada Line Project

The Canada Line is already facing problems that are common to P3s. Costs have gone up. The scope of the project has been reduced. The provincial government had already decided the project would be a P3 before assessing whether the project was "P3-able." The project proceeded with a Value For Money process that lacked transparency and was not public until well after the project had passed the point of no return.

Studies to date supporting the P3 option rely heavily on overly optimistic ridership forecasts. Even if these forecasts are met, the project will run at a loss to the public purse. If the ridership falls short of the forecasts, the public will bear the overwhelming majority of the cost associated with ridership shortfalls. Instead of the private sector shouldering substantial risk, the public will be subsidizing the private sector's revenue stream on an unprofitable venture.

Case Study: District of Maple Ridge Core Project

Sometimes, P3s take a particularly sordid route.

In early 1997, staff at the District of Maple Ridge recommended to Council that they build new civic facilities in the downtown core. The proposal was to create a cluster of public municipal facilities (such as a library, arts centre and municipal office space) alongside several new private facilities (such as office and retail space and a hotel).

Between 1997 and 2002, the Project became part of an ill-fated P3 that eventually collapsed under a mountain of misunderstandings, misrepresentations and a court ruling against the legality of the project. Among the many problems this project faced was the fact that the deal and its partners changed several times.

The Original Proposal

Throughout the project, the District's then-Chief Administrative Officer Bob Robertson assumed the main responsibility for bringing the project together and presenting the options to Council.[154] According to Mr. Robertson, the District of Maple Ridge received an unsolicited proposal from a William Stelmaschuk of China International Trade and Investments Ltd. (CITI).[155] CITI was jointly owned by Mr. Stelmaschuk and a real estate company that was ultimately owned by the People's Republic of China (PRC).[156] The Chinese company owned 51per cent of CITI.[157]

Sole Sourcing

Generally, it is considered a good idea to have a competitive bidding process when seeking private sector involvement. This helps to keep costs down and allows the public to achieve maximum benefit for their dollar. Indeed, on November 10, 1997, Council resolved, at the recommendation of P3 consultant Jonathan Huggett, that they be committed to an "open and competitive process."[158]

However, within a week, and increasingly over the following months, District staff and Council began to move towards creating a draft Memorandum of Understanding (MOU) which was instead a sole sourcing arrangement between the District and CITI.[159]

Maintaining the Chinese investors was one of the key reasons the District chose to sole source the Project.[160] Among the benefits of the involvement of China was their creation of a "permanent and substantial trade office."[161] This element was so important that the involvement of the People's Republic of China was written into a later version of the MOU as a "fundamental requirement" of the project.[162]

After Council's approval, the MOU was signed on November 26, 1997.[163] According to correspondence from District lawyers, the MOU that was actually signed was different from the one approved by Council.[164]

P3 consultant Jonathan Huggett advised the District on two important items. First, he advised that the project only be built as a P3 if the use of a P3 would constitute value for money. Secondly, he advised that "we should explain to the Stelmaschuk team that if there is no Chinese participation, we are going out to a competitive process."[165] Later, Mr. Huggett also emphasized the need for an independent audit of the project.[166]

The ill-fated Maple Ridge Core Project eventually collapsed under a mountain of misunderstandings, misrepresentations and a court ruling against the legality of the project.

The Loss of Chinese Involvement

On July 6, 1998, the District signed a Limited Notice to Proceed with a party that seemed to be the original contractor. In fact, the private partner that signed onto the project was China International Trade Centre and Investments (1998) Inc. It was a minor change in the name of the private partner, from CITI to CITI 1998, except that CITI 1998 no longer involved China.[167]

At early Council and staff meetings in October, Mr. Robertson referred to the ongoing interest of the Chinese partners, even though one of the major Chinese contacts would later claim that Mr. Robertson had ended cooperation with him a month earlier.[168]

At a project meeting on October 28, 1998, Mr. Robertson and one of the private partners began to openly refer to the private partner as being "all Canadian" and "more of a Canadian funded project."[169] The District's lawyer explained to the Mayor and Council on November 3 that the party that had signed the Limited Notice to Proceed was not one that involved China.[170] According to Mr. Stelmaschuk, the Chinese had been frustrated with the lack of progress on the project.[171]

According to a review of the project, "it does not appear that Council acknowledged or understood the implications of the change from CITI to CITI 1998."[172]

While it was becoming clear China was no longer involved, District staff started to question the value of a sole-source agreement, and began to consider seeking proposals from other potential partners.[173] On November 9, Mr. Robertson proposed a variety of options to Council. However, Mr. Robertson and some advisors recommended that they go ahead with the sole-sourcing project involving CITI 1998.[174]

The Councillor who was chair of the project committee resigned from her position as Chair, noting the whole reason for sole sourcing—Chinese involvement—was now a non-factor, and that the Municipality should issue a public proposal call.[175]

Changes to the Municipal Act

In late 1998, the Project began to face problems as a result of changes to the Municipal Act. The new Act required an opportunity for a counter-petition leading to a potential referendum in cases where the District was taking on new liabilities exceeding five years in duration.[176]

These changes to the Municipal Act touched on a major issue for P3s—off-book financing. Originally, P3s were touted as a way for governments to secure new financing for projects while keeping the debt incurred off the government books. However, accountants, auditors and credit rating agencies now treat the series of future lease payments for P3s as a liability equivalent to government debt.[177]

While the Maple Ridge Core Project was in process, there was still some ambiguity about the degree to which P3 lease payments constituted government liabilities that were effectively debt.

> Originally, P3s were touted as a way for governments to secure new financing for projects while keeping the debt incurred off the government books. However, accountants, auditors and credit rating agencies now treat the series of future lease payments for P3s as a liability equivalent to government debt.

Many people involved in the Core Project held the view that if the Project was subject to counter-petition, the public would reject the Project and the P3 deal would fall through. At the same time, many of those involved began to argue that the Project's lease payments were not liabilities with respect to the Municipal Act, but were in fact operating leases.[178]

The Mayor asked for a legal opinion on the matter from the district's solicitor, who provided an opinion that the P3 lease was indeed a liability. It is unclear if the legal opinion was provided to Council.[179]

Mr. Robertson made several efforts to persuade others that the P3 lease was not a liability but was in fact an operating lease.

He claimed that analyses conducted by BDO Dunwoody and KPMG both showed that the Project was an operating agreement and not a liability, even though neither analysis actually referred to this matter.[180] Mr. Robertson claimed he had discussed the project with the Minister of Municipal Affairs and the Minister of Finance, and indicated that their views of the Project were positive, although Ministry representatives had provided no opinion on whether the agreementsconstituted an operating lease.[181] Mr. Robertson also indicated that he had met with the Auditor General, and that the Auditor General had supported the District's classifying the project as an operating lease. However, no such meeting took place.[182]

In November 1999 a new Mayor and Council was elected, with only two councillors having served on the previous Council. Mr. Robertson provided a binder for each of the members of the new Council, and advised that the agreements were allowable under the Municipal Act because the project involved operating leases.[183]

Drafting a Deal to Circumvent the Municipal Act

Over the next several months, the private partner changed in order to involve another investor who would develop a hotel on the site. A new Development Agreement signed on August 30, 1999 stated that the District would obtain an opinion from its auditor about whether the agreement met the criteria of an operating lease.

In June of 2000 the private partner changed form again, and this time it was separated into two companies in order to separate the district facilities and office tower elements. On July 7, 2000 the Master Lease Agreement was signed.

These contracts contained five-year leases with subsequent opportunities to renew the contract for another twenty years, and additional renewal opportunities after the full 25 years had passed. The five-year leases matched the five-year limits on additional liabilities governed by the Municipal Act. In addition, the contract included a clause covering "balloon payments" if the district did not renew at the end of five years. The balloon payments were designed to compensate the private partners for revenues they would have received had the project continued beyond year five.[184]

The District effectively guaranteed that there would be no circumstances under which it could withhold payments.[185] Since the revenue stream was effectively guaranteed to the private party, this raises the question of whether the total lease payments constituted a liability on the part of the District.

BDO Dunwoody Value for Money Analysis

BDO Dunwoody, on contract to the District, calculated that building the project through regular public procurement would save the District $669,000 relative to the cost of building a P3.[186] There were, however, some qualitative factors that suggested there were benefits to having a P3.

There are several elements of the BDO report that are problematic.

First, the report lacked an "apples to apples" comparison. The report compared the P3 option that included additional office space and a hotel to a public sector option that included less office space and no hotel.[187] The analysis was therefore a comparison of two different physical structures. In addition, the model assumed the P3 option was going to be built promptly and the public sector option would be built piecemeal over time,[188] a difference which could substantially change costs.

In a later analysis of this report prepared by the District of Maple Ridge, Ron Parks and Jennie Chan from auditing firm Kroll Lindquist Avey indicate that the report lacked a sensitivity analysis.[189] A sensitivity analysis would have provided additional information about the degree to which the cost comparison was sensitive to changes in some of the underlying assumptions.

Parks and Chan did additional calculations to determine what the effects would be if certain underlying assumptions were changed. The cost advantage of the public sector option relative to the P3 option would be different if various assumptions were changed:

- The original report assumed the P3 option could build the facility at a cost savings of 15 per cent over the public sector. If this cost savings were reduced to 10 per cent, the public sector option would be $2.1 million cheaper, and if the cost savings were increased to 20 per cent the P3 option would be $802,000 cheaper. [190]
- A discount rate of 7 per cent was used in the BDO report. If the discount rate were reduced to 6.5 per cent the public sector option would be $2.3 million cheaper.[191]

- The report assumed 100 per cent occupancy of office space sublet by the District. If the occupancy rate were reduced to 70 per cent the public sector option would be $1.3 million cheaper, and if the occupancy rate were reduced to 50 per cent the public sector option would be $1.7 million cheaper.[192]
- If different methods for calculating the tax revenues were used, the cost advantage of the public sector option would increase to $1.5 million.[193]
- If the hotel were excluded from both the public and private options (as opposed to including it in just the private option), the public option would be $1.9 million cheaper than the private option.[194]

Although the Kroll Lindquist Avey report was produced in January 2003, there were many additional concerns raised in an earlier report produced by the Canadian Union of Public Employees (CUPE) in October 2002.[195] CUPE hired accounting firm MacDonald Ng and Company to review CUPE's findings for accuracy.

A report by the Canadian Union of Public Employees, reviewed for accuracy by the accounting firm MacDonald Ng and Company, found that on closer examination, the P3 option was at a minimum $20 million more expensive than traditional public procurement.

CUPE found that on closer examination, the P3 option was at a minimum $20 million more expensive than traditional public procurement.[196] The additional costs of the P3 arise from findings such as the following:

- There is no basis in fact for adding a 15 per cent cost premium to the public option. This premium was attributed to potential problems associated with timeline, economies of scale and expertise of the contracting company, and thus these costs could be addressed by selecting a developer that met the right requirements in these areas.[197]
- The BDO Dunwoody report calculated interest rates on the public option with an interest rate of 7 per cent. However, the interest rates that would be paid under the public option would have been closer to 5.49 to 5.99 per cent. By using an interest rate of 5.75 per cent the public option would have been $5.2 million cheaper.[198]
- The projected additional tax revenue associated with building a hotel was highly unrealistic and exaggerated.[199]
- The BDO Dunwoody report assumed that in the absence of a private partner, the site of the hotel and office tower would remain undeveloped. This assumption made a difference of $1.7 million, and the assumption is best described as "naïve and improbable"[200] according to the accountants hired by CUPE.

The important thing to note about the problems unearthed by both CUPE and Kroll Lindquist Avey is that these are general assumptions that fed into the calculations. Because a "review" does not question the underlying assumptions, it is possible for a "review" to legitimately provide a positive opinion of a Value For Money analysis that has faulty assumptions.

The above issues highlight the importance of reading the actual body of Value For Money reports, rather than relying on their executive summaries or on how the project's supporters portray their contents. In addition, these findings highlight the importance of bringing an outside and independent analysis to Value For Money reports, especially when reports are produced in a context where the P3 is being heavily promoted by political leaders or senior managers.

Portrayals of the Value For Money Report

BDO, in both its project proposals and in the report itself, were careful to emphasize that it was relying on assumptions provided by the District. By not verifying the assumptions provided by the District, BDO charged the District a lower fee, but this also meant that the final report carried less weight.[201] The report itself included a caution concerning reliance on BDO's findings.[202]

On August 30, 1999, Mr. Robertson described the analysis to Council as an "independent financial Value For Money Audit."[203] This portrayal is inaccurate on two accounts. First, to describe the report as an "audit" is wrong, since the analysis did not validate the underlying assumptions. In a disturbing trend with P3s in BC, those advancing P3s are arranging for auditors to provide minimal oversight, while the analysis is being given the same credibility as a full audit.

Secondly, the analysis was described as "independent" when, in fact, BDO Dunwoody had an ongoing contractual relationship with the District as its auditor.

On September 15, 1999, Mr. Robertson described the BDO report as an "external analysis of the various assumptions" in spite of the fact that BDO was clear they were relying on District assumptions.[204]

The findings of the report, although they were presented to Council and the public, do not appear to have been discussed in any Council or Council/Staff meetings. However, the findings were presented to the Maple Ridge Chamber of Commerce, and the Chamber of Commerce subsequently issued a press release publicly supporting the P3.[205]

Court Rules The Project Illegal

On October 29, 1999, a local businessman named Gordon Robson (who would later become Mayor) initiated a lawsuit against the District and the private partners alleging that the project was illegal. He noted that the lease constituted a liability of more than five years, which required an opportunity for a counter-petition.

Ultimately, on June 3, 2002 the BC Court of Appeal agreed with Mr. Robson. The Court deemed the deal's agreements beyond the power of the District and declared the agreements void.

The important finding of the ruling is that P3 lease payments must now be treated as a public liability, effectively ruling out the use of off-book financing to reduce government debt. It is now firmly established that P3s do not provide governments with new capital which is debt-free.

Summary – Maple Ridge Core Project

As a result of the court ruling, the P3 deal was cancelled. Since that time, the District has proceeded with building the project through traditional public sector procurement. In this case, the Municipal Finance Authority is providing the financing. The private contractors and the remaining debt on the previous P3 have been bought out by the District.

According to cost estimates provided to the District, building the project through traditional procurement and public ownership of the facility will cost $60.6 million. This is almost $20 million cheaper than the estimated cost of building the project through a P3. In addition, the public project will allow the public to own the entire office tower and all of the parking, as compared to the original deal, which only provided the public with part of the parking and a portion of the tower. According to these estimates, the public project will be substantially cheaper and better than the original P3 deal.[206]

Many people discount the Maple Ridge Core Project as a poor example of how P3s operate. However, this example should not be discounted. It is true that any process, including traditional government procurement, can be poorly managed or abused outright. However, implementing a model that increases the potential for such problems and/or moves them further out of public scrutiny and transparent oversight presents major concerns of accountability and the needed checks and balances. For example, the Value For Money process has become so confusing that it makes public oversight almost impossible.

After many sunk costs in the bidding and procurement process, the District learned that it was better off with traditional procurement.

In this project several mistakes were made which ultimately made the project unworkable.

The project was to be built through a sole source, eliminating the opportunity for competitive bidding within the private sector. When the rationale for sole source provision (the involvement of China) disappeared, the District proceeded instead of reconsidering the project. When the Municipal Act was changed in a manner that would require a referendum, the District attempted to structure the deal so that it could work around the legislation. The Value For Money analysis was inherently flawed and was misrepresented to others.

All along, the project was plagued by misunderstandings and mischaracterizations by those who were trying to advance the P3.

Ultimately, this project ended with a policy reversal. After many sunk costs in the bidding and procurement process, the District learned that it was better off with traditional procurement.

Observations About Public-Private Partnerships

P3s have been described as having several benefits, but in the end these benefits do not stand up to scrutiny. Whether it is debt-free infrastructure, cost savings, projects being completed on-time and under budget, greater Value For Money or the transfer of risk from governments to private partners, the benefits attributed to P3s often turn out to be non-existent.

Given the evolution of rationales supporting P3s, it is reasonable to question what the real motives are. It is clear that for many private sector investors, the attraction is to a new stream of revenues and a new area in which to generate for-profit activity. For political leaders, it is likely that there is also an ideological issue, that those who have a political loyalty to the business community sincerely believe that the world would be a better place if more public sector activities were run by business.

Ultimately, the remaining positive attribute of P3s is their ability to support private interests. However, large infrastructure projects are an opportunity to pursue a wide variety of public interests above and beyond the building of physical capital. For example, with the Vancouver Island Highway Project, the province was able to deliver a major project on time and on budget, provide unionized jobs and create pro-active training opportunities for groups traditionally under-employed in construction, primarily women and aboriginal people.[207] These kinds of benefits are rarely advanced when public services are delivered in a manner that is more tailored to the interests of for-profit institutions.

When it comes to the benefits of "stimulating industry" the public needs to take a sober look at what this alleged benefit entails. If government is paying more for something than it is worth, this raises the question of whether the new industry is adding to, or subtracting from, the public interest.

Emerging from the case studies is the fact that P3 projects bring together a variety of smaller project elements into one large contract. The resulting contracts tend to be so large in scale that local businesses in BC are often too small to bid. Local businesses can benefit from opportunities to bid on a large project if there are separate bids for smaller portions of the project, as was the case with the Vancouver Island Highway Project.

Even the major national and international corporations must form consortiums with firms with differing specializations in order to prepare a suitable bid. Often governments pursue procurement policies with a goal to stimulate local business, but in the case of P3s governments are actually diverting money *away* from local business.

Another emerging trend is the increased demand for democratic governance (i.e. transparency and accountability) of public services. There is a growing number of examples where senior political leaders are ceding decisions about on-the-ground public services to the local community.[208] These new models require increased transparency and increased public control. P3s, however, move in the opposite direction, by increasing corporate control of facilities in a manner that limits public scrutiny, control and consultation.

The Value For Money process is so subjective, so susceptible to manipulation by vested interests, and so complicated that the process needs to be handed over to independent auditors in order to be of any legitimate use.

This report only reviews three P3 projects in detail. There are many additional lessons that can be learned from a more comprehensive analysis of other P3s.

It may be the case that there are successful P3s, or that in some cases P3s deliver on their alleged benefits. It is indeed likely that as P3s evolve, there will be new benefits attributed to them, and new evidence may arise strengthening the case for P3s.

For example, it is possible that P3 proponents will abandon the use of private financing due to its proven higher cost. Or perhaps government guarantees on P3 debt will improve the credit ratings of the private partners, leveling the playing field between public sector and private sector interest rates. Many P3 proponents are adamant that the private sector can deliver greater innovations, and perhaps some of the benefits of these innovations will end up in the public's hands rather than in the hands of shareholders. With practice, it is still possible that the P3 bidding process will become standardized, streamlined and more efficient.

For the time being, however, the case for P3s is not strong. There are few completed P3 projects that people can point to as a success. The various studies that endorse P3s are short on data and tend to not stand up to scrutiny.

Of particular concern is the Value For Money analysis process. The Value For Money process is so subjective, so susceptible to manipulation by vested interests, and so complicated that the process needs to be handed over to independent auditors in order to be of any legitimate use. Of particular concern is the value of risk transfer, and the discount rate for converting future payments into current dollars. Both of these devices have historically been manipulated in a manner that favours P3s. The public needs a more objective, comprehensive and transparent approach to determining if individual P3s offer any benefit over traditional public procurement.

In the three case studies featured in this report, no project manager had independent analysts prepare a Value For Money study and release the study to the public before the contract was final. Value For Money analyses are being produced at the wrong time, by the wrong people, with limited transparency. The role of the Auditor General has been limited to providing reviews, while the scrutiny assumed to be inherent in his office's role as auditor is used to whitewash the credibility of P3s. Projects are proceeding apace at times when they need to be stopped and reconsidered, such as when there are major changes in project scope, or when competitive bidding is reduced to a sole bidder.

A recurring theme with the case studies is the fact that P3s are being forced or imposed on decision makers by either the provincial government or by senior administrators. The normal deliberations that go into making sound decisions about infrastructure are being influenced by reports that have limited value but plenty of polish.

Ideally, governments would stop using P3s as a way to finance and operate public facilities. If they apply a healthy skepticism to the promises and reports provided by vested interests, they will find that P3s lack a strong rationale.

As a society, we want public services delivered cost effectively, at the maximum value to the public. P3s instead extract value from the public purse while generating profits for private shareholders.

Recommendations to Change the P3 Process

While P3s under some limited circumstances may be appropriate, in general they are unnecessarily costly and do not serve the public interest. The current provincial policy of pursuing P3s as the preferred approach to infrastructure projects should be abandoned.

One could conceive of circumstances where P3s might be a good idea, such as when the private sector can indeed provide significant cost savings otherwise unavailable to the public. In such cases, the process for implementing P3s needs several changes. This report recommends the Province make several changes in policy that would improve P3s in those cases where they make sense. These recommendations are:

1. All major infrastructure projects should be subjected to a cost-benefit analysis comparing the proposal to build a project to the option of not building a project. This analysis should be conducted independently from, and prior to, the Value for Money analysis.
2. Value For Money analyses must aspire to create an objective measure of a P3 project's worth relative to traditional public procurement.
3. Value For Money reports including Public Sector Comparators should be completed and made public before any project receives final approval.
4. The Value For Money analysis should be done by an independent third body such as the Auditor General.
5. The government must undertake a study of discount rates, and set guidelines so that all Value For Money analyses use the recommended discount rate in a manner that is consistent and transparent. This analysis, and the discount rate it recommends, needs to be reviewed regularly to consider changes in the economy and in society over time.

6. In Value For Money analysis, the costs associated with risk transfer must be separated from interest rates and discounting, in order to ensure the risk transfer calculation is transparent and credible.
7. A new policy on evaluating risk transfer should be established, such that there is a standard and acceptable practice for measuring and comparing risk between projects.
8. In those cases where public or private auditors conduct “reviews” of the cost-effectiveness of a project, the distinction between a review and an audit should be made clear to the public. This includes labeling each page of a reviewed document as “unaudited.” Auditors should also take an active public role in clarifying any misunderstandings about the degree of scrutiny that they have applied to a project if they have only provided a review. The Auditor General should abandon reviews, and prepare the Value For Money reports themselves, or an independent third party should scrutinize the underlying assumptions. Auditors should also speak out if their reports are misrepresented for partisan purposes.
9. The Office of the Auditor General needs to be sufficiently funded to ensure its ability to effectively and independently scrutinize the P3 model of infrastructure procurement, as well as individual P3 projects. The Auditor General’s Office should also evaluate the role that Partnerships BC plays, and in particular consider whether the structure of Partnerships BC constitutes an inherent conflict of interest, particularly the dual mandate of providing independent and objective advice on P3s while also actively promoting them.
10. After the construction phase of a P3 project, any windfall cost savings from refinancing should be split evenly between the public and private sectors.

Conclusion

Catalogue of P3 Lessons

Below, we provide a catalogue of the main lessons learned from P3s to date:

1. In the past, P3s have often relied on off-book financing, which hides debts and cashflows in arms-length companies that are not reported on a company's or government's books. In the UK and on some other projects, this off-book financing continues to be used. However, off-book financing has been discredited, and bond-rating agencies, Auditors-General, the accounting profession in general and the courts all regard P3 debt as equivalent to government debt. As a result, the benefits of off-book financing have been eliminated.
2. P3s are more expensive than public procurement because they involve higher interest rates, a more expensive bidding process and a profit margin.
3. P3s often involve private companies borrowing to finance a public project. However, private financing results in a higher cost of capital, with a difference in interest rate of 1 per cent or more. This is because corporations have a higher risk of default, and lenders require higher returns to offset the risk.
4. P3s are described as being more likely to deliver a project under budget. However, these projects often have significant cost increases before the contract is signed. Research on the cost-effectiveness of P3s has tended to overlook the cost increases before construction begins.
5. P3s are portrayed as being more likely to deliver a project on time. However, this portrayal overlooks the fact that P3s typically have a more lengthy planning process as a result of the greater complexity and scale of the contracts. These pre-contract delays effectively eliminate any potential benefits of the project being constructed more promptly.

6. Currently the main purported benefit of P3s is the claim that they deliver Value For Money (VFM), which is supported by Value For Money reports. However, these reports are so subjective that they have been described as "pseudo-scientific mumbo jumbo" where P3 proponents can manipulate the public sector comparators to look as bad as they want. This subjectivity calls into question whether these reports are of any use.
7. In Value For Money comparisons, policy planners often use an artificially high discount rate. The higher the discount rate, the cheaper future spending appears to cost. Higher discount rates make P3s look better because they charge governments a larger portion of project costs in the future.
8. While much of the value of P3s rests on the benefits of risk transfer, in many cases it is debatable whether there is in fact a meaningful transfer of risk.
    a) *"Force majeure"* and the risk of private partner default and/or unforeseen circumstances ultimately fall on the public sector. If there is an unforseen event or a bankruptcy, the public sector must bail the project out.
    b) Many projects involve guarantees by government, which reduce the risk transfer, and in some cases result in greater risk for government. Tellingly, lenders conclude that there is minimal risk transfer.
    c) The private sector is skilled at evaluating risks, and for business purposes will charge the government the full cost of the risks they take on. There cannot be added value to the government, otherwise the private sector would lose money and end up subsidizing government.
    d) The healthy profit margins of P3s reveal that firms are not taking on risks at a loss. If anything, the private sector is likely charging a premium for the risk transfer.
    e) Some risks that could reasonably be avoided are inappropriately added to the cost of public sector options. For example, it is possible to organize public projects more carefully to reduce risks.
    f) Most of the risks associated with P3s are in the construction phase. This means that once the project is completed, the project can be refinanced at a lower interest rate that carries lower risk of default. There is a history of the private sector benefiting from the windfall profits of refinancing.
    g) After the construction phase is completed, the multi-decade operating agreements provide the contractor with a guaranteed client who will not go bankrupt. This makes the post-construction P3 an extremely low-risk investment, which itself calls into question whether there is any risk transfer during the operating phase.
9. There is a need for an objective analysis of whether P3s produce Value For Money (VFM). However, it is highly debatable whether the VFM exercises in their current form provide useful information.
    a) Due to the subjective and debatable nature of the risk transfer and the discount rate, the public cannot rely on VFM reports as if they were objective and precise.
    b) In order for VFM exercises to be objective, they must be done by a body that does not have an explicit agenda or a vested interest in seeing P3s used. However, the

involvement of the openly-biased Partnerships BC in producing favourable VFM reports calls into question the value of these reports.

c) Several VFM reports have been produced after a contract has been signed with the private sector. In order for a VFM exercise to be worthwhile, it must be completed and publicly released before a project is approved. In addition, the fact that a P3 has already been approved increases the pressure on analysts to create a VFM report that supports the P3 status quo.

d) On several occasions auditors have provided "reviews" instead of audits of a P3's Value For Money. Reviews are limited in scope and do not provide the scrutiny that P3s warrant. However, there is a public misperception that these reviews have had the same level of scrutiny that an audit would provide. Those promoting P3s, as well as the auditors involved in creating these reviews, need to take greater responsibility in closing this perception gap and clarifying that these reviews are limited in scope. Governments should stop using reviews and conduct analyses that include a more rigorous examination of underlying assumptions.

e) Currently, the Auditor General provides opinion letters on VFM comparisons created by Partnerships BC. It would be more appropriate if the entire VFM were produced by the Auditor General's office directly. Otherwise, the Auditor General should decline the opportunity to provide reviews of these reports.

10. While P3s have been defined as a form of "partnership" that uses the best elements of the private and public sector, in reality they are contracts to provide services. The contracts can be sold to other firms, and as a result, the relationship can be sold for cold, hard cash.

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Notes

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[2] For example, Premier Gordon Campbell, during a campaign stop in the 2005 election, said "…the important thing is, it's being built. The NDP did nothing. To be blunt, they delivered an empty field. I think the people want a new hospital." In this speech, Campbell also emphasized that the new hospital was "a public facility." Tricia Leslie. "Hospital Construction Site a Liberal Campaign Backdrop." *Abbotsford Times – Online Edition*. May 10, 2005.

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[19] HM Treasury. *Value for Money Assessment Guide. August 2004*. p. 30.

[20] *Globe and Mail*, Report on Business. Canadian Bonds charts, March 8, 2006. p. B20. These figures refer to the ask yield.

[21] As of March 8, 2006, the interest rate was 5.71 per cent on Loblaw Co. bonds rated A and expiring in February 2028. The interest rate was 5.9 per cent on Canadian Tire bonds rated BBB+ and expiring in April 2028. The interest rate was 5.89 per cent on Bell Canada bonds rated A- and expiring in May 2029. *Globe And Mail*, Report on Business. Canadian Bonds charts, February 2, 2006. p. B23. These interest rate figures refer to the ask yield. Bond ratings are from the Standard & Poor's web site.

[22] Government of British Columbia web site, available online at http://www.bcbudget.gov.bc.ca/2005/bfp/bgt2005_part1_tb_debt.htm

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[25] Allyson Pollock et al., 2005, Op. cit., p. 3.

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[28] Pam Edwards, Jean Shaoul, Anne Stafford and Lorna Alabaster. *Evaluating the Operation of PFI in Roads and Hospitals*. Research Report No. 84. Association of Chartered Certified Accountants. 2004.

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[30] The 2009 completion date is described on the Partnerships BC web site at http://www.partnershipsbc.ca/files_2/kickinghorse.html. Also discussed by Murray Dobbin in "Partnerships BC: more is less." *The Georgia Straight*. December 29, 2005. Available online at http://www.straight.com/content.cfm?id=15102.

[31] According to Partnerships BC, the "Final Value for money analysis should include a Multi-Criteria Analysis of the project… analysis of final agreement achieved versus a base case, such as a public delivery option for the project if one was considered; and any further innovations/savings captured during the procurement process. This report will also include the objectives, costs and benefits, and risks of the project." Partnerships BC. *Procurement Related Disclosure of Public Private Partnerships*. August 2005. p. 5.

[32] The UK government's greenbook provides an explanation of the discounting formula at http://greenbook.treasury.gov.uk/chapter05.htm#eight on the last page, under footnote 9. The present value of a payment is given by: $Dn= 1/(1+r)^n$ where "r" is the discount rate, "n" is the years from present that the payment is made, and Dn is the discount factor. For example, a payment of $1000 at the middle of year 10 and a discount rate of 4.7 per cent has a present value at the middle of year 0 of: $\$1000 \times 1/(1.047)^{10} = \$1000 \times 0.632 = \$632$.

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[35] HM Treasury, *The Green Book*, (undated but current online as of January 2006) paragraph 5.49. Available online at www.hm-treasury.gov.uk/economic_data_and_tools/greenbook/data_greenbook_index.cfm

[36] HM Treasury, *The Green Book*, (undated but current online as of January 2006) Annex 6, paragraphs 10-12 and table 6.1. Available online at www.hm-treasury.gov.uk/economic_data_and_tools/greenbook/data_greenbook_index.cfm

[37] Various speakers repeatedly made this general comment at the conference "Public Private Partnerships in British Columbia," a conference hosted by Insight Information in Vancouver on June 21-22, 2005.

[38] These are among the lists provided by: Douglas R. Sanders and Michael Dew. "Risks Flow Downhill? Managing Risks in P3 Projects." Presentation materials provided at "Public Private Partnerships in British Columbia," a conference hosted by Insight Information in Vancouver on June 21-22, 2005.

[39] For example, P3 consultant Johnathan Huggett commented that the higher private sector interest rate is due to the additional risk when he spoke at "Public Private Partnerships in British Columbia," a conference hosted by Insight Information in Vancouver on June 21-22, 2005.

[40] Gaffney et al., 1999, Op. cit., p. 118.

[41] Allyson Pollock, Jean Shaoul and Niel Vickers. "Private Finance and 'Value For Money' in NHS Hospitals: A Policy In Search of a Rationale?" *BMJ*. Vol. 324, May 18, 2002. p. 1208.

[42] Pollock et al., 2002, Op. cit., p. 1208.

[43] Edwards et al., 2004. Op. Cit., p. 7.

[44] Gaffney et al, 1999, Op. cit., p. 118.

[45] Edwards et al., 2004. Op. Cit., p. 7.

[46] Pollock et al., 2002, Op. cit., pp. 1208-9.

[47] Pollock et al., 2002, Op. cit., p. 1209.

[48] Standard & Poor's. *Accounting for Innovation: Treatment of Off-Balance-Sheet Public Sector Financing Operations*. September 23, 2002. p. 11.

[49] Pollock et al., 2002, Op. cit., p. 1208.

[50] Ibid.

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[52] Pat Barrett. "Public Private Partnerships: Are there gaps in public sector accountability?" Speech to the 2002 Australasian Council of Public Accounts Committees. February 3, 2003.

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[57] "Our Role and Mandate." Web site of the Office of the Auditor General of British Columbia. Available online at http://www.bcauditor.com/AuditorGeneral.htm.

[58] Vaughn Palmer. "Auditor-general finds the Liberals fail to share his fiscal concerns." *Vancouver Sun*. December 6, 2003. p. A3.

[59] Wayne Strelioff. Engagement letter between Auditor General Wayne Strelioff and Partnerships BC CEO Larry Blain (Untitled). January 17, 2005. p. 3.

[60] Canadian Institute of Chartered Accountants. *Canadian Institute of Chartered Accountants Guidelines*. Sec. 8100.06.

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[65] Canadian Institute of Chartered Accountants. *Assurance Recommendations*. March 1997. Sec. 5020.16, p. 5026.

[66] Nicholas Timmins. "Warning of 'Spurious' figures on Value of PFI." *Financial Times*. 5 June 2002. Unpaginated document retrieved from Factiva.

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[68] Ibid.

[69] Ibid.

[70] The Association of Chartered Certified Accountants. *ACCA Members' Survey: Do PFI Schemes Provide Value for Money?* September 2002. pp. 8-9.

[71] Kathy Corrigan. "The Case Against" in "To Privatize or Not." *Canadian Consulting Engineer*. January/February 2005.

[72] As discussed earlier in the report, citing the sources Daw, 2004, Op. cit., p. D.06 and Henderson Global Investors, 2003, Op. cit., p. 4.

[73] Pollock et al., 2002, Op. cit., pp. 1208-1209.

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[75] Canadian Council for Public-Private Partnerships web site. Available online at www.pppcouncil.ca/aboutPPP_why.asp.

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[83] Unison, 2001, Op. cit., p. 3.

[84] Unison, 2002, Op. cit., p. 4.

[85] Unison, 2001, Op. cit., p. 2.

[86] Unison, 2001, Op. cit., p. 3.

[87] Henderson Global Investors, 2003 Op. cit., p. 3.

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[110] Parks and Malcolm, 2002, Op. cit., p. 2.

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[112] Ibid.

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[117] Partnerships BC. *Project Report: Achieving Value for Money – Abbotsford Regional Hospital and Cancer Centre Project*. February 2005. p. 12.

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[120] Canada Line web site FAQ. Available online at www.ravprapidtransit.com/aboutFAQ.asp.

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[122] This includes comments from speakers at the conference hosted by Insight Information "Public Private Partnerships in British Columbia" on June 21-22, 2005 in Vancouver. Speakers Johnathan Huggett and Abraham Akkawi expressed the view that not all projects are "P3-able" and that a sound business case should be the basis for deciding whether to use P3s.

[123] Dan Doyle. Letter to Pat Jacobsen, President and CEO of TransLink. June 19, 2002

[124] Greater Vancouver Transportation Authority, the Province of British Columbia, and RAV Project Management Ltd. "Provincial Funding Agreement (Restated)." Contract specifying the agreement between the parties regarding the RAV project. November 5, 2004. Section 2.4, p. 10.

[125] Pricewaterhouse Coopers. *RAVP Project Definition: Advisory Report on Financial Feasibility*. April 30, 2003. p. 30.

[126] Pricewaterhouse Coopers. *RAVP Project Definition: Advisory Report on Financial Feasibility*. April 30, 2003. p. 33.

[127] This includes three reports: 1) Pricewaterhouse Coopers. *RAV Project: Value for Money*. Undated. p. 39; 2) RAVCO. *RAVCO Board Report: Funding Report*. March 30, 2004. p. 8; and, 3) RAVCO. *RAVCO Board Report: Funding Report*. March 30, 2004. *Addendum to the Project Funding Report*. April 13, 2004. p. 2.

[128] RAVCO. *RAVCO Board Report: Funding Report*. March 30, 2004. p. 8.

[129] RAVCO. *RAVCO Board Report: Funding Report*. March 30, 2004. pp. 16-20.

[130] Pat Jacobsen and Mary Plewes, memo to the GVTA Board, November 26, 2004, and Provincial Funding Agreement (Restated), November 5, 2004. p. 21.

[131] Pat Jacobsen and Mary Plewes, 2004, Op. cit., p. 12.

[132] Ibid.

[133] Canada Line Rapid Transit Inc. *Contract Confirms Public Protected From Potential Construction Cost Increases*. Bulletin No. 14, March 3, 2006. p. 4.

[134] Author's calculations using CPI data from the Bank of Canada Web Site.

[135] "From the time of the first preliminary work by the Macquarie Group in 2000/2001, the potential advantages of a P3 have been extolled in the abstract and without any quantifiable basis for public sector comparison." Blair Redlin. *High Risk: An Analysis of the Proposed Public-Private Partnership for the Richmond/Airport/Vancouver Rapid Transit Project*. Canadian Centre for Policy Alternatives – BC Office. May 2003. p. 22.

[136] The Morfitt review had findings that were largely similar to those produced by KPMG.

[137] KPMG "Review of the Public Sector Comparator for the RAV Project. A letter to the Finance Director and Procurement Manager of RAV Project Management Ltd. February 9, 2004. p. 2.

[138] Pricewaterhouse Coopers. *RAV Project: Value for Money*. Undated. p. 3.

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[140] Pricewaterhouse Coopers. *Executive Summary: Value for Money Report*. RAVCO. March 30, 2004. p. 3.

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[145] J.S. Belhouse. *Richmond-Airport-Vancouver Rapid Transit Project / Northeast Sector Rapid Transit Alternatives*. A report to the City Manager from the Director, Planning and Building. City of Burnaby. April 23, 2003. pp. 6-7.

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[147] RAVP Project Office. "Re: Inquiry Regarding Ridership Risk." Email correspondence . November 10, 2005.

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[159] Ibid.

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[161] Parks et al., 2003, Op. cit., p. 33.

[162] Parks et al., 2003, Op. cit., p. 35.

[163] Parks et al., 2003, Op. cit., p. 29.

[164] Parks et al., 2003, Op. cit., p. 30.

[165] Parks et al., 2003, Op. cit., p. 31.

[166] Parks et al., 2003, Op. cit., p. 36.

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[177] Legislative Assembly of British Columbia. *Official Report of Debates of the Legislative Assembly (Hansard)*. Vol. 3, No. 5. p. 1169.

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[180] Parks et al., 2003, Op. cit., p. 66.

[181] Parks et al., 2003, Op. cit., p. 79.

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[183] Parks et al., 2003, Op. cit., p. 83.

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[186] Parks et al., 2003, Op. cit., p. 70.

[187] Parks et al., 2003, Op. cit., p. 105.

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[193] Parks et al., 2003, Op. cit., p. 111.

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[197] Ibid.

[198] CUPE, 2002, Op., cit., p. 16.

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[206] Jim Rule. “Core Deal Recommendations.” A letter from the Chief Administrative Officer to the Mayor and Council of the District of Maple Ridge. June 4, 2004. p. 10.

[207] Marjorie Griffin Cohen and Kate Braid. *The Road to Equity: Training Women and First Nations on the Vancouver Island Highway – A Model for Large-Scale Construction Projects*. Canadian Centre for Policy Alternatives – BC Office. August 2000. p. 1.

[208] Several examples are spelled out in a recent paper by Marcy Cohen entitled *Democratizing Public Services: Lessons from Other Jurisdictions and Implications for Health Care Reform in BC*. Canadian Centre for Policy Alternatives – BC Office. March 2005.

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