



June 2015

Following Failure: Saskatchewan government seems doomed to repeat the P3 mistakes of other provinces.

By Simon Enoch & Cheryl Stadnichuk

Introduction

Despite the very real record of P3 malpractice throughout Canada, governments continue to believe that they can successfully wield the P3 process to their benefit, irrespective of the failure of other governments to do the same. Indeed, the near ubiquitous refrain from governments when trying to sell the public on the superiority of public-private-partnerships (P3s) is that "they have learned from the mistakes of the past." It seems given the litany of P3 debacles across the country, politicians are keenly aware that they must convince electorates that "this time will be different."

This all-to-familiar rhetoric precedes failed P3 projects with astonishing regularity. For instance, prior to multiple BC Auditor General reports criticizing the P3 process in that province, Finance Minister Gary Collins assured the electorate that "one of the advantages of being one of the last jurisdictions to start to explore these options in a real way is that we get to learn from the mistakes and success that have happened elsewhere."¹ Similarly, Partnerships BC vice-president, Suromitra Sanatani penned an editorial for the *Vancouver Sun* that assured readers, "with the BC government pursuing P3s to build new hospitals and transportation infrastructure, it will have the benefit of learning from the successes and mistakes of others."²

Prior to Alberta's myriad P3 failures, Infrastructure Minister Ty Lund told the *Calgary Herald* that Alberta Finance had "set up an arm's length Advisory Committee on Alternative Financing that will carefully evaluate each and every proposed P3 project," adding "it is certainly not the intention of our government to repeat mistakes of other jurisdictions."³



In her attempts to convince a skeptical Quebec electorate of the value of the P3 model for what would become the McGill super-hospital disaster, Quebec Treasury Board chairperson Monique Jerome-Forget promised Quebecers that the province's newly-minted P3 agency would allow the government "to develop new expertise to guarantee the integrity, the coherence and the transparency" of the P3 process.⁴ The eventual CEO of that agency, Pierre Lefebvre, would further assure citizens: "We have the advantage

in Quebec of being late to the game. We can learn from the mistakes of others.”⁵

Given that these assurances have proved time and time again to be essentially hollow, it is all the more concerning that our own Saskatchewan government - who have only recently embraced the P3 model - appears to be reading from the same canned P3 script. When confronted with Alberta’s P3 school-bundling fiasco, Premier Brad Wall responded that Saskatchewan would “learn from Alberta’s bulk-school buying fumbles, and promised his government would get it right.”⁶ When questioned about the failure of New Brunswick’s P3 schools, Education Minister Don Morgan replied, “since that time, there’s been a lot of change and a lot more sophistication about how P3s are put together.”⁷ As if on cue, President and CEO of SaskBuilds Rupen Pandya assured all concerned that “Saskatchewan has learned from the mistakes of other jurisdictions.”⁸



Despite these assurances, the recent Saskatchewan Auditor-General (AG) report on P3s shows that rather than learning from the mistakes of other jurisdictions, the government is **actually repeating them**.

Most striking, the Saskatchewan AG report finds that the risk assessments - which are the primary means used to justify the cost-effectiveness of the P3 model - were made with *no recourse* to

any empirical or historical evidence of similar projects in the past:

"Rather, we found that participants and external experts made decisions about identified risks, and calculation of related costs based primarily on the results of verbal discussions. Not making information available in writing or maintaining key empirical data makes it difficult to substantiate or scrutinize decisions, particularly those that require a high level of expertise and professional judgement."⁹

This practice of "blue-skying" the costs of certain risks without any supporting evidence was one of the major concerns and a key recommendation of the Ontario AG in her damning report of Ontario's P3 process that estimates to have cost the province \$8 billion more than if they had been publicly financed and operated.¹⁰ Indeed, as economist Toby Sanger notes "every single one of Infrastructure Ontario’s 75 P3s was justified on the basis that they transferred large amounts of risk to the private sector, but there was absolutely no evidence or empirical data provided to support these claims in the crucial value-for-money assessments (VFM)."¹¹

The failure to properly incorporate past historical costs into risk assessments for Alberta's P3 school build was also a major concern of the 2010 Alberta AG annual report:

"We did not find evidence that estimated risk costs were, in total, validated against actual experience from prior school construction projects. Historical project cost information would provide additional validation of estimated risk costs, or serve as a means to refine those estimates."¹²

The Alberta AG further cautioned that "failure to validate key cost assumptions may result in the development of inaccurate cost comparisons."¹³

The Saskatchewan AG also found that certain benefits and efficiencies were ascribed to the private sector that should have also been assigned to the public sector. Conversely, certain risks "were attributed more to conventional public sector procurements" than to the private sector. In fact, the Provincial Auditor was astonished to find that for all four Saskatchewan P3 projects combined, "SaskBuilds estimated the cost of the risks that the public sector would retain, if it used conventional approaches, to be six times higher than if it used P3s."¹⁴ There is simply no explanation why risks in the public sector would be six times higher than risks in a P3 model. Unless, of course, the objective of the consultant-led costing exercise is to deliberately make the public sector option look more expensive. Indeed, as the AG notes, "these problems may contribute to currently creating a more favourable environment for the use of a P3 approach."¹⁵ A more diplomatic way of saying the process is biased towards P3s.

The practice of gaming the process to favour the P3 model was also a consistent concern of the Ontario AG, who notes that "often the delivery of projects by the public sector was cast in a negative light, resulting in significant differences in the assumptions used to value risks between the public sector delivering projects and the AFP approach."¹⁶

These mistakes have cost other jurisdictions million, if not billions of dollars. If Saskatchewan blindly follows the same rigged P3 process, we could potentially face similar losses here in this province as well.

Partnerships BC

Unfortunately If the Saskatchewan government truly wants to ensure it does not repeat the mistakes of the past, it has chosen a rather poor mentor. The Saskatchewan government's P3

agency SaskBuilds has spent \$5.6 million on advice from Partnerships BC (PBC) - the BC government's premier P3 agency.¹⁷

In committee, the Minister responsible for SaskBuilds defended the contracts with Partnerships BC by saying "one of the challenges of course we have is that we're fairly new to procurement."¹⁸ Indeed, a review of the contracts between SaskBuilds and Partnerships BC obtained through Access to Information shows that PBC is providing advice on virtually every aspect of the P3 projects in Saskatchewan.¹⁹ However, because PBC generates *all* its income through consulting services promoting P3s, it is highly unlikely to propose any public solutions.

Review of Partnerships BC



In fact, in its 2014 audit review, BC Finance flagged this problem:

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

that create opportunities for PBC to earn revenue.”²⁰

In addition, SaskBuilds has also adopted PBC’s use of a high discount rate that favours the P3 model. Instead of following its own guidelines to use “the Government of Saskatchewan’s cost of debt” (which was 3.5%, according to Minister Wyant), the Swift Current Long Term Care P3 project is using a discount rate of 6.9%. This high discount rate is biased to the P3 model. A lower discount rate (closer to the government’s long term borrowing rate of 3.5%) would make the public sector option more favourable.²¹

At almost every step, the government’s P3 process appears built on a mountain of assumptions that dramatically favour the P3 model over the traditional public build model.

Conclusion

Rather than learning from the past mistakes of other jurisdictions, the Saskatchewan government appears poised to repeat almost everyone of them. Unfortunately, the government seems averse to implementing even the most minor of reforms that could help correct the current biased P3 process. When the Saskatchewan AG recommended implementing a simple “cost cushion” as a way to protect against the cost uncertainties in the P3 model, the Minister responsible for SaskBuilds Gordon Wyant countered with “that’s not something ... that’s done across Canada,” but said the government would consider it.”²²

The whole point is that current P3 procurement practice across the country is broken. We should be actively trying *not to* emulate it. And we should certainly not use current practice as a justification to forgo much-needed reforms. Yet, rather than chart a new approach to public infrastructure that might save the people of Saskatchewan millions - if not billions - of dollars,

it seems the government is more intent on blindly following the same skewed process that has failed in the rest of the country.

So much for learning from past mistakes.

ABOUT THE AUTHORS

Simon Enoch is the Director of the Saskatchewan Office of the Canadian Centre for Policy Alternatives. He holds a PhD in Communication & Culture from Ryerson University in Toronto.

Cheryl Stadnichuk is the Chair of the CCPA Saskatchewan board and a research officer with CUPE Saskatchewan.

NOTES

¹ Harvey Enchin, "Why BC is courting the private sector." *Vancouver Sun*. January 29, 2002: A1.

² Suromitra Sanatani, "UK leads the way in partnerships." *Vancouver Sun*. May 7, 2003: D7.

³ Calgary Herald, "P3s just a tool, minister says." *Calgary Herald*. November 15, 2003: B2

⁴ Don MacPherson, "PPP's are perhaps not the best idea for hospitals." *Montreal Gazette*. February 6, 2005: A13.

⁵ Sean Silcoff, "It's just sucking up money." *National Post*. November 10, 2007: FP 5.

⁶ Emma Graney, "P3 schools analyzed." *Regina Leader-Post*. January 29, 2014: A1

⁷ Emma Graney, "P3 schools mark policy turn-around." *Regina Leader-Post*. October 24, 2013: A1.

⁸ Emma Graney, "All hands on deck in designing new schools." *Regina Leader-Post*. March 8, 2014: A13.

⁹ Provincial Auditor of Saskatchewan. "SaskBuilds - Evaluating Potential Use of P3s." 2015 Report: Volume One. Available at: https://auditor.sk.ca/pub/publications/public_report_s/2015/Volume_1/16_SaskBuilds-Evaluating%20P3s.pdf

¹⁰ Office of the Auditor General of Ontario. "Alternative Financing and Procurement." 2014 Annual Report. Available at: http://www.auditor.on.ca/en/reports_en/en14/305en14.pdf

¹¹ Toby Sanger, "Ontario audit throws cold water on federal-provincial love affair with P3s." *The Monitor*. February 2, 2015. Available at: <https://www.policyalternatives.ca/publications/monitor/ontario-audit-throws-cold-water-federal-provincial-love-affair-p3s>

¹² Auditor General of Alberta. *Report of the Auditor General of Alberta*. April 2010. Available at: <http://www.oag.ab.ca/webfiles/reports/OAGApr2010report.pdf>

¹³ Ibid., 24.

¹⁴ Provincial Auditor of Saskatchewan, 2015, 199.

¹⁵ Ibid., 200.

¹⁶ Office of the Auditor General of Ontario, 2014, 198.

¹⁷ Standing Committee on the Economy. Hansard. April 21, 2015. Available at: <http://docs.legassembly.sk.ca/legdocs/Legislative%20Committees/ECO/Debates/150421Debates-ECO.pdf>

¹⁸ Ibid., 656.

¹⁹ View the contracts here: <http://sk.cupe.ca/files/2015/06/Contracts-obtained-through-Access-to-Information-Requests-between-SaskBuilds-and-Partnerships-BC.pdf>

²⁰ B.C. Ministry of Finance. *Review of Partnerships BC*. July 2014., p.13. Available at: http://www.fin.gov.bc.ca/ocg/ias/pdf_docs/Review%20of%20PBC.pdf

²¹ Standing Committee on the Economy, 2015., 655.

²² Emma Graney, "Auditor urges changes on P3s, school divisions." *Saskatoon Star-Phoenix*. June 2, 2015.