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Chair

Mr. Pat Martin

Standing Committee on Government Operations and Estimates

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● (0845)

[*English*]

The Chair (Mr. Pat Martin (Winnipeg Centre, NDP)): Good morning, ladies and gentlemen.

We'll call to order the 59th meeting of the Standing Committee on Government Operations and Estimates. We will continue today with our study of public-private partnerships.

We're very pleased today to welcome, by video conference, two witnesses.

First of all, from the University of Manitoba, we have Professor John Loxley.

Welcome, John. Can you hear us clearly?

Dr. John Loxley (Professor, Department of Economics, University of Manitoba): Yes, I can. Thank you.

The Chair: Very good. Thank you, John.

From Markham, Ontario, we have Mr. Damian Joy, the president and chief executive officer for North America of Bilfinger Berger Project Investments.

Welcome, Mr. Joy. Can you hear us well?

Mr. Damian Joy (President and Chief Executive Officer for North America, Bilfinger Berger Project Investments Inc.): I can hear you very well. Good morning.

The Chair: Very good. Thank you.

First we'll invite both of you to give brief opening statements of five to ten minutes. I would ask you, please, to moderate your rate of speech somewhat, so that the people from translation services can follow you. Then we'll invite our committee members to ask questions.

Following the order on our agenda, I'll ask Dr. Loxley to go first.

John, the floor is yours for five to ten minutes.

Dr. John Loxley: Thank you.

The P3 module has been under-researched in Canada, and the large profits that are being made on them by large construction companies, finance houses, and consultants and the ideological commitment to P3s by various levels of government mean that the Canadian public finds it difficult to have an objective view of them.

On the basis of more than 15 years of research published in a number of places, including a book I wrote with my son, called *Public Service, Private Profits*, and more recently a guide called "Asking the Right Questions: A Guide for Municipalities Considering P3s", my conclusion is that the model has many crucial flaws, that future generations of Canadians will be paying heavily for them, and that we should not be tying infrastructure finances to P3s, but rather exploring alternative models.

There are two major claims made for PPPs. The first one is that they make more dollars available for infrastructure. It's kind of a macro argument. The second one is that they provide microeconomic benefits—cheaper, greater efficiency, more value for money.

Earlier in the week you heard from our mayor, Mayor Katz, who argued both of these. Both of these arguments are highly questionable, if not incorrect. I was pleased to see that the committee asked the mayor to verify these, as we have been unable to do so in Winnipeg.

I think it's important to note that the private sector always builds projects, not the public sector. In a PPP what we do is we add private financing, private operations, private maintenance, a degree of private equity, and occasionally private ownership of the facility. Debt servicing and operation expenses are replaced by public sector lease payments to the private sector.

Leases, as we all know if we lease cars, are a form of debt regardless of how the PPP is entered in the public sector accounts, and private borrowing is almost always higher than public borrowing. Therefore, I would argue that in the long term the micro argument of greater resources for infrastructure investment is invalid.

What about the micro argument? The issue is what makes the value for money of P3s better than that of the public sector comparator. In fact it is an entire sparer of risk. If you look at the websites of Infrastructure Ontario and Partnerships BC and the individual projects on the websites in places like Winnipeg, you will see this is clearly the case.

The so-called savings that Mayor Katz mentioned, for instance, on the Chief Peguis Trail of $31 million were arrived at by a risk transfer said to be $51 million. Were it not for the risk transfer, the public sector comparator would have been superior. If you examine the individual projects on the websites of Infrastructure Ontario, you will find that this is the case for every single project.

I'll pick a few examples. The Durham Region Courthouse has a value for money of $49 million and a risk transfer of $132 million, if one can believe that for a courthouse. The Kelowna and Vernon hospitals had a value for money said to be $25 million, and the risk transfer was $32 million. These figures for risk transfer are not substantiated and are quite often just unbelievable. Risk transfer is the key, and it's not substantiated.

I attempted to find the calculations behind the risk transfer in Winnipeg. I was unable to obtain them through freedom of information. I was not given access. I then appealed to the company that had conducted them, the consulting firm, and it also denied me access on the grounds of commercial confidentiality. Such risk analysis has to be based on reality and public projects, and yet we're denied access to these.

● (0850)

Other problems with P3s, I would argue, are very high transactions costs. The legal cost, the organizational cost, the massive amount of documentation involved add up to quite significant costs. Frequently there's a lack of competitive bidding because of the size of these things. Value for money is sometimes missing, and is often flawed. Occasionally we find quite bogus arguments about there being no debt in P3s, as, for instance, with the Moncton water treatment plant, but there it is built in to the water charge. There's a capital charge that every person drinking that very fine water in Moncton now pays. The cost of that debt implied in the project is 10%. P3s introduce long-term inflexibility and rigidity. These projects last for a very long time. They often damage local small scale construction capacity, and small scale contractors are often very vocal against them. There's a long-term problem of monitoring P3s given the long life of these projects, and the relatively short institutional memory of politicians and civil servants. We're finding that with the school system in Nova Scotia, where auditors are being quite critical of our ability to monitor commitments under P3 arrangements.

Once the construction phase is finished and that period of high risk has ended, the ownership of these P3s is often flipped. As we know from various cases in B.C., that ownership may end up overseas, so original calculations about tax revenues have to be looked at very carefully.

It's a very short presentation and I elaborate on these issues in my publications.

I would argue that we should take a very cautious second look at P3s. I don't believe that they are in any way suitable for first nations, and I would say for the vast majority of municipalities, which simply don't have the capacity to handle them. I would argue that we should be exploring alternative models, and strengthening the ability of the public sector to handle investment projects more efficiently.

● (0855)

The Chair: Thank you very much, Dr. Loxley.

Next, for five to ten minutes we have Mr. Damian Joy.

Go ahead, sir.

Mr. Damian Joy: Good morning, everyone. I have to say I have a contrasting opinion on many of the things that John talked about. One that I completely agree with, however, is the understanding of risk. That is central to any discussion about public-private partnerships.

By way of introduction, my name is Damian Joy. I'm the president of Bilfinger Berger Project Investments Inc. We are a developer, investor, and manager of infrastructure P3s here in Canada and in North America.

I first worked in the Canadian PPP markets about 10 years ago. I've been based in Toronto for the last six and a half years, which is where our regional headquarters is.

We've had a long experience working with provincial PPP authorities and in a couple of instances, for example, the Trans-Canada Highway, where we're responsible for the Kicking Horse Pass, we have had projects that use federal funding.

I think we are talking about the fundamentals of PPPs, so I'd like to give you a definition that I've taken from Gordon Brown, the former British prime minister and chancellor of the exchequer. In 2005, talking about the U.K. version of P3s, the private finance initiative, he gave a definition that sums up some of the key points about the roles of the public and private sectors. Ill give you his definition:

> Under the Private Finance Initiative (PFI) the public sector contracts to purchase services on a long-term basis so as to take advantage of private sector management skills incentivised by having private finance at risk. The private sector has always been involved in the building and maintenance of public infrastructure, but PFI ensures that contractors are bound into long-term maintenance contracts and shoulder responsibility for the quality of the work they do. With PFI, the public sector defines what is required to meet public needs and ensures delivery of the outputs through the contract. Consequently, the private sector can be harnessed to deliver investment in better quality public services whilst frontline services are retained within the public sector.

I think it's the roles of the public and private sectors that are important here.

The public sector is defining what is required to meet public needs. It's refining front line services, and it's contracting to purchase services on a long-term basis and ensuring the delivery of those outputs through the contract.

The private sector is, as always, involved in building and maintaining public infrastructure, but it's bound into long-term maintenance contracts. It shoulders responsibility for the quality of its work. It's incentivised by having private finance at risk.

In other words, government becomes a specifier and a procurer of infrastructure, rather than a direct provider. In my opinion, hospitals, roads, military bases, are not core functions of government. The core functions of government are health care, transportation, and national defence. I think when you look at what government is here to do, infrastructure is not a core service per se.

If infrastructure is just a means to deliver that public service, there's no erosion of the role of government in delivering the public service. There is support from the private sector to use its capabilities and capacities to deliver and maintain it as it has always done.

Traditional public sector procurement of infrastructure has many examples of projects that have had problems. I'm sure there are too many to count and they're well documented.

Typically, a project can overrun its schedule and budget, and builders can walk away, leaving the government to pick up the cost of fixing defects. There have been many instances where maintenance costs far exceed the government's expectations and where assets require major renovation prematurely early in their life.

These are the big risks with infrastructure procurement that PPP is intended to address. PPPs work because the private sector does not get paid until the project is completely built and is in public service. We receive no money for delivering four hospital buildings in Kelowna and Vernon until they are satisfactorily commissioned and in public service.

● (0900)

There are also long-term obligations to maintain those facilities to specified standards so the private sector cannot walk away, leaving defects for the government to pay for. If the private sector is on the hook for the maintenance costs, then they make sure it's designed and constructed for economical performance over its whole life. When maintenance and renewals are needed, they have to be paid for by the private sector partner, and that's us.

This all works because the private sector is incentivized by having a large amount of its own money on the table to guarantee that performance. This shows that any debate about the advantages and disadvantages of PPPs centres around the issues of how risk is understood, how it's evaluated, and how it's managed. In that respect, I agree with John's comments very clearly.

The best way I could demonstrate the risk transfer is with a quick example, a project that involved our own company in the state of Victoria in Australia for a medium-size remand prison. In that case, one of the construction companies in our consortium went bankrupt. The project got into serious delays. Despite immense efforts by the rest of the consortium over the period of a year or 18 months, the project could not be recovered within the contractual timelines, and the equity and debt investors in the project company suffered very significant financial losses, to the tune of well over $100 million.

However, the state will get the completed project at about the original price it had anticipated because it had transferred the risk to the private sector. Had it been a traditional procurement, the state would have overpaid for a half-finished prison and it would have had no means of completing construction. As it is, the state has not paid anything, and it will not pay anything until that prison is complete and the additional burden of the delayed construction and the bankrupt contractor is picked up by the consortium.

I don't enjoy telling this story because it was a painful loss for us, but it is important to recognize that these are real risks that are being transferred. They're being taken away from government by the private sector, and in a situation like this where risk materializes, the apparent difficulty to evaluate risk becomes very tangible in dollars.

I'll conclude my remarks there. Perhaps the further debate needs to be not just the face of whether public borrowing is cheaper than private borrowing, but how we evaluate the risk that associates with the financial commitment government is making.

The Chair: Thank you very much, Mr. Joy.

Thank you to both of you for good, well-argued points.

We're going to go to rounds of questioning now, and we'll start with the NDP, the official opposition, Mr. Denis Blanchette.

[*Translation*]

Mr. Denis Blanchette (Louis-Hébert, NDP): Good morning gentlemen. Thank you for being here, even though it's a little early in the morning in some parts of Canada.

I listened to you attentively. You aren't the first witnesses to appear before our committee of course, and we are always pleasantly surprised by our witnesses' expertise. Thank you for that.

I see a common thread in all of this. We talk a lot about risk transfer, borrowing power and the interest rate. However, whether it's a PPP or not, the private sector always builds the infrastructure or provides the service. In other words, whether we opt for the traditional model or a PPP, the contract is signed with a private company. Therefore, should we not be focusing more on contract evaluation?

Perhaps it's not necessary to enter into PPP contracts, although I am open to the idea. Furthermore, maybe we should look at the way in which these contracts are managed. That might be the key to optimizing public investment in these projects.

● (0905)

[*English*]

Mr. Damian Joy: Shall I take that first, John? Are you okay with that?

Dr. John Loxley: Go ahead.

Mr. Damian Joy: Thank you very much for your question, Monsieur Blanchette.

My comment on that is, to some extent I do agree with you. If the public sector was an expert procurer and it did have the depth of skills to manage complex infrastructure procurement, it probably could do so without a P3 model, but I think P3 is just one of several mechanisms that can be used to ensure the enforceability of the objectives that government puts into its contracts.

I'm obviously an advocate of P3s, but they are not the only solution, and in many cases they are not the right solution. I think in certain instances where projects are large and complex and particularly where the infrastructure itself is not something in which the government's authority is expert, then it's a means by which the objectives can be enforced very clearly by contractual means.

I'm agreeing with your point. Yes, in certain cases where the expertise exists, P3 is just one option, and not necessarily the best.

[*Translation*]

Mr. Denis Blanchette: Thank you very much.

[*English*]

The Chair: Go ahead, John.

Dr. John Loxley: Yes, we are in a sense talking very directly about contract evaluations.

I think the key is to ask a number of questions. One, is risk actually being transferred? There's a lot of skepticism about that in the literature. Two, at what cost is this risk being transferred? Three, could this risk transfer be achieved in other ways? For instance, could we not have a design-build system that would satisfy most of Mr. Joy's criteria without having to handle the operations, financing, and in some cases, ownership of infrastructure?

If we are going to evaluate contracts efficiently, we need to know how these risk numbers were arrived at. I think the private sector has an obligation, together with the governments that are proposing P3s, to show the public where these numbers came from and how they were calculated.

Finally, we have to understand that if we are cutting back the public sector systematically, as we have done for a number of years, this will affect the public sector's capacity to handle infrastructure, which I personally believe to be a front line service. We do have to look at the implications of what we're doing when it comes to the capacity of the public sector.

The Chair: That is it for time, I'm afraid, Mr. Blanchette.

Next, for the Conservatives, we have Mr. Jacques Gourde. Five minutes, please, Jacques.

[*Translation*]

Mr. Jacques Gourde (Lotbinière—Chutes-de-la-Chaudière, CPC): Thank you, Mr. Chair.

I would like to thank the two witnesses for being here this morning. This is very fascinating. We are discussing the PPP model from an objective standpoint.

My question is for both witnesses.

We touched on a concept that I find very interesting. We spoke about the transfer or sharing risks, or the transfer or sharing of responsibilities. When it comes to laying out the terms of the contract, I think a distinction needs to be made.

If both parties understand that the risk is to be transferred from the public sector to the private sector, it might be more difficult to establish the terms of the contract. If they are in favour of sharing risks, they might be able to reach a consensus. However, there is still a transfer of risk when contracts are drawn up. It's as though one party shirks certain responsibilities over the long run.

How should the different parties approach the drafting of long-term contracts?

Mr. Loxley, what do you think?

● (0910)

[*English*]

Dr. John Loxley: The writing of contracts is quite difficult. Obviously we've gained a lot of experience over the last 15 years in the writing of P3 contracts. We still, I believe, make some huge mistakes, and we have done so recently in Canada on P3 contracts. The question is whether you can ever design contracts that are foolproof. I think it's probably quite difficult.

If you have a 35-year contract or a 40-year contract and things go wrong in the middle of the contract—and they do go wrong, even for P3s. They overspend. They come in over budget. Sometimes the contractors walk away. All of this has happened, especially in the U. K. That was the model, and now they're moving away from that. When things go wrong in the middle of a contract, the bargaining power of the public sector is minimal, because you have a single company handling the infrastructure.

I would agree with your basic point that if you are sharing risk, it's probably easier to arrive at a contract than it is if you are trying to transfer all the risk.

The proof has to be in the practical details. We have to evaluate each contract, and do it contract by contract. Of course, these contracts are not accessible to the public. All we get on the websites are very short summaries. In order to do a proper job of evaluating contracts, there has to be a whole different approach to freedom of information and accessibility. Much of what the private sector would say is market confidentiality should in fact be in the public realm.

Mr. Damian Joy: I'll add my comments, Monsieur Gourde. Thank you for the question.

I agree there is a lot of experience in writing contracts to share and transfer risks. I think Canada has benefited from some of the early mistakes that were made in other markets, notably Australia and the U.K.

Going back to a point that John made earlier regarding what is a front line service, one of the areas that has been contentious in the U. K. market is the inclusion of soft services in social infrastructure PPPs. I'm talking here about, within hospitals, say, catering and housekeeping services.

In Canada I think we've learned that message. I don't know of any projects since the very early ones in 2003, in Ontario and Alberta, where there has been any transfer of soft services. The model has developed in such a way that government recognizes what is a good risk to transfer, what is a good responsibility to transfer, to the private sector so that it retains front line services.

I think the model across Canada generally has adopted a prudent and socially acceptable level of risk transfer that is widely accepted. It's avoiding some of those mistakes that were made in the U.K. and that have attracted criticism.

On the question about sharing risk as opposed to transferring risk, I think we're getting down into the detail as to what risk it is. There are many risks within contracts that are shared, so potentially there is a range of exposure that the private sector takes and a range that the public sector takes. There are other risks where it's absolutely proper to fully transfer.

I think the detail of the model allows for both sharing and transfer, depending on what that specific risk might be.

● (0915)

[*Translation*]

Mr. Jacques Gourde: Thank you.

[*English*]

The Chair: That concludes your time, Jacques. Thank you.

Next, for the NDP, we have Jean-François Larose.

Five minutes, please, Jean-François.

[*Translation*]

Mr. Jean-François Larose (Repentigny, NDP): Thank you, Mr. Chair.

I am going to cite a specific case in Quebec, that of the bridge on Highway 25. This bridge had been needed for some time. It was an immense project and the risks were high. Decision-makers opted for a PPP. It was one of the first in Quebec.

Many promises were made. We were promised a user fee of $2.40. There was an overrun of $226 million over the promised cost. Initially, in the PPP agreement, the cost estimate was $204 million. Four years later, in 2011, right after the bridge was completed, the bill was $500 million. What a great buy! Not only that, the current toll of $2.40 could go up to $7.40, because the agreement with the company responsible for maintenance and pricing indicates that as the number of vehicles using the bridge increases, so does the price. One could almost say that this is a hidden tax.

I have used the bridge many times, and I have noted infrastructure problems. Engineering did not take certain elements into account. For example, the exit was badly thought out; it is a nightmare. People are outraged.

There is no more talk of concluding more PPPs. However the Eastern train line project is almost done. The cost of the project was estimated to be $500 million, but the final bill is $800 million, and there is still no PPP in place.

Let's come back to the bridge project. The final cost is 245% of the estimated cost. A class action lawsuit has been launched to challenge the hidden car fees, the higher than expected tolls, and the loss of control by the public sector for 30 years.

Risk-sharing has been discussed, but the same problem keeps cropping up: when it comes to acquiring the bridge, there is no guarantee that a beam will not fall off. Furthermore, there is no control whatsoever.

My question is for both of you. Is the public sector really coming out ahead when it comes to costs?

[*English*]

The Chair: Who would like to begin?

Mr. Damian Joy: I'm happy to respond, if that's okay.

Mr. Larose, thank you very much for your question. I'll do my best to answer it, but I do not have specific knowledge of the A-25 project in Quebec, so I can't speak to the details of that.

In the case of many of these projects, quoting individual numbers is inevitably misleading and I can't respond to any of the numbers that you mentioned. Comparisons are sometimes made between construction costs, including risks. Sometimes there are inclusions of long-term maintenance costs, whether the costs are provided in current-day dollars or whether they are provided on a real basis. There are numerous ways in which the numbers can be used to mislead, so I wouldn't attempt to justify whether your assertion is correct or not. However, I would comment on one point, which is that there is no guarantee that nothing will fall apart on the bridge.

However, there is a guarantee that the private sector partner has put a substantial amount of money into the project, which is guaranteeing his obligations to maintain it in a specified condition for a specified period of time and to ensure that, when it is transferred back to the management of the public, at that time it will be in a specified condition. The private sector has that obligation. It cannot walk away. If this were a traditional contract or a design-build contract, the private sector partner could walk away. Very often private sector companies go bankrupt and they disappear. Then you have no long-term hold on the performance of that asset.

In the case of a P3, you do have that money—

● (0920)

The Chair: Excuse me, Mr. Joy, I'm afraid we're almost out of time for this segment, and I would like to give Dr. Loxley an opportunity to comment on Mr. Larose's question.

Dr. John Loxley: Thank you.

I would only add that one only obtains cost certainty and maintenance certainty in P3 contracts by paying for it. Often, the upfront costs that are concluded are arrived at in several different stages, so a lot of these contingencies that we're saying the private sector avoids are actually built into the higher costs of the contract, as is maintenance. The problem with this is that P3 maintenance contracts are fixed and you can't get access to them. Most of the time we don't know how much is being spent on them, and there is no flexibility for governments to switch maintenance between one project and another.

One can say that, yes, maintenance is guaranteed, but we don't really know at what cost, and there is a price to be paid for inflexibility.

The Chair: Thank you very much, John, and thank you, Jean-François. That concludes your five minutes.

Next, for the Conservatives, Mr. Peter Braid.

Mr. Peter Braid (Kitchener—Waterloo, CPC): Thank you very much, Mr. Chair.

Thank you to both of our witnesses for being here this morning.

Professor Loxley, I have a question for you to begin. You mentioned at the end of your presentation that we should look at ways to strengthen the ability of the public sector to finance infrastructure. I just wanted to ask, how do we do that? In this current era of government deficits and the need for deficit reduction at all levels of government, and our hearing from municipalities that there is concern about an infrastructure gap, how do we strengthen the ability of the public sector to finance infrastructure?

You're an economics professor. You know that money doesn't grow on trees.

Dr. John Loxley: Can you hear me?

The Chair: Yes, go ahead, John.

Dr. John Loxley: I have addressed that question in a publication which came out earlier this year.

The point to stress is that you're not getting extra finance from P3s. You're paying more, possibly, for them. The issue is there is a real infrastructure deficit at all levels of government. I think we all accept that. The question is how best to finance it.

I think the federal government has a responsibility, and there is some money for infrastructure, but there should be more money for infrastructure. It would fit in very nicely with action plans. It would fit in very nicely with the phase of the economic cycle that we're in, and the instability that we're facing. I think there would be scope for more federal funding for infrastructure. My argument is that we should not be tying it in a knee-jerk way to P3s.

We should be much more open about how we fund infrastructure, recognizing and acknowledging that it's always the private sector that builds infrastructure. There have been other proposals for infrastructure funds. There are various pension fund proposals. I think it's important to look at these. There are green infrastructure fund proposals that have been looked at over the years. There are proposals on the table for this.

Ultimately, I think, and appropriately at this part of the cycle, recognizing that money doesn't grow on trees, the federal government is in a position to do more than it has been doing.

The Chair: Thank you, John.

Mr. Joy, would you care to respond?

Mr. Damian Joy: Yes.

Thank you for your question.

I think it is basic economics, isn't it. Government has the right to tax its citizens. In a democracy we the people accept that point. Therefore, government can borrow more cheaply than the private sector; there's no question. But in a fiscally constrained environment, this is not something, as I'm sure you're all too aware, you can push too far.

It really is a question of balancing the cost of capital against the transfer of risk. As John says, it's not a case of creating new money, it's a case of financing. When does government want to pay for infrastructure? If infrastructure has a 50-year life, a 100-year life, or whatever it is, do you want to pay for that all today, or do you want to pay for it over its 50-year life?

● (0925)

Mr. Peter Braid: Mr. Joy, I have a question for you. In hearing about some of the issues and concerns in the U.K., they seem to centre around poorly negotiated contracts for ongoing maintenance costs, that some exorbitant service costs have been part of some of those contracts.

How has Canada learned from that and/or avoided that issue?

Mr. Damian Joy: I've studied that pretty closely, and certainly I think the vast majority of the criticism in the U.K. has been about the service delivery. I think that's not so much the maintenance of the actual infrastructure itself, but the other associated services. As I mentioned earlier, I think the Canadian provinces that have been most active in procurement of P3s have all avoided including soft services, except for, I think, Abbotsford hospital in B.C., and the William Osler hospital in Ontario.

I think that in all of the other projects the only services included are those that are very directly related to maintaining the fixed infrastructure. That's probably the most clear way Canada has avoided some of those problems. I'm not aware that there's significant criticism about maintenance budgets. On the contrary, the research I'm aware of seems to very strongly support that there is a fixed allocated budget to maintain the infrastructure in a far more planned and controlled way than is typically done with publicly owned infrastructure.

The Chair: Thank you, Mr. Joy.

I'm afraid, Peter, you're out of time.

Next for the Liberal Party, we have John McCallum.

Hon. John McCallum (Markham—Unionville, Lib.): Thank you, Mr. Chair.

Mr. Joy, I think you're speaking from my riding, and John Loxley I've known since, I believe, 1975. Good to see you, John.

I'd like to ask a question about valuing the transfer of risk. John mentioned he couldn't get the information justifying those dollars. We had a witness from the University of Toronto who studied, I think, over 30 projects in Ontario. He said the average risk premium was 49% of the cost, which seemed very high, but he was unable to get information to justify that cost.

I have a double-barrelled question. One, since the public is paying for these things, shouldn't we be able to get the detailed methodology and justification for these costs? It seems to be very lacking in transparency. Two, the Mayor of Winnipeg was totally convinced there was clear and sound analysis to justify these risk premiums from accounting firms and other trustworthy entities. I guess I'm asking you whether you trust these people who produce these estimates—and don't tell us the methodology—or whether you think there's something inherently untrustworthy about it?

Perhaps we could start with John Loxley.

Dr. John Loxley: Thank you, John. It's good to see you again.

It's my feeling that risk analysis should be made available publicly, and the details of the projects that go into risk analysis should be made available.

If you talk to small contractors, they would argue they come in on time, they deliver on time, and if they don't, they're penalized. They would argue that this risk transfer is for them mainly bogus. But companies have put together risk analysis. Infrastructure Ontario is the source of most of what is happening. Where risk analysis was done in the U.K. and Australia it has been heavily criticized for being unsubstantiated. I do believe we need greater transparency. There's no reason we shouldn't have it.

When it comes to the Winnipeg situation and even the Ontario situation, yes, consulting firms are asked to give their opinion on the value for money analysis that Infrastructure Ontario does. The way they do this is to say that they have verified it, but they did not conduct a detailed analysis, they did not do an audit, they did not look at the public sector comparator in any detail, and they can't verify that the facts are valid, but, yes, it looks like risk was transferred. This is meaningless. It really is meaningless, and you find this attached to most Infrastructure Ontario projects.

In the case of Winnipeg, the details of the risk that was supposedly transferred on a cheap paperless trail are simply not believable. They're just not believable. They differ significantly from project to project. It looks like they were just pulled out of the air. There's absolutely no substantiation.

Normally, we would say that project risk is the big risk. In this project it's all kinds of other small risks that add up to very significant amounts of money into a high proportion of the capital cost.

Without further verification and explanation, this simply is not believable.

● (0930)

The Chair: Thank you.

Thank you, John.

We want to leave a moment for Mr. Joy to respond as well.

Mr. Damian Joy: I'm sure you'll imagine I have a differing view. I agree completely, however, that there should be greater transparency. I have no problem whatsoever, John. I'd be more than happy to come and see you in Winnipeg and show you how we do our risk analysis.

Obviously, we're doing it from the side of the private sector, and we do a very detailed risk analysis on every aspect of the projects in which we get involved. We're pricing it in competition, contrary to an earlier comment you made that there's no competition on any of these projects. I've never bid on a project in Canada with fewer than four competitors. Recently, we've been short-listed to reconstruct Iqaluit's airport. We were facing eight bidders at the RFQ stage.

We're typically seeing eight or nine bidders and some extremely strong companies bidding to compete for this work. We are pricing that risk ourselves in competition. I'm satisfied this risk transfer is being priced very competitively. The government is benefiting from that.

In terms of the transparency of contracts, as I say, I agree completely. I'm surprised you can't find demonstration of that risk transfer. For instance, if you look at the Partnerships BC website, all of their contracts are published there. You can see in fine detail exactly what risk we're taking on, say, Golden Ears Bridge or the Kelowna and Vernon hospitals project.

I can point you to those if you wish.

In terms of how we have—

The Chair: Mr. Joy, I'm afraid I have to interrupt you. We're well over the time allotted to Mr. McCallum.

Now it's Mr. Wallace's turn for the Conservatives.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chair.

I want to thank our guests for appearing this morning.

I hope to stay within my five minutes. I'm going to start with questions for Mr. Joy and then for the professor.

Just for clarification, we've heard from a number of witnesses that approximately 15% to 20% of government infrastructure projects would lend themselves to a P3 opportunity, not necessarily that it would happen, but P3s may apply to only 15% to 20% of projects. Would you say that's an accurate statement?

Mr. Damian Joy: I wouldn't put a number on it, Mr. Wallace, but certainly a range of projects is suited to P3s and a range is not. Typically, technically complex projects and large projects lend themselves to P3s. Smaller ones may be easier because less risk is involved, and it may be more appropriate for those to be done through other procurement methods.

Mr. Mike Wallace: My second question for you, Mr. Joy, is about financing. I'm with both gentlemen that this discussion should be about the risk transfer and sharing. Tell me if I'm wrong. Let's say there is a $100 million project that you're bidding on. Are the companies bidding on that job operating out of cashflow, or are they borrowing money to do the project and building into their bid the interest costs they would incur?

There's an issue about who can borrow less, but there's always going to be borrowed money in a project whether it's design-build or P3. Is that not correct?

● (0935)

Mr. Damian Joy: Yes, that is correct. If the project is set up as a P3, the project company that is set up to do that project would typically be financed with both equity and debt finance, and obviously the cost of the debt would be factored into that. However, if you're doing a traditional design build and you go to any contractor, they'd obviously have to finance their operations as well, so at the end of the day somewhere in this equation, in every way in which you use the private sector through traditional methods or PPPs, there is borrowed money to make companies work.

Mr. Mike Wallace: Thanks very much.

Professor, I appreciate the work you have done on the P3 piece. Have you seen any change in the quality of the agreements? Have P3s evolved over time in effectiveness, or are you saying you don't see any difference between a P3 project that happened 15 years ago when it was a brand new concept and where they are now? Is there a difference between what's happened in Europe and what has happened in Canada?

Dr. John Loxley: It would be fair to say that a lot more thought goes into P3s than there used to be and that the contracts are probably better, in many cases, but that's not always the case. My big fear is the huge concern in hospitals in the U.K. about the unitary charge or the lease payments that are being made. Many of these are now being found to be far too high and they're being renegotiated. That's the crisis in the U.K. health care system. We're not immune from that, in my opinion.

As for competition, when we have the P3s bidding, I did not say there is no competition, but I am saying from time to time there is no competition. The Lansdowne Park project, for instance, or the Amicus project in Saskatchewan were single bid, and in other cases, like the Abbotsford hospital, the range of bidders closes down.

Yes, contracts are published in outline. You cannot find the contracts on the Partnerships BC website. That is simply incorrect. What you get are summaries and the key information is usually wiped out or missing, as it is in Ontario. I would say that if there's been some improvement—

Mr. Mike Wallace: I have one really quick question for you, based on the academic work that you've done in studying P3s. Have you done a study of design-build and other procurement systems that the public sector uses?

We have a pier in Burlington, where I'm from, that has taken eight years and it has tripled its price. We've had to call the bond on the original contractor. I'm not sure that design-build works every time either.

Have you done a study on what happens with design-build in other systems?

Dr. John Loxley: I've looked at design-build, but perhaps not in as much detail as I should.

Design-build is quite controversial. Architects and engineers don't like it. They think it gives far too much influence to contractors. They worry about the quality of the product because—and this applies to P3s—often if you have to redesign as you go, then usually you kind of dumb down the project and make it fairly generic and not very attractive.

On the other hand, I would argue that the main advantages of P3s are said to be coming in on time and on budget, which I would question some of the time. You could achieve that by design-build.

That's my only argument. I'm not saying design-build is the preferred way.

The Chair: Thank you, Dr. Loxley.

Thank you, Mike.

Next, for the NDP, Kennedy Stewart.

Mr. Kennedy Stewart (Burnaby—Douglas, NDP): Thank you, Mr. Chair.

Thank you to the witnesses.

I have questions about the Kelowna and Abbotsford hospitals that have been used as examples this morning. Are there any operational aspects built into these contracts, or is that still done by the public sector? Do you have any knowledge of that?

Mr. Damian Joy: I do, Mr. Stewart. I have quite detailed knowledge of that project. It's one that I was involved in personally, with bidding, and I sit on the board of that project company, so I know it very well. We worked very closely with Interior Health on that project, but the scope of our services is restricted to designing and building the four new buildings that are now involved in that project, maintaining them, and ensuring that all of the life-cycle renewals are completed for the period of the contract.

We also have maintenance obligations for the existing estate of buildings on both the Vernon Jubilee Hospital site and the Kelowna General Hospital site. I think what we've found in maintaining those buildings is that there have been many, many decades of neglect, which we are making great inroads in rectifying.

I would say that the reaction from the users of the hospital and the front line staff has always been extremely positive about the improvements we're making to the whole of the facilities.

● (0940)

Mr. Kennedy Stewart: Only in charge of maintenance? That's not cleaning, for example. That's still within the health board's purview.

Mr. Damian Joy: Exactly, so—

Mr. Kennedy Stewart: Is there any reason why it wasn't included?

Mr. Damian Joy: There was a discussion of that at the bidding time, but it was a decision that Interior Health made. They wished to keep the housekeeping, catering, and all of the other support services with their existing staff. Arguably, that is a set of services that is closer to the front line core service of health care, whereas building maintenance arguably is very remote from the front line services of health care.

Mr. Kennedy Stewart: Professor Loxley, on the U.K. experience, where they did try to move into operational contracting, what happened in many hospitals is that infection rates increased quite rapidly. There was a series of deaths resulting from these infection rates. Have you come across anything in terms of operations that could add to what I've just passed along there?

Mr. John Loxley: Well, what I would say is that the distinction between clinical and non-clinical services in hospitals is in many ways an artificial one, and that the quality of maintenance, cleaning, food, and so on is intimately related to the clinical side of hospitals. There has been a lot of concern in the literature, both in the U.K. and in Canada, about the spillover effects of separating these two out, especially in times of budget constraints.

What has happened in the U.K. is that there has been an interference in clinical services by these other services that have been cut back significantly. Plus, there have been problems with the quality of health care when maintenance and design of hospitals, for instance, have not been what the medical side would like. I don't think we can separate these two out quite as clearly—and should I say clinically—as we've been told you can.

Mr. Kennedy Stewart: Time is short here, so I'll move on quickly.

We've talked about local government infrastructure, but local governments are often elected on short cycles of two or three years. Does it happen sometimes that inexperienced local councils might enter into infrastructure builds they can't afford simply because their election cycles are so short and they don't have to continue the payments into the future?

Professor Loxley, do you have any comment on buyer beware for local governments?

Dr. John Loxley: I think there is an issue of the life of the projects versus the political life and bureaucratic life of institutions. It's even worse than that in Winnipeg. I think most city councillors would argue that they had not seen the details of these projects before they'd been implemented, and did not have the chance to question them in the way, for instance, that we are questioning them today. I think it goes beyond the life cycle of politicians.

The Chair: You have about 40 seconds if you wanted to—

Mr. Kennedy Stewart: Mr. Joy, would you like to comment on the ability of local governments to predict what infrastructure might be necessary for them, and perhaps buying things they shouldn't because they can't afford them?

Mr. Damian Joy: Yes. All I can say is that there are probably 20 years of experience. Professor Loxley has obviously found lots of research about the projects and the concept of P3s.

I think that with every form of public procurement, if specialist advice is available and there is knowledge and research to back any important procurement decision, then councils are well advised to take it.

● (0945)

The Chair: Thank you very much, Mr. Joy, and thank you, Mr. Stewart.

We have only a few minutes left.

Kelly Block has been waiting patiently.

You have maybe two or three minutes, Kelly, and then we have to give a few minutes to change over for our next panel.

Mrs. Kelly Block (Saskatoon—Rosetown—Biggar, CPC): I'll make this really quick.

We heard in previous testimony that the P3 model doesn't necessarily work for all projects, but that it needs to be considered as an additional tool when looking at infrastructure projects. I know the comment was made earlier that the private sector is always involved in construction, whether we're looking at a P3 model or not.

Mr. Joy, would you comment on the value of having the private sector engaged at the front end and definitely the need to attend to the total life cycle of the construction and operations of a project?

Mr. Damian Joy: Absolutely, I think it is a very important area.

The contrast between design-build or design-bid-build procurement versus P3s, is that our money, our guarantees, are at risk for the long-term performance of the infrastructure we're building. We're not guaranteeing this for a two-year warranty period following construction; we're on the hook here for 30 years. If there's a failing, our equity and the money we borrowed from the banks, that's all at risk.

We thoroughly analyze at the front end what it's going to cost us to maintain buildings or to maintain roads and bridges. In competition with some of the most competent private sector partners in the world in that competition, we refine that judgment about the responsibilities we're taking on, and there is no escape from those responsibilities.

We're acutely aware that if there's a major problem, for example, if I have to replace a chiller in Kelowna General Hospital, that's my money. I'm extremely motivated when I'm designing those facilities to make sure that those chillers are going to be long-life assets. I'm going to plan for their renewal when it's necessary. I'm going to have top maintenance staff making sure that they're kept in good condition. We plan for all those eventualities because it's our money that's at risk.

Mrs. Kelly Block: I want to follow up with one other quick question, and then I know a colleague would like to make a quick comment.

The Chair: I don't think you're going to be able to, Kelly.

Please finish your brief comment, and then I'm afraid we'll be out of time.

Mrs. Kelly Block: Okay. We've also heard significant testimony that P3s succeed because the private sector has more skin in the game, so to speak, and therefore must find ways to deliver the service more effectively.

Would you comment on the potential of P3s to foster innovation in Canada, relative to classic tendering?

Mr. Damian Joy: I think innovation, which is important for the public sector, is often centred on the things I'm talking about. Building something so that it survives the two years until you walk away as a builder is a whole different mindset from designing something that you know you're responsible for, for 30 years. We innovate to ensure that we achieve a whole-life view of the asset. I think that's the important area of innovation.

There are also design innovations regarding better functionality of the facilities as well. That's another area that we work hard at.

The Chair: Thank you, Kelly.

Thank you, Mr. Joy, and thank you, Professor Loxley. Those were very useful contributions from both of you. We thank you for being here. It was an early start for you, especially in Manitoba.

Hon. Ron Cannan (Kelowna—Lake Country, CPC): Mr. Chair, I wanted to say thank you, Mr. Joy, on behalf of the constituents of Kelowna—Lake Country. The KGH addition in Vernon is greatly appreciated.

I used to be in the hospital district, so thank you.

The Chair: He snuck that in, even though it wasn't his turn.

Thank you, gentlemen. It's been a great pleasure.

Our next panel is being hooked up by teleconference.

● (0950)

Our next panel of witnesses must have gotten up very early to be with us today, and we appreciate the effort very much.

We'd like to welcome, from Partnerships British Columbia, Sarah Clark, president and chief executive officer, and Mr. Larry Blain, the chair of the board of directors. Welcome, Ms. Clark and Mr. Blain. Also by video conference, from John Laing Investments Ltd., we have Mr. Marcus Akhtar, project director, and Tara Rogers, bid director. Welcome to you, as well. Thank you for being here.

Our practice is to invite witnesses to make a brief presentation of five to ten minutes and then open it to questions from the members of our government operations committee.

The order on our agenda is to invite Partnerships British Columbia to be the first presenter. Please limit your remarks to five to ten minutes, to give ample opportunity for committee members to ask questions.

Ms. Clark, the floor is yours.

Ms. Sarah Clark (President and Chief Executive Officer, Partnerships British Columbia): Good morning, everyone. I'd like to thank you for inviting us to participate. I will keep our remarks within the time limit allotted.

To provide some background, Partnerships BC is a company owned by the Province of British Columbia. It's governed by a board of directors, and our sole shareholder is the Minister of Finance. We were established 10 years ago.

Partnerships BC, with the Province of British Columbia, has a 10-year record of planning, delivery, and oversight of more than 30 major infrastructure projects in transportation, rapid transit, health, corrections, education, energy, and recently, housing. The value of these projects is over $12.5 billion, with about $5.5 billion in private financing. All of these projects have been delivered, the ones that have been completed, on time and on budget.

We were established 10 years ago to provide the provincial government with a central agency that had both the commercial and procurement expertise to implement these projects using alternative procurement approaches. The goal was to provide certainty in the delivery of these projects in the areas of schedules and budget and to address life-cycle and deferred maintenance issues.

The majority of our projects have been delivered using the design-build, finance, maintain, or operate approach. B.C. also uses design-build. It uses design-bid-build construction management across the many projects it delivers on an annual basis.

In British Columbia, we're committed to providing certainty and fairness and discipline for the taxpayer. By certainty, we mean taxpayers know that they're going to get a project that's delivered on time and on budget through a pay-for-performance contract.

By fairness we mean projects are delivered through a transparent process that leverages private sector investment, innovation, and expertise while also ensuring that government ownership and responsibility are maintained.

By discipline we mean that British Columbia is devoted to discipline in the planning process for projects large and small.

Excuse us for a moment. We have an incoming call. We don't want to answer it. We're not in our office.

The Chair: The call's not coming from us, I don't believe.

We can carry on, Ms. Clark.

Ms. Sarah Clark: British Columbia has a process of requiring a business case for all large projects in order to ensure that the planning and rigour around the analysis ensures that not only the right projects are chosen, but the right procurement approach is taken.

In British Columbia we do a procurement analysis for every major project. When they're over $50 million, a PPP is considered as one of the alternates in this procurement analysis unless there's a compelling reason not to do so. In some cases the partnership model, or the design-build-finance-maintain model, as we would call it, would be that model. These partnerships are usually best suited for large complex projects with a significant opportunity for risk transfer and innovation.

In British Columbia our track record shows this accounts for about 20% of the capital spent in this province and is a reflection of the type of projects the province has been focusing on for the past decade. In most cases, the majority of the other projects are done in more traditional approaches, design-bid-build, or construction management, etc.

Over the past 10 years, the approach in British Columbia has evolved considerably. Early projects, such as the Canada Line rapid transit project, the Abbotsford hospital and the Sea to Sky Highway were the ones that led the program, and from these the lessons that have been learned have been applied to more recent projects. These projects illustrated the ability through the design-build-finance-maintain approach to experience innovation in design and construction and also achieve the risk transfer that we were hoping to achieve.

Since this time we've been focusing on improving our approach in the delivery of these projects, the contracts have improved, and the competitive selection processes have improved. We have now learned to optimize the amount of private financing used to have the risk transfer that we would like to have, but optimize the cost of that private financing.

Another evolution has been that the evaluation criteria has been fine-tuned to achieve the intended outcomes for the facility that's being procured. This is best highlighted in our most recent project, the Interior Heart and Surgical Centre that was awarded in Kelowna this summer. The evaluation criteria not only focused on price but also focused on the effect that the building itself would have on the clinical and operating costs, that far outweigh the capital costs in a health care facility.

The present value of those benefits was used in the evaluation criteria. Bidders could use the value of those points to determine whether it was more economical to spend money on those features in the building and improve that building. The outcome is that we have a better functioning building that is about $30 million below budget and will come to fruition approximately a year earlier than expected. It will be built on only three floors instead of four floors, which was the province's design, and will result in better clinical outcomes as well.

As we've heard through other presenters, while some will say PPPs are done because they are off-book, they are not. The capital cost of the project is accounted for in the same manner as a traditional project. This is not about buying projects on credit. However, we've seen from the innovation and the resulting savings from these projects, that we've been able to do more projects with those savings. This has allowed British Columbia to increase its capital plan and also to have more people put to work in building and creating benefit for people that need the projects and need the work.

I think you've heard already that Canada has become one of the most attractive PPP markets in the world. Companies of all shapes and sizes are participating in projects throughout British Columbia and Canada, and the service providers and contractors are now exporting this expertise around the world.

When you look at local participation, 90% of labour is typically from the area, and in the range of 50% to 80% of the sub-trades are local.

Contractors, lawyers, financial advisers and engineering companies from British Columbia and across Canada have been exporting their services, not only to other parts of Canada but also to the United States, South America, Australia, and other locations, such as the Middle East. This is based on the experience in Canada and the track record in delivering sound projects.

● (0955)

In conclusion, I'd like to take a couple of minutes to provide some examples of what the appropriate risk allocation and innovation have achieved in some of the projects in British Columbia.

We see innovation coming when a builder and a contractor work together in cooperation with the party that's going to provide the maintenance and life cycle. The approach we see built in every project is inevitably different from what the province's concept design was going to be.

It's important to have skin in the game. With optimized long-term financing at risk, all parties are incented to deliver the most sustainable infrastructure. Risk transfer is really about splitting risk between parties that are best able to manage. The Canadian model is very mature in this respect. There is not too much risk transferred to the private sector, and I don't think the province or the jurisdiction retains too much, either.

In innovation, I highlighted the Interior Heart and Surgical Centre project. It was 12 months earlier than anticipated, with creative solutions that are going to serve the clinical and operating functions of that facility for a long time to come.

With the Port Mann Highway 1 project, we also saw interesting innovation. The province was going to twin the existing bridge, but when the bidders had a look at the life cycle of locations as well as the construction implications, building one new one was the more economical approach.

In the Canada Line, the province was going to share geotechnical risk, but offered the opportunity for the bidders to choose whether they would bid on that basis or offer to take that geotechnical risk. The winner did take the geotechnical risk in the tunnel, which was completely unexpected.

Thank you for having us today. I look forward to questions.

● (1000)

The Chair: Thank you very much, Ms. Clark. I appreciate your contribution.

Next, we will invite the representatives from John Laing Investments. Mr. Marcus Akhtar, I didn't identify you properly. You're the project coordinator and project director of the Abbotsford Regional Hospital and Cancer Centre, and Tara Rogers is the bid director for business development.

Mr. Akhtar or Ms. Rogers, we welcome your presentation.

Ms. Tara Rogers (Bid Director, Business Development, John Laing Investments Ltd.): First, thank you very much for the opportunity to participate in this process.

John Laing is a leading developer, investor, operator, and manager of public sector infrastructure assets globally. We've been in operation since 1848. We're a market leader globally and we have global presence, with offices in the U.K., Canada, Australia, Singapore, and India.

Our mission is to succeed globally as a leading sponsor of privately financed investments in infrastructure through our expertise in creating sustainable value for all stakeholders. We seek to achieve this by enabling and organizing winning partnerships to deliver innovative development solutions with the public sector that operate for the benefit of the communities worldwide.

We participate in a wide range of infrastructure sectors, including health care, roads, and rail. This also extends to criminal justice in the U.K., education, waste management, energy, street lighting, and highway maintenance. We have just this year closed our 100th project, but our current portfolio consists of 74 projects across those sectors and around the world.

We have four projects in North America, three of which are in British Columbia: the Abbotsford Regional Hospital and Cancer Centre, the Gordon and Leslie Diamond Health Care Centre, and Kelowna and Vernon hospitals.

I'm going to pass it over to the head of our operations in B.C., Marcus, to talk about the practical implications of those projects.

Mr. Marcus Akhtar (Project Director, British Columbia, Operations, Abbotsford Regional Hospital and Cancer Centre, John Laing Investments Ltd.): Thank you very much for inviting us this morning.

I'm here as operational director for John Laing projects in B.C.. I will give you the operational overview, which is the less sexy part, probably being the 30-year part of the—it's where the rubber hits the road, so to speak. I will give you a brief overview of our B.C. projects and give you some of my observations on advantages of PPPs. I was advised that this is actually day four for you, so I'm sure you've heard it all before. You've probably even heard about projects that I'm going to talk about. Please stop me if it becomes overly repetitive.

The first project that we have is Abbotsford Regional Hospital and Cancer Centre, which is the first LEED gold hospital in Canada, LEED being leadership in energy and environmental design. We were contracted to provide LEED silver, but were only a few points away from LEED gold and partnered with the hospital and the local council in order to achieve LEED gold, which we're very happy about.

Abbotsford is an acute care hospital with a full cancer centre. It has 300 beds and is 70,000 square metres. It has nine operating rooms, a maternal-newborn facility with 28 beds, and a unit for 40 mental health patients. It's the first PPP in British Columbia, and I believe at this stage it's the only PPP in British Columbia, with fully integrated facilities management services. When I say fully integrated, that includes plant services and life cycle, obviously, which most PPPs include, but also soft services, which are housekeeping, linen laundry, food services, and portering.

The green features of the building include low-flush toilets, a motion-sensing light system, and 28 electrical car plug-ins. Unfortunately, we have no electrical cars in Abbotsford at the moment, although they are available in British Columbia. We have a stormwater retention pump on the lowest point of the site that we utilize for irrigation of plant life on-site.

The next asset that I'm going to talk about is the Gordon and Leslie Diamond Health Care Centre, which is in the heart of hospital land in Vancouver. It's adjacent to the Vancouver General Hospital. It is 32,000 square metres at a capital cost of $95 million. It is a combination of health authority clinics, UBC space, and private clinics. The University of British Columbia medical school has its medical lecture theatre on the ground floor. This has been operational since August 2006.

The next project I'm going to talk about is the Kelowna and Vernon hospitals project, which I believe you may know about. It has a $432-million capital cost, with 53,000 square metres. Kelowna and Vernon hospitals obviously are not in the same city; they're 45 kilometres apart. There are two sites, three buildings. The project was the Kelowna project, operational in May of this year. It was completed six months ahead of schedule.

That's a summary of our projects. I want to give you some of my views and experience of some of the advantages of PPP projects. The process from RFP to operation is far quicker than a traditional procurement approach. For example, the RFP for the Abbotsford Regional Hospital and Cancer Centre came out in 2003 and we were treating the first patients in that facility in August 2008.

● (1005)

In the Kelowna-Vernon project, the RFP came out in 2007 and we were treating patients in Vernon in September 2011 and in Kelowna in May 2012. I think you'll agree that's pretty impressive for such significant assets.

The public sector deals with a single point of contact. These projects are an integrated fora because the operator, designer, builder, mechanical and electrical are all under one roof. This extends also to users. At Abbotsford, there were more than 140 connections involved with the design meetings for that project. The private sector bring best-in-class providers, contractors, service providers, which allows the public sector to do what it does best. Because of the life-cycle approach, the public sector gets a new asset at the end of the concession period. It's a more aesthetically pleasing end product and indeed a product that has a more highly desired effect on the end user. I'll give you a brief example of this.

I was talking to a radiation oncologist only yesterday who was telling me the positive effect of the bright and spacious facility on both patients and staff, because most of our patient rooms have great views of the mountains in the Fraser Valley. But the overwhelming message that I got was that because his staff was so happy at work, the impact on the patients was so positive. I thought that was a really compelling endorsement.

Something we probably haven't touched on this morning is that key to the success of a public-private partnership is indeed that word “partnership”. It takes away the concept of vendor versus partner.

I often credit Larry Blain from Partnerships BC for the comment he made which really does sums it up: the mark of a success of a PPP project is the quality of the relationship between the public and private partners. In all of the three projects that I've described, the partnership is of the highest quality, and I really believe that is the overwhelming message I'd like to deliver.

● (1010)

The Chair: Thank you very much, Mr. Akhtar.

Perhaps that would be a good point to end on. I appreciate your intervention, and Ms. Rogers'.

We've just learned we're going to have votes in the House of Commons beginning at about 10:40. The bells will begin at 10:41, our time. It will truncate our time a little that we have set aside for questions by committee members, so we'll ask everyone to please keep to the five-minute limit for both questions and answers.

We have two committee members from British Columbia who will be the first and second questioners. They will have some personal knowledge perhaps of the projects that you've told us about.

First, for the NDP, Mr. Kennedy Stewart.

Mr. Kennedy Stewart: Good morning, and thank you to all the witnesses. I know it's early in B.C. Thank you for all your efforts.

I have a question regarding monitoring. If we could perhaps focus on that through my five minutes, that would be great. Perhaps we could use one example of your choice to help me think about how you monitor contracts as they're progressing.

With that in mind, could you give me a tip-to-tail version of one project in terms of how the government, either through your office or through another ministry, would monitor the progress of the contract and whether the terms of the contract are being met? Really it's just on what kinds of people and how many are involved in that monitoring. I'll let you go from there and jump in if I need more clarification.

Ms. Sarah Clark: As with any major project, there is an owner's project team that consists of a project director as well as someone who has responsibility for the commercial interaction between engineers, architects, and financial people.

The Sea to Sky Highway is a $600-million highway spanning 99 kilometres between Vancouver and Whistler. The project had a team of between 10 and 15 people monitoring the construction. Had this been a traditionally built project, that would have been well over 100 people. In this case, many of the same monitoring activities go on. There is monitoring on-site, but much less than traditionally, because the contractors are responsible for their own quality assurance, that is, having concrete tested, asphalt tested, etc. They provide those people. They have to report all their tests to the province. The team that oversees it on behalf of the province is checking that those tests are being done.

With respect to commercial activities, their billing is monitored, as are payments for the subcontracts. Change orders are being negotiated for changes or other items that come up. That would be fairly typical on any of the construction, but note that private partners can be penalized for not performing during construction. They have the opportunity to address any faults that they may have, but if they do not, there are points that are established. For every point they cannot address, they are penalized. That is the case on some of our projects. On other projects other private partners have not received any penalties.

● (1015)

Mr. Kennedy Stewart: You said the Sea to Sky Highway, if it had been done in-house, would have had 100 monitors, but with the private partnership, you only had 10. Is that because the monitoring is left up to the contractors themselves?

Ms. Sarah Clark: Yes. The contractors take on more of the quality assurance and quality control. They are the ones who are hiring the testers the Ministry of Transportation would have traditionally hired. They are reporting all of the activities and outcomes to the Ministry of Transportation. You still have a significant amount of oversight, but you're not actually doing the work. These are all respected, qualified testing agencies.

Mr. Kennedy Stewart: I'm wondering about that. Do you ever do random audits to see if this testing and verification is actually solid?

Ms. Sarah Clark: Yes, the Ministry of Transportation did have field people on that project, and they were doing random testing daily and on site. The province at all times has access to the contractor's records, and they did random auditing of those records.

Mr. Kennedy Stewart: Okay.

Mr. Marcus Akhtar: I'll just give you a little bit of an insight into how the monitoring takes place.

The Chair: Please be brief, Mr. Akhtar.

Mr. Marcus Akhtar: Okay.

In monitoring during the 30 years of operation, we're paid for performance. There are very large and conclusive specifications for all our subcontractors. For example, one of the advantages of a PPP project is that we're highly incentivized to ensure that the asset is available 100% of the time. For example, if an operating room should be unavailable for an entire day, we would be paying a penalty of about $3,000 per day. As you can imagine, if this was multiplied by multiple rooms, it would be quite significant.

The subcontractor audits himself. Then we, the project company, audit the subcontractor. Then the health authority, in conjunction with us, audits the service provider. We report every month to the health authority, and it's a very conclusive report we give them.

The Chair: Mr. Akhtar, I'm afraid I have to interrupt.

Mr. Marcus Akhtar: I thought that was within one minute.

The Chair: It was about one minute. You did very well. Thank you.

Next, for the Conservatives, we have Mr. Ron Cannan.

Hon. Ron Cannan: Thank you, Mr. Chair.

Thank you, ladies and gentlemen, for being here with us via technology. It's a great way to use technology so you can join us early in the morning.

As the member of Parliament for Kelowna—Lake Country, I'm very familiar with our health care improvements in the Okanagan Valley over the last few years. Thank you, to each one of you, for your contribution. I was at the groundbreaking recently for the Interior Heart and Surgical Centre facility, and I am looking forward to the completion of that project on time and on budget, an even earlier completion, as with the other projects to date.

As you've mentioned, we've had a series of witnesses over the last couple of weeks. We've heard that P3s are another tool in the toolbox. They are not a specific panacea, for every project to have a $77.9 million infrastructure. Nine kilometres of a highway project just went to conventional tender.

Ms. Clark, could you share with the committee what projects you think are better suited for P3s? Supplemental to that, we've heard from a couple of witnesses that the biggest aspect is risk transfer and trying to quantify that risk. It's been a big factor, transferring the risk to the private sector—at what cost and how do you quantify that?

I'll let either Mr. Blain or Ms. Clark answer, if you'd like to jump in, please.

● (1020)

Ms. Sarah Clark: It's been our experience that projects that are larger—probably while the capital standard here is $50 million, it's probably $75 million or over—are complex. If it's a straightforward structure like an office building, it's probably not the best P3. But when there is opportunity to provide different designs that can improve the facility, such as in a hospital like the surgical centre, where the bidders looked at the adjacencies they could improve, lighting, access to natural light, a suite of things, those are the better projects.

With a highway, if you look at the Sea to Sky Highway, for example, when it was 100 kilometres long, there was an opportunity for better use of materials. When the winning proponent looked at the ministry's design, the ministry was only going to rehab about 13 of the bridges along the Sea to Sky Highway, and considering the life cycle cost, the proponent replaced all those bridges. That was all done within the ministry's original budget.

It's when you have an opportunity to really affect the design that those are the best projects.

We're doing a project in north Vancouver Island now, in Campbell River, the replacement of a large hydroelectric facility. There are many opportunities for where you can put the power house, and how you can run the water. All those things will be looked at through the lens of constructability, as well as long-term maintenance costs.

When it comes to risk transfer, in British Columbia we do a very detailed risk analysis, not only for the opportunity to try to quantify the kinds of risks, but also to mitigate the risks on the projects. I think people miss the fact that working on risk analysis provides the huge benefit of being able to identify the risks in the project and the mitigation strategies.

When it comes to evaluating risk, we look at each risk and attempt to quantify the province's exposure on a high, medium, and low basis as well as, on the other side, what a private sector proponent's exposure is to those risks. They can be significantly different just in how they are exposed to those risks. Then a Monte Carlo analysis is done and a range of outcomes is reviewed. We should all remember that a value-for-money analysis is an estimate of outcomes and not a pinpoint value.

Mr. Larry Blain (Chair, Board of Directors, Partnerships British Columbia): Maybe I could just add one point to amplify. There are some cases in projects where it makes a lot of sense to integrate maintenance and operations into the design and construction, and there are other projects where it does not. A really good example is that the Canada Line was a stand-alone transit line, and it made sense to integrate operations and maintenance with the contract; whereas the current project we're working on, the Evergreen Line, is part of a bigger system and it doesn't make sense to integrate maintenance and operations, so we have not. There are some cases where it makes sense and others where it does not, and that can be a driving factor.

Ms. Sarah Clark: Another large project that was not a PPP in B. C. was the replacement of the roof on BC Place. That was construction management. In the end, it was highly technical, and not really conducive to operation and maintenance either.

Hon. Ron Cannan: The Canada Line is great. I was just on it on the weekend. You mentioned the Sea to Sky Highway. The William R. Bennett Bridge has been a great P3 as well.

One comment is that we talk about payment and deferment: it's like a lease, and it's going to be paid back over 30 years. Is there any discussion about the phraseology of intergenerational equity, such as whoever is using it pays for it? Is that ever under consideration in a project?

● (1025)

The Chair: Could we have a very brief answer, please. We're over our time already.

Mr. Larry Blain: Almost every large capital project is financed by government, typically by borrowing money to do it. It makes sense to finance long-term infrastructure assets with long-term financing.

PPP is one form of financing, and direct procurement is another form that is typically financed. In terms of intergenerational equity, the cost tends to be amortized over the life of the asset, and I think that's entirely appropriate.

The Chair: Thank you very much, Mr. Blain.

Thank you, Mr. Cannan.

Hon. Ron Cannan: Thank you very much for your great work. I appreciate it.

The Chair: For the NDP, we have Denis Blanchette.

You have five minutes, Denis.

[*Translation*]

Mr. Denis Blanchette: Thank you, Mr. Chair.

Thank you to our guests for being with us.

My questions are for Ms. Clark.

Because our time is limited, may I ask you to please keep your answers short.

During your presentation, you mentioned that the methodology for managing PPPs had changed. You talked about various PPP components: creation, set-up and funding, among others. Could you tell us, among all the methods you have used, first, which ones would be useful and transferable to other projects, and second, which you would not want to use again?

[*English*]

Ms. Sarah Clark: That's a good question.

In British Columbia, I don't think we have favourite approaches in what we attempt to do. The province is very committed to doing analysis around procurement, taking the two most likely approaches to procuring a project and doing a quantitative and qualitative comparator for these projects.

Many jurisdictions have had some false starts, especially in the early days, when trying to transfer too much revenue risk on projects that really didn't have enough revenue to support them. That was a result of not really doing a proper market and financial analysis. You can see this going on in other jurisdictions that are just getting started. They're hoping that money is coming from somewhere that it hadn't come from before to support the same kind of infrastructure.

[*Translation*]

Mr. Denis Blanchette: Thank you very much.

I found it interesting to hear you speak about the analysis of risk transfer and risk reduction. It is an interesting approach.

Obviously, you evaluated the project as a whole. In your analysis of risk transfer and reduction—and I want to focus on risk reduction—do you also consider what will happen when responsibility for the project is transferred to government?

[*English*]

Ms. Sarah Clark: Do you mean hand-back provisions at the end of the contract or during the operation?

[*Translation*]

Mr. Denis Blanchette: Yes, that is right.

[*English*]

Ms. Sarah Clark: Yes, we do. I'll go back to the Interior Heart and Surgical Centre. If you look at the analysis, there was not just one procurement approach that came out of it to provide the program in Kelowna. In fact, there was a building built using design-build. There is some fit-out of other areas of the hospital using construction management, and there is a portion of it using design-build-finance-maintain.

Within the contracts that are used for PPPs, there are hand-back provisions. The owner of the facility has to determine in what condition they want the facility to be when they take it over. In the case of a highway, you might look at the highway and say that you would like the maintenance and the life-cycle to be looked after to a point that the government doesn't have to do any major maintenance for the five years preceding the end of the contract. On that basis, the contract can then be written to have the right provisions, such that the highway will be in that condition.

It's all about setting your expectations for the end of the project. If you want to have a facility in a very new condition, you have to write that in; if you want a condition that supports its life-cycle intention, then you would write that into the provisions.

● (1030)

The Chair: There is one minute left, Denis.

[*Translation*]

Mr. Denis Blanchette: Thank you for your answer, Ms. Clark.

I have a question about your process. There can be a number of PPP projects that are cost effective to a certain point. However, sometimes it just takes one to go off the rails for the profits from other projects to be completely lost.

What checks and balances do you have in place to avoid falling into this trap, of having one project lead to the loss of the profits from all the previous projects?

[*English*]

Ms. Sarah Clark: That's a great question.

The contracts have been structured to account for different scenarios that could happen in a failure situation, as you pointed out, and it would be remiss of people putting a contract in place not to have analyzed those.

In a case in which the private partner is not performing, there are different provisions, as Marcus pointed out. There are warnings. There are penalties. If the penalties are applied and the partner is not fixing the faults, they add up very quickly, to the point that a partner could have financial difficulties and even default.

In the case of default, there are different scenarios that can happen, such as that the lenders can step in. If the lenders cannot find someone to replace the partner, then the province can step in. But the province is not on the hook for 100% of the cost of the facility at that point. They are able to run a competition to replace the private partner, and what the market will bear will be the cost. It could be down to zero.

The point is that the people who have financing on the line, whether it be the equity providers or the senior debt providers, are always at risk of losing a large portion or all of their investment.

The Chair: Thank you very much.

Thank you, Ms. Clark.

Our time has expired. Thank you, Mr. Blanchette.

Next, for the Conservatives, is Costas Menegakis.

You have five minutes, Costas.

Mr. Costas Menegakis (Richmond Hill, CPC): Thank you very much, Mr. Chair.

I want to thank our witnesses for being with us today and for speaking to us about P3s, particularly with their experiences.

I'd like to direct my first question to Mr. Akhtar, in relation to the Abbotsford Regional Hospital and Cancer Centre.

Could you identify some of the key differences in terms of management as between that project and other health facilities? Perhaps you could elaborate on what some of the walk-away risks were.

Can you hear me, Mr. Akhtar?

Mr. Marcus Akhtar: Yes, I can. I'm sorry for my hesitation.

You mean differences in terms of the P3. Quite clearly, this project would never have gone ahead in the first place had it not been for a number of different factors. I may have alluded in my presentation to the fact that the Abbotsford Regional Hospital and Cancer Centre, prior to 2003, was actually designed and ready to build. In terms of design, it was ready to go for 18 years. It was only when the cancer agency joined in partnership with Fraser Health, which runs 16 hospitals in British Columbia, that this actually started to gain traction with the Ministry of Health.

Furthermore, the project would never have been constructed at all were it not for the proposal's going through a PPP process.

Mr. Costas Menegakis: Thank you very much.

I have a question for you, Ms. Clark.

The Sea to Sky project is clearly an example of a government leveraging private sector expertise, innovation, and creativity in delivering that service. Can you elaborate on maximizing the private sector expertise and innovation and so forth?

Ms. Sarah Clark: Yes, I can.

The competition was quite an eye-opener for the province, in that the province had a set budget and had a design, but did not feel that they could fully achieve what they wanted to with the highway, because they didn't have enough money. Therefore, they ran a competition that was set around a budget, indicating how much money they had and the things they would like to achieve.

All the areas of safety, for example, four lanes, divided highway, some capacity improvements, as well as some neighbourhood amenities, etc., were included in the competition. The competition was structured around the bidder who could provide the most additional scope to meet the province's needs being the winner.

It was a big eye-opener for the province to see the number of additional features they could have, and they calculated $131 million of additional user benefits from that project.

● (1035)

Mr. Larry Blain: I might add that there were some very creative evaluations on the Sea to Sky project in that the number one priority of the province was to improve the safety on the roads. The various bids were evaluated in terms of how they could make contributions to safety in terms of number of kilometres with four lanes, number of kilometres that had straight sections and guard rails. They were able to specify what they really wanted in the project, and then to shape the competition to deliver.

Mr. Costas Menegakis: Thank you very much.

How am I doing for time?

The Vice-Chair (Mr. Mike Wallace): You have 40 seconds.

Mr. Costas Menegakis: I'll go back to Partnerships BC.

I wonder if you could talk to us a little bit about Partnerships BC's focus on standardizing, planning, and evaluation processes, to finding ways to streamline decision-making for all of your projects.

Ms. Sarah Clark: We have had that focus and I think you have an excellent choice of words. Are we standardizing and streamlining? Yes, we are. At the same time, every project is different and we treat the aspects of each one that way during the analysis. It's not a cookie-cutter approach.

We definitely have the benefit of having base contracts, RFPs, RFQs, a competitive selection process approach, but each project has to be weighed on its own merits, the risks of a project reviewed to determine what the best way is to structure those contracts.

Mr. Larry Blain: One of the things we've standardized in British Columbia is governance. I should make a comment on the fact that every single project has a project board with a project charter—and we're out of time.

The Vice-Chair (Mr. Mike Wallace): Thank you, sir.

Our last questioner for this round is John McCallum, from the Liberal Party.

John, the floor is yours, for five minutes.

Hon. John McCallum: Thank you, Mr. Chair.

Thank you to the witnesses for appearing before us.

One of the recurring themes in our interviews with witnesses has been the issue of the pricing of the transfer of risk. I think many of our witnesses have agreed that there is a lack of transparency in this area. We're told the risk transfer is $100 million but we're not told anything about how that figure is arrived at. A number of witnesses have also said that these numbers are picked out of the air.

I'd therefore like to ask both groups, are you confident with the quality of the analysis that goes into this pricing of transfer of risk? Do you think the methodology could be shared more broadly with parliamentarians and the public and made more transparent?

Ms. Sarah Clark: For one thing, we have a 100-page document on our website around our quantitative analysis. If anyone would like to read that, it's available.

What does make us confident in our approach—

Hon. John McCallum: I'm sorry to interrupt, but it happens that the witness prior to you spoke about your website and said that the detailed information of the contracts was not there.

Ms. Sarah Clark: On our website we have every contract that's been issued. There are some things that are redacted, such as things that are commercially sensitive for the province or the proponent that would hurt their ability to compete in the future; that is true. But there is a plethora of information, including full contract documentation, on our website.

When it comes to risk analysis, it's important that everyone in the room understand the project. When they're looking at quantifying risk, a whole host of outcomes are reviewed, from the very probable to the highly improbable, to the lower cost to the higher cost.Those are evaluated, and then the range of results are reviewed. That gives people not only an understanding of what kind of exposure the owner may have in each type of procurement process, which then informs their budgeting, but it also informs the owner's team on how they should be running their project and looking at how they can mitigate those risks through their own project management.

● (1040)

Ms. Tara Rogers: I would add, on the private sector side the transfer of risk is backed by a security package and backed by the enforceability of the contract. When we, as the private sector, are putting forward our bids to win these projects, as equity we will pass down those risks, say the design-build risks, to our design-build contractor. Those design-build contractors will analyze the risks of the project and delivering the construction and their price will include those risks. Then they will stand behind that price with a security package to ensure enforceability during the delivery phase.

Hon. John McCallum: Okay, thank you very much.

The Vice-Chair (Mr. Mike Wallace): Thank you very much.

I want to thank our witnesses for coming today. Thank you for getting up early and joining in this discussion we've had. We're almost at the end of our study on P3s. Your input has been valuable. Thank you very much.

I'm going to move to suspend. We're going to go in camera.

Hon. John McCallum: Can I propose my motion before we do that?

The Vice-Chair (Mr. Mike Wallace): In camera you certainly can.

Hon. John McCallum: I mean now.

The Vice-Chair (Mr. Mike Wallace): No.

We're going to move to suspend to go into camera.

Mr. Jean-François Larose: I have a point of order.

The Vice-Chair (Mr. Mike Wallace): You do have a point of order. Yes, sir. We can let our guests go, though.

Mr. Jean-François Larose: I'd just like it to be noted before we go in camera that systematically, every time we have a motion on this side, we go in camera. This is a problem. If you disagree with this, maybe you should leave it for the public to hear.

Hon. John McCallum: Mr. Chair, once I have the floor, I am allowed to speak. I'd like to present my motion before we end this meeting.

The Vice-Chair (Mr. Mike Wallace): You can present your motion, and then we will go to the next speaker.

Hon. John McCallum: Okay.

My motion is as follows:

> That, the Standing Committee on Government Operations and Estimates conduct a study on the Public Pension Plan changes of the section of Bill C-45, An Act to implement certain provisions of the budget tabled in Parliament on March 29, 2012 and other measures, which directly fall within the mandate of this Committee, namely Part 4, Division 23, and report of its findings to the House no later than Monday, November 5, 2012.

The reason for this motion is self-explanatory. These are issues that fall under the jurisdiction of this committee. I think it is appropriate that we should study it and report back to the House.

The Vice-Chair (Mr. Mike Wallace): Thank you very much.

Mr. Cannan.

Hon. Ron Cannan: Thank you, Mr. Chair.

I thought the subcommittee met yesterday. Normally, new business is dealt with in camera.

The Vice-Chair (Mr. Mike Wallace): Are you moving to go in camera, Mr. Cannan?

Hon. Ron Cannan: I just want to know, isn't that the tradition of the committee?

The Vice-Chair (Mr. Mike Wallace): It's a tradition of the whole House of Commons, not just this committee.

Hon. Ron Cannan: I move to go in camera, then.

The Vice-Chair (Mr. Mike Wallace): Okay. The motion to go in camera to discuss future business has been moved.

All those in favour?

Mr. Jean-François Larose: Can we have a recorded vote, please?

The Vice-Chair (Mr. Mike Wallace): We certainly can.

(Motion agreed to: yeas 6; nays 4)

The Vice-Chair (Mr. Mike Wallace): The motion is carried, so we are going to go in camera. I will suspend the meeting until all those guests who shouldn't be in the room leave.

Are the bells ringing? The bells are ringing, so we don't have to go in camera. We have to go to vote.

The meeting is adjourned.

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