

**Evaluation of Public Private Partnerships:
Costing and Evaluation Methodology
Ron Parks and Rosanne Terhart of Blair Mackay Mynett Valuations Inc**

The B.C. division of the Canadian Union of Public Employees retained forensic accountants Ron Parks and Rosanne Terhart of the firm Blair Mackay Mynett Valuations Inc to review and comment on costing and evaluation methodology used for public private partnership projects (P3s) in B.C.

With mounting evidence that privatized projects do not deliver either savings or efficiencies, set against the B.C. government's policy promoting P3s as vehicles to save money, CUPE sought an impartial assessment of private projects in the province.

Using material accessed by CUPE under Freedom of Information (FOI) provisions, Parks and Terhart provided their views on four P3 projects: the Abbotsford Regional Hospital and Cancer Centre, the Sea-to-Sky Highway Improvement, the Academic Ambulatory Care Centre (Diamond Centre) and the Canada Line.

Parks and Terhart found that P3s cost more, that the process for evaluating them is biased, and that there is a lack of solid information available to the public.

P3s cost more. In their analysis of why P3s cost more, Parks and Terhart take aim at the discount rate (assumed interest rate) used by Partnerships BC to compare P3s to publicly procured projects. They review how Partnerships BC reworks the actual (nominal) costs, dramatically decreasing the estimated cost of P3s, mainly by using inflated discount rates.

The difference in the actual cost between a publicly procured project and a P3 can be substantial. For example, the nominal cost of the Diamond Health Centre as a P3 was \$203 million, as compared to \$89 million for public procurement - a difference of \$114 million or nearly 130 per cent (of the \$89 million).

Before discounting, the P3 option for the Diamond Centre is more than double that of public procurement. However, as the report demonstrates, using a 7.12 per cent discount rate the P3 project cost was reworked down to \$64 million and the publicly procured project to \$81 million – a difference of \$17 million in favour of the P3. The \$114 million public procurement advantage becomes a \$17 million private sector advantage.

Park and Terhart conclude that if the B.C. government applied a more appropriate discount rate, the cost of P3s would exceed a public procurement approach for the projects reviewed. Current borrowing rates for the B.C. government are between 2.35 and 4.38 per cent. The rates used by Partnerships BC on the four projects reviewed range from 6.0 to 7.5 per cent.

The report identifies steps taken in other jurisdictions to address the use of inflated discount rates and improve methodology on public versus P3 cost comparisons. For example, in the United Kingdom, the recommended discount rate is 3.5 per cent. On projects valued at hundreds of millions of dollars – a small change in the discount rate makes a substantial difference.

The process for assessing P3s is biased. Parks and Terhart point to two key areas: the difference in cash flow (when money is spent during the life of the project) and the way in which risk transfer is assessed.

In terms of cash flow, they find that because the cash costs to government in P3 projects occur much later in the life of a project than in a public project, this, combined with the overly high discount rate, almost always serves to portray the P3 as offering more value for money.

Looking at risk, Parks and Terhart note that in the case of the Sea-to-Sky project, the value of risk transferred to the private sector is double-counted – effectively included in the discount rate, and given an additional value on its own, which adds to the public project cost estimate. They refer to the 2008 Annual Report of the Ontario Auditor General, which raises “significant questions” as to the legitimacy of the value of risk nominally transferred to private partners. Parks and Terhart note that the Ontario AG comments parallel their view that the methodology used to procure, evaluate and report the benefit of P3 projects is biased in favour of P3s.

A lack of public accountability and transparency. Parks and Terhart were asked if the B.C. government is allowing the release of information sufficient for the public to be confident their interests are protected in P3 projects. They reviewed the information CUPE was able to get through FOI provisions and reviewed the denials of information by government. They find that the government is not releasing sufficient information and that there is a general lack of transparency and public accountability.

Parks and Terhart note that much of the information that CUPE requested was denied. Critical information and documentation in support of the Value for Money reports was, for the most part, denied. Specifically, with the exception of the Diamond Centre project, basic information such as the comparative nominal cash flows for the Public Sector Comparator and the P3 were not provided.

As well, the report notes that information requested by CUPE on the Bennett Bridge and the Britannia Water Treatment projects was denied. For both projects, information was withheld because it was considered “potentially harmful to the interests of the public” and/or classified as cabinet secrets.

More information: *Evaluation of Public Private Partnerships* builds upon previous research, notably the 2006 review of the role of the B.C. Auditor General in reviewing P3s (Ron Parks) and a 2006 review of the Sea-to-Sky Value for Money Assessment (Marvin Shaffer, CCPA). CUPE has also developed a document outlining the history of requests made for disclosure of information about P3 projects in B.C. All documents are available at cupe.bc.ca or at keepitpublic.ca