

## AG report doesn't explore all aspects of P3s

by Lindsey Cole Dec 22, 2014

Public-private partnerships (P3s) are an important tool in the province's toolbox, say several in the industry, even though a recent auditor general's report claims these arrangements have cost taxpayers \$8 billion more than if the infrastructure was built by the public sector.



"Infrastructure Ontario (IO) has gained an international reputation as a best-in-class procurement agency," states Mark Romoff, president and CEO for the Canadian Council for Public-Private Partnerships in a statement, adding Ontario is leading the way with over 100 Alternative Financing and Procurement (AFP), or P3, projects, the majority procured by the provincial government.

"The record speaks for itself. The transfer of risk to the private sector has real value and taxpayers are tired of projects costing far more than initially budgeted, deficient design and construction, and deferred maintenance, which is why governments have turned to P3s."

Auditor General (AG) Bonnie Lysyk recently released her 2014 annual report, with AFP arrangements on the agenda. Lysyk looked at 74 infrastructure projects where IO used the P3 model, stating it was a more "cost effective" approach. She found it wasn't actually saving taxpayers' money, with the majority of the \$8 billion cited (\$6.5 billion) relating to private sector financing costs.

"Infrastructure Ontario estimated that this \$8-billion difference was more than offset by the risk of potential cost overruns if the construction and, in some cases, the maintenance of these 74 facilities was undertaken directly by the public sector," the report reads.

The report, however, notes while there have been instances where public sector projects have experienced cost overruns, there is no data "supporting the key assumptions used by Infrastructure Ontario to assign costs to specific risks. Instead, the agency relies on the professional judgment and experience of external advisers to make these cost assignments, making them difficult to verify."

She said value for money in public sector delivery could be found if contracts "had strong provisions to manage risk and provide incentives for contractors to complete projects on time and on budget."

However, IO stated in a release the AFP model is the most "responsible" approach to deliver large, complex projects.

"Unfortunately, there is a common misconception that AFP delivery is more expensive than traditional delivery methods," it reads. "This way of thinking ignores the risks that are inherent in large, complex projects."

**Residential and Civil Construction Alliance of Ontario (RCCAO)** Executive Director Andy Manahan says in some of these projects, design-build-finance-operate-maintain contracts should be considered.

"I don't think she incorporated, let's say a 30-year maintenance component," he explains. "If she's just taking the contract at face value in terms of the capital of building it, sure you might be able to come up with some figure in the billions, but if the private sector is responsible over a longer period for that contract in maintaining the infrastructure and good state of repair, that's a totally different equation. It's like apples and oranges.

"If the government went back to traditional procurement as the AG has suggested, because of better financing terms... it would just be a disaster. I think the model has proven to be very effective and I don't think anyone is saying it should be used for every project out there."

However, some organizations state the auditor general's findings are a red flag.

"When the Auditor General says the Liberals have wasted \$8 billion on 'public-private partnerships,' I can't help but wonder who is peddling P3s to government and who in government is approving them," Warren Thomas, president of the Ontario Public Service Employee Union says in a statement.

"While some special interest groups will try to use aspects of this report for political gain, they are doing so void of facts," adds Romoff. "To believe that the public sector can deliver every project on-time and on-budget... is simply unrealistic."

Other industry leaders acknowledge the need for P3s, while accepting the auditor's statement that "it may be time to assess what those roles and financing mix could be going forward."

"Looking at the costs cited in that report, I think what really needs to happen, they need to sit down with construction stakeholders during the project or contract development to get industry expertise on how best to deliver these projects," says Patrick McManus, stakeholder relations and services manager with the Ontario Sewer and Watermain Construction Association.

"Bigger picture, we believe that AFPs are a very important tool. Many of the projects simply wouldn't get done without them," adds David Frame, director of government relations with the Ontario General Contractors Association.

"It's just one tool that IO has and they have got to carefully consider every tool before they go out and put their projects out. I kind of think from what I've seen that's the message we're getting from this report."

The auditor general did say there is a role for P3s, which some in the industry want to reinforce.

"The Provincial Auditor's report has fueled some strong reactions, but we must not lose sight of the fact that public-private-partnerships have been critical to the delivery of a number of large, complex and vital projects that might not ever have been built were it not for the AFP process," says Barry Steinberg, Chief Executive Officer of Consulting Engineers of Ontario.