

# Partnership projects pricier, study finds

## Accountants say four B.C. public-private ventures would have been cheaper through direct government procurement

BY JONATHAN FOWLIE, VANCOUVER SUN    JANUARY 30, 2009



Work on the Sea to Sky Highway improvement project continues 18 kilometres north of Horseshoe Bay.

**Photograph by:** Mark Van Manen, Vancouver Sun, Vancouver Sun

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Projects built as public-private partnerships -- such as the Canada Line and the Sea to Sky Highway -- can be more expensive than those built directly by the government, two accountants have found.

Commissioned by the Canadian Union of Public Employees, the study was conducted by noted forensic accountant Ron Parks and his colleague Rosanne Terhart.

It is not the first time Parks -- known for his work on the Nanaimo bingo scandal that brought down several senior New Democrats -- has raised questions about the cost of public-private partnerships (P3s).

Parks looked at four recent P3 infrastructure projects in B.C. and said they all would have been cheaper through the traditional route of direct government procurement.

He and Terhart studied the Abbotsford Hospital, the Sea to Sky Highway, the Canada Line and the Gordon and Leslie Diamond Health Care Centre.

As he released the report Thursday, Parks said he thinks an independent party, such as B.C.'s auditor-general, should take a detailed look at all P3 projects.

It was a call echoed by New Democratic Party leader Carole James.

"I think it's important to get someone in there as quick as we can," James said.

"Taxpayer dollars are at risk."

The report comes on the heels of the announcement that the province is coming to the rescue of its private partners in the Port Mann Bridge-twinning project.

Citing the global financial crisis, Transportation Minister Kevin Falcon said Wednesday the government had agreed to provide one-third of the money needed to twin the bridge and expand parts of Highway 1.

In a traditional model, the government borrows money and hires a contractor to build a project.

In a public-private partnership, the government selects a consortium, which often raises its own financing, designs and builds the project, and operates it for three decades or more.

The B.C. government says it prefers the P3 model in certain large-scale infrastructure projects because it allows the province to transfer risk, including any cost overruns, to the private consortium.

Partnerships B.C. -- an arm's-length government agency -- does a full-scale analysis of each project to determine if it makes sense to do the project as a public-private partnership.

At issue in Parks' report is how Partnerships B.C. determines the price comparison between direct government procurement and a public-private partnership.

In these so-called value-for-money reports, Partnerships B.C. presents detailed estimates of how much it would cost to pursue the various models.

Parks said Partnerships B.C. creates a bias toward public-private partnerships by assuming a cost of borrowing money that is well above what the government would be able to secure.

Parks said as a result, the reports generally show a public-private partnership to be more affordable.

He said this is a flawed view, adding that his analysis shows the four projects he reviewed would all have been cheaper under the traditional model.

Larry Blain, CEO of Partnerships B.C., strongly rejected the idea of any bias, saying Thursday that the interest rates used in the value-for-money reports reflect not only the cost of borrowing, but also the risks that come with financing the project.

"If we can't show that the benefits of the P3 offset the higher financing costs we wouldn't recommend

it," he said. "It's as simple as that."

Blain said the auditor-general has reviewed the value-for-money reports for three of the four projects studied by Parks.

"The auditor-general has concluded that our methodology is fairly and reasonably presented," Blain said.

In 2006, Parks was critical of Partnerships B.C.'s value-for-money report on the Canada Line, saying the agency has an interest in filing positive reports because it ends up overseeing them, thus creating more work for itself.

Falcon said Thursday he was "totally unimpressed" by Parks' report, and that the P3 model has delivered several large-scale projects on time and on budget.

"Yes, it costs more to finance through the private sector, there's no doubt about that," Falcon said.

"But you need to balance that against what is the benefit you receive in transferring all of the risks that can be so punishing."

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#### OLYMPIC HIGHWAY TO BE READY THIS FALL

LOWER MAINLAND - The \$700-million Sea to Sky Highway improvement project is about 80-per-cent finished and will be completed in the fall, Transportation and Infrastructure Minister Kevin Falcon said Thursday.

The project, which is designed to improve the efficiency and safety of the highway, was set in motion by Vancouver's successful bid for the Winter Olympics, which open in February 2010.

"The project is on time and on budget," Falcon said in a statement.

"The highway will be safer, more efficient and reliable, and will provide economic opportunities that benefit communities along the Sea to Sky corridor and the entire province."

The revamped highway will have more passing lanes, smoother curves, better sightlines, highly reflective pavement markings and more effective intersections.

#### THE PROJECT INCLUDES:

- Four lanes from Horseshoe Bay to Ansell Place.

- Two-, three- and four-lane sections from north of Lions Bay to Squamish.
- Four lanes through Squamish.
- Three lanes from Squamish to Whistler.
- Three lanes between Culliton and Cheakamus, north of Squamish (completed in late 2004).
- Four lanes from Ansell Place to Lions Bay, north of Horseshoe Bay (completed in December 2005).

Five hundred workers are now employed on the highway project.

Doug Ward, Vancouver Sun

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