CUPE**FACTS**

What provincial auditors have said about P3s

Over the years, provincial auditors across the country have questioned the financial rationale for using public-private partnerships (P3s) to build public infrastructure.

Provincial auditors, or Auditors General, are independent officers of legislative assemblies who audit government finances to ensure that public monies are spent in a proper and accountable manner.

Few P3s have been reviewed by provincial auditors. But when they do examine them, provincial auditors find that P3s cost more than traditional public projects, use questionable methodology, lack accountability and do not transfer risk to the private sector.

Ontario

In her 2014 Report, Ontario's Auditor General reviewed 74 P3 projects and concluded that they cost the province $8 billion more than if they had been procured publicly. She also questioned the main justification for using P3s – the assertion that they transferred risk to the private sector. The P3 projects used unrealistically high risk transfer, averaging about 50% of the capital costs.

The Auditor General concluded that "there is no empirical data supporting the key assumptions used by Infrastructure Ontario to assign costs to specific risks."[i]

In 2008, the previous Ontario Auditor General determined that the William Osler Centre (P3hospital) in Brampton could have been built for $200 million less through traditional public financing. He also found that the cost of the public option was overstated by more than $600 million and that there was a high cost for advisors and consultants ($34 million).[ii]

British Columbia

In 2014 the Auditor General of British Columbia raised major concerns about the high cost of debt through P3 projects. She examined 16 different P3 projects in the province and reported:

> "The interest rates on this $2.3 billion of P3 debt range considerably, from 4.42% to 14.79%, and have a weighted average interest rate of 7.5%. Over the last two years, government had a weighted average interest rate on its taxpayer-supported debt of about 4.0%..."[iii]

Her review shows that P3 projects are creating higher levels of debt than if the government had financed the projects itself, since interest rates are almost double with P3s.

Quebec

In 2010, the provincial auditor of Quebec found that the Montreal University Health Care Centre (MUHC) P3 cost more than the public option, and that the analysis used to compare the P3 model to a conventional public model was extremely faulty. Instead of the P3 model saving $33 million, the provincial auditor found that the public model would have saved $10 million. The auditor's special report to the National Assembly also found that there was a cost overrun of over $108 million to the original price tag of $5.2 billion.[iv]

Not only that, a number of the key people involved in the McGill University hospital P3, such as Arthur Porter and the former CEO of SNC Lavalin, have been charged with corruptions associated with this project.

Recently two researchers from Montreal calculated that the government of Quebec would save up to $4 billion if it bought back the two super hospitals from the P3 consortium.[v]

Nova Scotia

In 2010 the Auditor General of Nova Scotia reported on his review of 39 P3 schools in that province. He cited numerous and significant problems with the administration of the contracts, notably the absence of child abuse registry and criminal records checks of sub-contractors. Many of the P3 companies subcontracted work to other companies without ensuring adequate safety checks.

The auditor concluded that "[t]he terms of service contracts are not adequate to ensure public interest is protected...The lack of these significant contract terms impairs the Department's ability to hold the developers accountable and effectively manage the contracts."[vi]

He also noted that risk was transferred back to government and developers were being paid twice for the service, resulting in a deficit for any local school board.

New Brunswick

In 1998, the Auditor General of New Brunswick reviewed two P3s in that province: Evergreen P3 School and Wackenhut's Miramichi Youth Facility.

The Department of Finance had claimed that the P3s would provide 7 to 15 percent savings on the design and construction, that capital financing to the private partner was very close to the government's long term borrowing rate and that major capital repair and replacement risk would be eliminated. None of these claims proved true.

The Auditor General concluded that the capital cost of the Evergreen School would have cost $774,576 less had the province done the work itself[vii] and that the Youth Facility cost the Province $700,000 more because of higher financing costs through the private corporation Wackenhut.[viii]

Canada

In 1995, the Auditor General of Canada reviewed the Confederation Bridge P3 project, which is often listed as a success story by P3 proponents. The Auditor General had major concerns with the "complex financing" of the project and concluded that the construction cost $45 million more than if the government had directly borrowed the money.[ix]

Saskatchewan

In 2010, the Ministry of Health signed a Memorandum of Understanding with Amicus Health Care Incorporated to build a 100-bed long term care facility in Saskatoon, without prior agreement from the health region. Although neither the government nor the provincial auditor called this arrangement a P3, it was by all definitions a P3: Amicus financed 100% of the capital costs and receives monthly capital and operating lease payments from the province over seven years.

The Provincial Auditor criticized the absence of a cost benefit analysis:

> The proposed daily capital rate is higher than other affiliates [nursing homes] because of Amicus borrowing 100% of the capital required for construction. We were unable to obtain the basis for calculating this rate for Amicus. As well, neither the [Ministry of] Health nor Saskatoon [Health Region] could provide us any written analysis to support that funding long-term beds in this new way is cost effective for the Province.[x]

The Auditor also noted that once the construction was completed, the Saskatoon Health Region "assumes the risk over debt repayment and the operation of the new facility."[xi]

Dr. John Loxley also reviewed what little information was disclosed about the Amicus deal and concluded that private financing would cost $11 to $20 million more than if the province had built the facility.[xii]

ENDNOTES:

[i] Auditor General of Ontario, 2014 Annual Report, Chapter 3.05 *Infrastructure Ontario – Alternative Financing and Procurement,* p. 203.
[ii] Auditor General of Ontario, 2008 Annual Report, Chapter 3.03 *Brampton Civic Hospital Public-Private Partnerships Project,* p. 115.
[iii] Auditor General of British Columbia, *The 2014 Summary – Financial Statements and the Auditor General's Findings*, October 2014, p. 18.
[iv] Report of the Auditor General of Quebec to the National Assembly for 2010-2011. Special report dealing with the watch over the projects to modernize Montreal's University Health Centres.
[v] Minh Nguyen and Guillaume Hebert, "Devait-on racheter les PPP du CHUM et du CUSM" (English translation: Should we buy back the PPP for the CHUM and the MUHC), Institut de recherche et d'informations socio-économiques (Socioeconomic Research and Information Institute) (IRIS), October 2014.
[vi] Report of the Auditor General of Nova Scotia, February 2010, Chapter 3, *Education: Contract Management of Public-Private Partnership Schools*, p. 37.
[vii] 1998 Auditor General's Report, New Brunswick, p. 185.
[viii] ibid., p. 186.
[ix] Salim J. Loxley, *An Analysis of a Public-Private Sector Partnership: The Confederation Bridge*, May 1999, p. 33.
[x] Provincial Auditor Saskatchewan 2011 Report Volume 2, Chapter 14D, p. 298.
[xi] ibid, p. 294.
[xii] John Loxley, *The Trouble with the Amicus Deal: Six Reasons Samaritan Place will cost the Province more.* March 2012.

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