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Chair

Mr. Pat Martin

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• (0850)

[English]

The Chair (Mr. Pat Martin (Winnipeg Centre, NDP)): We will call this meeting of the government operations committee to order. We're meeting today to begin at least an overview of a study we wish to undertake on public-private partnerships.

We're very pleased today to welcome the CEO of PPP Canada, Mr. John McBride.

Thank you for taking the time to be with us today. If you'd like to begin with a brief presentation, then we'll open the floor to questions.

Mr. John McBride (Chief Executive Officer, PPP Canada): Thank you, and thank you for the invitation to appear today. It's my pleasure to be here on behalf of PPP Canada to speak about P3s and the Canadian P3 market.

As members of Parliament, you're acutely aware that Canada faces a great need for infrastructure renewal. According to the Federation of Canadian Municipalities, in 2007 they identified a potential infrastructure deficit for all levels of government of between \$350 billion and \$400 billion. As a consequence, governments across Canada are pursuing ways of getting the best results for their infrastructure dollars. Many have recognized the value of engaging private sector expertise and innovation through public-private partnerships, more commonly known as P3s.

P3s are a means to inject greater accountability, whole life-cycle cost optimization, and financial discipline into governments' contractual relationships with the private sector. In Ontario these types of deals are known as AFP, or alternative financing and procurement. In the U.K. they are known as PFI, or private finance initiatives.

Broadly speaking, P3s refer to an umbrella of concepts related to the role of the private sector in procuring public infrastructure. PPP Canada defines P3s as a long-term, performance-based approach for procuring public infrastructure, where the private sector assumes a major share of the responsibility in terms of risk and financing for the delivery and performance of the infrastructure, from design and structural planning right through to long-term maintenance.

[Translation]

In practical terms, this means that governments do not pay for the asset until it is built, and a substantial portion is paid over the life of the asset only if it is properly maintained and performs. The costs are known upfront, meaning that taxpayers are not on the financial hook for cost overruns, delays or any performance issues over the asset's life.

For example, imagine that the company that built your house was also responsible for any repairs and maintenance over your 25-year mortgage. Given the amount that you will pay them every month once it is constructed is agreed to before the house is built, your payments do not go up if something breaks or needs replacing. Because of this, your builder would consider the most cost-efficient way of doing something: perhaps installing a metal roof rather than shingles—more expensive to install but more durable and thus easier and cheaper to maintain. Furthermore, if your air conditioner breaks and it isn't repaired in the agreed upon timeframe, you can deduct from the amount of your next payment to them.

P3s are not privatization. Rather, they are contractual relationships with the private sector for the designing, building, financing and maintaining of public infrastructure. Ownership of the asset remains with the public sector.

[English]

P3s quite simply are a tool in the tool box to deliver public infrastructure investments Canadians need. They're not always the right solution, but when applied to the right projects, they can provide many benefits, including greater money for value for taxpayers, on-budget and on-time delivery of public infrastructure, greater accountability and performance standards, greater consideration of the whole life cycle of a project, and fiscal planning certainty. And they allow the government the ability to focus their efforts on what they do best, defining the services Canadians need instead of prescribing how they should be delivered.

P3s do involve costs. The cost of private sector financing is higher, but the involvement of private sector finance is critical to achieving the benefits as it ensures risks are transferred and the disciplines and incentives to achieve better results exist. P3s also involve greater upfront planning and bid preparation costs as the private sector must commit to a long-term undertaking and put their money at risk.

However, P3s are the right solution when the benefits exceed the cost. This requires thorough, upfront analysis. Our experience is that this upfront work produces better projects, even if a P3 approach is not ultimately the preferred option, as it requires a more systematic consideration of costs, risks, and performance expectations.

In general, P3s are more suitable for larger, more complex projects where performance expectations can be clearly specified and are stable over time. Canada is recognized as a global leader in P3s. While P3s have a long history in places such as the United Kingdom and Australia, increasingly people are looking to the Canadian experience.

With the ability to draw on experiences of other jurisdictions, Canada has been able to apply best practices and lessons learned to create a market that is now leading the way. In May of this year, *PPP Bulletin*, an industry trade publication, conducted a survey to determine the top P3 markets. Canada came out on top.

Why exactly is Canada leading the way? There are a few reasons. Canada does P3s for the right reasons. The priority is about value for the taxpayer. It isn't about off balance-sheet financing, but rather an in-depth value-for-money analysis to determine if P3 is the best procurement option.

Canada has developed strong public sector institutions in the field of P3s. Public corporations and agencies have been created in Alberta, British Columbia, Ontario, Quebec, New Brunswick, and federally, which has contributed to a sustained project pipeline; imposed the application of accepted methodologies, documentation, and deal structures; and, more importantly, has helped educate and bring awareness to the P3 model.

Canada has deep and cost-effective capital markets. Canada is not reliant on long-term bank financing for projects, which has become less available and costly since the financial crisis. Rather, Canada has been able to employ bond market solutions, which has allowed projects to close at competitive rates of financing.

Canada is also open to strong competition creating a highly competitive market. This ensures best value for taxpayers. The Canadian market has both strong domestic and international players that partner together to produce excellent results. Canadian success is increasingly making P3 an export business for Canadian industry.

Canada has a diverse and growing pipeline. The strong historical deal flow from leading provinces is now being supplemented with projects at the federal and municipal levels. The use of P3s is also broadening to new asset classes. This growing and diverse pipeline is increasing experience and is attracting more competition, which results in lower costs for taxpayers.

● (0855)

[Translation]

In 2007, the Government of Canada saw an opportunity to leverage its role to generate better P3 solutions through the creation of our organization, PPP Canada, a federal crown corporation. In addition, the government has appointed a very seasoned board of directors, whose members all have considerable private sector experience.

PPP Canada has been operational since 2009, and its business priorities are threefold.

First, we act as a source of expertise and advice on public-private partnership matters through P3 knowledge development and sharing.

Second, we have a mandate to carry out evaluations and provide advice regarding the execution of P3 projects undertaken by the federal government.

Third, we work with provinces, territories, municipalities and first nations to build public sector expertise.

In that context, the corporation administers the merit-based \$1.2-billion P3 Canada Fund, which focuses on innovative P3s, thereby supporting economic and job growth.

PPP Canada is a knowledge organization. We have developed tools and materials to support our work and that of our clients. We have formed relationships with procuring jurisdictions across all levels of government in order to share lessons learned and experiences.

We look for opportunities to increase knowledge and capacity, while working towards shaping the Canadian P3 market by fostering a P3-friendly culture and sharing best practices.

Recently, the Government of Canada has closed two of its own P3 deals: the Communications Security Establishment Canada Long-term Accommodation project here in Ottawa and the RCMP "E" Division Headquarters project in Surrey, B.C.

Budget 2011 created a new federal P3 screen, whereby federal departments and agencies are required to evaluate the potential for using a P3 for federal infrastructure projects with capital costs of \$100 million or more and a life cycle of at least 20 years.

Our corporation is currently acting as lead P3 advisor to Transport Canada on the new bridge over the St. Lawrence and the Detroit River International Crossing, as well as working closely with other federal departments and agencies as they apply the screen and assess their projects for P3 viability.

[English]

In addition to our work with our federal clients, we focus on advancing the P3 market at the provincial, territorial, municipal, and first nations levels. The \$1.2 billion fund allocated over five years is a merit-based program that supports P3 infrastructure projects that achieve value for Canadians, develops the Canadian P3 market, and generates significant public benefits.

As a result, to date the government has announced P3 Canada fund commitments to a total of 12 projects of various models, sizes, and infrastructure classes, for a total funding contribution of over \$387 million. These investments will, in turn, leverage more than \$1.5 billion in P3 infrastructure investments across Canada.

PPP Canada's mandate is to improve the delivery of public infrastructure by achieving better value, timeliness, and accountability to taxpayers through P3s. At PPP Canada we are committed to working with all levels of government to ensure that Canadians get the best value for their infrastructure dollar.

Thank you. I look forward to your questions.

• (0900)

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

We have a list of questioners. The first, for the NDP, is Linda Duncan. You have five minutes please, Linda.

Ms. Linda Duncan (Edmonton—Strathcona, NDP): Thank you very much, Mr. McBride.

I've noticed in the materials, in your presentation, that there has been more than a billion dollars committed to the end of this fiscal year. Can you provide to the committee—and you don't have to give us all the details right now—the breakdown in the money spent on establishing this P3 unit, the amount of money that is actually committed to building infrastructure, and the amount of money that is actually given to all the government departments to manage P3 facilities?

Mr. John McBride: Our budget has three components: to develop knowledge around P3s, to work with the federal government, and to deliver the P3 Canada fund.

Ms. Linda Duncan: I understand the mandate. You don't have to give me the figures right now, but I'd like the breakdown.

Could you provide information—we'll have further witnesses—on whether any of this federal money that's committed for developing and managing long-term P3 projects is actually allocated to the departments that have to manage those projects?

You mentioned there has been experience with P3s in Canada and a great deal of success. I'm afraid there are some exceptions in the province I come from, Alberta. The Bover P3 has been an abject disaster, costing Albertans half a billion dollars to bail out the company. So understandably there's a high level of skepticism for any P3 at any level of government in Alberta because of that.

Could you provide to us any audits done of any of the P3 projects the federal government has been engaged in, and where the period of the audit...? For example, would it be correct for me to presume that your office is not only developing the system and helping to train departments, but also auditing whether the system is really saving the money they have professed to save taxpayers?

Mr. John McBride: On that last question, we certainly do value-for-money analyses on these kinds of things. Obviously the role of auditing the federal government falls to the Auditor General. Our organization is subject to audit, both special examinations and audit by the Auditor General in terms of his responsibilities.

On your first point, I would point out to the committee that the term "P3" is broadly and loosely applied by many people in different contexts, ranging from any kind of engagement with the private sector to situations where significant long-term private capital is applied. I would note to the committee that when calling witnesses, people have different definitions of a P3.

I wouldn't want to speak particularly about the project you identified in Alberta, but they have had significant success in the construction of ring roads. Edmonton has P3s, delivering them on budget, on time, and faster.

I can't speak specifically to the project at hand. But if there were, in fact, significant private sector capital at risk in a way that a P3 project should be constructed, then they wouldn't be on the hook for bailing out the company, because their money would be the money at risk.

Ms. Linda Duncan: That is a question that I wanted to ask you. It's been brought to my attention, as you mentioned in your presentation, that the P3 screening requirement is being imposed on every federal government department. As a result of that, Minister Duncan proposed P3 for building first nations schools. I understand—I think it was yesterday—it was roundly rejected by all the first nations.

So it's a twofold question. What is the decision-making process? Who actually makes the final decision whether or not P3 will be pursued? Who decides on the terms of those undertakings? You have spoken about the risk of the private capital, but where is the protection in those agreements for the risk of the public investment if that project goes under or if there are cost overruns?

• (0905)

Mr. John McBride: On the first question of the \$100 million screen, that's a Treasury Board policy. As a source of expertise, we advise departments on the application of the screen.

I would point out that the screen is only to identify whether P3 is a viable option. If it is a viable option, then a full-blown P3 procurement options analysis would have to be done.

Ms. Linda Duncan: Who decides if it's viable? Is it the minister, each department, the P3 office, or cabinet?

Mr. John McBride: The departments apply the screen themselves. They can consult us. We provide them advice on whether or not we share their view. It is a requirement to consult us. At the end of the day it's the responsibility of the department. Ultimately departments are accountable to the Treasury Board for the application of its policy.

Ms. Linda Duncan: Are there safeguards in the agreements?

Mr. John McBride: On the question of the structure of agreements, I can speak to the two from the RCMP and the Communications Security Establishment Canada. Both of those projects have significant private sector capital at risk. The project agreements involve no payments to the private sector until the project is complete and certified by an independent engineer. So all of their money is at risk. No federal money is at risk until they have delivered. If something happened in the course of those projects—it hasn't yet—it would be first the equity investors and then the debt investors who would be responsible for remediating the situation, or they would lose their money and the federal government would take over the asset and would not have paid a nickel into the project.

That is why it's important for these types of contractual structures to be well established. Private sector capital is at risk. That is what underpins the discipline for performance and actually ensures that risk is transferred. Some people call something a P3, but if there isn't significant private sector capital at risk, then I would argue it's not really a P3. It would be an outsourcing relationship. There are lots of contractual relationships that governments have with the private sector, and some people broaden the definition of P3 to include those. My view is that something is a P3 only when there is significant private sector capital at risk; otherwise it's a P2.

The Chair: Bernard.

Mr. Bernard Trottier (Etobicoke—Lakeshore, CPC): Thank you, Mr. Chair, and thank you, Mr. McBride, for coming in.

Before asking a couple of questions, I just want to salute the chair. We're really working across party lines in a general spirit of inquiry. We're trying to examine P3 investments as a long-term critical challenge for Canada. So we'll always be advocates. We are partisan in our way, but we really try to understand the advantages and disadvantages of P3. What are some of the pitfalls and what can we learn?

You mentioned that there are Canadian firms that have developed a lot of expertise. The Confederation Bridge is a great example of a P3, a big engineering challenge, a big financial challenge. I like to think of some of the firms that were involved in getting that construction project brought to fruition. Strait Crossing Development Inc. is using the expertise it's developed to do P3 projects around the world. They are working on the metro transit tunnels in Seattle and the Gdansk Grain Terminal in Poland. Another of the partners was Borealis Infrastructure, which is an interesting entity because they are owned by OMERS, the Ontario Municipal Employees Retirement System. They have about \$50 billion in P3 assets that they are investing in about 20 projects around the world. Their portfolio includes things that are not traditional infrastructure, like a satellite that is providing North American distribution services, and life labs, providing diagnostic services.

So what is it about Canada that makes us a world leader in P3s?

● (0910)

Mr. John McBride: Those are great points. I appreciate that there is a lot to learn about P3s. It's an excellent area, so I'm really delighted that the committee is spending some time on it and trying to understand this.

Canada has emerged as a global leader, you're quite right. Its companies now, both as investors and as engineers, have taken their

expertise internationally.... As I said, one of the things that has made Canada a global leader is that we're doing P3s for the right reason. That's to the point that was made before that not all P3s are a success. They're not a success if you do them for the wrong reasons.

If you look at it internationally, and in fact even if you look back at Canada, there was a big drive 20 years ago. P3s were actually a way for some governments to do things off budget. Canada has been very clear about its public accounting standards: P3 projects are on budget. It's not a way of avoiding the capital budget discipline. It's about efficiency and effectiveness. It's not about trying to skirt budget rules. In some circumstances it has been, in some countries, and that's particularly in the European context, but it's actually a technocratic question of whether or not this will deliver better value for money. Therefore, if you're driven by better value for money, you'll end up with the right result.

Canadian capital markets are strong, so we have significant life insurance, bond market.... We have, unlike other countries, created institutional capacity, so you'll see organizations like Infrastructure Ontario and Partnerships British Columbia. These are complex projects. They are complex commercial deals. It's not the kind of thing that an average department does on a regular basis, because they tend to be the larger and more complex projects. By consolidating and bringing in the right expertise to actually execute these deals, there has been significant success.

The build-out of the health system in Ontario through P3 has been an enormous success, as has the Sea-to-Sky Highway. You can go through a number of examples. It's true in Alberta, where they have built a unit within their treasury board. That institutional capacity has been quite effective.

Also, there's competition. Very strong competition and very clear rules for competition have made Canadian companies stronger, because they have been able to partner with other people, so some of that experience.... They've partnered with international firms, they have learned, and they have developed. They've been able to use that as a springboard into other projects. It's one of those ones...if you actually have a competitive market, it makes the domestic industry stronger and gets you better value for taxpayers.

Mr. Bernard Trottier: What I'm hearing is that it's the different components of that knowledge economy. You talked about the legal system, the financial system, engineering expertise, and those competitive markets. That's what makes it a vibrant reality, I guess, when it comes to building not just for Canada but for other projects around the world.

You mentioned Australia and the U.K. in your comments. Are certain jurisdictions or certain entities known as the real leaders that we could learn from?

Mr. John McBride: Both the U.K. and Australia and to an extent France and other European countries.... There are 75 countries with P3 programs. I think there are lessons to be learned from all of them, both good and bad. We've learned about value-for-money analysis. We've learned about how to deal with operating and maintenance through the life cycle of these kinds of things.

We've also learned other lessons. You have to make sure that you keep it as a tool in a tool box and you don't say that P3s are the solution to everything. They're not the solution for everything. It's like any tool: if you try to apply a hammer to the wrong kind of situation, you'll get the wrong result. There's nothing wrong with the hammer; you just didn't use it in the right circumstances.

I think the U.K. is going through that. I think they've learned that they've done it for some projects that were too small, frankly. So where it works and where it doesn't work...those are some of the things that we can certainly learn. In Australia, it's very much at the state level, in the State of Victoria and the State of New South Wales, so Partnerships Victoria is a place to learn from.

I think the experience the U.K. is going through in their initiative, where I think they're realizing that they have probably gone too far in the PFI, is another good lesson for Canada as well.

• (0915)

Mr. Bernard Trottier: Thank you.

The Chair: That concludes your time, Bernard. Thank you very much.

Next, for the NDP, Denis Blanchette. You have five minutes, Denis.

[*Translation*]

Mr. Denis Blanchette (Louis-Hébert, NDP): Thank you, Mr. Chair.

Good morning, Mr. McBride. I'm glad you're with us today.

In the beginning, I was a bit disappointed by your presentation. You spent a considerable amount of time extolling the virtues of PPPs in an ideal world. But I wanted to hear more about what you have done, at the end of the day. You said, for example, that you were a leader, a model for others, but I wish you would have explained what makes you a leader. I have yet to see or hear anything in that regard. You also said that you're protected when entering into PPP contracts because of the solid deal structure in place. I wish you had elaborated on that as well.

Would you be able to provide us with documentation outlining your deal structure, to show us that when the government enters into PPP contracts, taxpayers are well protected? I would very much appreciate that.

You indicated that so far you've funded 12 projects for a total of \$387 million. What kind of funding is it exactly? What elements does the funding cover? Is it meant to provide cash flow or to bring down interest rates? I would like you to talk about that.

Mr. John McBride: Thank you.

As regards deal structures, it's tough to share details about specific contracts or deal structures because they are extremely complex. They are legal agreements. I can give you examples of structures. A deal structure involves a number of parties. It's incredible how much you learn when you see how the whole thing works, if you're patient enough to go over a draft agreement from start to finish.

On the issue of funding, we have a \$1.2-billion fund. Initially, we tried to figure out how we could add value to the PPP market. We spoke to private and public stakeholders. I'd say the feedback we got is very much in line with the reality: the private sector doesn't need government assistance as far as PPPs go. The PPP industry has extensive expertise and the capital markets are deep and competitive. So our focus is on the public sector. Our contributions and investments go to provinces, municipalities and first nations.

Our role in a project is to provide expertise to provinces and municipalities—especially municipalities given their lack of PPP experience. We also help by making projects more affordable. Our contributions go to provinces and municipalities.

Mr. Denis Blanchette: So none of your funding goes to the federal government, just the other levels of government.

Mr. John McBride: Precisely.

Mr. Denis Blanchette: The 12 projects you mentioned, then, aren't federal projects; they're projects undertaken by other levels of government. Is that right?

Mr. John McBride: Yes, that's right. Our funding is meant solely for projects undertaken by non-federal levels of government. We do work with federal departments, but the resources for those projects come from each department's capital budget.

Mr. Denis Blanchette: How many federal government projects have you assessed since your corporation was created?

Mr. John McBride: Roughly a dozen.

Mr. Denis Blanchette: How many of those passed the screening process and how many didn't?

• (0920)

Mr. John McBride: One of the deals that has been closed is the RCMP project in Surrey, British Columbia. It was already near completion. There's also the Communications Security Establishment Canada project in Ottawa, which is in the design phase. We also have two major bridge projects: one to replace the Champlain bridge in Montreal, and one in Detroit. The other projects are still at the early stages of departmental planning.

Mr. Denis Blanchette: Have you turned any projects down? Did you make a decision? Did you ever think this isn't a good project, and if so, why?

Mr. John McBride: Are you referring to PPPs?

Mr. Denis Blanchette: Yes.

Mr. John McBride: Yes, it's happened.

Mr. Denis Blanchette: What led you to that decision?

Mr. John McBride: We've turned down projects for a variety of reasons. We have to determine whether clear performance objectives can be set and whether those objectives will remain stable over a long period.

Take information technology for example. Those projects require huge investments. Can the private sector really enter into a binding contract with the government for 25 years and invest in IT? That's extremely difficult given how much IT can change in 25 years.

Sometimes, it's not easy to transfer risk to the private sector. How could the government transfer the risk associated with maintaining military equipment during a war, for example? How could the private sector manage that? In the PPP world, the key is knowing who can do the better job managing the risk.

In some situations, the private sector is better positioned than the government to manage risk. That would be the case with a bridge construction or maintenance project, say, where the private sector has the experience and expertise to manage the risk optimally. It's not that difficult to identify what the government wants over a 25-year period. If it's looking for a bridge that can accommodate a certain traffic volume, it needs the least costly solution over the 25-year period, taking into account the maintenance, design, installation and oversight phases of the project. If the performance standards don't lead to an outcome that meets expectations, payments will be affected. Not all situations offer stable performance standards over 25 years, and not all risks are best managed by the private sector.

[English]

The Chair: Thank you, Mr. McBride.

I'm trying to manage the time as best we can. I think it's in our interests to let the witness fully explain the answer, but that crept on a little long.

Now it's Jacques Gourde's turn. You have five minutes, Jacques, or thereabouts.

[Translation]

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

Mr. McBride, thank you for being here this morning.

I want to pick up on what you just said. It's in the best interest of Canadians to have a clear idea of how PPPs work. As the public administrators of taxpayer money, we have to make long-term decisions about infrastructure from time to time.

I think you did a good job when you started explaining the benefits of PPPs, pointing to how these relationships came about and giving examples. You also made it clear that some variables cannot be predicted, especially in the field of IT, which is constantly changing. People in the private sector may be better suited to managing risk under a partnership, as far as public infrastructure goes. I quite appreciate how you started explaining that to us. Could you kindly elaborate a bit more?

● (0925)

Mr. John McBride: Thank you.

Public-private partnerships are the product of experience that has been gained via traditional channels. Keep in mind that the private

sector has always built public infrastructure. The public sector doesn't have the equipment required to build bridges, roads and other things of that nature. Standard practice is that the government first enters into a separate contract for the design phase of the project. Once it has the design in hand, the government then solicits bids to find a private firm to build the infrastructure. Once the infrastructure has been built, the government must see to its maintenance and operation.

Where is the problem? The person designing the infrastructure has absolutely no incentive to come up with the least costly solution possible. You get plans that are extremely difficult to build. The person building the infrastructure has absolutely no incentive to consider long-term maintenance. When cost overruns crop up during construction, the builder blames the design. And the designer's response? It's a construction problem. Governments are the ones on the hook in situations like that. The fact that the traditional approach routinely leads to cost overruns tells us that something is wrong with public projects.

One of the country's biggest problems is the upkeep of existing infrastructure, not the building of new infrastructure. Governments don't systematically consider the infrastructure's life cycle. What happens in the event of a cost overrun? It's always governments footing the bill. PPPs address that kind of issue.

How do you change the supply model to prevent such problems? You start by making sure that the same people are responsible for every phase of the project, and leave the job of achieving the most cost-effective outcomes up to them. Those people, then, are responsible for the project's design, construction and upkeep, making it impossible for them to pin the blame on someone else. That is a key feature of the PPP model, integration. Construction isn't the problem, it's everything that comes afterward. If the infrastructure doesn't work, the public's expectations aren't being met.

The only way we can make sure a project is done right is to rely on the discipline of capital markets to force private firms to build infrastructure that functions properly. As I say all the time, governments aren't all that adept at recovering their money when there's a problem; but they're very adept at not making any payments at the start of a project, only once it's been completed.

● (0930)

We're talking about loans and investments worth hundreds of millions of dollars. Given the size of those investments, the banks, or investors, can impose discipline on the private sector that governments can't.

[English]

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

[Translation]

Thank you, Mr. McBride.

[English]

We now have John McCallum, for the Liberals.

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

Welcome.

People like to say that Canada is a world leader in just about everything. That's nice when it's true, but sometimes it's not true. You talk about this survey by *PPP Bulletin*, where Canada comes out on top. I would have thought that countries like the U.K. and Australia had greater depth in history than we did. Are you really saying Canada is number one in the world, and if so, what is *PPP Bulletin*, and by what measure are we number one?

Mr. John McBride: You're right that the U.K. and Australia have more experience. They've been at it longer and have done more projects. What I say now is that Canada has sort of emerged, so—

Hon. John McCallum: No, but you said we're top. That means we're number one.

Mr. John McBride: Right, in terms of where we are right now.

Hon. John McCallum: Are we number one?

Mr. John McBride: Yes. Why is that? The number one reason is that this is emerging post-financial crisis. Certainly in the European markets, the financial structure for the deals has been on long-term bank financing. Therefore, post-financial crisis, banks are not lending long-term, 25-year loans.

Hon. John McCallum: Can you tell me what *PPP Bulletin* is, and by what measures we are number one?

Mr. John McBride: I'm happy to share it with you. *PPP Bulletin* is an industry trade journal. They did a survey. It's published in the U.K., and in partnership with Deloitte they did an international survey of participants and PPP. They identified a number of countries and a number of criteria. In many respects, Canada emerged as a leader in that survey.

I'm happy to share the results and the content of that survey.

Hon. John McCallum: So you're saying that overall we're number one?

Mr. John McBride: We are, in terms of where we are right now with our market.

Hon. John McCallum: Okay. You have this fund of \$1.2 billion over five years. What was the first year?

Mr. John McBride: What was the first year that we got money?

Hon. John McCallum: For the \$1.2 billion over five years.

Mr. John McBride: How much was it? It was \$162 million.

Hon. John McCallum: It was \$162 million in what year?

Mr. John McBride: In 2008-09 or 2009-10.

Hon. John McCallum: When was the first time—

Mr. John McBride: It would have been 2009-10.

Hon. John McCallum: And you spent \$162 million in that year?

Mr. John McBride: No. We did not commit \$162 million in our first year.

Hon. John McCallum: When was the first year you committed significant money?

Mr. John McBride: We committed significant money last year and even more significant money this year.

Hon. John McCallum: It seems to me that for an institution that's five years old, you've gotten off to a very slow start.

We had a very unsuccessful election campaign in 2011, but one of our platform items was that we'd transfer the money from your organization into affordable housing, because it was our perception that you'd done virtually nothing with that money as of, say, 2010. Was that perception correct?

Mr. John McBride: I don't share that perception.

Hon. John McCallum: But you just told me the first money you spent was last year.

Mr. John McBride: That's true. We were created in 2009 as a crown corporation. In February 2009 I was appointed. I was employee number one, so this was a new approach by the federal government to create an institution. The board of directors was appointed in June 2009. We spent some time figuring out what we should do with the fund, and then we launched our first call for applications in September 2009. Those applications were received, and we worked with clients on those kinds of things.

You're right. These are not projects that happen overnight. These are complex projects. Our emphasis is on making sure we're making the best investments—not the quickest investments—and focusing on projects that actually produce value for money.

• (0935)

Hon. John McCallum: In your statement it says in 2007 your organization....

Mr. John McBride: In Budget 2007, the government announced that it was going to create this fund, and at that time there was going to be a PPP office, but the actual creation of a crown corporation as a separate institution of government—which I would argue is best practice, if you take a look at what Ontario and B.C. and other jurisdictions have done—did take some time.

I can speak to when I arrived in February of 2009, but I think since then we've made enormous progress. Working to actually develop new approaches to the way the public sector does business doesn't happen overnight. We have seen a significant growth in applications, going from 70 to 200. In our last round we received \$13 billion worth of applications for infrastructure, and we expect that within the next 18 to 24 months.... It takes a bit of an exponential growth as you start up an organization. I personally—and I know this view is shared by my board—would rather make sure the money is well spent than spent fast.

Hon. John McCallum: Thank you.

Finally, I think it would be helpful if you don't mind sharing that information from the *PPP Bulletin*.

Mr. John McBride: Absolutely.

Hon. John McCallum: I'd be interested in seeing it. It's not that I don't want Canada to be a world leader. It's just that I hear everybody is saying it all the time about everything, and I'd like to know if it's really true.

Mr. John McBride: Don't get me wrong. We have things to learn from others. There's no doubt about that.

Hon. John McCallum: Thank you.

The Chair: Thank you, John.

For the Conservatives, we'll go to Kelly Block.

Mrs. Kelly Block (Saskatoon—Rosetown—Biggar, CPC): Thank you, Mr. Chair.

Thank you, Mr. McBride, for being here. It's been a terrific presentation, and I've appreciated the questions that have been asked so far.

Perhaps I'll just follow up on my colleague's question about how fast we are managing to spend the money. I know you stated that you work with provinces, territories, municipalities, and first nations. I'm just wondering if you could share with us whether or not those partners were ready for what the federal government was intending by creating the P3s, or if capacity needed to be built at those levels as well.

Mr. John McBride: Yes and no. If you go back to the time of 2009, the priority was stimulus. If you remember, that was a time when the government said, for the right reasons, we need to put an injection of stimulus, and infrastructure was one of those tools. There was an extra \$9 billion or \$10 billion added to infrastructure funds in a two-year window, to focus on making sure the economy moved forward. In that context, those were the same partners, so provinces and municipalities had a two-year window from 2009 to 2011 to spend \$9 billion or \$10 billion.

In our first year, absolutely, almost every province and most municipalities were extremely focused on stimulus spending. By its very nature, those projects were shorter term, and there is nothing wrong with that; that was the point of them. So in that first period the emphasis was really on getting that stimulus money, and that was really well done, but it did take a lot of capacity and focus away in provinces and municipalities from the longer-term task and the larger projects.

In terms of capacity, there are provinces that have things that.... In terms of being a global leader, I would say our provinces are global leaders. There are Infrastructure Ontario and Partnerships B.C., and our guys have been very lucky to be able to learn from them and their experiences. The credit for our being a global leader doesn't go to us, but it goes to what's been happening at the provincial level.

So there is capacity, but it's uneven. B.C., Alberta, and Quebec have been doing P3s, so they have capacity. They each have established institutions that have expertise to do these kinds of things. That's less true in other provinces.

For example, we just announced a couple of weeks ago an investment for P3 to redevelop the Iqaluit airport. Did the Nunavut territory have a lot of knowledge and capacity about how to do complex project structures like this? No. Did that take a lot of work?

Did we work to get B.C. to partner with Nunavut to help them learn and have capacity to make sure they do the deal right?

That's true with municipalities. We've worked with Winnipeg, Surrey, Sudbury, and a whole range of municipalities.

In fact, it's one of the goals of our fund: to try to focus on people. Yes, we want to leave behind great infrastructure. That should go without saying. Yes, we want to leave behind great PPPs that deliver value for money. But what we really want to leave behind is an institutional capacity and a learning. So part of our challenge is to work and partner with people who are new to P3s.

Even those who are more experienced, we want to encourage them to try.... Can we do P3s in areas where they haven't done them before? We're doing a project with Partnerships B.C.—it was their experience—to do the rehabilitation of a single residence occupancy...basically social housing in east side Vancouver. Those are 100-year-old historic buildings. How do you actually get the private sector to take a risk, over 25 years, of rehabilitating and providing social housing in east side Vancouver? It's not obvious, but if we could come up with a social housing model for the rehabilitation of social housing, to engage the private sector, then there may be something that everybody could learn from across the country. But it's not an easy deal to put together, so we're working with people who have experience, to get them to take their experience into new places and with jurisdictions that haven't....

The capacity is a challenge, as was the short-term stimulus focus in the 2009 to 2011 period, which I would say did cause some slowdown in our take-up. But I'd have to say, we were just getting started, too, and we wanted to walk before we ran as well.

● (0940)

The Chair: You're a little over your time, but thank you very much.

That concludes our first round of questioning.

In the meantime, if you don't mind my taking a minute for one question....

Generally, in the industry—this is why we asked you here, and it's not necessarily to find out the efficacy of what you're doing, but more about the industry—what is an acceptable profit margin? What is the markup? If a bridge costs \$100 million to build and maintain over 25 years, it's not charity; you're not doing it out of the goodness of your heart. You're trying to make money on it. So how much more do we pay for having somebody else do it than the real cost of the project?

Mr. John McBride: If you recall, a P3 pulls all the pieces of a project into one transaction.

The Chair: And then you're adding profit to it.

Mr. John McBride: Say you were going to do a bridge and you were going to do it in the traditional mode. You would have to hire an engineering firm to design the bridge, and they would make a profit on that.

A P3 doesn't change the contractual relationships and what they'd make as profit. If you were going to then hire PCL or EllisDon or Strait Crossing to construct the bridge, there would be a profit margin in that. If you were going to hire somebody to operate the bridge, there would be a profit margin in that.

By putting the pieces together, they actually optimize costs. What are the profit margins companies charge in terms of their contractual relationships? Even within the consortium, they have contractual relationships with each other. What is the incremental cost of the finance? Spreads on the debt component, which are usually about 90% of the financing, are around 200 basis points over what governments could borrow. There is a cost to the long-term financing.

The Chair: One of the main themes of your presentation, sir, was that you're asking the private sector to come in and take on the risk.

● (0945)

Mr. John McBride: Yes.

The Chair: You don't take on the risk without some reward.

Mr. John McBride: That's the incremental cost of the financing.

The Chair: It's only that.

Mr. John McBride: Yes, and in fact I would argue that you get better value on the other components. You get better value in design, construction, and operation, and through the competitive process of putting that all together. That is the tenet of that. The competitive process not only brings discipline, but the whole life-cycle optimization—the person who's thinking through the design is also building and maintaining—forces the best possible value.

The Chair: I didn't mean to take up too much time. If there was a clean answer, such as a 10% markup...

Mr. John McBride: Sorry. You'd have to ask the industry. It would vary by the industry and the contractor as to how they price their projects.

The Chair: Okay. Fair enough. Thank you.

Jean-François Larose.

[*Translation*]

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

I want to thank our guest for joining us today.

I have a few questions for you. Perhaps you could write them down, since our time is very limited. I appreciate your patience.

We know very well what is currently happening in Quebec with the Chartrand commission. Earlier, you said that you were aware of the various problems with PPPs. There have been some scandals in Quebec. That's in our own backyard, and it's recent. You could even say that we have known about this for 30 years. We have been told that PPPs work for 30 years, but we still see problems.

Earlier, you talked about the United Kingdom. To my knowledge, the United Kingdom's Public Accounts Committee reported, in September, that there was a number of scandals. Once again, I find this a bit particular as an example to use. Here, in Ontario, we need not go any further than correctional service and even the ambulance scandal, where the outcome was disastrous.

I have several questions to ask you and I will begin. What kinds of mechanisms have you implemented to ensure an impartial and transparent adjudication process and transparent public accountability? How will you ensure that events like those in the United Kingdom involving private companies will not draw more from PPPs at the expense of taxpayers? What mechanisms have you implemented to ensure that Canadians and ourselves, as members, are informed about the redistribution portion in terms of taxes?

I also have some more in-depth questions for you. How do you assess the costs for the Crown if the project is not carried out with the private sector? What kinds of costs would be involved if only the traditional contracts you mentioned earlier were used? How do you calculate the economic performance of the taxpayers' revenue invested in PPPs? Can you tell us what that performance has been so far? Can you also tell us what the economic performance of private companies is? Do you have any documents in support of those questions you could share with this committee?

Mr. John McBride: That's a good series of questions.

Mr. Jean-François Larose: You wrote them down.

Mr. John McBride: Let's begin with transparency. When we make an investment with provinces or municipalities, we have to publish the value added study, which compares the costs of the traditional model with those of the PPP model. That analysis has to be published.

How can we avoid the difficulties experienced by the United Kingdom? We can do that by conducting a value added analysis for each project and by ensuring that the reason someone is proposing a PPP is not to avoid budgetary constraints. Accountability requirements in Canada are different from those in Europe.

We estimate the costs. There is a way to assess the return on investment. There are actually two kinds of returns on investment in a project. The first has nothing to do with PPPs. Building a bridge will create economic benefits. However, if the project is constructed based on a traditional model, the economic benefits of that bridge will be there because the bridge will be there. Our comparison is meant to determine whether it is more efficient to carry out those projects based on a PPP model or on a traditional model.

We assess the costs of the traditional model. There is a way to analyze the costs of a traditional model, including risks, and to assess PPPs. That can be done in the beginning, with the estimates. That can also be done once the private sector's proposals have been received so as to ensure that those proposals are less expensive than the traditional model. If that is not the case, no investment is made. Our recommendation would be not to go ahead with the project. The analysis of such factors is a discipline onto itself.

Have I answered all your questions?

● (0950)

[*English*]

The Chair: I'm afraid your time is up, Jean-François. Thank you.

Mr. Chisu.

Mr. Corneliu Chisu (Pickering—Scarborough East, CPC): Thank you very much, Mr. Chair.

Thank you very much, Mr. McBride, for appearing in front of our committee.

I'm a professional engineer, so I will address that aspect of the P3 projects. I like the concept very much. The concept is excellent.

You mentioned in your presentation the screening of projects of over \$100 million, and you mentioned in your presentation and in your examples the infrastructure projects under the P3 scenario. You also specifically mentioned the project involving the Communications Security Establishment's long-term accommodation, and that an independent engineer will give a verdict on the completion and how it is.

So my question to you is, how are the design or other engineering aspects evaluated in the P3 projects? In your organization, how are you advising the other departments about whether this is the correct project, the correct design, and the correct concept? Do you have any engineering professionals on your staff? I think a lot of time, if you don't have a correct design, and of course combined with the Project Management Institute's recommendation—PMBOK and all the other stuff. If you don't have that, for sure a project is deemed to fail, and it's costing taxpayers money and I don't want taxpayers' money to be expended.

I understand very much—I am not an expert in finance—that the design is a very important aspect for any project in infrastructure.

Mr. John McBride: Absolutely.

In terms of the design process, the first step is for the public sector to define performance expectations. It's not how thick the concrete should be or how many bolts should be on the thing, but what the outputs should be. What performance do we want at the end of the day?

In general, then we would go to between 20% and 30% design. The 20% and 30% design is to allow for a reasonable cost estimation. We don't go farther than 30% design because we want to leave scope for the private sector to come up with the best design to achieve the performance specifications.

As part of the bid process, the bidders would have to complete to 100% design and do a cost estimate. They are at risk in their bids of having to go from that 20% and 30% to 100% design and putting that forward.

Then those designs are evaluated based on whether they're technically compliant with the performance specifications that have been put out.

You leave them that kind of scope to allow for innovation. That's why there are greater upfront costs for bidders in a P3. As part of their bid, they have to complete that design and costing work. There is a fair bit of upfront work and more risk for the private sector in having to do that.

That's basically how it works

● (0955)

Mr. Corneliu Chisu: In the design/build concept—not the design/bid/build—how are you sure that the materials are safe and the safety of the public is maintained?

Mr. John McBride: There is an independent engineer through the course of the process who has to certify that what they are doing is right. These engineers are not only hired by the public authority, but even more importantly they are hired by the investors. They report to the investors on whether or not these things.... If something goes wrong on performance—they do the wrong kinds of things—that will come back to the company and the investors. They won't get paid. So the investors also have a vested interest.

But it's absolutely through independent engineering advice. That leaves the government in the situation that when the independent engineer certifies, then, and only then, do we pay. We rely on independent engineering advice for payments.

Mr. Corneliu Chisu: Speaking about the independent engineers, who is hiring the independent engineers? What are the costs involved in this? Are you choosing the independent engineer? Are you recommending, or is it the public sector who is choosing them?

Mr. John McBride: It depends on the project we're involved in. If we are working with a province or a municipality and we are a funder on a project that they are executing, they would select the independent engineer. If it is a federal project, then the federal government would select the independent engineer.

The Chair: Thank you, Mr. Chisu.

Next Linda and Denis will share a time slot.

Is that correct?

Ms. Linda Duncan: Yes. Thank you, Mr. Chair.

Those were good questions. I'm looking forward to reviewing our proceedings.

Under the trade agreements that are in place and that the government is pursuing, increasingly contracts are opened up to foreign entities. Do P3s allow for foreign entities? If so, how do you provide for enforcement of those contracts?

Second, is the bidding process different for P3 projects? In other words, when the department comes to you with its proposal, has it already put out the call for bids and it has an idea of what the costs might be? Are there many stages to this? Do you now have a completely different bidding process in the government for P3s that includes the costs of long-term maintenance?

Mr. John McBride: That's a great question. There are foreign players here in Canada that are bidding: HOCHTIEF, Bouygues from France, Carillion. These are companies that have established Canadian components. Those companies partner with Canadian companies. When they are bringing capital or expertise, the reality is that these works happen here in Canada; therefore, the vast majority of the economic benefits, the employment...you don't ship concrete from Germany to build things here.

In terms of enforcement, these are contractual agreements set under Canadian law and enforced under Canadian law. How do you ensure that you can realize on any kind of contractual difficulty? Well, you haven't paid them yet. Their private sector capital is at risk. Not only do you have the contractual outcomes, but you have the hammer of their money at risk to ensure enforcement of the contractual obligations.

In terms of the bidding process, yes, it's different, but the principles are fundamentally the same. When we're talking with federal departments, it's long before the bid process. This is when projects are being conceptualized. We want to do X, Y, or Z. There is quite a process. Is a P3 the right approach? Potentially. Then it's a more detailed analysis of the issues, the risks, the costs. When you are going to construct or undertake a project with just a capital cost of over \$100 million, there's a significant amount of upfront work. We're involved in the upfront work. When it comes to the bidding process, it's a two-stage process with both an RFQ and then an RFP process. Given the fact, as was identified, that bidders actually have to take things through the design, it's actually a lot of cost for a bidder to put forward a proposal. Generally, three companies are qualified from the RFQ list. Those bids are evaluated during the whole course of the process. Another mandatory requirement for us is that an independent fairness monitor must be hired who monitors the bidding process and has to produce an independent report on its transparency and its fairness.

• (1000)

The Chair: I think the time is to be shared with Jean-François Larose. Is that correct?

[*Translation*]

Mr. Jean-François Larose: I have just one question.

I would like to begin with a correction. A little earlier, I talked about the Chartrand commission, but I was thinking about the Charbonneau commission.

As I said earlier, we have been seeing the development of PPPs in Quebec for 30 years on the roads, where material has been falling off bridges. Earlier, you said that a lot of the risk was transferred to the private sector. That worries us owing to the market fluctuations and many unknown reasons. In the long term, projects are often carried out over several years.

What kinds of control mechanisms are in place to ensure quality despite the fluctuations? Private companies tend not to notice hidden flaws, but we are seeing more and more of those. They are now coming to light.

Mr. John McBride: There are two ways to discipline the process. There is a contractual agreement that establishes performance standards. That requires a follow-up. We are talking about a public-private partnership. So a partnership does exist, but the relationship is contractual.

Mr. Jean-François Larose: So it is based on good faith.

Mr. John McBride: It is based on a legal structure, where each party's obligations are well established.

Mr. Jean-François Larose: In other words, if a beam collapses on an individual, those involved can be sued 20 years later.

However, there is no guarantee that the beam will not collapse, correct?

Mr. John McBride: That is never a guarantee.

Mr. Jean-François Larose: Based on what I know, when the public sector is in charge of contracts, inspectors are on site over the life of the contract.

Mr. John McBride: That is exactly right, since there is a contractual relationship with the government. Nothing diminishes safety standards. As we said in the beginning, an independent engineer assesses what is being done, and the project is evaluated.

Mr. Jean-François Larose: Okay, but you are talking about the beginning. I am talking about the long term.

Mr. John McBride: The long-term issue in terms of infrastructure is a lack of maintenance. Governments do not invest enough in the maintenance of current infrastructure. The advantage of PPPs is that they establish agreements and a budget at the outset. That way, governments have no choice but to maintain an infrastructure.

If we are looking for evidence, we will surely talk about the collapsing bridges. There are two potential problems—a design issue at the outset or a lack of maintenance. For their part, PPPs try to tackle those two issues by integrating design into construction and maintenance, and by establishing a contractual way to proceed. Paying for the maintenance is the government's obligation.

All too often, the government will announce budget cuts and postpone the maintenance of infrastructure to some other year. However, that is not an option with PPPs.

[*English*]

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

Now we have Peter Braid, finally.

• (1005)

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

Thank you, Mr. McBride, for being here.

I certainly appreciate the update today and your presentation. I understand you've had the twin priority of creating a brand-new federal government department and crown corporation, and everything that entails, and at the same time executing your mandate.

I think I heard earlier that thus far in the early phases of your mandate you have approved 12 projects. I'm curious to know the nature of those projects, what the majority of those projects are. Are they municipal? Are they bridges? Are they roads?

Mr. John McBride: They're quite diverse. That's one of the things we've been looking for, diversity in terms of who and diversity in terms of what. For example, we've worked with the City of Winnipeg to do the Chief Peguis Trail, which is a portion of...it's essentially a ring road in Winnipeg, which was delivered a year early and under budget. We've worked with urban transit in Montreal to build a train maintenance facility in Montreal. We have waste water treatment in Kananaskis, the Evan Thomas project. In Sudbury we've worked on biosolids, which is the last part of a waste water treatment project. In Lac La Biche, a very small community, we've worked again on water treatment. In Barrie we've worked on their urban transit, but in that case they are engaging the private sector to provide full bus operation. We've worked with the B.C. government on social housing, with GO Transit in Toronto, and a whole range of things.

Mr. Peter Braid: There is a wide array—

Mr. John McBride: All across the country, in municipalities and provinces in a whole range of sectors.

Mr. Peter Braid: I have two great universities in my riding of Kitchener—Waterloo. Is post-secondary education infrastructure eligible under P3, and if not, why not?

Mr. John McBride: The infrastructure categories that are eligible are set by my shareholder. Broadly speaking, educational infrastructure is not, mostly respecting the constitutional jurisdiction of the two levels of government.

Mr. Peter Braid: Okay. I understand.

Do you have any thoughts or suggestions on how, generally speaking, we raise the profile of P3s in Canada and increase the number of projects you're involved in?

Mr. John McBride: Events like this do so. Thank you very much for the awareness. I appreciate that.

Mr. Peter Braid: You do lots of things—

Mr. John McBride: Yes, we do lots of things. For example, last year we ran 26 workshops across the country in every province and territory in partnership with provinces, engaging over 500 municipal and provincial decision-makers who are dealing with real projects. We're at industry associations as a national regional infrastructure summit getting a dialogue about P3s.

I think the real way of doing it, and I think it's true for everybody, is...people want to see it in practice, so our real goal is to give good examples of how it can be done well and how it works. That's why we're looking at doing it at the municipal level. In fact, the best champions and awareness builders are our clients. If you had Mayor Katz here and he could speak about his personal experience as a mayor, he'll now speak about that to other kinds of people. So we're gradually creating a network, and it's also how we connect a network of people on these kinds of things.

The profile has gone up quite a bit. I can say that we have seen over 200 applications. The interest, in terms of volume and numbers of projects, has been exponential since our start.

Mr. Peter Braid: That's great.

My final question is about financing. Both in your presentation and in responses to questions, you've spoken about the fact that risk

is transferred to the private sector. Risk obviously has a cost. The private sector will build in cost for risk.

In addition, appropriately so, the private sector needs to make money. Given those conditions, how are these arrangements good for the taxpayer?

• (1010)

Mr. John McBride: That's a great question. That is one of the most fundamental points of a P3, and that's why it doesn't work in all circumstances. The question is, who is best able to manage that risk?

If the government were to take that risk, would it cost the government more than if the private sector were to take the risk? If the government did a procurement in its traditional way, what would the probability of a cost overrun be?

We'd look at the empirical evidence. We do workshops with experts about the probability and the likelihood—we do it on a whole-risk register, a whole set of risks. So there's quite a systematic evaluation of the risks, probability, and results. We do things called Monte Carlo simulations to figure out the evaluation of those kinds of risks, what those risks are worth, and what they will likely cost the government. Then the question is whether the private sector is better able to manage those risks. They will charge you for them, but will they charge you less than if you did them on our circumstances?

That's why, if it's low-risk, standard, for example, you're building or replacing sidewalks—but if you're building the Sea-to-Sky Highway from Vancouver to Whistler, up that coast... If any of you have driven on it, think of the engineering and the issues of that Sea-to-Sky Highway. There are significant engineering complexities in that kind of project, or a major hospital, but they can manage those kinds of risks better. They will charge you, and that's the evaluation. If they can't, you don't do a P3, and if they can, you do. That's really a technocratic evaluation.

On average, our prior investments, our estimates...well, you have to see what it is in reality—they are about 8% better value for the projects we invest in. Because we invest only 25% in the projects, on a \$1.5 billion project, on an average of 8%—I'll do my math—that's \$120 million or \$130 million of better value for the taxpayer, plus we're getting the infrastructure.

The Chair: Thanks, Peter.

John McCallum, go ahead.

Hon. John McCallum: Out of this \$1.2 billion, are you able to tell us what is spent in 2009–10, 2010–11, 2011–12, and perhaps projections for 2012–13?

Mr. John McBride: I can certainly tell you what is committed, yes.

Hon. John McCallum: Okay. I think that would be useful.

You've stressed the fact that sometimes a P3 is good and sometimes a P3 isn't good. Could you tell us, with concrete examples or criteria, the types of situations where it's not good? I can think of traditional areas where P3s are often used, such as for highways, bridges, and hospitals, and maybe even prisons—although that would be controversial—airports.... Is it a question of scale and complexity?

Mr. John McBride: Those would be the two most important factors, but there are others. Size—people have different views, and it's a bit different depending on the sector. You've got to think of size, both capital costs and operating, but less than \$50 million of capital cost. Why is that? That's both a question of the transaction costs...so there's the same sort of bid cost to these kinds of things, whether it's a \$200 million project or a \$50 million project.

To attract the interest of the private sector and really get good competition and to really justify the incremental transaction costs—which is part of the weighing of these kinds of things—it has to be of a certain type of scale.

The second one is risk. That's complexity, but what is the risk to the private sector? Partly it's complexity and partly it's correlated with scale. Large projects tend to be riskier, but risk is also a question of experience. If it's a project you don't do very often—for example, you're a regional health authority and you build a hospital once in a generation—it is probably better to engage somebody who has built 50 hospitals rather than learning on your own. So it's your own expertise in being able to deliver that.

Hon. John McCallum: Generally, you're saying the greater the risk, the more likely you want a P3.

Mr. John McBride: Correct.

The third one would be your ability to transfer that risk to the private sector. Sometimes there's a lot of risk but you can't transfer it to the private sector. What would be inefficient things to transfer to the private sector? Often permitting risk is a difficult risk to transfer because it's with the public sector. There can be risk of external change. That's why I mentioned the IT example. The private sector will do anything for you, but they will price that risk. Is it a price of risk that you think is actually better, or is it a risk that you should take yourself? It's really a question of how to partition risk.

• (1015)

Hon. John McCallum: The social housing, that's a pretty difficult one, isn't it?

Mr. John McBride: Yes.

Hon. John McCallum: Why is it difficult?

Mr. John McBride: You're taking existing buildings that are 100 years old and they have to rehabilitate them. How do you deal with the existing buildings? It's easier for greenfield, but people are looking at how you do it for rehabilitation. When it's a greenfield, all you're really taking is geotechnical risk. But when they're 100-year-old buildings and you start to take down the walls, how is the private sector going to price a risk it can't know before it actually signs on the contractual line? How do you deal with that, and how do you give them the best information on the existing state of it? That was possible only because there had been some done in a traditional way. They got experience on those types of buildings in the east side of Vancouver, so they were willing to do it. When you're taking pre-

existing risks, it's much more difficult to legally and contractually split them.

Hon. John McCallum: Thank you.

The Chair: You're finished, John?

Hon. John McCallum: Yes.

The Chair: Thank you.

Next, Ron Cannan.

Hon. Ron Cannan (Kelowna—Lake Country, CPC): Thank you, Mr. Chair.

And thanks, Mr. McBride.

Coming from British Columbia, I'm well aware of the P3, of Mr. Blain and Partnerships BC. We have two wonderful post-secondaries, Okanagan College and UBC Okanagan, which is a \$100-million-plus investment. One great example besides the Sea-to-Sky is the William R. Bennett Bridge, which is a \$144-million, five-lane bridge. It's been an icon for Partnerships BC. If you want to come and take a tour, you'll also come across some award-winning wineries at either end.

Voices: Oh, oh!

Mr. Ron Cannan: Just make sure you don't drink and drive.

That one was a design, build, finance, and operate. Maybe you can elaborate to the committee, share a little bit about the different models. There's BOOT and all these other acronyms, so maybe you can enlighten us a little bit on that.

Mr. John McBride: B.C. was a leader in the country in the P3 model. There are lots of great examples in Quebec. I talked about how there are various steps in doing an infrastructure project. There's the design, there's the build, there's the operate, maintain, and finance. So there are various models of P3. P3 is really an umbrella of models. It's a question of what's the most efficient procurement mechanism for a particular project. Is it the traditional way? Is it a design/build? Is it a design/build/finance? Is it a design/build/finance/maintain? You can package different things together depending on the outcome.

I'll give you an example. We'll stay in B.C. The Evergreen Line in Vancouver has been procured as a design/build/finance. Why not include operate and maintain? It's the extension of an existing line, and the integration of the operating and maintenance would not be effective. In water and waste water, operation and maintenance is critical because it's integral to the success of the project. It's difficult to partition risk for design and build.

So it actually requires a thorough analysis of the various models. P3 is a grouping of various models. It's really a technocratic question: what produces the best outcome for the public sector in the range of available models?

• (1020)

Hon. Ron Cannan: Thank you.

You mentioned earlier in your comments that it's a very complex contractual deal. I discussed this with my legislative assistant, who's been on the Hill for a number of years. When they reviewed this P3 model before, they talked about the different templates or guidelines and how every deal is different. From your experience, is it then the more precise the contract, the less likely there will be any problems down the road, and the better the result?

Mr. John McBride: Absolutely. At the end of the day, these are contractual arrangements, and your ability to negotiate and have clear and transparent contractual terms makes them easier to manage.

It's one of those things...why Canada is a global leader. It has established Ontario-B.C. standard contractual documentation, which lowers transaction costs for the legal review of them every time; you can start with basic templates and contractual documentation. Obviously, performance specifications and things like that you need for the project, but you don't have to review every single clause again. They have been amended and updated based on experience, as you get better contractual relationships.

If you went back and talked to Larry, he'd say, "If I knew what I know now, I would have provided this or I would have provided that." We've continually learned, and updated the contractual templates. I've been very fortunate to be able to benefit from Larry's work and from David Livingston in Ontario, who have been leaders in Canada on this, and to take the best of their best practices and try to apply them at the federal level.

Hon. Ron Cannan: It's an evolving learning process, I agree. Thanks.

In regard to the dollar value, I thought at one time they were talking about \$50 million. How did you settle at \$100 million?

Mr. John McBride: At the federal level? At the end of the day, that was the government's decision.

In B.C., it's at \$50 million. Alberta is at \$100 million. I think to start with...and you'd have to ask the Treasury Board and the Department of Finance why, at the end of the day, they settled on \$100 million, because it was their decision.

It's pretty clear that at over \$100 million, you should be at least thinking about whether or not a P3 is viable. To get started, it was the 80-20 rule. I think you're going to get 80% of what you should. You will also note that it's mandatory over \$100 million and encouraged for under \$100 million. So it's not that people aren't thinking about it for under \$100 million. For it to be mandatory, people wanted to have less focus on the ones that are likely going to be the most beneficial as P3s.

Hon. Ron Cannan: You talked about how the value-for-money analysis is required, but who's in charge of determining those costs?

Mr. John McBride: Again, just to be clear, we have two lines of business. We work with provinces and municipalities, and our fund is only for provinces and municipalities. In those circumstances, the first obligation is on the procuring jurisdiction to produce a value-for-money analysis, but we will subject that to our own due diligence and whether or not we agree or disagree with it.

When it comes to federal projects, at the end of the day the Treasury Board would review proposals from departments to go forward with capital projects. That value-for-money analysis would

be part of their decision-making process. We are producing guidance and guidelines, and we're working with other people around what a federal value-for-money methodology should look like, drawing in best practice from other jurisdictions.

Hon. Ron Cannan: Fabulous. Thank you very much.

We have Sir John A. Macdonald, a great Canadian; Sir John McCallum; and now John McBride—three Johnnys, great Canadians.

The Chair: It's just that kind of day—all great Canadians. We can agree on that.

Just before we let you go—and that does conclude our second round—there's one question I have of a general nature.

In answering questions, you said that in the \$1.25 billion that went out there, there's an average 8% saving, \$125 million. When you're putting that together, do you calculate the fact that by the time the infrastructure project is handed back to the public sector, it's probably at the time when it needs the most maintenance? For instance, after the 25-year mark—when that bridge comes back into the taxpayers' obligation and responsibility again—that's when it's probably needing a big overhaul.

Does that mitigate the 8% savings?

● (1025)

Mr. John McBride: Yes, it's factored in.

Actually, in P3 arrangements the hand-back provisions—if you went through one of those contractual documents—are quite specific. Therefore, when it's handed back, it has to be at a high level of maintenance. They're not handing back assets that are ready to tumble into the ground. That's part of the contractual provisions in the hand-back clauses.

The Chair: It's like leasing a car. In that period of time that you lease the car—nothing goes wrong with a car in the first 100,000 kilometres. But after four years and one day when you hand it back to them, that's why the car is not worth very much anymore.

Mr. John McBride: You can sort of debate that. It's not brand new, but there are absolute hand-back provisions.

The Chair: You answered my question. I was wondering if hand-back provisions were factored into your overall savings. Your argument that even with the hand-back provisions—

Mr. John McBride: I would argue that governments are getting back better assets at 25 years, at the end of their terms, than they are normally if you take a look at government assets after 25 years. In fact, I think it's a net benefit.

The Chair: It's been a very helpful overview, Mr. McBride.

Thank you for helping us get off to a good start with our study on public-private partnerships.

Mr. John McBride: If there's anything our organization can do to help you through your study, please feel free to call on us.

The Chair: We may in fact invite you or someone from PPP Canada back as we proceed.

Thank you very much.

I believe the meeting is adjourned.

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