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# **Standing Committee on Government Operations and Estimates**

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**EVIDENCE**

**Thursday, October 18, 2012**

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**Chair**

**Mr. Pat Martin**



## Standing Committee on Government Operations and Estimates

Thursday, October 18, 2012

• (0850)

[English]

**The Chair (Mr. Pat Martin (Winnipeg Centre, NDP)):** I call the meeting to order.

Good morning, ladies and gentlemen.

We'll convene the Standing Committee on Government Operations and Estimates. We are welcoming witnesses today to talk, for our second meeting, about the public-private partnerships issue.

We had a very interesting meeting two days ago with witnesses representing both sides of this debate and we look forward to continuing today with four witnesses: the Canadian Union of Public Employees, represented by Toby Sanger; the Canadian Construction Association, represented by Mr. Michael Atkinson, president; the Federation of Canadian Municipalities, represented by Brock Carlton and Adam Thompson; and by video conference we're going to be welcoming the Edmonton Public Schools board, represented by Edgar Schmidt, superintendent, and Sarah Hoffman, board chair.

Do you hear us in Edmonton?

**Ms. Sarah Hoffman (Board Chair, Edmonton Public Schools):** Yes, we do.

Can you hear us?

**The Chair:** We can't hear you, Ms. Hoffman.

Oh, there we go; now we can.

Welcome, and thank you very much for joining us.

**Ms. Sarah Hoffman:** I'm also pleased to be joined by John Nicoll, our director of facilities and maintenance at Edmonton Public Schools.

**The Chair:** Hello, Mr. Nicoll, and welcome.

We invite the witnesses to give a brief presentation of five to 10 minutes, leaving adequate time for the members to pose questions.

The order that we have in our agenda has, as the first in line, Mr. Toby Sanger, senior economist with the Canadian Union of Public Employees.

Welcome, Toby. Please take five or 10 minutes.

**Mr. Toby Sanger (Senior Economist, Canadian Union of Public Employees):** Thanks very much for inviting us.

Our president, Mr. Paul Moist, had hoped to be here, but he has to be at an important meeting in Toronto at this time.

I'm really glad that you're investigating this issue, one that I feel has not, despite the increasing number of P3s in Canada, been adequately analyzed in an objective way in Canada.

I'm also delighted to be here with Brock Carlton, Adam Thompson, and Michael Atkinson. We are all members of what's called the Municipal Infrastructure Forum, which is a body that the FCM set up develop some constructive solutions on the whole long-term infrastructure program that the federal government is planning.

I commend the FCM for setting up this organization. It's been a very constructive exercise whereby different sectors of society can get together to try to come up with constructive solutions.

We approach the issue of public-private partnerships very much from a public policy perspective. The overriding concern we have with P3s is concern for public finances and the delivery of quality public services.

I've worked as an economist at the federal, provincial, and territorial level, as well as in the private sector, and I dealt with P3s during that time. I approach this issue very much from an economist's perspective and in terms of the best use of the public's and taxpayers' dollars.

We also want to underline that this isn't about the public sector doing everything or about the private sector doing everything, but about the appropriate role for each.

In Canada, traditional procurement involves the public sector determining its priorities and requirements. It may contract for design and then contract to the private sector to construct infrastructure—the private sector constructs infrastructure in Canada. That's the way it works, and of course we accept that. We see those as appropriate roles.

The public sector provides financing because it can borrow funds at the lowest rate, and it owns and operates public infrastructure because it is a public good and government is ultimately responsible for it. If it fails 10 or 20 years down the line, government has to provide it and make sure that it's available to its citizens.

We are extremely concerned that Canada will soon follow the U. K., which was the model for Canada's P3 program, down the road of massive failures of P3s. These undermine the viability of providing quality public services because governments are under contract to pay billions in excessive fees for P3 projects.

Proponents in Canada claim that we have taken the best practices from elsewhere and that we are a global leader in P3s. From everything I've seen, the Canadian model may be good at promoting P3s, but it doesn't do a very good job of providing objective assessments and evidence, or accountability and transparency, for P3s.

There are many different issues here. You could probably be studying this for a year, but I don't think you want to. I'm going to focus on some economic aspects in the value-for-money reports. The value-for-money reports are key to P3s, and they're supposed to provide evidence for the benefit of P3s.

I and others would say that value-for-money reports are not credible. In fact, some proponents would say this as well.

Promotion and analysis of the value-for-money reports in Canada is done by P3 agencies. They involve both promotion and analyses, and those roles should be separated, as far as I'm concerned. There is very little transparency of key information in the value-for-money reports; high discount rates are used to minimize future liabilities, and I'm going to talk about that a bit later; and risk transfers are exaggerated. Auditors in pretty much every province in Canada have frequently found particular P3s to be bad deals, and in the U.K.—I don't know whether you're following this—there have been massive P3 failures in recent years.

**To help you understand why the mixing up of promotion and advocacy is a problem, here's a quote from Larry Blain, a former CEO of Partnerships BC, which pretty much established the Canadian model for P3s. He said:** Public sector comparators won't do you much good anyway, because I can make the public sector comparator as bad as I want to, in order to make the private sector look good.

The public sector comparator is an essential part of a value-for-money assessment, because it's upon that basis that the costs of a P3 are compared. You can't have a value-for-money report without a PSC.

• (0855)

It is a remarkable admission. He is basically saying they are useless because they can change it with creative accounting.

I want to get into the way they do this. I'm sure some of you may be aware of the issue with discount rates. I am taking a hypothetical example of a P3 that runs for 30 years and pays \$10 million. It could be a million dollars; the ratios are the same. Over 30 years the government would be paying \$300 million in nominal dollars, assuming there was no cost escalator there. People use discount rates. The federal government can now borrow at 2.5% over 30 years. That's a yield on a 30-year bond. If you use a discount rate of 2.5%, you come up with a present value of \$209 million. A lot of accountants argue that's what the federal government should use. Provincial governments in Canada can borrow at 3.5% over 30 years right now. That would give a present value of \$184 million.

Unfortunately, in B.C. the government uses a present value of \$7.5 million. They use a private sector cost of capital. What is actually a cost and a liability of \$300 million would be more than that because usually there is an inflator there. Actually, in current

dollar terms it looks like \$118 million. It should be \$184 million. That's a massive difference there.

The federal government's Treasury Board guidelines are for a discount rate of 8% real, plus inflation. That would amount to a discount rate of 10%. When you see the value-for-money assessment, that \$300 million in future liabilities is reported as \$94 million in liabilities. They are hiding these future liabilities by using discount rates. Unfortunately, the value-for-money assessments don't show those future liabilities. They just show the present value on that.

That's the first form of what I would call creative accounting on this. B.C. uses it.

The second form of creative accounting that is used is assuming very high levels of risk transfer to justify P3s without evidence. I have a few examples here.

This is what Ontario uses. For instance, for the Bridgepoint Hospital in downtown Toronto, the traditional all-in procurement costs were supposed to be \$452 million. The P3 cost was substantially more than that, but what the Ontario government assumed was that \$352 million was transferred to the P3 operator.

Now, is there any evidence for this? There is absolutely no evidence provided for this. Even in Infrastructure Ontario's methodology, they just provide a short document. I have a copy of it here. They just have a little matrix. They don't provide any empirical evidence for why those risks should be transferred. Now, in Ontario, if you add it up, there is about \$3 billion or \$4 billion, probably about \$5 billion now, that they assume is risk that is transferred to the private sector.

In the case of Bridgepoint, the risks transferred amount to over 60%. The average risk supposedly transferred to the private sector in Ontario is about 50%. There is absolutely no evidence for that.

As a former public servant, I'm appalled there is no evidence for this. People in California asked me.... Schwarzenegger was interested in pursuing P3s. They got some of the information and the methodology from Ontario. They were flabbergasted. I was embarrassed as a Canadian on that.

What does this creative accounting lead to? I'll just go back on the whole risk transfer. Typically with P3 projects, a private operator only puts up about 10% or 15% equity, and they set them up as what are called "special purpose vehicles". That means that even though there are big companies behind them, they can walk away at any point and only lose that 10% to 15% equity.

• (0900)

As far as I'm concerned, there's absolutely no rationale for assuming any risk transfer beyond that, because private operators frequently do work away from that. It's happened here in Ottawa. It's happened all around the world.

I'm going to quickly sum up. I can talk later about what auditors in Canada have found, but the U.K. experience now is that there'll be massive P3 failures with what they call the private finance initiative.

The first of these was Metronet subway. It was a P3 failure that amounted to \$2.7 billion and an extra cost to taxpayers of about \$640 million. The real problem now is that more than 60 U.K. hospitals are in financial difficulty due to PFI debt payments. They need bailouts.

The total cost of the PFI now was recently calculated to be £300 billion or \$480 billion. Those are big figures. That's about one-third of Canada's total GDP. In the U.K. it works out to about \$20,000 per household.

The U.K. health minister, a Conservative, said that the PFI deals are millstones and have brought parts of the health system to the brink of financial collapse. Other people have described them as debt time bombs and staggering mountains of debt.

Thank you.

I'm sorry to go through this in some detail, but I think it's important to understand some of the accounting that goes on behind this. I'll be very happy to hear your questions.

**The Chair:** Thank you very much, Mr. Sanger. That's very helpful.

Next we have the Canadian Construction Association and Michael Atkinson.

Welcome, Mr. Atkinson.

**Mr. Michael Atkinson (President, Canadian Construction Association):** Thank you very much, Mr. Chair. We'd like to thank the committee for providing the Canadian Construction Association, the CCA, with the opportunity to appear before you today.

Our association represents the non-residential sector of the construction industry, so we, in fact, build Canada's infrastructure. We have more than 17,000 member firms from coast to coast to coast, many of which are small and medium-sized businesses. In fact, if you use the definition that Industry Canada uses of fewer than 100 employees making an SME, then 99% of the companies that operate in our sector of the construction industry are SMEs, so when you talk about small business, you're talking about us. Given the fact that the construction industry in total employs almost 1.5 million Canadians or about 10% of the workforce, the old saying that "as construction goes, so goes the Canadian economy" is not far off.

Your subject matter and your review are extremely timely. We have the current Building Canada fund running out on March 31, 2014. The consultations that have been ongoing over the last year or so with some of my colleagues here to create the new long-term infrastructure plan are absolutely key. It's absolutely key that that plan be announced in the next federal budget in order to ensure there is no gap in funding when the current Building Canada fund expires and to ensure we don't miss a construction season in those circumstances.

There will definitely be a role for the private sector in that plan if it has the kind of flexibility that's required to ensure we meet the needs of Canadian infrastructure at all levels of government from coast to coast to coast in Canada, so your review couldn't be more timely.

From CCA's perspective we're neither for nor against public-private partnerships. We see them as a potentially effective delivery

methodology for construction projects in the right circumstances, not unlike design-build, construction management, and a whole host of other methodologies that we have for delivering infrastructure.

For us, P3s are an important tool in the tool box and should be used under the right circumstances. What are those right circumstances? They are those in which both parties, the public sector and the private sector, seek to take the best advantage of the particular skills and abilities both bring to the table. There are three Ps in public-private partnership, and the key one is the last one, partnership.

In the case of the private sector, what we bring to the table is often the innovative, out-of-the-box approach to a complex project. From the public sector, what we're seeking is your ability to manage and mitigate certain project risks that are best managed and kept with the public sector.

P3s can be an extremely effective method, especially on larger, complex projects in which the private sector's innovative approaches can bring solutions that would not be permitted, would not be practicable, or would be highly complicated if delivered in a traditional crown construct model.

P3s also allow for the opportunity to look at the development of infrastructure that may not even be on the government's radar screen. A perfect example of that is the P.E.I. bridge, the Northumberland Strait crossing. That project was not on the radar screen for Public Works and Government Services Canada, or any other federal department, and was very much a proposal, an idea, that came from the private sector.

However, as I mentioned earlier, P3s are not a panacea, nor should they be viewed simply as a solution to fiscal pressures. P3s invoke a complex, multi-party legal web of contracts that is an expensive proposition for would-be participants. Transactional costs are extremely high, making the P3 option really only viable on the larger projects, typically in the \$50 million range and above. In our view, P3s should be used to leverage additional funding from the private sector and not used simply to replace traditional public sector commitments.

We should also be concerned, and we are concerned, about the arbitrary bundling of construction projects simply to create a critical mass for viability of a P3 approach. The main reason is, as I mentioned earlier, 99% of our members, of the construction companies active in our industry, are SMEs. If projects are being considered to be bundled to create that viable mass, we believe that one of the criteria that needs to be examined before making that decision is the impact it has on the local domestic supply chain in those circumstances.

● (0905)

Another consideration is to ensure that there is a level playing field for Canadian firms and Canadian-based firms. Where the lead concession or financier is foreign, which has been the case in a number of our P3 projects, Canadian contracting firms are often at a disadvantage when it comes to performance security. The reason for this is surety bonding.

The use of surety bonds is something that's unique to North America and unknown to Europe, for example. Many of our construction firms do not have the healthy balance sheets required to get letters of credit. They've used the surety bond vehicle to leverage their balance sheets by as much as a factor of times 15, times 20, but this is foreign for European concession-holders and financiers, and it's created a problem for participation by some—not all—of our Canadian and Canadian-based firms, in that foreign concessions will not accept surety bonds as performance security. They want the liquid property and a letter of credit, etc. This causes a problem for many of our firms.

What has been helpful is the domestic powers given to EDC, Export Development Canada, as part of the stimulus package. EDC has played a role in some projects in enabling Canadian-based firms to participate in P3 projects through the kinds of guarantees and financial instruments they have.

In trying to sum up, it would be foolish to completely cross out P3s as an option in your tool box. P3s can be an extremely effective tool, but they cannot be the only tool in the tool box. There are many circumstances in which P3s are just not the right tool or the best tool.

One of the clear benefits of the P3 approach, from our perspective, has been that it forces a consideration of the total life-cycle operation and maintenance of a project. It puts a certain regimen or discipline on the public sector to ensure it has thought out the entire life cycle of that project—not just where the initial capital cost is going to come from, but how it is going to fund this thing over its 30-, 35-, or 40-year life in terms of operation and maintenance. Perhaps we need to also import that kind of discipline for all our major complex projects, regardless of how they're funded.

In closing, we believe that the P3 option can be extremely effective, but it's not necessarily the best approach in every circumstance. It can be an effective delivery mechanism where appropriate and where it truly is a partnership, not simply an attempt to relay all of the risk to the private sector. That's not even a P2.

With that, Mr. Chair, I will conclude my opening remarks, and I certainly look forward to your questions and discussion.

• (0910)

**The Chair:** Thank you very much, Mr. Atkinson. That was very interesting.

Next it's very fitting that we hear from one of the largest consumers of construction industry services, the Federation of Canadian Municipalities. We have Mr. Carlton and Mr. Thompson.

**Mr. Brock Carlton (Chief Executive Officer, Federation of Canadian Municipalities):** Thank you, Mr. Chair. We really appreciate the invitation this morning.

[Translation]

I would like to start by saying that the FCM is the voice of the municipal governments. We have 2,000 members from all over Canada. Our members represent 90% of the Canadian population. So we have some perspective on what is happening in the trenches all across Canada.

We believe that this morning's question about P3s is very important in trying to find a way to better deliver services to Canadians in their communities.

[English]

As Toby mentioned, we have a municipal infrastructure forum that has many discussions about infrastructure, this being one of them. With Michael, Toby, and a few other folks around that table, you can imagine that we have some really interesting discussions.

Finally, I should say that Karen Leibovici, our president and an Edmonton councillor, sends her warm regards. She couldn't make it into town for this morning, but she asks me to send those regards on to you.

We really think that over the years we the municipalities, the government, and Parliament have started to work more closely together to find the best ways to seek solutions that improve the quality of life for Canadians, and clearly the question on the table is infrastructure and P3s.

The economic action plan was a really important opportunity to demonstrate the value of those relationships and the capacity of orders of government to work together. As you may have seen, we estimate that around 100,000 Canadians were kept in jobs as a result of that economic action plan and the work that was done on infrastructure in continuing to build the economic foundations in this country's communities.

As Michael said, this is a critical moment. We are at a period when our infrastructure is crumbling, and we are having a very dynamic conversation on what to do about it. This idea that there should be a long-term infrastructure plan is an opportunity to continue moving forward with the job of rebuilding our municipal infrastructure to ensure that Canadians have safe drinking water, shorter commutes to and from work, and the other benefits of solid infrastructure that create a more competitive and productive society on the world stage.

Clearly there's a lot at stake here. A lot of resources are required to ensure that our infrastructure is in good shape. The question on the table really is this: is there more than public money available to leverage towards those objectives? We really do believe that a key element in any new infrastructure plan is to encourage private sector involvement. P3s are a way of doing that in order to build and maintain and finance municipal infrastructure.

Of course, as has been said by my colleagues, we know you understand that P3s are not a magic bullet. In and of themselves, they will not solve the municipal infrastructure challenges in this country. This is what our partners have echoed, and this is what we've talked about at the municipal infrastructure forum with these guys and others.

However, P3s are an important instrument in a variety of infrastructure projects at the local level if we do them right. If we do it right, P3s can strengthen the implementation of a long-term infrastructure plan.

•(0915)

[Translation]

In the last few years, we have learned a few things about P3s and how to use them to deliver better services to the community. We believe that there are three very important lessons to be learned from our experience.

[English]

We think the experience to date with P3s has taught us three really important lessons.

The first is stable, secure investments. Making stable, predictable investments is the most important thing governments can do to improve our infrastructure. These investments extend the life of our infrastructure by supporting regular repair and maintenance, which is the single most important factor in keeping infrastructure costs down, but they also create the necessary conditions for P3s by providing municipalities with the secure revenue streams they need to enter into 20- or 30-year P3 contracts. On their own, short-term funding programs cannot meet the needs of public or private sector partners.

The second lesson is to make the P3 option more accessible. The current approach presents municipalities with an either-or perspective. A municipality can apply for cost-shared infrastructure dollars through something like the Building Canada fund, or it can access P3 funding. That's it: it's either-or.

Future federal infrastructure programs must ensure traditional investments and potential P3 project funding are available and delivered under a single framework. This will allow, for example, a community to apply for an application-based program like the Building Canada fund while still considering the P3 option alongside their application. If it is determined that the P3 approach is the most appropriate, then it can follow that path, but if it's not, then the municipality has other options. It has project funding opportunities through the other vehicles.

The third and final lesson is that we need investment in knowledge, support, and training.

When to use P3 models should be up to the individual municipalities, but municipalities need the information and expertise to make an informed choice and the support to manage new and complicated partnership agreements.

Costly business cases, lengthy program application processes and upfront legal fees can discourage municipalities from pursuing the option. Current P3 programs do not provide the support municipalities require to do this. Without this, increasing the use of P3s in Canada will continue to be a challenge. Support for building this capacity should be integrated into a new infrastructure plan.

In summary, there are three things. The first is to make secure, predictable, long-term infrastructure investments the cornerstone of a new long-term infrastructure plan and your P3 strategy. Second, make the P3 option more accessible by delivering P3s and non-P3 programs under a single integrated policy framework: future programs must integrate support for P3 in a design for all programs, rather than segregating it as a dedicated fund and, as I mentioned earlier, creating that either-or position that municipalities find

themselves in. Finally, invest in knowledge, support, and training so that communities have the resources to cover high front-end costs and the expertise to develop and manage successful P3s.

[Translation]

Once again, Mr. Chair, thank you very much for giving us the opportunity to make this presentation to you this morning.

[English]

**The Chair:** Thank you, Mr. Carlton. You have about three minutes left in your presentation, if Mr. Thompson has any thoughts he'd like to add. If not, we'll move on to the next presenter.

**Mr. Brock Carlton:** That's fine, Mr. Chairman.

**The Chair:** Thank you very much. I'm sure there'll be questions from the witnesses.

Finally, and thank you very much for waiting, we have the Edmonton Public Schools via teleconference. We have Mr. Edgar Schmidt and Ms. Sarah Hoffman. You have five to 10 minutes, Ms. Hoffman, if you like. Thank you very much for your patience.

The floor is yours.

**Ms. Sarah Hoffman:** Thank you for the invitation. We're really happy to participate.

Mr. Martin, I appreciate your encouragement for us to enter into debate, but I'm going to decide to reflect on some of our experiences and I'm going to do my best not to editorialize throughout that.

We'll share some of the background with you on our experiences with the Alberta schools alternative procurement program, and I'll refer to it as ASAP, or ASAP 1 and 2, because we've gone through two rounds here in Edmonton Public Schools.

In Alberta, the provincial government's analysis of the economic climate and evaluation process determined during the last five years that a combined procurement model was the most effective delivery approach for building new schools. In Edmonton Public, that included six K to 9 schools, and later three K to 9 schools. Edmonton Catholic also built three during the same period using the same model.

The key goals of the ASAP projects were to build a large number of new schools in developing and developed neighbourhoods; consolidate schools into a single package for design, construction, and maintenance; and use public/private partnerships—P3s—to design, build, and finance the schools and maintain them for 30 years. This means that the contractor will oversee the design and construction of our schools using designs already developed in consultation with school boards and municipalities. It means a contractor also finances and maintains the buildings for that 30-year period.

The design of these schools is called a core school design. The core school concepts incorporate a permanent central space that includes a gymnasium, library, administration offices, classrooms, and specialty classrooms such as a music room, art room, and career and technology study labs, or CTS labs. Additional classroom space is provided through the use of modular classrooms that can be added and removed in response to changes in enrolment. From the governance perspective, the use of core school designs can improve the efficiency of construction, creating optimal value of public funds for a large-scale construction project.

Another important feature relates to the fact that all schools meet high-quality provincial standards and are built to achieve LEED—leadership in energy and environmental design—silver certification, an independent rating system used to measure environmental efficiencies. LEED-based construction will result in up to 45% greater energy efficiency and provide a healthier environment through improved air quality and the use of natural light.

What role did our school district play? Since our initial involvement with a project at Edmonton Public Schools, district staff had some general input into the core design process, as did several other school districts. Once the final design for the three basic school models was approved, the government engaged in a tendering process to complete the DBFM approach. The school board reviews its capital plan on an annual basis, and the board had already determined its need for new school construction and reflected this in its plan. The priority listing for construction was adopted by the government, and we immediately had to take concrete action to finalize sites, secure appropriate permits, and support the contractor with access to the sites.

Edmonton Public Schools has a joint-use agreement, or JUA, with the City of Edmonton and Edmonton Catholic Schools to allow community use and access after school hours for organized recreation and community activities. These new schools had to allow for this kind of use, and this was permitted in both rounds of construction.

The challenge for the community arose when local community groups wanted to lease space for activities such as play schools and other community services. The initial project did not allow for any leasing of space to third parties because of the complexities and potential risks associated with a contracted agreement. The agreement was also very complex, and adding another party would have made it even more so. We are happy to say, however, that the second round of schools provided some flexibility in this area.

It is a jurisdiction's decision whether or not to make these facilities available for other community uses outside the traditional joint-use agreement. School boards were encouraged to consider joint school and community use and plans to ensure that schools are child- and community-focused. We have partnered with the YMCA to create before- and after-school programs, which provide valuable services within the community. The ability to lease commercial operations is subject to meeting the requirements of the school board's purpose as defined in the Municipal Government Act, and would include child care operators, daycare operators, and other community use operations connected to school use.

● (0920)

Although it is still limited, it's definitely a move in the right direction when we look back at phases 1 and 2.

I'll describe some of the challenges that we've seen with the ASAP projects. I'm happy that Toby's here today and I want to highlight that we've worked really closely with our CUPE staff groups.

We work with three CUPE staff groups, namely support staff, custodial staff, and maintenance staff. Each of the groups presented dissenting and concerning arguments for the board not to enter into these agreements, but the real and pressing need for new schools was great, and the board of the day chose to move ahead.

The one group most affected by the project is the maintenance group. Maintenance is provided through the 30-year agreement. All maintenance of the buildings is conducted by the external party, Honeywell. After some initial relationships and quality issues, all groups have moved much closer together to address immediate and pressing issues.

Second, any small changes within the building required a formal change order, adding considerable time to the process. Modification may be needed to address student need, making the process less responsive than it might be in a traditional construction school. This will continue to be an area of focus for the term of the agreement.

Finally, in this area, custodial staff provides all services except for heating, ventilation, and air conditioning management, as is the case in most district buildings. Again, adjustment to the HVAC system requires calling Honeywell to address it. The response times have improved dramatically, but of course when we use our own maintenance staff, we think we have the best maintenance staff anywhere.

In terms of design, some design challenges emerged, particularly around exterior drainage and sidewalk entrances, in addition to the main entrances. These were rectified in the second round of the design. Adjustments were made to the interior design in the second round, making some spaces slightly larger for special purposes, such as the CTS labs for career and technology studies. For slight modifications and improvements in designs, the parties worked to be accommodating and supportive.

Finally, I'd like to say how grateful we are to have these schools. The children in these schools are happy to have shorter commutes to and from school as well as top-quality buildings to learn in. I also want to say how proud we are of our staff and all workers who were involved in the construction and opening of these buildings. The projects were completed on time, and we were happy to fill these sites with students who are keen and who are working very hard, although they're probably still sleeping this morning.



That said, we'd be pleased to respond to any questions you might have.

Thank you.

• (0925)

**The Chair:** Thank you very much, Ms. Hoffman. That's very helpful.

We'll go right to questions, then, and the first round of questioning is for the official opposition, the New Democratic Party's Linda Duncan.

**Ms. Linda Duncan (Edmonton—Strathcona, NDP):** Thank you, Mr. Chair.

Excellent, panel. Thank you for being so concise. Actually, I think you've given us lots of food for thought for an eventual report we might produce.

I will go to Mr. Atkinson first.

Given your presentation, could you give us some advice on what percentage of infrastructure projects you would see as appropriate for P3s?

Feel free to answer, but my second question is one that I think Mr. Carlton might want to deal with, and maybe Mr. Sanger. Given that Canada's pursuing a trade agreement with the European nations under CETA, do you foresee additional potential issues for you about putting forward security, as raised by Mr. Carlton?

**Mr. Michael Atkinson:** On the percentage, or what the appropriate percentage is, I think it's very difficult to provide that. It depends on the need and the type of project and its complexity, it depends upon the kind of infrastructure. That really is a function of the identified priorities, but it does speak to what my colleagues have both said about the need for long-term planning.

Here we are, arguably the largest industrial employer in the country, and we often don't know six months out what our largest clients—governments plural—in Canada are doing with their real property inventory. We need that long-term planning. The question is an appropriate question once you have those needs and those priorities identified and can look at them in an intelligent manner and say how best to deliver that, given the construction market and a number of other factors.

I think it speaks to something that should be part of a plan, but you need that plan in place, and that plan cannot be in place unless you have, as my colleague has said, a long-term plan with a long-term commitment.

**Ms. Linda Duncan:** You are suggesting that the federal government should be putting a lot of eggs in the P3 basket and establishing the separate entity, and should be providing leadership along with municipalities and the provinces and territories in a long-term plan for municipal infrastructure.

**Mr. Michael Atkinson:** I would agree that it doesn't make much sense to force parties to make that decision right up front, without having a further evaluation done. It would be kind of foolish to burn bridges during that process. To have a more integrated approach makes a lot of sense.

Mr. Carlton would probably want to talk about the need for capacity-building at the municipal level.

• (0930)

**Mr. Brock Carlton:** I agree with what Michael just said about the need for an integrated approach so that we're not faced with this either-or scenario.

As to the original question about the percentage, the real issue for us is that there should be no conditionality about it. There are options, and it's a tool among a variety of tools. It is one tool in a tool kit for addressing infrastructure issues, and it should not be a conditionality forced upon municipalities.

Did you want me to continue in response to the CETA question?

**Ms. Linda Duncan:** Please go ahead.

**Mr. Brock Carlton:** With respect to CETA, our position has been pretty clear from the very beginning. We've had very good dialogue with the government on this matter. There are a variety of issues, but ultimately there are three things that are really important. One is reciprocity: if we're giving access, then our companies should also have access in the same way. Two, we need appropriate thresholds. Three, and most important, we believe there should be exemptions for strategic services or infrastructure questions, the most notable being water.

**Ms. Linda Duncan:** Mr. Sanger, did you want to respond to that?

**Mr. Toby Sanger:** I agree. CETA will cause problems if municipalities and governments go the route of public-private partnerships. CETA can cause problems because, under any investor-rights provisions, if governments later want to change that, they will be restricted from doing so or will have to compensate the private-sector operator.

**Ms. Linda Duncan:** I would like to throw this question out to all four of you.

A lot of you have already given us some good advice on how we might vary the criteria currently applied to P3s. I'm just giving you an opportunity. The City of Edmonton said to do a P3 or you're not getting federal money for your LRT. I wonder if you could elaborate on whether or not you think there are additional criteria, which you might not have mentioned yet, that would be useful to include about the way P3s are being used at the federal level.

**Mr. Michael Atkinson:** The consideration shouldn't only be, when you're looking at a complex project, whether or not it's a viable option for private financing. I think you should be looking at the domestic market, your supply chain. You should be making other considerations in coming to that decision. It's not necessarily going to weigh it one way or the other, but it's a consideration that you should be making as an ongoing purchaser of the design and construction services. It's something you want to work with in your supply chain to ensure that there is appropriate management. I think it speaks again to what we said before: there's no need to have a situation that's either-or. There should be flexibility built into the long-term infrastructure plan to allow more options in those circumstances.

**Mr. Toby Sanger:** I think we all agree that municipalities or other recipients of federal government money should not be forced into doing P3s. That apparently seems to have been the case with Edmonton and the LRTs, according to reports I've read.

**The Chair:** We're going to have to move on.

Go ahead, Mr. Carlton.

**Mr. Brock Carlton:** The question was whether there were any additional requests. We noted, not specific to Edmonton but just generally, that there's a P3 municipal guide that covers the need for openness and transparency in the way proposals are developed and in the way you make sure that everybody knows the rules of the game from the start. If you have that along with the other things we've talked about, then you've established a framework that we think is more effective.

**The Chair:** Thank you.

Thank you, Linda.

Next, for the Conservatives, is Jacques Gourde. You have five minutes, Jacques, please.

[*Translation*]

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

My thanks to the witnesses for joining us today.

My first question goes to the representatives from the Federation of Canadian Municipalities, Mr. Thompson and Mr. Carlton.

As you said in your presentation, P3s are a useful tool in getting funding for your infrastructures. Could you talk to us about the experiences you have had with some P3s over the last 20 years?

Also, in your presentation, you mentioned lessons you have learned and referred to those experiences. Could you please give us some more details about that?

● (0935)

[*English*]

**Mr. Adam Thompson (Policy Advisor, Federation of Canadian Municipalities):** Thank you for your question. It's a very good one.

Obviously our members have been interested and active in exploring all options for delivering municipal infrastructure. In terms of what we've learned, I think it can be summed up most easily this way: our members feel that P3s can go a very long way in supplementing the investments of the past but also, looking ahead, as investments under the new long-term infrastructure plan. P3s can be a great supplemental avenue or mechanism for municipalities.

We caution against P3s being considered to supplant traditional investment. The best thing the federal government can do is, as Brock mentioned earlier, provide a full suite of options for municipalities to deliver municipal infrastructure, meaning traditional investments that are then supplemented by P3s.

In reality, municipalities are construction management experts. Our members build, operate, and maintain a wide variety of infrastructure across the country. P3s really require a different skill set. They require contract management. This is, at times, a very

expensive skill set to acquire for a municipality. In providing, as Brock said, stable, secure investments in our communities, it's also important for there to be a recognition that we have a long way to go to arming municipalities with the information they need to be able to determine if a P3 is right for them. Adding to what Brock said in his opening comments, those are the types of lessons we have learned from P3s in the past. Those are the types of lessons we're very much looking forward to in the long-term infrastructure plan, and having a discussion about those.

[*Translation*]

**Mr. Jacques Gourde:** In your presentation, you said that there were three lessons to be learned. Could you tell us a little more about the third lesson, the need for knowledge and training in P3 infrastructure projects?

Often, the first stage of a P3 is about construction and the second stage is about long-term maintenance. Construction teams change with each project, but maintenance teams remain responsible for 20, 25, or 30 years. Might we be short of workers with the necessary training and knowledge? As maintenance teams remain responsible for infrastructure longer and as more and more P3 infrastructure projects are added each year, might we have a problem there?

**Mr. Brock Carlton:** Michael could answer questions about construction teams better than me. But the reason why we are saying that it is important to have a capacity-building program for municipalities is so that we can be sure that municipal employees understand exactly how contracts have to be prepared and how P3 programs have to be managed. At the moment, we are short on capacity and experience like that.

Canada has another problem, a demographic one. A lot of people are going to have to retire. That means that we have to recruit new employees without experience. In that long-term infrastructure program, therefore, the need to build capacity is very important.

**Mr. Jacques Gourde:** Does your federation have data on the percentage of P3 infrastructure projects in recent years? Is the number of P3 projects growing? For example, is it 15% or 25% of all infrastructure projects that are being done as P3s?

● (0940)

**Mr. Brock Carlton:** I do not have that data in percentages. We are a national organization, so we are not aware of everything that goes on in each of the municipalities in Canada. However, according to our figures, about 150 P3s are in place or in development in Canadian municipalities. Imagine the total number of projects in all the municipalities of Canada. Those 150 projects are certainly a small percentage.

[*English*]

**The Chair:** Thank you, Jacques. I'm afraid your time has expired.

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

[Translation]

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

My thanks to our guests. The evidence today is very interesting.

My first question is for Mr. Atkinson.

P3 or no P3, a school or a public building is going to be built anyway. If a P3 is chosen, the SMEs in your area are going to be automatically shut out because of the scale of the projects. What is the impact of P3s on SMEs?

[English]

**Mr. Michael Atkinson:** In many cases they would still be engaged, particularly if they're trade contractors—mechanical, electrical, etc. It would just be that they may be working for somebody other than they would normally be working for, or there would be another layer of contracts between them, which is also not unique to P3s. You will see that in other types of delivery methodologies.

The bigger concern, though, is that if there is no method or planning going on, it's very difficult for a company to turn around and reorganize, look to co-venture, build the capacity, when it doesn't know whether the market is going to be there or not.

Again, I keep stressing it, but the long-term planning is so important and so critical here. If a lot of my SMEs knew that there was a volume of work coming up, at whatever level of government, and that just the size alone of some of these projects would mean—and it doesn't matter how they were going to be delivered or financed—that they were going to have to build up capacity, look to co-venture, and look for partners, then they could do it in a reasonable, prudent, and planned manner.

The problem we have right now is it's knee-jerk; we're reacting to a situation without knowing what's coming around the corner. I think if there's one message I can leave here today, the need for long-term planning on how we're going to deal with Canada's critical infrastructure at all levels of government is absolutely critical.

[Translation]

**Mr. Denis Blanchette:** Thank you very much, Mr. Atkinson.

When P3s come up, the discussion is often about risk management and transferring risk to the private sector. Now, this morning we were told that, when we talk about risk transfer, it is no longer, strictly speaking, a partnership. How do you respond to that?

Is a P3 that is seen as a transfer of risk, with the risk being managed by the private partner, a good way to go? Instead, do you not really need an assurance of long-term funding, whatever the formula is?

The question is for each of you, but I would like you to start, please, Mr. Carlton.

[English]

**Mr. Brock Carlton:** Do you want to answer that, Adam? Go ahead.

**Mr. Adam Thompson:** Sure.

It's an interesting way of looking at the issue. I would echo what Michael said: above all, when you boil all of this down, the need for stable and secure funding is what's paramount. Not only does it send the signals to the public sector that there are going to be investments continuing in the future, but it also sends the signals to the private sector, as Michael was saying, that they can plan their activities for the coming years as well.

The key there is that it has to also be for the long term, while being stable and secure. At the risk of being too repetitive, I'll say that the long-term nature is of critical importance.

On the question about risk transfer, this is exactly part of the reason that the goal of the federal government should be to build the capacity of municipalities to manage those contracts, which, as I said before, is a skill set that's relatively newer on the procurement side and will allow municipalities to have a greater understanding of what exactly a P3 entails.

When all the parties are at the table with the same level of information and with an adequate skill set, that's when P3s really shine as an example, but getting there is where we're at now. Especially at the municipal level, we have a little ways to go. That's why we so appreciate being here today to talk about it.

● (0945)

**Mr. Toby Sanger:** I absolutely agree that long-term infrastructure planning is extremely important. We'll work together with them.

On the issue of risk transfer, I think a number of studies have said that... Well, first of all, in terms of construction, most of the risk is at the upfront stage. Unless you're dealing with somebody who is going to have toll booths, there actually isn't a lot of risk in longer-term operations and maintenance. I think the Vining and Boardman study from UBC basically said that a lot of that risk, frankly, is not transferred.

At the end of the day—and I haven't seen any of the risk analyses that have done this—it's always the public sector that's responsible for providing that service. Pretty much all P3s in Canada are set up as special purpose vehicles, as I said, which means that the private sector can either go bankrupt or walk away. In Ottawa here, there are two small P3s that are profitable, but the big companies that own them—they're in arenas—walked away because they weren't making enough profit. Actually, one of them walked away; one of them demanded more money from the government.

The issue of capacity is really important. There was an experience in Nova Scotia with P3 schools. The contracts were about 2,000 pages long. The auditor there found that basically nobody in government had a handle on these. Some of the schools were owed hundreds of thousands of dollars. They didn't know about it. Nobody in government.... That's the provincial government.

Therefore the issue of having capacity to deal with these is really important, but as a number of people have said—and this gets back to another question—it's really only the big projects that should be viable in any sort of way for that, because of such high transaction costs and the need to have that ability.

[Translation]

**Mr. Denis Blanchette:** Thank you.

[English]

**The Chair:** You're well over time, but I would like to give others the opportunity to share their views.

First I'd like to ask if the trustee of the Edmonton school board has any views she'd like to share on these or other questions.

Ms. Hoffman, would you like to chip in, seeing as school boards have been raised in other jurisdictions?

**Ms. Sarah Hoffman:** I'll ask if our superintendent, Mr. Schmidt, wants to comment.

**Mr. Edgar Schmidt (Superintendent of Schools, Edmonton Public Schools):** I think we very much appreciate the dialogue and the responses to the questions. As well, they're very good questions.

Relating back to our own experience, we've known about and recognized the necessary upfront work. The long-term planning, in my opinion, is a critical piece, because it takes so long for the multiple partners to come together from the construction side and for Alberta infrastructure and Alberta education to come together to build capacity. Then, of course, there is our own capacity within our own school board, where we need to have a common and greater understanding around what the implications are going to be for how we need to operate the P3 schools, the ASAP schools, from our perspective.

There is a lot of learning and there's a lot of necessary capacity-building. Now that we've experienced this in a number of schools, we certainly have built some of that capacity. Of course, the question remains as to how we continue this in a long-term, planned way. It's a very important question. A long-term, sustainable funding approach is a feature that's going to be critical for us in moving forward as our capital needs continue to grow.

• (0950)

**The Chair:** Thank you very much, Mr. Schmidt.

I'm afraid we're out of time, Denis. We'll have to move on.

Next, for the Conservatives, we have Costas Menegakis. Welcome, Costas.

**Mr. Costas Menegakis (Richmond Hill, CPC):** Thank you, Mr. Chair,

I want to thank our witnesses for appearing before us today. There was certainly very informative testimony from all of you.

My first question is for the Federation of Canadian Municipalities. Given that governing is really a collaborative effort from all levels of government—and we include in that, of course, the private sector—can you highlight for us some of the key advantages of engaging the expertise and innovation of the private sector?

**Mr. Adam Thompson:** Sure. It's a great question. In some ways it's a very easy question, and in some ways it's not so easy.

Certainly what we're talking about in Canada is an environment where we have been doing design-build infrastructure investments for hundreds of years—maybe not hundreds, but certainly since the private sector has been involved in providing infrastructure. On that

note, local communities have developed excellent relationships in dealing with their private sector partners, and local businesses are working alongside municipalities to build the infrastructure that supports our long-term competitiveness. Also, the private sector industries benefit from our high-quality infrastructure in Canada, so in that sense, especially at the local level, you see great working relationships because it's business as usual, and it has been for very many years.

Beyond that, there has been a growing interest in how we can procure smarter and maximize some of the innovations and technology in the construction and engineering fields to build top-grade infrastructure.

**Mr. Costas Menegakis:** You mentioned in your testimony some of the challenges that are faced with the contract management approach. I think you said that the municipalities are very good construction managers, but with the contract management concept, that poses some different challenges. Is it fair to say, though, that with contract management, the cost of the project is known up front and there's less risk for cost overruns as opposed to a construction management approach?

**Mr. Adam Thompson:** Again, that's a very good question. I think it really does depend on the local circumstances. I mean, in some cases, the municipality has the capacity to make those assessments. In other situations, it doesn't, frankly, and that's where we're talking about building the capacity at the local level. That's really where you see the most need.

To answer your question—or maybe not to answer your question—it's very much at the local level that those assessments are done.

**Mr. Costas Menegakis:** Thank you.

Mr. Atkinson, I have a question for you. We have a large number of construction firms here in Canada, but not all of them are large construction firms, and normally we have thresholds for a P3 model at somewhere around \$50 million. Do smaller firms have the capacity, the in-house resources, to be able to compete in the marketplace?

**Mr. Michael Atkinson:** Yes, and there is a role for SMEs in P3 partnerships. If you look at a typical construction contract, with a general or prime contractor and a number of subcontractors and a number of sub-sub below them, and suppliers, etc., and you look at it as a pyramid, the group most affected by the contracting method or the delivery method, P3 versus the other, is the top tier.

Those same trades, specialty trades, sub-sub contractors, and suppliers will all be engaged. It may well be that they will just be working for a different contracting party than they normally would.

My comment vis-à-vis the ability of Canadian firms to compete and for SMEs to compete was primarily at that first level, the so-called prime contractor level. They are the ones that normally, typically, would be dealing directly with the government. That's the group that is most challenged, not just by P3s but by the complexity and size of projects we see in Canada now.

There's no question that we've seen a trend over the last five to 10 years in that projects in the infrastructure area are becoming much bigger and much more complex. That is going to tax and challenge that first level, that first contracting level, regardless of what the delivery method is, because you need the capacity to take those on.

It's extremely important, and I keep coming back to this, from a planning perspective. If you own one of those companies that typically has been bidding on \$2 million to \$3 million school projects and you hear that a provincial government is going to start bundling those and turning them into \$30 million or \$40 million projects, gee, I guess you'd better do something.

It would be nice to get some advance notice of the fact that this is where your market is going and to know that it's not going to be a market that's going to disappear overnight because a funding program has come to an end.

I'm probably going on too long.

● (0955)

**The Chair:** No, that's fine, Mr. Atkinson.

Before we move on, though, because we're on the theme of bundling schools, etc., I wonder if the Edmonton school board guests would have any comment.

**Ms. Sarah Hoffman:** Thank you very much.

I'm going to ask that Mr. Nicoll respond.

**Mr. John Nicoll (Managing Director of Facilities, Edmonton Public Schools):** Bundling or bringing together enough schools to make it a large enough project was one of the elements considered in the P3 process. As people mentioned previously, it needs to be a certain size because of the complexity of the contractual arrangements and the legal documentation.

The previous speaker mentioned that it is really an issue for the general contractors. You need to get a general contractor that is large enough to handle that volume of work.

In our particular case, the bundling of the projects was also able to incur some economies of scale and some efficiencies in design, because we repeated the design several times for several different schools. We achieved economies of scale by having a large enough project that made it worthwhile.

That was a departure from previous projects, where schools would be one-off. By getting a large enough project, we were able to actually get the economies of scale. In Edmonton Public Schools, for example, the six schools we built under our ASAP 1 program were identical designs. That was responsible for a significant amount of risk reduction and cost savings because of economies of scale.

**The Chair:** Thank you very much. That's very interesting.

For the Liberals, we'll have John McCallum.

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

Thank you all for being here.

I wanted to start by giving you an interpretation of what I think you're saying, and you tell me if I'm right. I think you're saying that you want government to have long-term traditional financing and the possibility of P3s. Mr. Carlton said to have them under one roof. That would seem to imply that if the government moved to radically reduce the traditional kind of funding and increased P3s correspondingly, it would create an imbalance that would not be appropriate. Is that a fair statement?

**Mr. Brock Carlton:** Yes, it is.

**Hon. John McCallum:** Okay. Does anyone disagree with that? No.

The next thing I'd like to do is generate a little bit of debate regarding what Mr. Sanger said and hopefully give him the last word.

You make P3s out to be pretty disastrous. The federal government, I think you said, used a discount rate of 8% plus inflation, or rates that were way too high.

**Mr. Toby Sanger:** The federal government Treasury Board guidance is recently revised. It had been left over from the 1970s and it was apparently 8% plus.

**Hon. John McCallum:** Then you talked about an extraordinarily high risk transfer without evidence, hundreds of millions of dollars, massive disasters in the U.K.. You are painting a pretty catastrophic picture, so I'd like to ask the other three for their views on this issue of transparency and accountability in the financial reporting.

● (1000)

**Mr. Michael Atkinson:** Our organization welcomes that kind of scrutiny. To some extent, on the second round of P3 projects that we've seen over the last 10 years or so, it's too early in the game to do an objective assessment of that, because you're talking about the total life-cycle management cost. You're not just talking about capital costs. I think that's important.

I think it's also important to say that the reason projects go bad is not necessarily the delivery mechanism that they've chosen. Very often it's because one of the parties has not been as clear as they ought to have been in describing right from the get-go what it is they expected to get.

This goes back to an earlier question, if I may, about not being just a complete risk transfer. In a P3 project, I dare say the public sector owner is going to have their hands a little more full than being able to wash their hands and think that they're not going to get involved. You need a sophisticated owner for that kind of approach. You need an owner who through that mechanism can clearly describe what they're looking for so that the private sector can then bring the innovative solutions to achieve those challenges.

I do not believe that there is one particular delivery method that's worse than another or necessarily better. They are all well suited, as I said right up front, and when it comes to value for money, when it comes to the premium that may be otherwise pegged to go with a P3 project and the value you get back, I'm no economist, but I think all Canadians would welcome third-party objective, transparent methodologies to assess those projects.

What you are assessing is the 35- or 40-year life cycle, not just the acquisition costs.

**The Chair:** Could we leave a moment for the others to respond as well? We want to hear from the Federation of Canadian Municipalities and the Edmonton Public Schools for about a minute each, please.

**Mr. Brock Carlton:** One way to ask your question is to ask if P3s are a failure. Our answer is that, no, they are not a failure. There are some hair-raising experiences along the way, but we are in a process of learning here and we're experimenting here. We as a country are learning things as we go through the exercise of trying different things around P3s, so for us the really important thing is, as was somewhat indicated in my comments, what we have learned and what we are going to do differently as we go into the future. It's in this vein that we look at the experiences to date. We say there are some failures and some successes, and I've talked about those learnings.

I think we all agree that the original experience of P3s hasn't lived up to the expectations that had been hoped for at the time, but we are gaining that experience and, as we've all said, if we can establish a long-term infrastructure plan that has that sense of long-term stability about it, then P3s become one of the tools that can be really helpful, given the right conditions and the local capacity to make the decisions they need to make.

**The Chair:** Thank you, Mr. Carlton.

Could we have a brief comment from Edmonton? Then Toby would like a moment to rebut.

**Ms. Sarah Hoffman:** I'll just say that we have definitely learned a lot by looking at what projects have happened across Canada and also internationally in terms of the way schools have gone forward with P3 construction. We think that we also learned through phase 1 and phase 2. It's hard for us to say if there were definitive cost savings, because we haven't done this project the exact same way before. We didn't build six schools with the same model using a traditional procurement model. We've only done it with the P3 model.

However, we are really happy to have that space. It was very much needed. We think we've improved upon some of the challenges that we saw in phase 1.

Thank you.

**The Chair:** Thank you, Ms. Hoffman.

We'll go back to you, Mr. Sanger.

**Mr. Toby Sanger:** My point on this is that from the value-for-money assessments that are produced, it's impossible to tell. They are not transparent. They don't provide the key information that is

required. They hide debt that is going to be paid in many future years. That is what has happened in the U.K.

We need a much more transparent process. The P3 agencies we have that do this—even members of Mr. Atkinson's organization—have said that Partnerships BC is biased towards P3s, so they produce many more P3s than would be appropriate.

We need much greater transparency and accountability and a transparent process. If you have that, you might be able to judge. Right now, a number of auditors across Canada who have looked at P3s that were supposedly providing a whole lot of savings have found that traditional procurement would have cost considerably less. These are provinces right across Canada.

• (1005)

**The Chair:** Thank you, Mr. Sanger.

For the Conservatives, we have Mike Wallace.

**Mr. Mike Wallace (Burlington, CPC):** Thank you, Mr. Chair.

I want to thank our guests for coming today.

I'm going to start with our friends from Edmonton. I appreciate your getting up early in the morning to join us.

There are some themes we've heard about in the couple of meetings we've had on this. One particular economist said, "The P3 model provides three things. Pick two." The three things were that P3 can be cheaper, faster, or better.

I just wanted to clarify that this is the P3 model for a school board, because it hasn't happened in my area in Ontario. They are still one-offs. Did the P3 program that was put in place enhance the ability of the school board to build those schools faster, since you had two models to pick from? It sounds as though you got six schools out of the deal. Was that part of the decision-making?

Another thing we are hearing about is transparency and understanding what the deal is or what the agreements are. Would you classify what has happened between your first phase and your second phase as an improvement in transparency and in understanding who is responsible for what? In terms of access to the schools and everything you've mentioned, is that what has happened? Was that an improvement in transparency?

**Ms. Sarah Hoffman:** My answers would be yes and I think so, but I will ask Mr. Nicoll to expand a little more.

**Mr. John Nicoll:** Thank you.

With regard to the transparency of the Alberta model, a great deal of effort was put into transparency through fairness auditors, so the transparency on the first round was exceptional. The documentation is readily available on websites. One of the key aspects of the program was in fact the transparency as to what's happening when and where.

With respect to being better, the projects we have built in Alberta, in my opinion, after looking at both methods of delivery, are “as good as”. I think that's a good statement. I'm not prepared to say they are better, but that wasn't the goal; the goal was to have quality schools. The delivery was faster in that using standard designs and bulking up the project made things move more quickly. It did have a larger project component, and since the project was large, it had momentum. Also, it was a large project both in Edmonton and in Calgary, which made it possible to get some of the impediments out of the way. People were more committed to the project because of the size.

**Mr. Mike Wallace:** Thank you.

To Mr. Atkinson, we hear your message loud and clear about long-term planning, but we live in a political world here. I've been a municipal councillor, which has a little more stability, technically. Federally and provincially, whether you're in a minority or a majority government, governments are short-lived, and plans are not....

Unless you lived in Ontario for a number of years, when we had a Conservative government for 40-some years or whatever it was, it's very difficult to plan long term. I understand the concept and I understand it would be great for us, but it's a very difficult piece.

My next question is really more of a comment. We got a “Building Canada Together” document just the week before. It's from Minister—who'd like to be premier, I think—Bob Chiarelli, a former municipal mayor. Part of that, a whole chapter, is on privatization and having the private sector involved.

The Province of Ontario says, as one of its recommendations, the following: “Promote the wider use of AFPs”—that's P3s at the provincial level—“across all federal infrastructure funding programs and jurisdictions when appropriate....” The message from the Province of Ontario—and I'm from Ontario—is that P3s do work.

Now, I would agree with you, and we've heard from every single witness, regardless of which office they're from, that P3s do not apply to every single project, but what would you say...?

You know, we're getting input from provinces, partners, that they want a national infrastructure project, and part of that funding mechanism is the private sector involvement. To me, it sounds as though they believe it's working, and I would like your opinion.

Mr. Sanger, I know you mentioned that you worked for the province as an economist. Under which government did you work? Would you have given them advice at the time to look at P3s?

•(1010)

**Mr. Toby Sanger:** I've worked under all governments—Liberal, Conservative, and NDP—at the provincial and territorial levels.

**Mr. Mike Wallace:** Were you there when they started it in 2003?

**Mr. Toby Sanger:** No, I was working for the Ministry of Finance when the 407 was started. The rationale for that was clearly off-book accounting. They went the P3 route because they didn't want to show up the debt. I have to admit that. That was the case.

Public accounting standards have changed since then, and rationales for P3s have also changed since then. At that point, the 407 was not my file, but I probably got more calls from the private

sector from people interested in getting the project than anything else, so that was kind of interesting.

**Mr. Mike Wallace:** Am I out of time?

**The Chair:** Perhaps you could wrap it up.

**Mr. Mike Wallace:** Okay.

The message we're getting is that they are working or have the potential to work. This is what I'm hearing: value for money needs to be cleared up, in terms of what that is; transparency is needed; and P3s are not for every project.

I just need a yes or no. Would you agree those are three of the main themes?

**Mr. Michael Atkinson:** Yes.

**Mr. Brock Carlton:** Yes, those three work.

I would also add the note that there should not be conditionality imposed on, in our case, the municipality, in terms of P3s or nothing. As I said earlier, it's a tool in a tool kit. Let's give the municipalities the capacity in terms of knowledge and fiscal capacity to use the tools appropriately, based on the local needs and conditions.

**The Chair:** Let's not forget our long-distance guests.

Would you like to answer Mike's final comment?

**Mr. Edgar Schmidt:** We would agree with those themes as stated, and we appreciate the final comment on conditionality.

Although we're the recipients of the P3 schools, we know that looking at some flexible options with our provincial government is really an important relationship. We certainly would like to continue that and have more options available to us in the future when it comes to new school construction.

For right now, the P3s have helped us in a very dire situation of large-scale growth in certain parts of Edmonton, but we do recognize that there may need to be different kinds of options for us to consider into the future.

Thank you.

**The Chair:** Thank you, Mr. Wallace,

Thank you, Mr. Schmidt.

Now, for the NDP, we have Jean-François Larose.

I should just say at the beginning that this begins our second round. We're going to go as far as we can with it, but we do need to stop at about 9:50 because we have some in-camera business we need to talk about at well.

You have five minutes, Jean-François.

[Translation]

**Mr. Jean-François Larose (Repentigny, NDP):** My thanks to our guests.

I am speaking to Mr. Sanger directly. I just want to sum up what has been discussed in several of our meetings up to this point.

Historically speaking, in Italy, the bridges that the public sector built are still in place. But a number of years ago, it was decided to call on the private sector, supposedly to save money. Look at the Charbonneau commission at the moment and you see more and more wrongdoing. Look at the Olympic stadium. Everywhere you look, you can see problems.

The private sector is in a bit of a panic. The solution that has been found is to come up with contracts that are more and more complicated, and that rely more and more on the private sector. That is the solution to the problem. The contracts have walk-away clauses. In those contracts, if there are unforeseen risks, the fees go up. All this is supposedly to save money, although private companies exist to make a profit. I have a bit of a hard time accepting that concept.

Look at the projects. There may be no failure, but there is no success either. We are still studying the situation. But the figures do not lie.

We are talking about the future Champlain Bridge at the moment, but they are keeping the toll bridge on Highway 25, supposedly in order not to increase the taxes people pay, which are already too high. At the same time, you have to pay \$8.50 or so to cross the bridge. They say it will be fine when it is handed over to us, because the bridge built by the first company is holding up and people are happy.

Yes, there is long-term planning. But I find it hard to understand why the company that built the bridge is linked to the company maintaining the bridge. I do not see how the risk can be shared. As a concept, it is a little odd.

Do you have any alternatives to P3s? Are there other formulas? Are we looking at other things or do we still think that they are the only way to go?

• (1015)

[English]

**Mr. Toby Sanger:** Absolutely, there are other alternatives. The cost of borrowing for governments now is at a historical low, 2.5% over 30 years. It's never been that low. Traditional procurement may not sound sexy or new or innovative, but it works. It's simpler. It's less complex. You don't have to pay millions upon millions of dollars for lawyers and consultants and investment advisers to develop very complicated P3 contracts, which a lot of the people operating don't understand. Absolutely, there are alternatives.

You talked about bridges and tolls. The problem in Ontario with Highway 407 is the tolls on that. Also, the tolls on the Confederation Bridge have increased faster as P3 operations than they were expected to and faster than in the original agreement. The Ontario government actually tried to come in to see if they could reduce the tolls, but they have been unsuccessful in doing so.

**The Vice-Chair (Mr. Mike Wallace):** Do you have another question?

**Mr. Jean-François Larose:** I'll take the bridge as an example, but we could talk about any project. When we inherit the bridge in 25 or 30 years, do you feel it is going to be in mint condition and we're not going to end up with a bunch of problems? Are there any guarantees on that?

**Mr. Toby Sanger:** That's a big issue. Typically with P3 contracts, they will hand them over at the end of 30 years. We don't know. Perhaps we'll have to get it before those 30 years if there are problems with it.

**Mr. Jean-François Larose:** What were the guarantees with traditional contracts versus P3 contracts? What was our level of intervention to make sure that, at the very least,

[Translation]

we would find any wrongdoing or any problems? In traditional contracts, did we not at least have a little more control? At the moment, my impression is that we are not seeing everything that is going on behind the scenes.

[English]

**Mr. Toby Sanger:** Absolutely there is more control under traditional contracts, but an important point has been brought up. I agree with what Michael has said: it is important to look at the life-cycle costs, make sure there is money in hand for maintenance and repairs, and make sure that these aren't starved simply to provide money for new capital projects.

Some of the proponents of P3s now admit they may cost more or admit that the risk isn't transferred, but they say, "But you're guaranteeing money for future years." That's a current argument for P3s. I would say that if you're paying a 25% premium just to have your hand held, forcing future governments to pay these high amounts is an awfully expensive way of doing it.

Yes, you need to consider life-cycle costs in government, and that's a benefit from it, but you don't need to pay an outside party 25% or 50% more in order to do it.

• (1020)

**The Chair:** We'll hear one last comment from Mr. Atkinson.

**Mr. Michael Atkinson:** I'd like to weigh in here.

The P3 option in those circumstances gives you the opportunity, as the public sector, to insist upon a certain quality standard of that asset all during its 35 years, and upon the standard of quality at its turn-back.

Mr. Wallace has said that one of the things that hamstrings governments is that "a long time" is the time of the next election. When the private sector is involved in managing an asset, it's not hamstrung by that. It has a 35-year asset that it must manage and turn over with a certain standard of quality.

I would not want anybody here to think that the reason we've seen neglect in our public infrastructure is poor private sector management. Come on, people.

**The Chair:** Maybe I could ask you something just before we turn it over to Bernard.



You said that the life cycle is 35 to 40 years, but what has been the average for these P3s? My sense, coming from a construction background, is that there's not a great deal of maintenance in the first 20 years of a brand new building. There's not even a lot in the first 30 years.

Let me ask the Edmonton school board this question: what is the length of time for your P3s on these schools?

**Mr. John Nicoll:** Mr. Chairman, the contract is a 30-year contract.

Your observation is correct; however, for many of the items within a facility, 30 years is the end of their life cycle. One of the goals in our P3 project was to encourage the—

**The Chair:** They'll send it back to you, because—

**Mr. John Nicoll:** I'm sorry...?

**The Chair:** I'm saying that they are going to hand them back to you just at the time when they need all the work, even though you have paid for the maintenance during the life of that contract.

**Mr. John Nicoll:** No. We've built provisions in for that, sir. At the end of 30 years, those schools have to come back to us in good condition. There are evaluations during the course of the contract, and items that have to have a life-cycle replacement done prior to that are part of the contractor's responsibility.

In tying in the 30-year so-called warranty, the goal is to encourage the overarching contractor to make sure that the quality is built into the facility at the beginning and that high-quality materials are used and that there's a reason for the maintenance contractor to observe how things are being done in order to make sure that the quality is there so that it will last the 30 years.

We have a process within the actual contract documents to evaluate and to ensure that we are getting a facility at the end of the 30 years that is representative and still capable of continuing. If life-cycle replacement was required at 25 years, then it would be done too. It's not an attempt to—

**The Chair:** I understand. Thank you very much. I don't want to take any of Mr. Trottier's time.

Go ahead, Bernard.

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

The biggest impacts of a P3 approach have been mentioned a few times. The biggest is the built-in desire to minimize the total life-cycle costs over the life of a project or an initiative. It's built in not because of good will but because of a contract.

Second, there's a built-in desire to deliver projects on time and on budget. Again that's not good will; it's because of a contract. Many people have identified that there's a transaction cost up front, that contracting is a real challenge.

We had a couple of people from the Canadian Council for Public-Private Partnerships on Tuesday of this week talking about how in Canada we've developed some unique expertise and some best practices in contracting compared with those in the U.K., where very often it takes four years after the selection of a preferred bidder to

actually finalize a contract. In Canada we're able to get it done generally, on average, in 18 months.

It's a good thing that we have this intelligence in Canada. Maybe there's something good in our water, but it might also be our legal system and our engineering and contractual expertise that enable us to do that.

I want to make another point of comparison. In the U.K., there was a Treasury report—and this is under the Labour government, by the way, so it's not necessarily a partisan issue—that mentioned that 20% of P3 projects had been delivered late or had run over budget, but that was compared with 70% of conventional public projects, so again the incentive in the P3 contract is really what helped drive the human behaviour to get these things done on time and on budget.

Finally, here is a little quotation, again showing that the P3 approach is not necessarily ideological in that it spans different types of governments. In my province, Ontario—Mike Wallace quoted this same report—Bob Chiarelli was saying: Having private sector firms pay for cost or budget overruns creates the correct incentives to ensure that projects are delivered on time and on budget. Research demonstrates that AFP projects

—that's alternative financing and procurement—  
have delivered substantial savings to Ontario, British Columbia, Alberta and Quebec.

I want to pose my question to Mr. Atkinson. From the point of view of a builder, could you talk about this incentive to get the projects done on time and on budget and how it differs under a P3 environment from the case under a traditional design and procurement and construction project?

•(1025)

**Mr. Michael Atkinson:** Well, very often it's because of the additional risks or incentives that are in the contract. You may have a situation.... For example, if you have 18 high schools bundled, you must deliver those all at the same time and at the same opening date, and you take on the risk of any delay, no matter where the delay's coming from, whether it's a delay that is in your control or not.

We'll be honest: the private sector has one way of dealing with that risk, and that's to throw money at it. I am sure that faced with that kind of situation, you will try to mitigate the risk by ensuring that you can control anything you can, but at the end of the day you want to make sure that you don't lose your shirt.

So yes, the penalties can be pretty stiff, but at the same time this methodology gives you the ability, as part of the finance closing, etc., to ensure that you have done what you need to do as a private sector partner to ensure that.

Now, given the fact that the consortium also is going to be responsible for that asset over a 30-year life, everything that the Edmonton public school board gentleman said is absolutely bang on. You're going to ensure that for the 30 years or 35 years that you have this, you haven't set yourself up for a drain on your purse either. You're going to want to make sure that the school is properly designed and properly built, so that the maintenance and operation of that facility isn't a burden. Therefore there is that added incentive as well, because you are going to be controlling the maintenance and management of the facility.

I want to make a quick comment. I wish all of our major capital projects went through that kind of discipline and regimen to ensure that what we were going to do for the next 30 years had been thought out. It's one thing to say that we have a budget overrun with the initial capital cost; that means nothing in terms of a 30-year or 35-year life cycle.

**Mr. Bernard Trottier:** Thank you.

If I have some time, Mr. Chair, while it's good to get a perspective from the builder, I'd like to get a perspective from a buyer—Edmonton Public Schools.

By the way, I lived in Edmonton in my youth and I can appreciate the tremendous innovation. Edmonton Public Schools are recognized around North America as being real leaders in terms of curriculum. I salute the work you do.

Could you talk about how you were able to ensure delivery of projects on time, based on the contracts you were able to put in place?

**Ms. Sarah Hoffman:** Thank you.

I'll start by saying we are happy to come back and talk about curriculum any time too, so thank you for that comment. We take great pride in that.

To set the climate a little for what happened when these initial rounds of ASAP 1 projects moved forward, we were experiencing extreme labour shortages in Alberta in all sectors. We were in the middle of a boom, and I know that costs were increasing at a rate of approximately 12.5% per year at the time.

I'll ask Mr. Nicoll to comment on the timelines and what was put in place to make sure that we did finish on time and on budget.

**Mr. John Nicoll:** Thank you.

I'll follow up on that because this was in part a response to a labour market that was getting very difficult to find resources in and it wasn't uncommon for individual projects to be a year late because of the unavailability of particular tradespeople.

The massing of a certain size made the project such that you could get the resources, you could plan the resources. As well, there was an encouragement that with costs escalating at 12.5% per year, if you were delayed a year, your costs just went up 12.5%. The cost control was in getting things done.

The cost control was also in making sure the design was buildable in the first place and making the contractor responsible for the ultimate design and the processing of any internal change orders and whatnot, which can cripple you. Going into the project, the best way

to minimize risk, regardless of whether it's a traditional contract or a P3 contract, is to make sure you do your homework ahead of time. If you get caught in a project that is running late and you don't have time to do that, that's usually where a project runs into difficulty.

Therefore first of all, it's the process of getting the size, the size of the contractors, and the wherewithal in doing the advanced work that's required because of the specificity of the contract itself. You've got to sign a contract so that everybody knows where they're coming from, so you've got to know what you're talking about and you're not designing it as you go. I think that's probably one of the key reasons for getting things done on time.

The other is that because of the size, you're able to get preferable supply arrangements with some of your suppliers and your contractors.

● (1030)

**The Chair:** Thank you very much, Mr. Nicoll.

Thanks, Mr. Trottier.

We're going to try to get a little time for each of the parties in the remaining minutes we have.

Linda, I know you're next, but if I could ask you to be about three minutes, that'll give John three minutes at the end, and then we have to wrap it up to do some in camera business.

Is that acceptable?

**Ms. Linda Duncan:** Yes.

Having heard from all you, I'd like to hear from whoever can answer this question, probably Mr. Sanger and the school board and maybe Mr. Carlton.

From all that we've heard, it's sounding more or less as though a lot of these projects are working for design-build. A number of you mentioned there are lots of different kinds of these partnerships, and some of them that really seemed to have work are the design-build.

Is it fair to say that it may be early in the day to say that the P3 works, because that's where you have to also have a private entity do the maintenance and operation? It sounded to me, from what the school board is saying, that they were told by the province they were going to be allowed to build a whole bunch of schools for a change, but through P3. Therefore part of your success in managing to build all these schools all at once occurred because the money was committed right up front, which is what Mr. Atkinson suggested.

Mr. Sanger, would you comment?

**Mr. Toby Sanger:** I think that's the case. For one reason, the Edmonton P3 schools were modular; they were basically all the same design. That helped to accelerate it.

There's no secret to a lot of these things. If you bundle them like that, you can obviously move much faster. If you throw more money at a problem, you can accelerate those things. If you have life-cycle costing within government, that can deal with it. That can ensure some maintenance money as well.

Mr. Trottier raised some issues about the timing. One thing about P3s—and you didn't see this in that report—is that they require a lot more planning up front, so often when they're comparing P3s against traditional procurement, they're not doing it from the same baseline.

Another thing I wanted to follow up on, in terms of the Edmonton public schools, is that although you can see a lot of the contracts online and there's a lot of detail online, the key financial information is missing. A number of organizations went to court for two or three years just to get the financial information on the Brampton hospital, one of the first P3s in Ontario. Supposedly, it was saving hundreds of millions of dollars. That's an issue of transparency. Then the auditor looked at it and found that it actually cost \$600 million more than it supposedly did, according to the value-for-money audit, and that if it had been done publicly it would have cost \$200 million less. That's an independent assessment.

It's really important. It may be simple to say you need to fix the value-for-money reports and you need to have transparency, but it's a really big thing, a really important thing.

**The Chair:** We'll have a very brief answer from Edmonton Public Schools.

**Mr. Edgar Schmidt:** Thank you very much. We'll not comment on the economic question in relation to that. What we do know is that the money was brought out, up front, when the province built 18 schools in the first round across the province. That had a huge impact and brought in a lot of necessary infrastructure where there had been very little action prior to that for a number of years, so it did meet an immediate need.

Thank you.

•(1035)

**The Chair:** Thank you, Mr. Schmidt.

Mr. Peter Braid, you have three minutes.

**Mr. Peter Braid (Kitchener—Waterloo, CPC):** Thank you, Mr. Chair. Thank you to our panel for being here this morning. There are so many questions and so little time.

Mr. Sanger, I'll start with you. Like Mr. McCallum, I thought you painted a bit of a gloomy picture. In your mind, are there any good P3s?

**Mr. Toby Sanger:** I would love to be able to answer that question. The problem is that the information is not available. The auditor reports.... For instance, the auditor report on the Edmonton Public Schools was generally positive, but in terms of the risk assessment, they said that there was no evidence for that.

In terms of the other auditor reports, I wish we could see that up front before making those decisions.

**Mr. Peter Braid:** During the committee meeting, I was doing a bit of research on the U.K. situation. You referred to the quote from the U.K. health minister about some of these arrangements being

“millstones”. Interestingly, the context of the quote is actually a criticism about some of the arrangements negotiated by the previous Labour government for ongoing maintenance costs of some of these hospitals.

To turn to the folks in Edmonton, are you confident you've avoided the issue of ongoing maintenance costs?

**Mr. John Nicoll:** Yes, we are, because you also have to look at our alternative situation, which is that we have an issue with unfunded deferred maintenance liability. I can't tell you that we've got an awful lot of money to spend on maintenance in the traditional method of construction, so I'm confident that our maintenance needs will be met for the 30 years.

Notwithstanding the P3 process, deferred maintenance is an issue that school boards and municipalities have to deal with. This is one way to do it. I feel confident that it will achieve at least comparable results, and more likely better.

**Mr. Peter Braid:** Thank you.

I have one final question.

Mr. Atkinson, in your presentation you mentioned that one of the benefits or advantages of a P3 is that the private sector can bring innovative approaches to the arrangement. Could you elaborate on that?

**Mr. Michael Atkinson:** For example, in the traditional crown construct situation, basically the design is done, it's finished, it's specified, and you ask for lowest price. Don't you dare vary from that designer spec. Don't even come in with an unqualified or unsolicited alternative, because you'll be kicked out. On the other hand, in a P3 situation and in design-build and in some other methodologies as well, particularly if I know I'm going to be responsible for maintenance, I'm going to come back and tell you that the design stinks and tell you what we should be doing. Maybe you've even got the particular facility in the wrong place. Maybe it should be built over here. It's that kind of innovative, out-of-the-box thinking that often the public sector can't take into consideration. It's not that they're not capable; they're hampered by their own red tape.

**The Chair:** Thank you, Peter. Thank you, Mr. Atkinson.

John, go ahead. You have three minutes, please.

**Hon. John McCallum:** Thank you very much.

You all agreed when I said it would be a bad idea to ramp up P3 and correspondingly ramp down traditional funding. You all agreed with that. However, if I listen to Mike Wallace, that's what he's effectively saying, I believe, because he keeps saying how wonderful PPs are, or PPPs, and he's also said—

**Mr. Mike Wallace:** PPs are provincial parties, and there's a note saying that.

**Hon. John McCallum:** My main point is that you say long-term funding is politically very difficult, if not impossible.

**Mr. Mike Wallace:** Oh, yes.

**Hon. John McCallum:** I think that's totally wrong. I will give you two examples: the 10-year health accord under Paul Martin provided stable increases in funding for 10 years. It was health, but it could have been infrastructure. The second is the gas tax transfer. That's clearly long-term funding.

Mr. Atkinson and Mr. Carlton, in the remaining minutes, could you explain to us why, notwithstanding Mr. Wallace's comments, long-term funding is critical to you and whether you have any ideas for mechanisms through which it could be delivered?

• (1040)

**Mr. Michael Atkinson:** There is no question it's very important. I think, despite some of the political problems with respect to that, it can be achieved by working with the private sector and other stakeholders.

**Mr. Brock Carlton:** As we've said, it's critical. We can't plan effectively without long-term funding, but to your point about the

health care situation, it's pretty simple stuff in one way. You create a long-term framework of 15 or 20 years, and you have five-year increments in which you can have your conversations about realignment or adjustment as needed.

**Hon. John McCallum:** Thank you very much.

**The Chair:** Thank you, John. You finished under budget and on time. That's very good.

This has been a very useful session, I believe. Thank you to all the witnesses, and a special thank you to Edmonton Public Schools for getting up in the middle of the night to be with us here today. It was very useful to hear an actual user of this service. It was very valuable.

Thank you to all of you.

We're going to ask the witnesses to please leave the room. The committee will go to an in camera session for five brief minutes.

We're suspended.

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