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

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**EVIDENCE**

**Tuesday, October 23, 2012**

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**Chair**

**Mr. Pat Martin**



## Standing Committee on Government Operations and Estimates

Tuesday, October 23, 2012

•(0855)

[English]

**The Chair (Mr. Pat Martin (Winnipeg Centre, NDP)):** Good morning, ladies and gentlemen.

We're going to begin our 58th meeting of the House of Commons Standing Committee on Government Operations and Estimates. We are in the middle of a study on the efficacy of public-private partnerships.

We're very pleased today to have two witnesses, one in person and one by teleconference. In person we have with us Mr. James Paul, who is the president and CEO of Defence Construction Canada.

We're very interested to hear what you have to say, Mr. Paul, if you would take five or ten minutes for an opening comment, and then we'll open the floor to questions.

The floor is yours, Mr. Paul.

**Mr. James Paul (President and Chief Executive Officer, Defence Construction Canada):** Thank you, Mr. Chair.

Good morning, everyone.

[Translation]

My name is James Paul. I am the president and chief executive officer of Defence Construction Canada.

DCC is a federal Crown corporation established in 1951 pursuant to the Defence Production Act to operate as the tendering and supervisory authority for the Department of National Defence's construction requirements.

DDC's letters patent established our mandate to deliver and maintain infrastructure and environmental projects and services, and to provide full lifecycle infrastructure support, required for the defence of Canada.

[English]

DCC's role is contract management with respect to DND's construction and environmental program. We work together with our client department, National Defence, and their related agencies to meet the time, cost, and quality requirements, including maintaining the minimum possible administrative costs for our services. As we operate on a fee-for-service basis, DCC does not receive any direct government appropriations.

In 2009 we took on one of the largest public-private partnership projects that the federal government has taken on in this country, to

build a long-term accommodation project—the acronym is LTAP—for the Communications Security Establishment Canada, CSEC, Canada's national cryptologic agency.

This was to be a design-build-finance-maintain project, or DBFM.

I'm certain you've heard much testimony toward the structure of P3s and all those aspects. My intention was not to come here today to try to further educate you, because I'm sure you're as expert as I am now on this whole area, but I wanted to focus specifically on our experience with this project, our role, and so on—and on any other questions you may have about it.

We were very pleased to undertake this project, given our highly specialized construction, procurement, and contract management experience and our proven track record for delivering complex defence projects quickly and efficiently.

Just to give you a sense of that, in the year just ended, DCC delivered in excess of 2,500 infrastructure projects totalling an expended value of over \$1 billion for the defence program for Canada. Just to give you a sense of the volume of projects that we are completing annually, that's more than 50 a week, and they range from infrastructure projects of \$20,000 to more than \$100 million.

We understand the special-purpose needs of the defence infrastructure assets that the Government of Canada...and the Department of National Defence specifically owns and is responsible for as its steward. We support it from the design phase right through to the life-cycle management, as I said.

Within 20 months on this particular project we took this 30-year highly specialized project from concept to award, and we commenced construction in February 2011. We're just over 18 months into a 39-month planned construction program.

It's scheduled to open in August of 2014. At this point, I can tell you it's on time and on budget, generally speaking, and going very well. We believe it's a very successful project.

To achieve this success, we created a special team overseeing it—a small but focused team—and opened a dedicated project management where we work with CSEC staff collaboratively on the project.

I was asked to respond to a couple of questions in particular, so maybe I will just stay on those themes.

I was asked to address funding by PPP Canada. The quick answer there is to tell you that no funding was provided for PPP Canada on this project. I think you understand their mandate. It wouldn't typically be to fund that; however, they did review the value-for-money analysis provided to Treasury Board as part of the Treasury Board submission.

Because PPP Canada was in the process of being stood up in 2009, when this project was actually being planned, CSEC, our client partner in this project, chose to hire its own experts who had experience in P3s to advise them on the structure.

We were selected as the project manager, and they hired expert program managers with P3 experience—Partnerships BC being one, P3 Advisors, P1 Consulting, and others—to assist them.

The selection of the proponent for the P3 project was a procurement matter that DCC managed, so PPP Canada was not involved in that aspect. But I think their advice on the value for analysis was well received and very helpful towards this.

I was asked to also comment on our role, if any, in the project selection process.

As I've said, our role is in the procurement aspect and the project delivery; that's where we come in. You could consider us an infrastructure delivery organization. We did not play a role in the project selection process. In this case, our client partner came to us wanting to undertake a P3 for the project. We then advised on procurement options and how the contract might be structured, then executed the procurement, and we are overseeing the delivery of the project—with all the necessary approvals from whatever government levels having been received, of course.

In terms of advantages and disadvantages of PPPs versus, say, the traditional procurement process, with the volume of activity that we have and historically have operated for more than 60 years now, the majority of the projects we deliver use the more traditional construction procurement methods. This is in fact the first P3 that we've delivered. As I mentioned at the outset, we think it's going very well; we feel very favourably about it. That's not to say that we think every project should be undertaken with a P3.

Some of the advantages, of course...I think you've been well informed on the aspects of risk transfer, cost certainty, and the financing being arranged, and so on. I suspect that's not what you want to hear about from me today, but I'd be happy to respond concerning any of those matters, if you'd like.

As to the unique aspect that we saw in this, for which we think the P3 was well warranted, this is a very special-purpose, highly sophisticated, high-security facility. Our client partner, CSEC, had stated clear objectives for the space: it needed to be a well-constructed building, it needed to meet the security requirements, and they wanted a quality building that, some 30-odd years from now, when it's handed over from the P3 partner, is still going to be in the quality condition in which they want to continue to operate. It has very high operational requirements, of course, being 24/7 and so on.

You could ask, could those things not be achieved, potentially, with another form of procurement? Yes, they could be achieved; the

question the analysis would have looked at is what the best-cost value-for-money approach to achieve those objectives was.

CSEC wanted to have a very collaborative, open-work space, and I think it has succeeded very much in achieving that. In fact, this is really going to be a model space for openness and communication amongst staff, albeit in a very secure facility. I've personally toured the facility a number of times during the construction phase, and there are, for example, no closed offices anywhere in that building. Everyone from the chief down is basically in an open, collaborative work space. It's quite forward-thinking in that regard.

The connection to P3 is that the proponents were, I guess we could say, challenged or tasked with coming up with very creative concepts and approaches for how to achieve this. I think there was a very successful process of collaboration with the industry partners out there who might take on a project of this sort.

The collaborative aspects of this transaction are relatively unique, or at least very forward-thinking, in that a number of meetings and exchanges of information occurred prior to requesting the submissions from the proponents. All of this was done with the full involvement and interaction of a fairness monitor, because you need to make sure that no one proponent is getting any advantage over another. An equal number of meetings were held. Typically these were one-on-one meetings, with CSEC present, with us present as the procurement authority, and, as I said, with the fairness monitor. A lot of discussion occurred so that CSEC could properly communicate its needs and requirements; then the proponents could take that away and come back with their vision as to how they would deliver this within an affordability ceiling that had been stated for the project.

● (0900)

Our observation is that this has been very successful. I had the unique pleasure of seeing all of the submissions. They were all unique, quite different, but I thought did a great job of addressing the needs for the project—all the things I said, plus a facility that the proponent would have the obligation to maintain for 30 years after occupancy commenced. As I said, you end up with a quality facility at the end of the game.

Given the sophistication and complexity of this project, I think it was a good choice to consider this approach and all of the other given factors that the P3 approach brought in. Of course, we're halfway through the construction, so it's hard to look back and speak from experience about the overall success, but I'm speaking in terms of the success to date on the procurement and the commencement of the construction activity.

As to any challenges or disadvantages to it, a facility of this complexity certainly made for a far more complicated procurement process at the front end than the typical procurement that we see does—even if I reflect upon, say, the \$100 million-plus projects that we do. So comparatively speaking there has been more effort, more activity.

Of course, a lot of that is loaded onto the proponents who are coming forward. I know, having met with each one of the proponents, that they stated costs of \$2 million to \$3 million at least to prepare their proposals. But it's like a lot of the things you can say in life: a good upfront investment often sets the right direction for any successful project, and I think this is an example of having achieved that.

● (0905)

**The Chair:** Thank you very much for your presentation, Mr. Paul. If there's anything further, I'm sure it will come out in the rounds of questioning.

We now have our video link, our teleconference link, properly up and running, I understand, so we're pleased to welcome our next witness today. From the University of Toronto, we have Mr. Matti Siemiatycki, assistant professor in the Department of Geography and Program in Planning.

I hope you managed to hear the other witnesses' testimony, Mr. Siemiatycki. You have five to ten minutes to make a presentation, and then I hope you'll be available for questions from the committee members.

You may begin now.

**Professor Matti Siemiatycki (Assistant Professor, Department of Geography and Program in Planning, University of Toronto):** Excellent. Thank you.

It's a great pleasure to be able to address the committee on this topic of public-private partnerships and their merits. I've been studying public-private partnerships for around the past 10 years, primarily in the infrastructure sector, in which we're talking about roads, bridges, public transit, highways, hospitals, and, increasingly here in Canada, prisons. These are the types of infrastructure facilities that are being built through public-private partnerships and they are the types of facilities I've been studying. I've studied them here in Canada and around the world.

What I'll do today is try to synthesize and summarize some of my experiences and some of my research to perhaps inform your decisions about how public-private partnerships should be used here and how the federal government should be involved in public-private partnerships.

Here in Canada, in the infrastructure sector, there have been around 175 infrastructure public-private partnerships. These are primarily delivered by the provincial governments, some at the municipal level, and the federal government has provided financing and funding for some of these projects, like the Canada Line, in which the federal government becomes involved and provides funding. But primarily, for the time being, this is a provincial jurisdiction, and these have been carried out by the provincial governments and their procurement agencies, like Infrastructure Ontario or Partnerships BC. That provides some of the context.

There are really two primary rationales that have been put forward here in Canada and around the world for why public-private partnerships are an effective model for delivering infrastructure. What I'd like to suggest is that one has been relatively debunked, and we should not follow that one here in Canada. A second explanation, perhaps, has more credibility, and we should explore this further.

The first explanation that I think should be debunked is the idea that public-private partnerships bring new money for infrastructure. There's a lot of talk that in periods of fiscal austerity, when governments are pulling back funding, when we're seeing large deficits at all levels of government, perhaps public-private partnerships and private financing can be a way to fill that gap. Here in Canada, to date, public-private partnerships have not played that role.

Public-private partnerships and private financing have been a finance strategy that brings money up front to finance some of the upfront costs of capital to deliver these major infrastructure projects, some of which can cost \$100 million, \$500 million, or \$1 billion. But the money primarily for infrastructure projects here in Canada has been paid back directly by the governments that have procured the infrastructure projects over the life of their assets.

This is not a strategy that is bringing forward new money. It's kind of like paying for infrastructure on a credit card. Someone finances you the money, but the government pays it back over an extended period of time at a considerably higher rate of interest.

It's worth considering, then, that public-private partnerships may deliver other benefits, but when it comes to bringing new money to the table to deliver infrastructure, that has not been the case for hospitals, for prisons, and it has not been the case for public transit facilities. This is still government money, and I think that's important to keep in mind when we think about public-private partnerships.

There has been a second explanation, a second rationale, for why we might deliver them that I think does have merit.

I only heard part of it, but I think your previous speaker started to get at it. It's the topic of value for money. Can we understand whether bringing the private sector into the equation earlier in the deal, having them come to the table and collaborating, brings some type of value for money? Can it limit the instances of cost overruns? Can it deliver more innovative types of facilities that we might not get if these projects were being delivered through the traditional conventional types of approaches to delivering infrastructure? And do these innovations and this cost-saving, this transferring of risk, in particular, offset the higher costs of private financing? As I mentioned, the financing costs are considerably higher when you deliver projects through private capital and private upfront financing as opposed to direct public borrowing.

These are some of the rationales that have been put forward. I want to address the second rationale, in particular, around value for money. I want to advance that there are some concerns that I think we need to address, even as we try to zero in on whether public-private partnerships deliver value for money, and, more particularly, in what contexts are they going to be viable alternatives to deliver infrastructure.

The first concern is really this idea of risk transfer and the idea of how we transfer risk from the public to the private sector. In particular, at what cost are we transferring these risks? A colleague and I, a former student, conducted a study of recent projects completed here in Ontario. We looked at 28 public-private partnerships valued at \$7 billion. They were primarily hospital projects.

• (0910)

We looked at the official government documents that compare the value-for-money reports, that compare the cost of delivering the projects through conventional delivery models and public-private partnerships. Our study found that, on average, it was 16% less expensive to deliver them through the conventional model. That's because the private sector model, the public-private partnership, had higher financing costs. It had risk transfer built into the model. Because of the higher financing, the higher transaction costs, 2% to 3% of the deal...as your previous speaker spoke about, there may be value to this, but you're paying upfront costs in order to structure these deals. There's a cost to that: 2% to 3%, on average, was the cost we found in transaction costs. Because of these additional costs, it was 16% less expensive. Only after considering risk transfer in the equation did we see that public-private partnerships delivered better value for money. So risk transfer is really the key part of the deal, the key part of public-private partnerships, that is swinging the balance of merit from the conventional to the public-private partnership.

When we're talking about risk transfer, we're primarily talking about construction risk. We have to understand how those risk premiums are being achieved and whether they're really based on previous evidence. Our study found that the risk premium added to the conventional project was on average 49%. That's a very high risk premium, and we couldn't find the technical evidence—the details of past studies were not in the public domain—to allow us as researchers to understand whether that was really based on past experience. We were concerned because this issue of risk transfer, invariably, is tipping the scale from the conventional model to the public-private partnership. It doesn't mean that it's not accurate. It means that we couldn't find the evidence to support it, and we were concerned about that because of how large this risk premium is.

We can say that public-private partnerships are not necessarily the cheapest way to deliver infrastructure, but they might deliver the best value, and that's really where we have to understand from a policy perspective the projects for which this actually makes sense.

There are a few other topics I want to touch on.

One is about public accountability and community engagement. We've heard consistently that in the public-private partnership model—oftentimes because of commercial sensitivities during the planning process—it's often difficult for stakeholders to gain access to the really important technical documents that determine whether these projects should go forward or not. There have been concerns about how to meaningfully engage in these processes.

Another issue is the loss of flexibility over the long term in delivering these projects. When you have contracts and concessions that stretch out for 25, 50, 99 years—as we've seen here in Canada—these can limit government's flexibility and its capacity to make changes to the system over time, to meet emerging policy goals, to change the user-fee structures, as has been the case in some of the

projects, and to meet emerging and changing goals. This loss of flexibility is a key challenge that we have to think about when we're looking at public-private partnerships.

The final point is this issue of “the only game in town”. Are we seeing public-private partnerships being put forward more and more as the only option to deliver public infrastructure? Are governments—especially municipal governments seeking federal funding—increasingly trying to design their projects in order to make them realizable through public-private partnerships, even in cases where that might not be the best way forward?

I have a couple of recommendations. What I'm trying to highlight is that public-private partnerships may deliver value in certain cases. We have to be very clear about what they are. I think it should be based on empirical evidence. We should be carrying out studies to understand if the risk premium, the size of it, is appropriate, is based on past evidence, the history of actual cost overruns, on the cost of poor performance as these projects go along. I would add that we should be focusing the partnerships on the design-build finance side. I think public-private partnerships have the best opportunity to deliver on time and on budget—project delivery and in particular cost certainty—and there is merit in that. I think we should be very cautious about how we enter into long-term concession agreements for operations and maintenance, except under the most unique circumstances.

The final point I would raise is that I think we need to understand whether the agencies we've put in place—the procurement agencies—can work to improve both public-private partnership procurements and conventional approaches. Sometimes these have been separate. But the expertise in these agencies could provide the same benefit and perhaps deliver value for money in some cases without necessarily having to look to private finance—which is an expensive way of delivering public infrastructure.

I'll leave it at that. I look forward to participating in the discussion.

Thanks a lot.

• (0915)

**The Chair:** Thank you very much, Mr. Siemiatycki. You've certainly made good use of your ten minutes. You're right on the button.

We'll go right to questions, then. I believe first in line is the NDP, with Linda Duncan.

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

So we don't have the mayor?

**The Chair:** No, the mayor is in the next panel.

**Ms. Linda Duncan:** Oh, so it's two separate panels?

**The Chair:** It's two panels, that's right.

**Ms. Linda Duncan:** Okay, thanks.

Thank you very much to both of the witnesses.

Is it Professor Semia...? Do you want to say your name again?

**Prof. Matti Siemiatycki:** It's Siemiatycki.

**Ms. Linda Duncan:** Siemiatycki. Thank you very much.

**Prof. Matti Siemiatycki:** You got it, yes.

**Ms. Linda Duncan:** Thank you very much for your—

**Prof. Matti Siemiatycki:** It's phonetic once you hear it once.

**Ms. Linda Duncan:** Okay.

Thank you very much for your analysis. It's very helpful and very thorough. Have you had any more success in obtaining the risk studies? You mentioned that they're not in the public domain. Did you also try to obtain those through access to information? Were you rebuffed?

**Prof. Matti Siemiatycki:** That's a good question. It should be noted that a summary of the value-for-money report is posted online, and those are the reports we used. But when we tried to look for the detailed documentation behind those values, the actual experiences of cost overruns and how they were obtained, we couldn't find those studies.

In British Columbia, there have been freedom of information act requests, especially around the Canada Line, so we've done some studies that have looked at the Canada Line, but in Ontario, we haven't used the freedom of information act request process to try to obtain those documents.

**Ms. Linda Duncan:** Thank you very much.

You make a good point. A number of other witnesses have appeared before us and have said that, in some cases, P3s might make sense. In other cases, design-build might make more sense. The problem right now is that the emphasis seems to be on moneys being available only for P3s. If similar efforts were made in better managing government-delivered projects, in the same way that there's been all this investment in a new P3 office to support departments to better manage their P3s...? Do you think if similar changes were made in the way other projects were managed, we might see similarly good results?

**Prof. Matti Siemiatycki:** This was my final recommendation. I think in Canada we need to improve procurement, period, full stop, for all types of infrastructure projects. We need to have mechanisms in place to ensure that we have appropriate procurement for public-private partnerships and for conventional-build projects.

The agencies that have been put in place have a lot of skill in procurement. They brought in trained staff who have specific expertise in different areas of project procurement. I think we should be applying those both to public-private partnerships and to conventional-build projects, and leaving it in the hands of experts to deliver these projects once the traditional policy approaches are used to determine which ones. I think we could see improvements in both public-private partnerships and conventional-build if we applied these same professionalizations of the procurement process.

● (0920)

**Ms. Linda Duncan:** Thank you.

Mr. Paul, what is the annual budget for the DCC entity?

**Mr. James Paul:** It's approximately \$100 million, or in that ballpark. We're not an appropriated entity, so we have to ensure that our fees match our expenses. We don't incur losses or run in a deficit position, nor do we borrow. We manage our business against the program and services we deliver and adjust our resources accordingly.

**Ms. Linda Duncan:** How many projects, simultaneously, would the DCC be managing?

**Mr. James Paul:** Again, if you take approximately 2,500 completed last year, a number of projects have a life of more than a year, so it would be in the thousands, obviously, that are ongoing.

**Ms. Linda Duncan:** When you are involved in a project, and you're doing a P3 or even a design-build, is there also a private contractor who is billing costs?

**Mr. James Paul:** We are the procurement authority and then the delivery organization that's managing the contract. So the Government of Canada approach, or certainly the DND one, is to use the private sector to do the construction work, do the design work, and do the environmental work, because we also oversee all the environmental program deliveries. What we're basically doing with our thousand-some-odd professionals in the organization is managing the thousands of contractors doing that work for the Government of Canada and DND.

We're a management organization.

**Ms. Linda Duncan:** I'm left a little bit confused. Usually you hire a contractor, who manages all the people who are building the building. Do we also have your office managing the private managers?

**Mr. James Paul:** We are managing that contractor's work. If you look at any given project, a general contractor would ultimately be the winning bidder, in a conventional construction approach. That company would hire and manage the subcontractors as part of their delivery, but you have to have an owner who is acting to manage that general contractor's activity to ensure that you're getting what you contracted for.

**Ms. Linda Duncan:** So you're providing oversight.

**Mr. James Paul:** We are the delivery organization, as I said, but it includes an oversight role. It's a hands-on management role—the inspecting, the monitoring. It's very similar to what Public Works does for other federal government departments. The Department of National Defence is the biggest real property holder within the Government of Canada, so we're providing that role for this special purpose and its assets. It's the same approach as what Public Works is doing.

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

Thank you, Linda. That's the end of your time.

For the Conservatives, we have Mr. Jacques Gourde.

You have five minutes, Jacques.

[Translation]

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

Thank you to the witnesses for being here this morning.

My first question is for Mr. Siemiatycki.

You mentioned the profitability of P3 projects compared with traditional projects. Could you give us some more detail about the transfer of responsibility and risk?

It is difficult for me to assess the cost of realizing a P3 project combined with a maintenance program spread out over 20, 25 or 30 years, compared with the cost of a project that the government wants to carry out at the best possible cost for infrastructures that it will have built and that it is responsible for maintaining in the long term.

You mentioned an amount 16% lower for a project carried out traditionally. However, when it is a P3 project with a private company or another that will be responsible for maintaining the infrastructure for the next 30 years, might that influence the choice of materials? For example, perhaps someone is looking for more efficient and better quality equipment that will allow for long-term savings. For example, you might save energy in the long term through geothermal energy.

Could that really influence the design decisions for these infrastructures? Perhaps it is difficult today to evaluate savings that will occur over the next 30 years with respect to maintaining buildings that were constructed five years ago. Are you able to evaluate that kind of thing?

• (0925)

[English]

**Prof. Matti Siemiatycki:** This idea of innovation and efficiencies has been an important one put forward for public-private partnerships. I think you articulated the argument quite accurately: if you have the private sector at the table and they have an incentive to maintain the facility over an extended period of time, they'll make choices about what types of materials to use and how they design the facility.

One thing we've seen is that, at least in the value-for-money reports, where those efficiency gains are actually being achieved hasn't been clarified; we don't see which efficiencies are being brought forward that are considerably different from what happens through the public sector or through the conventional bidding process. Keep in mind that a conventional bidding process is still a competitive procurement, a design-build that you could still incentivize and in which you could still bring forward approaches to have the private sector designers come up with different approaches to deliver the infrastructure.

One thing we have seen with public-private partnerships is that when you have this long-term maintenance component around operations, the private sector will try to design the facility in a way that minimizes the risk of changes over time and makes it easiest to maintain. But that might not be the best facility for the public; the public might actually benefit from flexibility. In the 25- or 50-year life of the asset, the asset might change and the user's needs might

actually change quite significantly. Yet if you have that contract for maintenance locked in, it can be very expensive to break it, even if there's a policy rationale for changing and building flexibility into the systems.

That's been part of the challenge around this long-term maintenance feature and the potential for policy lock-ins.

[Translation]

**Mr. Jacques Gourde:** As a public manager of taxpayers' money, how can we make good decisions when we have time frames like the ones you mentioned, namely, 30, if not 50, years? Obviously, we make decisions based on the information available today, in 2012. If this was 2042, my children might perhaps choose something other than the previous technologies. It will always be difficult for government managers to make a decision for the next 50 years.

[English]

**Prof. Matti Siemiatycki:** I think there is always going to be difficulty around making policy for the long term. That's the challenge you all face, being politicians.

Really, the key has often been seen to be to build flexibility into the facilities we're building so that they can change over time. The one thing we know is that there is going to be change over time. There are going to be emerging needs, there are going to be new technologies, and there are going to be new approaches to delivering—maybe even new approaches to maintaining—facilities. If we lock ourselves in over the long term, we might eliminate the possibility of the public's benefiting from those emerging technologies or those emerging uses for the facilities in the way they can be used and the ways they can be managed, and possibly miss out on the potential to lower the costs and deliver value for your constituents.

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

Thank you, Jacques.

Mr. Paul, do you have anything to add to that exchange?

**Mr. James Paul:** Let me say briefly that part of it is in the selection of the project. You want to make sure that you're selecting projects whose use is fairly certain. This doesn't mean there is not flexibility.

If I use the example of the CSEC facility, it's unlikely that over a 25- to 30-year period the intended purpose of that facility is going to change from its being the headquarters of that government institution. Do you need flexibility? Absolutely you do—they could change approaches. But the model and the procurement contract defines a performance availability; it's defined in that way so that there is flexibility available for the user—in this case, CSEC—to call for changes because of their approach. It doesn't mean they're breaking the contract or renegotiating to do it.

Another example would be a hospital. From my personal experience, I haven't seen many hospitals constructed that, within a 25-year or 30-year period, aren't still a hospital. Are there changes in operating room approaches or technology? The model has to be able to allow you to evolve with these.



Another example might be that if we built a new home for the CBC, with broadcast studios and all kinds of things, the technology might change, but it's such a special-purpose asset that you would only do it if you thought there was going to be a longer life.

So I think it's the selection of the project. The risk would come if you're just doing it for a short-term issue or something that really doesn't take any special type of facility.

• (0930)

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

Next, for the NDP, we have Denis Blanchette.

You have five minutes, Denis.

[*Translation*]

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

I'd like to thank our two witnesses for being here.

My first question is for Mr. Paul.

You are a contract manager. You have optimized your management method and how you negotiate contracts. I am convinced that if I asked you if this had evolved, you would say yes.

Since the management of contracts is being refined and best practices are being integrated, would the P3 not just be another way of doing what, one day, might be outmoded? Without P3, could you continue to refine your management models in order to do the work on time and within budget? Do you absolutely need this type of tool to achieve your goals?

**Mr. James Paul:** Thank you. That is a good question.

[*English*]

The way you put that is interesting. I would say that you're correct, in that whether you call it a P3 or a design-build-finance-maintain project, ultimately it comes down to the contract terms. I think P3 is, in the end, just a label we put on it that signals that there is a financing component, that there is often an ongoing maintenance component, and that there are the upfront aspects.

What you've alluded to is whether there are other forms of contractor procurement you could undertake. If you look at the more traditional sorts of design-bid-build or design-build approaches that have been used, the P3 is a sort of enhanced model that has off-loaded risk and financing and other aspects that we've talked about.

Just to show you that there is flexibility, the CSEC approach was beyond even the normal design-build-finance-maintain that you've likely heard about and have been thinking about. What was added into it was the full provision of the IT services, in what is a very sophisticated, highly technical environment, of course. The IT delivery for the entire maintenance life-cycle period is included in it. Similarly, so are the security services that are required at one of the highest security facilities in the country.

Those are examples of how, even in what you might generally label as a P3, the contract form of procurement was uniquely modelled for the special needs of the project. I'm just using it as an example. There are opportunities to do this, and I think a good

procurement authority and a good owner would plan that way and take advantage of these.

So we might call it a P3, but there are always differences in the contractual approach.

[*Translation*]

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

Mr. Siemiatycki, you have studied P3s. You have probably also studied other forms of contracts that link a public administration to a private company.

P3s have been around for some time now. Do you know whether new trends in managing public contracts would make it possible to complete projects on time, within budget, while providing the required flexibility, as we get further away from the construction and to have maintenance become an increasingly important part of carrying out the contract? Have you or your colleagues studied this issue?

[*English*]

**Prof. Matti Siemiatycki:** To agree with your previous speaker, public-private partnerships really sit on a spectrum of procurement approaches. It's really in the way the contract is designed and the way the bundling is carried out.

I guess we've observed a few things, and one is in terms of the procurement process. The idea is of competitive dialogue, collaborating to a greater extent with the different bidders earlier on in the process, having communications with them to try to see if you can tailor a design, tailor a concession agreement that works for both parties, instead of just using this strict procurement process, and by "strict", I mean that a competition is going to deliver you the best value for money. Trying to see if you can use greater collaboration to achieve those ends has been one aspect that we are starting to see gaining popularity literally around the world.

The other part about public-private partnerships that's often lost is that, at the core of this, it's really the idea of partnership and the idea of collaboration. The idea is that two partners working together might be able to deliver something that's better than either of them could achieve on their own. So there are emerging ways that these collaborations are coming closer together rather than further apart. It's not necessarily using a concession agreement, but trying to see if you can really align the interests in different ways, trying to really share the facilities, share the benefits, and share the costs.

Another approach has been rebalancing clauses built into the concessions. If you are going to do operations and maintenance, it's better to build in rebalancing clauses so that both parties share risks rather than just trying to transfer them where there's been a lot of trouble with transferring risk in different contexts.

• (0935)

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

Next, for the Conservatives, we have Kelly Block.

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

I also want to thank our guests for joining us today. It's been great to have someone who has spent 10 years studying P3s, and then someone who's actually been engaged in the procurement process.

My first question I'm going to direct to you, Mr. Paul. You mentioned a project earlier on in your opening remarks, the long-term accommodation project. I think one of the purposes of our study is to talk to individuals who have been engaged in an actual project and find out what they've learned from that process. I just want to ask you if you would share with us your experience in the long-term accommodation project and any learnings from that.

**Mr. James Paul:** The example I've been using has been in reference to that project. As I said, the procurement phase was completed, obviously, and the construction has started, but we're halfway through the construction now, so I can really only keep my remarks limited to that experience.

I think the last witness's comments were bang on in support of what I was saying earlier. We look for opportunities with our client partner to enhance the approach here, that ultimately a P3 was used. The collaboration that I referred to I think is absolutely key, especially given the highly sophisticated facility that this is—to sit down with the industry partners. There were more than 50 collaboration meetings that occurred leading up to the actual procurement commencing, like the formal bidding process, let's say, in order to achieve that. That was done rapidly within a year—it was a matter of many months—to engage each one of those partners so that they understood the need the user was looking for and we understood what their capabilities were to bring to the table.

I think that's why those proposals I mentioned I was able to see were all very exciting, addressing the needs of the facility very well. Ultimately, with the value-for-money analysis, the best one was selected. It doesn't mean any of the others were bad. They could have been successful models that could have been used as well and delivered to CSEC for the capability it required.

As I was saying, I think the procurement was very successful. On the timeline alone, that entire process was done in less than two years, which is really remarkable for a facility of this size. Then, in the construction phase as well, which was envisioned over a period of just over three years—approximately 39 months—again, for a facility of this magnitude and sophistication, more than 70,000 square metres, that's a remarkably fast delivery from shovel in ground to full occupancy.

As I mentioned, there are very sophisticated tools being used to track the progress, etc., and manage the project. So when I said to you that it's on time and on budget, that's very much an informed and confirmed statement I'm making. Part of our management process is to ensure that's happening.

Overall, I think this particular project is proving, as far as that goes, to have been a success. Of course, somebody will, I'm sure, analyze, ongoing and at the end, looking back, whether the entire 34-year package, from procurement through to the end of the maintenance period, was successful. But we believe it will be.

● (0940)

**Mrs. Kelly Block:** Thank you.

**The Chair:** You have about a minute and a half.

**Mrs. Kelly Block:** Okay, great.

I think it's been noted by some of my colleagues that sometimes setting policy for the long term or making decisions in the long term can be quite a challenge, but I can see a lot of opportunity in that. I think some of the things you've shared in your testimony prove that out.

Mr. Siemiatycki, I wanted to ask you a question. I was very interested in your comments earlier when you talked about debunking the notion that private-public partnerships bring in new money. I guess I'd never thought of it in that light before, but I can certainly see where some might consider it to be new money, not just leveraging money in a different way.

I guess I want to ask you this, then, because you said the focus should be on value for money. I'm wondering if over the 10 years you've been studying P3s you've determined value-for-money criteria and policies that actually maximize the public interest. What would those be, in your opinion?

**Prof. Matti Siemiatycki:** There has certainly been an evolution in the rationale for this. This idea of public-private partnerships bringing new money was in large part seen as a way also of holding public investment off the government books. It was a bit of an accounting mirage that was used in the United Kingdom. These projects, I think especially in Canada, are being counted on the books, and that's the correct way to do it.

In terms of new approaches to achieving value for money, I think we need to have all of the information out in the public realm so that the public can be meaningfully engaged in the discussions around the types of projects that are taking place in their communities. We've had numerous experiences where sufficient information has been considered commercially sensitive during the bidding process. This might be okay for some types of projects, but when we're talking about highly public infrastructure, when we're talking about the transit lines or the hospitals, it's critical that this information is in the public domain. That really contributes to achieving value for money when the communities can see there's a transparency and that the projects are going to meet the needs they see for their communities.

**The Chair:** Thank you, Kelly.

Next, for the Liberals, John McCallum. Five minutes, John.

**Hon. John McCallum (Markham—Unionville, Lib.):** Thank you, and thank you to the witnesses for being here.

My first question is to Professor Siemiatycki about this 49% risk premium. It's 49% of what? What are the risks that are included?

**Prof. Matti Siemiatycki:** We took the value-for-money reports and we tried to understand...we compared the conventional-build projects with the PPP projects. The 49% was added on to the conventional-build projects. That was the expected risk of delivering it to the government, of delivering it through the conventional approach to procurement.

What we found was this. For a lot of the projects, if they're design-build-finance, those risks would be primarily the risk of cost overruns. There were a smaller number of projects that included operations and maintenance in the concession, so in those cases that would include risks of poor operation, poor maintenance, the facility not living up to its expectations. That was the average risk premium of the 27 projects we evaluated.

As I mentioned, it's that premium that invariably tilted the balance in favour of the public-private partnership in terms of its quantitative assessment of value for money.

**Hon. John McCallum:** For example, if a project costs \$100 million when done conventionally, would you add \$49 million for estimated cost overruns and operating problems?

**Prof. Matti Siemiatycki:** There are different types of risk premiums. If I understand your question correctly, yes.

**Hon. John McCallum:** That seems a huge amount of money, and you're telling me that you didn't know the basis of that number.

**Prof. Matti Siemiatycki:** We were concerned that we couldn't find the technical evidence. We read through the Infrastructure Ontario briefings and their methodologies. We understand that perhaps studies were done to assess that. There are reports online, but they don't give the details of how those were assessed, and they don't go into the project-by-project details that you would like to see to understand if that really is the risk we've been carrying on conventional-build projects.

**Hon. John McCallum:** We do have one project on the table here today.

Mr. Paul, can you enlighten us on the costing of your project? Was there a 49% risk premium or something of that nature? If so, what was the foundation for it?

• (0945)

**Mr. James Paul:** The short answer would be that I know I won't be able to enlighten you on the specific cost elements. As I said, we're delivering the project. We weren't part of the financial analysis or the front-end planning there. Ultimately, it's all bundled into a single price for the project, so that would be in there, but I'm not in a position to be able to speak to that right now.

A lot of times we throw that "m" on, design-build-finance-maintain, and everybody says they know what's involved in maintaining. We found that the commissioning aspect of occupying a new facility is a rapidly increasing high cost that we just take for granted as included in the "m" in a PPP or any maintenance project. What I mean by that is we have probably all had the experience: when you buy a new car today, you pull out the owner's manual, and the manual for the onboard navigation, the sound system, and everything is three times the thickness of the old car manual we used to always get.

That's the same with buildings today, when you think of the highly technical facilities that are being moved into. It's no longer a matter of just build it and then turn over the keys and say, "Enjoy your new building." There's a significant phase that can extend beyond a year to easily a couple of years to actually commission and get that building up and running. It includes testing, ensuring systems are working, warranty work, and adjustments being done.

I just want to mention that they are also factored in on these costs, so I can't respond to the 49% comment. We're not engaged in that type of analysis, but if that's included in there, there are a lot of aspects for those numbers.

**Hon. John McCallum:** I would just end with one comment. It seems to me this 49% number is huge, and once you pick a number like that, you almost automatically justify the PPP, I think the professor was saying, so it seems to me we can't really evaluate this unless we get into the guts of that number, as to whether or not it is really justified. It strikes me that just about every conclusion depends on that question.

Would you agree with that, Professor Siemiatycki?

**The Chair:** Please give a very brief answer.

**Prof. Matti Siemiatycki:** I would say that was the conclusion of our study. That number is critical.

**Hon. John McCallum:** Okay, thank you.

**The Chair:** Thank you very much, John.

We're almost out of time, members, but I would like to give an opportunity for the two last speakers on our witness list to have at least one question each, so if we could have maybe two minutes for Bernard and two minutes for Alexandre, that would conclude this first panel.

**Mr. Bernard Trotter (Etobicoke—Lakeshore, CPC):** Thank you, Chair.

Thank you, witnesses, for coming in today.

I have a quick question for Professor Siemiatycki.

I really salute the work you're doing. It's interesting, novel, and of tremendous value to the country and the public.

You mentioned that you have been studying for 10 years. I want to know a bit more about the analysis pool. You talked about 175 projects in Canada, but did you look around the world—the U.K., Australia, the U.S.A., Spain, other countries—where they have been doing a lot of P3s?

**Prof. Matti Siemiatycki:** Yes, certainly those are some of the countries.

**Mr. Bernard Trotter:** How many projects—

**Prof. Matti Siemiatycki:** We looked at lots.

**Mr. Bernard Trotter:** How many projects did you look at in the most recent analysis where you came up with this 16% premium and the 49% risk factor?

**Prof. Matti Siemiatycki:** That was a sample from Ontario of 27 projects. We've actually studied the geography of these projects based on a thousand projects worldwide. I've done case studies of projects in Australia, the United Kingdom, and the United States. The methodologies vary depending on the types of questions we're trying to answer, but the studies have been truly global.

**Mr. Bernard Trottier:** Okay. I imagine you have had some discussions with a group called the Canadian Council for Public-Private Partnerships. They were in last week talking about how in Canada we've developed some unique expertise when it comes to really closing the time to get a contract done. That's one of the differentiators in Canada. They looked at the U.K., where it is typically taking four years to get a P3 contract concluded. In Canada we were able to get that done in 18 months or so.

Have you noticed anything in your global analysis indicating that in Canada we've developed some unique expertise when it comes to P3s? Are we better at doing P3s than other jurisdictions?

**Prof. Matti Siemiatycki:** Canada certainly has unique models. I think one of the things the world notices when they look at Canada is that we tend to do design-build-finance. We haven't used the operations and maintain part of the concessions to the same extent as other places. It's that operations and maintain component that has really run into trouble in other jurisdictions.

In many ways, I think the made-in-Canada solution has been focusing on the design-build-finance to a large extent, and also standardizing the processes. Having these expert evaluation agencies that have specific skills in procurement, and standardizing that, has been able to speed up the process. I guess that is part of the made-in-Canada solution to delivering infrastructure through public-private partnerships.

• (0950)

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

**The Chair:** Thank you very much, Bernard.

We'd like to give a chance to Alexandre Boulерice for a couple of minutes.

[Translation]

**Mr. Alexandre Boulерice (Rosemont—La Petite-Patrie, NDP):** Thank you, Mr. Chair.

I will put my question to Professor Siemiatycki.

I want to come back to the somewhat troubling fact that base costs and public model transaction costs are about 16% less than those of the P3 model. But we just suddenly added a risk bonus that is 49% of the project, which is completely out of balance. This percentage stems from an obscure type of calculation, in a black box, and you are saying that there are not a lot of details about it.

I would like to quote someone, and I will then ask you what you think. It is in English:

[English]

...public sector comparators won't do you much good. I could make the public sector comparator as bad as I want to, in order to make the private sector look good.

It's Larry Blain, former president of Partnerships BC, March 26, 2003.

[Translation]

The P3 agencies supervise and analyze P3 projects, but their mandate is also to promote them. So they must always present them as winning formulas. Don't you think that's a problem?

[English]

**Prof. Matti Siemiatycki:** I think the quote there really speaks to the need for transparency, and it speaks to the need for a study that is publicly available, that really measures those issues of risk, because the potential is there to see it as the place where you can put in your preferences for whatever type of project you want.

It's very important that there's transparency and that there's open data available in order to understand how big those risk premiums are, so that they can be applied to deliver the project, to select the best approach to delivering infrastructure projects.

[Translation]

**Mr. Alexandre Boulерice:** Thank you.

[English]

**The Chair:** Thank you very much.

Alexandre, I'm sorry to cut your time short, but it was such an interesting panel that we all went a little bit over in our questioning.

We'd like to thank very much Mr. James Paul and Mr. Siemiatycki. I'm sorry to see you go, Mr. Siemiatycki, because we've just learned how to pronounce your name properly and now we have to say goodbye. But thank you very much for time very well spent and for a very useful contribution from both of you.

We'll suspend the meeting briefly while we invite our next witnesses to come forward.

Thank you very much, gentlemen.

• (0950)

\_\_\_\_\_ (Pause) \_\_\_\_\_

• (0955)

**The Chair:** Ladies and gentlemen, we will reconvene our meeting of the Standing Committee on Government Operations and Estimates and our study of public-private partnerships.

We are very pleased to welcome our next panel of witnesses. First of all, I'd like to introduce and welcome the mayor of Canada's sixth largest and, some would say, most beautiful city, certainly on the prairies, His Worship Mr. Sam Katz.

We're very pleased to have you here, Your Worship. It's a great pleasure.

**Mr. Sam Katz (Mayor, City of Winnipeg):** A very objective opinion, as you always have.

**The Chair:** I never promised objectivity.

Also with Mayor Katz is the press secretary, Rhea Yates—welcome, Rhea.

We have Mr. Drew Fagan from the Government of Ontario, deputy minister for infrastructure. It's very important and very valuable to have you here, sir, and also Mr. Bert Clark, from Infrastructure Ontario, which keeps coming up in all of our deliberations on this subject, so it's very timely and appropriate that you could be with us here today as well.

You folks know the format, I believe. We invite five to ten minutes of opening remarks from all of you, as briefly as you can. Then we like to leave as much time as possible for questions from committee members.

The order on my agenda is to begin with His Worship, Mr. Sam Katz, Mayor of Winnipeg.

**Mr. Sam Katz:** Thank you very much.

First of all, I'd like to thank the House of Commons Standing Committee on Government Operations and Estimates for choosing to study the opportunities, advantages, and the effectiveness of using public-private partnerships in the delivery of federal government services.

The City of Winnipeg has found PPP or P3 projects, as they are called, to be phenomenal tools. They are not the right fit for every project, but for major infrastructure renewal, they make good sense for municipalities that need to stretch their infrastructure dollars further.

Like most other Canadian municipalities, the City of Winnipeg is faced with a pressing need to maintain and replace its critical infrastructure. At current levels of funding, the City of Winnipeg's infrastructure deficit is projected to reach \$7.4 billion by 2018. Many of our roads, bridges, water and sewer systems, and community facilities require major upgrades and repairs, as they were built more than 60 years ago.

When we look at how to fund these projects, however, we come up short. As you know, municipalities are heavily reliant upon federal and provincial funding. We have few options for raising revenue outside of property taxes, fees, and permits. As members of city council, our challenge is to keep the budget balanced, maintain essential services to citizens, and reinvest in crumbling infrastructure, all at the same time.

P3s have offered one solution, allowing us to replace critical infrastructure while making wise use of taxpayer dollars. In essence, P3s allow the public sector to focus on defining the output—which may be better traffic flow or upgrading facilities—while leaving it with the private sector to provide the most productive way to deliver these outputs. From the city's perspective, P3s have four major benefits.

One, P3 projects provide the City of Winnipeg with long-term budget certainty, as all costs are determined up front.

Two, P3 projects encourage contract discipline, since there is no benefit to the contractor from incurring cost increases.

Three, P3 projects provide maintenance guarantees. City-owned assets will be turned over to the City of Winnipeg in good condition 30 years after the project is completed.

Four, P3 projects encourage innovation. Contractors are motivated to complete the project in the most efficient and sustainable ways, as they have responsibility for the long-term maintenance.

City of Winnipeg taxpayers have benefited from the P3 approach on several projects. The Chief Peguis Trail extension project, for example, marked the first time a Canadian municipality received a PPP Canada grant, and positioned Winnipeg as a municipal leader in

P3 projects. This project involved extending a four-lane divided roadway for nearly four kilometres.

Completed on budget and one full year ahead of schedule, the Chief Peguis Trail extension project provided Winnipeg residents with early access to a roadway that took through-traffic off residential streets and onto a major thoroughfare. The project also included the construction of landscaping, multi-use pathways to encourage walking and cycling, and noise walls and berms to reduce traffic noise. This was a \$108 million project. The design-build-finance-maintain approach is expected to bring value-for-money savings of approximately \$31 million compared to a traditional procurement. Remember, the City of Winnipeg will have no maintenance risk on this project for the next 30 years.

The Chief Peguis Trail extension was named the province's best managed project for 2012 by the Project Management Institute of Manitoba.

This year, the City of Winnipeg is seeing the same success with the Disraeli Freeway and Bridges project, the city's largest bridge project and a P3. This major roadway connects the northeast part of the city of Winnipeg with downtown. Approximately 42,000 people travel these roads and bridge structures every day. One of the project's major successes involved keeping four lanes of traffic open during all peak travel times during construction.

• (1000)

This new infrastructure will have a life of 75 years. By choosing to develop the Disraeli project as a P3, the city has been able to protect taxpayers from cost overruns, update a critical piece of aging infrastructure, and ensure that a well-maintained asset is transferred back to the city in good condition after the 30-year term. An independent, value-for-money assessment of the Disraeli Freeway and Bridges project determined that the City of Winnipeg will save approximately \$47.7 million as a result of the P3 approach.

So when is a P3 not appropriate?

They're not the best choice when the municipality already has a good track record of delivering projects of similar size and scope. In essence, a P3 is like an insurance policy: a premium is paid and the risk is transferred. If the risk transferred is greater than the premium, this represents positive value for money.

As you likely have gathered, the City of Winnipeg brings in a third party to assess the value for money in order to ensure that a P3 is the right choice.

I hope I have demonstrated the value the P3 model offers the City of Winnipeg. Our citizens gain from new infrastructure and from the cost certainty that P3s provide. We should never forget that it's our public infrastructure that keeps us safe as we travel from work and back again each day. Our infrastructure forms the very foundation of our cities.

Unfortunately, most Canadian municipalities are at a tipping point. As the Federation of Canadian Municipalities has recently stated, our choice is to invest in infrastructure or stand by as the repair bills increase along with the possibility of serious infrastructure failures.

I have no doubt that in 30 years, when the future Mayor of Winnipeg takes a tally of all the major infrastructure projects being turned back to the City of Winnipeg in top condition, he or she will say, "Thank goodness for P3s." That's why, as Mayor of Winnipeg, I will continue to be vocal about the benefits of public-private partnerships.

Thank you for having me here today.

• (1005)

**The Chair:** Thank you, Mayor Katz.

It will be of interest to some people in Winnipeg that you don't intend to be the Mayor of Winnipeg 30 years from today. That's a newsworthy little tidbit.

**Voices:** Oh, oh!

**The Chair:** Thank you very much, Mayor Katz.

Next, then, in the order that we have in our agenda, is Mr. Bert Clark.

**Mr. Bert Clark (President and Chief Executive Officer, Infrastructure Ontario):** We're going to reverse here; Drew is going to start.

**The Chair:** The deputy minister for infrastructure for the Government of Ontario, Mr. Drew Fagan, will be next.

**Mr. Drew Fagan (Deputy Minister, Ministry of Infrastructure, Government of Ontario):** Thank you, Mr. Chair.

I appreciate the opportunity to speak today about the Ministry of Infrastructure and the ministry's central role within the Ontario government to oversee capital infrastructure investment. The ministry is integral to modernizing Ontario's infrastructure, and also has responsibility for overseeing Ontario's growth planning policies and Ontario's large portfolio of real estate assets.

[Translation]

In this role, the ministry has legislative responsibility for Infrastructure Ontario, the agency of the government that manages delivery of major infrastructure projects. I should note that IO's responsibilities have increased since the June 2011 merger of the agency with the Ontario Realty Corporation, which managed the realty portfolio I just mentioned.

[English]

Well-maintained public infrastructure is the backbone of a strong economy and the cornerstone of healthy communities. But from the mid-1970s until the turn of the century, developed economies typically underinvested in infrastructure. Over the past decade, however, there have been significant increases in international infrastructure investment.

In Ontario, the province has been making historic investments in public infrastructure. In total, Ontario invested about \$75 billion in infrastructure from 2004-05 to 2011-12 and plans to spend another \$12.9 billion in this fiscal year.

As the province committed itself to increased investment, there was also recognition of the need to modernize our approach and reform our methodologies around infrastructure expenditures. In other words, in order to enhance economic competitiveness and improve delivery of social programs, the Ontario government updated procurement processes to get more bang for our buck.

That's why Infrastructure Ontario was established in 2005—a single, dedicated infrastructure agency that uses the alternative financing and procurement model, or AFP, for capital projects. This model delivers value for money by involving the private sector. It leverages private sector expertise to build public infrastructure on time and on budget, letting the private sector take on the market risks that it is best able to manage. IO's track record has proven highly successful, delivering 24 major AFP projects, virtually all of them on time and on budget, with value-for-money savings of more than \$600 million.

The Ministry of Infrastructure works closely with IO in an oversight capacity. The ministry provides the policy framework, and all projects deemed suitable for AFP delivery are assigned to IO through the direction of the Minister of Infrastructure. Those AFP projects must demonstrate value for money and are procured by IO through a standardized process.

Because of IO's track record, the Ministry of Infrastructure is expanding the use of AFP. Ontario's long-term infrastructure plan, Building Together, was released in June 2011. It outlined a number of key initiatives, including a broad focus on improved asset management and the expansion of IO's role. The Ministry of Infrastructure will make recommendations to the government on the procurement method and delivery of all infrastructure projects valued at more than \$50 million owned by the province and for hospital and college infrastructure. Building Together also noted that recipients of provincial infrastructure funding in excess of \$100 million will consult with IO to determine whether IO can assist with their procurement.

A few weeks ago the Government of Ontario submitted recommendations for the federal long-term infrastructure plan to succeed the 2007 Building Canada plan. The submission mirrored Building Together and advised the federal government to build on the establishment of the P3 Canada Fund and to promote greater use of AFPs, where appropriate, across jurisdictions.

• (1010)

[Translation]

Our economy and quality of life depend on the modern public infrastructure. In the current climate of fiscal restraint, it matters all the more that public infrastructure projects are well-managed to maximum impact. This committee's hearings are important in this regard, as attention focuses on the size, means and benefit of public infrastructure expenditures.

Thank you.

[English]

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

Finally, to wrap it up, from Infrastructure Ontario we will hear the president and CEO, Mr. Bert Clark.

**Mr. Bert Clark:** Thank you, Mr. Chair.

I appreciate this opportunity to share with you information about Ontario's approach to investing in infrastructure using AFPs, or P3s. AFP is the terminology we use in Ontario at IO.

IO is a crown agency of the government. It was created in 2005 to manage major projects on behalf of the government. It was created in response to two things: one, a very ambitious plan to rebuild the province's capital stock, beginning with hospitals, but also the poor track record Ontario and other governments had at delivering large, complex projects on time and on budget.

Modern projects require modern delivery methods. IO works closely with the Ministry of Infrastructure. While the ministry is focused on policy, IO is focused on delivery. So we're not a policy agency. IO is assigned the role of delivering projects on time and on budget and in a manner that's consistent with the following principles—and these are taken seriously. They're in our enacting legislation, and my board certainly takes them very seriously.

First, the public interest is paramount. Second, there must be appropriate public control, and in certain instances—for example, hospitals—public ownership must also be preserved. Third, value for money must be demonstrable. And fourth, accountability must be maintained and processes must be fair, open, and transparent.

In the years prior to IO's creation, the province undertook a limited number of new hospitals. This compares with six hospitals, on average, per year that have been built since IO's creation. Prior to IO's creation there were problems with budgets and timelines on projects. For example, in Peterborough, Sudbury, and Thunder Bay, the hospital projects delivered using traditional methods had major challenges. The traditional delivery method was not working for the Province of Ontario.

Overall, IO has brought more than 60 projects to market, valued at \$23 billion in capital construction. This is the largest expansion and modernization of social infrastructure in Ontario's history.

We've constructed state-of-the-art hospitals in every region of the province, delivering 20 health care projects at or below budget. More than 16 million new square feet of modernized space has been built. This simply could not have been done using traditional delivery methods.

IO is now working on a range of transportation projects, such as the Windsor-Essex Parkway and Highway 407 East, and IO is entering into the transit space. IO is involved in regional transit projects such as Toronto's Air Rail Link, the Ottawa LRT, the Waterloo regional LRT, and the Metrolinx projects.

The track record of IO and similar agencies across Canada is clear. A 2010 Conference Board of Canada report that assessed the performance of P3 projects executed in Canada found that large infrastructure projects delivered through public-private partnerships resulted in lower costs, quicker completion, and higher service levels. With our partners, we're participating in a follow-up study that will be released later this fall.

I'd like to explain why our approach to P3s, or AFPs, has worked.

The first is risk transfer. Under the P3 model, the public sector establishes the desired outcome—for example, a hospital with a certain number of emergency rooms, bedrooms, operating rooms, and so on. The private sector bids to provide the building at the lowest certain cost over the entire life of the building. In this way the public sector transfers design risk, construction risk, and life-cycle risk to the private sector. It gets a building on time, on budget, and one that's well maintained over its entire life, or it doesn't pay. This is the core of why governments ought to use public-private partnerships in certain instances. Risk is transferred and public payments are conditional on performance.

Each of our infrastructure projects undergoes a rigorous third-party value-for-money assessment to determine if the P3 model offers better value than traditional procurement. Infrastructure Ontario's value-for-money methodology was developed by a group of external and government experts and has been independently reviewed by a professional consulting firm and Ontario's internal auditor. These experts have found that our methodology is sound and yields fair and accurate results. We don't use alternative finance in procurement to deliver a project unless a value-for-money assessment establishes that this methodology makes sense.

● (1015)

For procurement, an important part of our methodology has been the development of a standardized and efficient procurement process. It has shortened the procurement timeline, lowered bidding costs, streamlined the project delivery schedule, and promoted competitive tension between bidders. This sort of efficiency is good for the bidders, and it also translates into more competitive bids and lower costs for government.

Finally, concerning transparency, we make every effort to ensure transparency and maintain accountability throughout our procurement process via regular public updates at each procurement stage and through the release of key documents, including detailed project agreements and third-party value-for-money assessments. Each procurement is monitored by a third-party fairness monitor to ensure an open and fair process.

In a nutshell, partnerships with the private sector can be an extremely effective means of delivering large and complex projects in a way that avoids many of the issues that arose with traditionally delivered projects, such as cost overruns and poorly maintained facilities. Ontario has been an extremely attractive infrastructure market over the last seven years because we are viewed as a leading jurisdiction in which modern, efficient, and fair processes are used to deliver public infrastructure assets.

Thank you again for the opportunity to appear before you.

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

Thanks to all the guests for keeping their remarks concise. That leaves more time for us to ask questions.

But we are limited, so I would ask people to keep in mind that the five-minute slots include questions and answers. That way we can get everyone on.

Starting off for the NDP, we have Mr. Alexandre Boulerice.

You have five minutes, Alexandre.

[*Translation*]

**Mr. Alexandre Boulerice:** Good morning, everyone. Thank you for being here today.

One of our previous witnesses, a professor at the University of Toronto, told us that the bonuses related to the transfer of risk do somewhat change the rules of the game and that they put conventional public projects at a disadvantage in an obvious way.

First, I would like to know whether the transfer of risk truly exists. I will give you two examples. My questions are for Mr. Katz.

Where is the risk transfer when the private company or consortium responsible for the P3 goes bankrupt? It is still the responsibility of the government and the public to pay the bills and to continue to provide the service. So there is no transfer of risk in the case of bankruptcy.

Mistakes are also made during projects. I can give you the example of a sports centre in Sherbrooke. Since the roof had been poorly constructed, water leaked in. One might think that, given the transfer of risk, the private consortium would pay for the repairs. But this is rarely the case. These things generally end up before the courts. That's what happened in Sherbrooke, among other places.

P3s may seem worthwhile, even if they are actually a trap for taxpayers, who then have their hands tied for 30 or 50 years. However, it is often a paradise for lawyers, given the legal proceedings.

[*English*]

**The Chair:** Would you like to begin, Mayor Katz?

**Mr. Sam Katz:** Thank you very much for that question. I certainly understand where you're coming from.

As with any agreement, the realities are that it's all in how the deal is put together. I'm sure you've heard it said that the devil is in the details. It's up to you to make sure you cover all these types of circumstances off. That is part of due diligence.

You've given me an example in which things may not have gone right. I can only speak for the projects with which we've been involved at the City of Winnipeg. We've completed three specific projects—the two I mentioned, the Disraeli Bridges project and Chief Peguis Trail, as well as a police station, with another one under construction. If you do your due diligence and you cover that off, there are securities that you can put in place, such as bonding that can be done, such as letters of credit that can be done. All these things can be done to make sure....

As you've heard before, if it's not done properly, they don't get paid. You always have a holdback, so you can still protect yourself. It's a matter of putting these measures into place. If these measures are not put into place, I understand what you're saying, but whose fault is that?

● (1020)

[*Translation*]

**Mr. Alexandre Boulerice:** Mr. Katz, I would like to ask you a question about a project you are familiar with.

What is the interest rate on the funding for the Charleswood bridge project, which was completed in your city as part of a P3?

[*English*]

**Mr. Sam Katz:** Let me share this with you, because that is something that those who do not support P3s use as an example. Unfortunately, it's a very false example to use, and I'll tell you why.

First, the Charleswood Bridge was done before my time. It was the first one done. It is the best-maintained structure in the province of Manitoba. That's just a fact.

The interest rate is higher than normal. Why is that? It is because that's what the politicians, the elected officials, chose to do. The elected officials decided they wanted a ceiling on interest. They got the ceiling, but when you get a ceiling you also get a floor, and that's how that happened.

I can emphatically state to you that this was the fault of the elected officials who did not do their due diligence; it had nothing to do with the Charleswood Parkway. But I thank you for asking that question.

[*Translation*]

**Mr. Alexandre Boulerice:** Thank you very much.

My next question is for Mr. Clark.

I understand very well that a P3 can be beneficial for a municipality. In fact, rather than go on the market and secure a loan that then appears in the accounting books as a debt, you sign a contract that is so long-term that you voluntarily move from being an owner to a renter.



I would like to know if you agree with the professor from the University of Toronto. According to him, it isn't that we can't afford to carry out a project or build an infrastructure; it's that we are deciding to do it on credit by giving a profit to a private company that has a guarantee for investment and profitability over a very long period of time, which is really quite advantageous for them. We are talking here about a guaranteed contract over 25, 30 or 50 years. The loan does not appear on the municipality's books and, so, it never goes into debt, but in fact becomes a very long-term tenant.

Do you think that is a good way to use public funds?

[English]

**Mr. Bert Clark:** I'm happy to see the discussion has moved away from the concept that P3s are about financing and accessing sources of capital, that the government can't afford to do things, so the private sector is going to do them. We're still paying for the hospitals we're building. We're paying for them over a longer period of time.

The truth is we couldn't afford to deliver them the way we were previously delivering them. There's no question that financing costs are embedded, and involving the private sector has a cost. The track record of the government in delivering projects in the traditional fashion was something we couldn't afford to do. When IO was created, there was a project in Sudbury, a hospital shell sitting vacant, no skin on it, with the wind blowing through it. It had been stopped because they had run out of money; the budget had been blown. It was not the only example. They were looking into what happened in Thunder Bay and in Peterborough. Private finance won't put up the money for free, but they take risks that we were not managing well, and that frankly we couldn't afford to manage.

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

I'm sorry to interrupt you. I'm just trying to manage our time.

Thank you, Mr. Boulerice.

Next, from the Conservatives, Mr. Costas Menegakis.

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

A big thank you to our witnesses for appearing before us today. I certainly found your testimony very interesting.

My first question is for you, Mr. Clark. In order to realize some of the benefits of the expertise and innovation that the private sector brings to the table, we need to provide opportunities for Canadian investors.

In your opinion, how can we increase opportunities for Canadian investors to participate in P3 projects?

● (1025)

**Mr. Bert Clark:** As you know, the Canadian pension funds are some of the biggest investors globally in infrastructure. They're being imitated by others, so CPP, OMERS, and the teachers are leaders in infrastructure investment. That's at the equity level.

From a debt perspective, those institutions and the life insurance companies are large investors in Canadian infrastructure projects. There are life insurance companies for the long-term...and Canadian banks for the shorter-term financing are the largest investors in Canadian infrastructure. Indirectly, the ones who are benefiting from

it are Canadians, to the extent that they hold insurance policies through Sun Life, Manulife, etc.

One of the very interesting things that's happened is there's been a whole growth of domestic Canadian infrastructure funds, companies like Forum, Fengate, and others that are domestic and are sourcing money from smaller pension funds to invest in Canadian infrastructure funds. In fact, they're now looking abroad in the same way that the larger Canadian pension funds are also scouring the earth for opportunities.

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

My next question is for you, Your Worship.

Thank you for being here with us today. It's a privilege for us to have the chief executive of one of Canada's largest and most beautiful cities. I represent the town of Richmond Hill, arguably the biggest, nicest, most beautiful town in Canada.

I was very interested to hear from you and to read in your submission that you consider P3s a phenomenal tool in the tool chest for municipalities. You referred to the transparency.

Could you share with us the measures taken by your administration in disclosing information to enhance transparency and effectiveness.

**Mr. Sam Katz:** It would be my pleasure.

We all know that making sure that objective third parties are involved in the value-for-money analysis is paramount, as well as ensuring transparency.

We will put everything, other than the proprietary information that companies have access to, on the website to make sure that any citizen can access the information. I don't know how more transparent one can be than just putting it out there for the public. As I say, the exception is proprietary information, and I think anybody would understand that. To me, this is as open as you can possibly be.

**Mr. Costas Menegakis:** What are your thoughts on adding new rules to P3s, such as mandatory public consultations?

**Mr. Sam Katz:** I don't have a problem with public consultation. What I will tell you is that one of the advantages—and I think you heard it from the other speakers here today—is that P3s have the ability to move at a faster pace. The longer you draw out the process, the more negative the impact upon the value for money; I can tell you that right now.

If there are all sorts of bureaucratic hurdles.... I'm going through this right now; our provincial government is looking to do this. It's something that I, of course, am opposed to. I'm involved in it right now, and only because the narrower you make that value for money, the less likely and the more expensive you make getting to the finish line. That's exactly what would be accomplished.

From my point of view, we have public consultation. At any civic government, you can't have any more public consultation. It goes through two committees; it goes through executive policy committee, which is open to all the public; it then comes to the floor of council, where everybody can appear as a delegation and have five or ten minutes to speak their mind. It's pretty open to the public as is, to be very frank with you.

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

Mr. Clark, Infrastructure Ontario highlights transparency and accountability as key principles for project delivery. Can you share with us some of your practices with respect to transparency?

**Mr. Bert Clark:** We have practices similar to those of the mayor. We're constantly updating the market and the public through press releases. Our value-for-money reports are posted on our website. RFP and project documents are also posted on our website. We have a constant stream of information.

• (1030)

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

**The Chair:** Thank you, Costas.

Next is Denis Blanchette, for the NDP.

You have five minutes, Denis.

[Translation]

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

I would like to thank the witnesses for being here.

My first few questions are for Mr. Katz.

When we carry out projects, whether they use the traditional model or a P3, we usually use the same entrepreneurs. For example, there is the project to extend the Chief Peguis Trail. You are a municipal manager. In your opinion, why would this project be completed one year ahead of schedule and cost less in a P3, when you would use the same entrepreneur, whether it is a traditional model or a P3? I would like you to explain that to me. Does it have to do with contract management?

[English]

**Mr. Sam Katz:** It really has to do with who is responsible. We call it having skin in the game. In the situation of a P3, someone is putting in their own money, and they basically get rewarded by doing the job as efficiently and as quickly as possible.

I think we can all agree that very seldom have we heard of a project that was one year ahead of schedule. They marvelled at it; it was perfect—it came in on time.

It's a matter of motivating.

I've seen many projects in our city and other cities that have come in done the standard way. I'll give you an example in the City of

Winnipeg. The floodway in the province of Manitoba came in \$135 million over budget. It was done the standard way.

The reality is that you've eliminated any responsibility for the taxpayer to have to pay for any overages; that's what this is all about. Over and over again we hear of projects coming in, almost always in the public sector, that are those kinds of dollars over budget. You don't see that very often in the private sector, because no one else could possibly pay those kinds of bills.

The reality is that if you have the right people doing the job and they have their own investment, which they do, their reputation is on the line. But their money is on the line as well. That's how they get this done. And they get it done—I've given you real examples of successes.

[Translation]

**Mr. Denis Blanchette:** Another thing is important when you are a municipal administrator, like any other public administrator, and that is financial resources left over, whether it is a P3 or a traditional model. In fact, you have long-term financial obligations in any event.

Has the City of Winnipeg evaluated its long-term financial obligations after carrying out its projects using P3, taking into account public loans to finance its projects? What is the financial availability in 25 years if you continue in this direction? Is it better or worse? Have you made any projections?

[English]

**Mr. Sam Katz:** First of all, as I mentioned right in the beginning, it's important to do your due diligence. What we did from day one is we put a cap on how much money the City of Winnipeg can allocate towards P3s. We will only allocate 20% of our capital funds. We can only go to a certain point, and we stop at that particular point so we won't get in over our heads.

Just to clarify, when you are making payments, that is debt. Let's not say anything other than that. It's definitely debt; it's debt over a long period of time. Just recently we actually financed our own project of fire and paramedic stations with CMHC. That is debt as well. A P3 is debt. What we've done is we've capped the amount of money we will direct towards these payments of P3s.

[Translation]

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

My next question is for Mr. Clark.

You gave some examples of hospitals. There was a case where things did not go well using the traditional model and, all of a sudden, by adopting the P3 model, everything went well. In the traditional model, was there not a problem at the outset with contract management or contract issuance? Was the problem not in how the contracts were drafted and negotiated and not something else?

• (1035)

[English]

**Mr. Bert Clark:** I guess I'd say yes, there was a problem, in that they didn't transfer the risk the way a P3 does. In some ways we're making this distinction as if they're completely different beasts. They are different contracts, so yes, there was a problem.

I think there's also a problem of incentives. Under the traditional delivery model there isn't an incentive for a contractor to try to get the job done a year earlier or to contain costs. When they bid a precise schedule and they borrow money to do that, and they have banks or life insurance companies watching the project, there's a strong incentive for them to get the project done as quickly as possible and to hand it over to the public sector.

**The Chair:** Thank you very much.

Thank you, Mr. Clark.

Next, for the Conservatives, also from quite a pretty spot in Canada, Mr. Ron Cannan.

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

To our honoured guests, and especially, Your Worship, yes, from the beautiful community of Kelowna—Lake Country in the Okanagan Valley.... I had the pleasure of serving nine years on city council.

Your Worship, I actually had a good meeting with our Mayor Gray on Friday, and I know that as a mayor you show great leadership. The City of Kelowna, when I was on council, actually was a leader in P3s. RG Properties developed an arena, about a 6,000-seat venue. They received the Canadian Council for Public-Private Partnerships' gold award for infrastructure. I know that one of the issues is working through this whole process. You have two years into your fourth term, so congratulations for all the great things you've done for your community.

In your opening comments you talked about the need for infrastructure. We've had FCM here reporting to the committee, and we're working with FCM on long-term infrastructure to supplement the 2014 Building Canada fund, because I know only 8¢ of the dollar goes to local governments. We have the \$2 billion gas tax. Long-term, predictable, stable funding is very important for local governments.

As you work on your capital plan going forward, I just want to ask you to further expand.... In your comments you mentioned P3s are like an insurance policy: a premium is paid and the risk is transferred. When you do that risk analysis and the value-for-money analysis, what do you determine to ensure that P3 is the right choice for that project?

**Mr. Sam Katz:** First of all, I think you've hit the nail on the head: this is all about value for money. To be very frank with you, it's not the elected officials who are the experts in determining how to calculate the value for money. We obviously retain the expertise and they come in and assess the entire project. They come up with the numbers for value for money.

I have to be very frank with you. I'm not going to speak for other municipalities, but we're in a crisis situation when it comes to our infrastructure. At some point in time—and only because you mentioned this, because I wasn't going to say it—when 8¢ goes to a municipality, 65¢ of every tax dollar collected goes to the provincial government, and 27¢ goes to the federal government, and yet on many of these programs we're expected to match and maintain our aging infrastructure, it's impossible. We're going to dig ourselves such a hole that my great-grandchildren will not get out of it. When

you see a tool such as P3s, which can help you solve some of your problems—it can't solve all your problems.

But to answer your question specifically, I do not do the calculations. We usually go to outside accounting firms and get fair, objective, and complete analysis of this. I don't want to give you an answer that I'm not an expert on.

**Hon. Ron Cannan:** Thank you very much for your frank comments. I agree. There's only one taxpayer, and we need to work together.

I'm going to share my time with Ms. Block, but before I pass the mike over, here is one question for our friends from the Ontario government.

In your long-term infrastructure plan, the recommendation to the federal government is to promote the wider use of AFPs across federal infrastructure funding programs and jurisdictions, when appropriate, through strong incentives.

Could you clarify what you mean by appropriate, and what kinds of incentives are you thinking of?

• (1040)

**Mr. Drew Fagan:** Obviously the federal government, in thinking through this, will want to be more specific with regard to it.

Our experience at the provincial level has been essentially through the plan we released last year to set up a P3 screen, if you like—an AFP screen—so that all projects over a certain size are screened for whether or not there's value for money in pursuing the AFP model.

In Ontario, our experience was that we started in the AFP area with respect to social infrastructure. We have now moved into transportation, and now we're moving into agencies, such as colleges, with regard to AFP delivery.

The P3 Canada Fund was obviously a big step forward with regard to delivery of AFPs, but it's a dedicated fund. I think our recommendation in the submission was to broaden it, to look more broadly at where AFP can provide value potentially across the system.

**The Chair:** Thank you.

There is just about one minute, Kelly. I'm sorry.

**Mrs. Kelly Block:** I will make this very quick.

I have the privilege of hailing from the Paris of the prairies.

**An hon. member:** Oh, oh!

**Mrs. Kelly Block:** I had to mention that. I also served on council and was the mayor of probably one of the prettiest towns in Saskatchewan.

One of the questions I have may be for Mr. Clark or Mr. Fagan. It has to do with smaller municipalities. The town I was mayor of had about 1,000 people, so I was somewhat disappointed to hear what the threshold is for accessing P3 funding or entering into that kind of partnership.

I'm wondering whether you see the administrative costs of a P3 decreasing and their becoming more viable for smaller municipalities in the future.

**Mr. Drew Fagan:** Infrastructure Ontario in fact has been reaching out at the municipal level. I mentioned agencies at the provincial level. We've also been working with Waterloo region and the City of Ottawa with delivery of their transit projects.

One of the other matters that we mention in the submission to the federal government is perhaps providing seed money for municipalities to better understand the benefits of P3s, which can be complicated transactions. As we work with larger municipalities, we want to move towards mid-size municipalities as well, where there may be value for money, including through bundling projects.

We've been working with municipalities on various things, such as improving asset management and improving the understanding of P3s. We would encourage the federal government to do so, and we mention that specifically in the submission.

**Mrs. Kelly Block:** Thank you.

**The Chair:** Thank you, Kelly. That was a good use of your minute.

Next, for the Liberals, is John McCallum.

You have five minutes, John.

**Hon. John McCallum:** Thank you, and thank you to all the witnesses for being here.

Since we're all mentioning our towns, Markham may or may not be the most beautiful, but it's certainly the newest city in Canada. We became a city on July 1, having been a town of more than 300,000 people before that. It's also Canada's most diverse community.

Now, collectively, you make a very strong case for P3s. I'm not saying I disagree with you, but I do have one question.

I think you might have heard the tail end of Professor Siemiatycki's presentation when you first came in—some of you. He studied, I think it was, 28 Ontario P3s valued at \$7 billion. He found, on average, that it was 16% less expensive to use the traditional model. I imagine that's largely because of interest rates or financing costs. He said there was a risk premium of 49%, but he was unable, in his research, to find out what was driving that big number.

My reaction was, first of all, do you agree with his analysis? This is to Mr. Clark. Second, 49% seems a big number. Third, a lot of these projects probably came under your office. Is there some way we could get to the bottom of what drives this number of 49%?

**Mr. Bert Clark:** I haven't actually looked at his analysis, so I don't want to comment on it specifically. As I said in my remarks, every one of our projects has been looked at generally by an accounting firm to confirm the way we've looked at it and that there is value for money. It is correct that the heart of the rationale for

public-private partnerships is the risk transfer. That is a difficult thing to get your hands on and to get your fingers into.

What we've done to calculate that is hire experts in cost consulting, people who have many years of experience delivering projects traditionally, for the private sector, for the public sector, and who also have experience with public-private partnerships. And they've developed very comprehensive risk matrices for us that put a value on the sorts of risks that are transferred in the context of a P3.

• (1045)

**Hon. John McCallum:** Okay. But if you say you want to be clear and transparent, and if university researchers or committees such as ours cannot find out what is driving this, because the information is private and we don't have access to it...

**Mr. Bert Clark:** I'm not sure our risk matrix is private. I'm not sure we'd have an issue sharing that.

**Hon. John McCallum:** Well, if you could, I would certainly like to see it.

**Mr. Bert Clark:** Okay.

**Hon. John McCallum:** There's also been the suggestion—and I'd like the mayor to comment on this, too. I'm not criticizing or attacking anybody. There has been the suggestion that the people doing this analysis are somehow inherently committed to P3s and perhaps less objective than they might be. For example, your organization only does P3s. Is that right?

**Mr. Bert Clark:** No, that's not right. We manage the real estate portfolio on behalf of the province. Lots of those projects are traditional. We have a mandate to deliver commercial transactions, the bulk of which would be P3s.

**Hon. John McCallum:** Let me put the question neutrally. Are you convinced of the objectivity of the third parties who do your value-for-money calculations?

It's to the mayor and to Mr. Clark.

**Mr. Bert Clark:** I absolutely am. Infrastructure Ontario was set up to do just that, to make sure this method of delivering projects was used only in appropriate circumstances. We have a board of private citizens to whom we have to bring this analysis before we proceed with any RFQ. They take that very seriously. So yes, at multiple points along the way, there's a serious discussion about it.

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

**Mr. Sam Katz:** First of all, I would love for the professor to study the Winnipeg projects. That's number one. I welcome him to come and study them.

Number two, I have seen situations where you will have.... Do I believe that everybody is giving you a fair, objective opinion? Yes, because the reality is that they have a duty to do that. They're professionals. Whether you're a lawyer or a CA, lawyers swear an oath and CAs also have someone to answer to. I can give you the exact opposite. A professor at one of our universities, who was retained by the provincial government, has said the same thing; maybe they're in a conflict because now they're working for the government and then saying something, because they're supposed to be objective.... Everybody has an opinion. Nobody's opinion is wrong, so let's just deal with the facts.

I think you said 16% they thought...? I am willing to bet that when they do that analysis.... Here's the key thing: the savings are not in just the construction. That's just part of it, okay? The true savings are in the maintenance.

I'd challenge anybody who has come from any of these beautiful cities to go to their city and show me a road, a bridge, or a public facility that has been properly maintained and that doesn't have deferred maintenance or, worse yet, is crumbling. Just last month we had to close down a City of Winnipeg parkade because of deferred maintenance. They're not being maintained.

The easiest thing in the world is to build something. The hard part is maintaining it so that it doesn't fall apart. That's what I believe the professor is missing.

**The Chair:** Thank you very much.

Thank you, John.

**Hon. John McCallum:** Could I repeat that it would be really helpful if Mr. Clark could provide us some information on this risk model to let us see into this black box a little bit?

**The Chair:** Yes, I think that's in order.

The committee would like to request that you table risk analysis documents along the lines of what Mr. McCallum is asking for, Mr. Clark.

I believe the same question could be put to Mayor Katz for some information on the modelling and the methodology used, to add veracity to the claims that there will be savings of \$31 million and \$48 million in the two infrastructure projects mentioned in his testimony.

Having asked for that in a reasonable amount of time, I think the committee would look forward to documentation along those lines to help us in our deliberation, which ultimately is to be able to recommend to the public of Canada whether or not it's a cost saving to use public-private partnerships. That's really the subject of our study.

We're well over time. I'm going to have to adjourn this meeting as committee members have to get to their next committee meetings. We thank the witnesses very much for their very valuable testimony.

Your Worship, Mayor Katz, Deputy Minister Fagan, and Mr. Bert Clark, thank you very much.

The meeting is adjourned.

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