



October 23, 2014

339300  
FILE No.: 022157

Confidential

Honourable Michael de Jong, Q.C.  
Room 153 Parliament Buildings  
PO Box 9048 Stn Prov Govt  
Victoria BC V8W 9E2

Dear Honourable Minister:

Internal Audit & Advisory Services recently undertook a review of Partnerships BC, a Crown corporation, and identified nine recommendations to improve effectiveness in the delivery of affordable, performance-based infrastructure in the Province. Please find enclosed a copy of their report and a summary of the issues and recommendations identified. The Executive Steering Committee comprised of government and industry members would like to acknowledge the work of the audit team and the committee's support for the recommendations proposed in the Partnerships BC Review.

Issues identified in the report included the screening threshold for capital projects, the perception that Partnerships BC is competing with the private sector and the need to clarify roles and strengthen decision making on projects. To address these, and the other issues identified, the committee reviewed the report to determine what additional observations or recommendations would be appropriately provided to the Minister in support of the Partnerships BC Review.

In this regard, the committee considered the possible organizational delivery model options for the services currently provided by Partnerships BC. Options identified in the Partnerships BC Review and examined by the committee included:

- Centralizing the function within a ministry;
- Private sector delivery of all these services;
- Continuing with the current Crown corporation model; or
- Combination of these approaches to best address particular roles.

After examining each of the services, it is the opinion of the Steering Committee that a combination approach provides the optimal balance between safeguarding government's interests in certain key roles and utilizing the private sector where it can provide greater value and expertise.

.../2

Also, the retention of a smaller service delivery crown, while slightly more expensive than centralizing the function in a Ministry, provides for continued innovation, and the greatest flexibility in retention of key knowledge and skills which provide strategic value in the management of large and complex public infrastructure projects. In this regard the committee recommends that Partnerships BC continue as a service delivery crown with the following key changes:

- To ensure the determination of work directed to Partnerships BC is unbiased, it is recommended that the initial screening of all new capital projects for P3 viability be conducted by the Ministry of Finance under the direction of the Deputy Minister;
- Given the significant resources required by both the public sector and private sector to participate in a P3 procurement process, it is recommended that the preliminary threshold identified in the capital asset management framework for P3 screening be increased from the current \$50 million to \$100 million;
- Given the complexity of the P3 procurement approach and the significant experience and expertise the public sector has built within Partnerships BC, it is recommended that P3 business cases and procurements for the British Columbia public sector continue to be provided solely by Partnerships BC. However, it should be emphasized that Partnerships BC performs these services for and under the direction of the project owner and is accountable to the project owner;
- For all new capital projects procured through methods other than P3's, such as design-bid-build and design-build projects, it is recommended that the optimal method of resourcing the project be utilized. While the committee contemplated a financial threshold where by all public sector projects over \$50 or \$100 million would be resourced by Partnerships BC under the direction of the project owner, the committee determined after much discussion that a broader set of considerations would be more appropriate. The optimal method of resourcing the project should give consideration to the complexity, size, scope, and strategic importance of the project. In addition it should weigh the elements of:
  - The demonstrated capacity and experience of both the project owner and industry to deliver the business case or capital procurement management services;
  - The project owner's history and capability to ensure the reliable and effective management of the capital procurement;
  - The best value for the Province of British Columbia;

- To maintain the reliability and credibility of the resulting analysis, it is recommended that the independent verification of key factors in P3 business case and comparator modelling by the Ministry of Finance be reinforced with project owners and Partnerships BC;
- It is recommended that Partnerships BC continue to provide expertise in capital project governance for all major infrastructure projects, including participation in project boards, providing best practices, support, tools, and templates to project owners; and
- It is recommended that Partnerships BC continue to provide a center of expertise, knowledge, tools, and advice to government and public sector entities in regard to infrastructure procurement and capital project management. Given the limited frequency with which some public sector organizations engage in capital infrastructure procurement and project management and the varying capacity of public sector organizations, there is value in retaining a small center of expertise within the provincial government. This would promote consistent practices that provide disciplined, reliable, transparent, and quality capital infrastructure procurement and project management processes.

The committee also considered the role of Partnerships BC in work outside of the Government of British Columbia and the BC Public Sector. The discussions of the committee included consideration of Partnerships BC's expertise, the need for Partnerships BC to have access to sufficient work to sustain the organization in times of fluctuating public sector demand, the extent of opportunities in other jurisdictions, the potential for competition with industry, and the opportunity for greater engagement and partnership between Partnerships BC and industry in responding to opportunities in other jurisdictions. In this regard the committee offers these additional recommendations while recognizing that the private sector also provides a number of these services:

- For local government and associated entities within BC, allowing Partnerships BC to provide services only through direct invitation (on a government to government basis) provided there is a positive return to the Crown corporation. In deciding to take on this work Partnerships BC should give consideration to the amount of local government work they may be undertaking and give due regard to the capacity of the BC industry to deliver the services required;
- For the Federal Government and other Canadian jurisdictions allowing Partnerships BC to submit proposals and enter into agreements to provide all services provided there is a positive financial return to the Crown corporation;
- For jurisdictions outside of Canada, allowing Partnerships BC to respond to direct invitations and submit competitive proposals on P3 projects provided there is a positive return to the Crown corporation and with the approval of the Minister of Finance;

- Partnerships BC should be encouraged to work with the British Columbia industry and partner with industry where there is capacity and opportunity to partner and promote British Columbia industry when working with other jurisdictions.

While not within the purview of Partnerships BC, concern regarding the bundling of projects was raised by some stakeholders during the conduct of the review. While there is a level of bundling that may be reasonably expected to generate financial value to the public sector organization, such as the bundling of maintenance with the construction of the asset, caution was raised about the impact or implications of broad based bundling of like type facilities in different geographical locations or seemingly non-related services. Beyond the financial value, the committee's primary considerations were to the capacity of industry to respond to these larger or very diverse bundles and the implication for the businesses that have historically functioned in these smaller segments of business. Given these considerations, the committee recommends that government strongly restrict the use of bundling and provide clear guidance on what is considered acceptable bundling. It should be noted that some committee members would have preferred to have recommended a complete restriction on bundling and therefore this recommendation reflects a compromise reached by the steering committee.

For your convenience please find attached a table summarizing the committee's recommendations on delivery model changes.

The committee would like to thank the Minister of Finance for the opportunity to participate in the review of Partnerships BC. The process has been informative and we believe the recommendations will provide value and help to position the organization and government for continued success.

Sincerely,



Peter Milburn  
Chair, Executive Steering Committee

Enclosures

## Executive Steering Committee's Recommendations on Delivery Model Changes

Role or Area of Responsibility	Level of Agreement
Initial screening for P3 viability by the Deputy Minister of Finance.	Fully Agreed
Increasing the threshold for P3 projects from \$50 million to \$100 million.	Fully Agreed
PBC to conduct business case development and procurement management for P3s.	Fully Agreed
<p>PBC may conduct business case development and procurement management for DBB and DB projects. Allow BC provincial government entities to utilize the optimal method of resourcing these services for each project by assessing the complexity, size, scope and the strategic importance of the project, in addition to consideration of the following elements:</p> <ul style="list-style-type: none"> <li>• The demonstrated capacity and experience of both the project owner and industry to deliver the business case or capital procurement management services;</li> <li>• The project owner's history and capability to ensure the reliable and effective management of the capital procurement; and</li> <li>• The best value for the Province of British Columbia.</li> </ul> <p>Options for resourcing these services would depend on the outcome of the assessment and include:</p> <ul style="list-style-type: none"> <li>• Use internal resources;</li> <li>• Contract with PBC; or</li> <li>• Contract with the private sector.</li> </ul>	<p>Fully Agreed</p> <p>The committee determined that a simple financial threshold of project size was not sufficient and agree the use of multiple criteria for determining the optimal method of resourcing this project work was more appropriate. Initial financial thresholds discussed by the committee were as follows:</p> <ul style="list-style-type: none"> <li>• Industry wanted to see PBC's threshold for services for DBB and DB projects raised to a project value of \$100 million or higher.</li> <li>• Government wanted to retain the flexibility to have PBC work on any projects over \$50 million or those of defined strategic importance.</li> </ul>
Independent verification of key factors in P3 business case and comparator modelling by the Ministry of Finance.	Fully Agreed
PBC to continue in a governance role for all major infrastructure projects (project boards, etc).	Fully Agreed

Role or Area of Responsibility	Level of Agreement
Changes regarding PBC's work outside of the BC government include:	
<ul style="list-style-type: none"> <li>For local government and associated entities within BC allowing PBC to provide services only through direct invitation for projects exceeding \$50 million.</li> </ul>	<p>Fully Agreed</p> <ul style="list-style-type: none"> <li>Industry wanted work opportunities limited and threshold raised.</li> <li>Government wanted to ensure PBC has sufficient work to remain a financially viable organization.</li> </ul>
<ul style="list-style-type: none"> <li>For the Federal Government and other Canadian jurisdictions allowing PBC to enter into agreement for all services.</li> </ul>	Fully Agreed
<ul style="list-style-type: none"> <li>For jurisdictions outside of Canada, PBC can submit proposals and enter into agreements where the Minister of Finance has granted approval.</li> </ul>	Fully Agreed
For all of the services outside of the BC Government entity the project must deliver a positive net return to PBC and not impede their ability to provide core services to the government.	Fully Agreed
Use of bundling by the province should be eliminated or strongly restricted (based on considerations of geographic proximity, time, value for money, and the capacity of local industry to respond).	Fully Agreed

Status of discussion of the Steering Committee: Recommendations are fully agreed by all members of the Executive Steering Committee. There is recognition that the private sector also provides most of these services and the intent of the recommendations are to balance the opportunities to the private sector while ensuring the government retains sufficient internal strategic capacity necessary for these very important and complex capital infrastructure decisions and that Partnerships BC remains a financially viable organization providing the strategic support to the Government and BC public sector.