

Review of Partnerships BC



**INTERNAL AUDIT
AND ADVISORY SERVICES**



**Ministry of
Finance**

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Abbreviations

AVP	Assistant Vice President
BC	British Columbia
CEO	Chief Executive Officer
CPO	Chief Project Officer
DB	Design-Build
DBB	Design-Bid-Build
GLE	Government Letter of Expectations
government	Government of British Columbia
IAAS	Internal Audit and Advisory Services
P3	Public-Private Partnership
PBC	Partnerships BC
project owner	the ministry or agency accountable for the project
PSEC	Public Sector Employers' Council
RFP	Request for Proposals
RFQ	Request for Qualifications
TB	Treasury Board
VP	Vice President

Executive Summary

Partnerships BC is a Crown corporation created in 2002 to support the Government of British Columbia's commitment to sound fiscal management in the delivery of affordable, performance-based infrastructure. The organization's clients include public sector ministries and agencies across all levels of government. Partnerships BC provides services ranging from business case development and procurement management to advisory services during the design, construction and operations of capital assets.

Between 2003 and 2013, the Government of British Columbia's (government) annual capital expenditure increased significantly from \$2.9 billion to \$6 billion. It is anticipated that annual capital expenditure in British Columbia will drop to approximately \$5.3 billion by 2016/17. Partnerships BC has participated in more than 40 capital projects with a combined capital cost in excess of \$17 billion, with individual projects ranging in value from \$15 million to \$2.5 billion. These projects, delivered primarily through Public-Private Partnerships, include Canada Line, Sea-to-Sky Highway and the Fort St. John Hospital and Residential Care Facility.

A Public-Private Partnership (P3) is a contract with a private partner who will potentially provide services, such as design, build, finance, maintain, or operate the asset over the length of the contract (typically 30 years). Partnerships BC's mandate has expanded from promoting and implementing P3s to supporting partnership solutions which also includes projects with multiple procurement types as well as Design-Build projects. Design-Build projects are financed by government and designed and built by the private sector. A partnership solution is a cooperative venture between the public and private sectors which includes P3s and Design-Build projects.

In keeping with the government's commitment to review all Crown corporations, Internal Audit and Advisory Services undertook a review of Partnerships BC to evaluate its effectiveness in facilitating and delivering P3s and other partnership solutions in British Columbia. Working with an Executive Steering Committee, Internal Audit and Advisory Services evaluated Partnerships BC's governance, mandate, roles and delivery model, performance, contracting practices, operating costs and value for money in partnership solutions.

Partnerships BC is fulfilling its mandate to promote and implement P3s and other partnership solutions. However, since some of the services Partnerships BC currently delivers can also be provided by the private sector, government should determine the most effective provider for each service.

Partnerships BC has designed a process to help ensure that a consistent approach is taken in assessing value for money. However, there are opportunities to strengthen decision making and increase transparency.

Compensation and operating expenses appear reasonable and generally consistent with government direction.

Stakeholder
Concerns

Some stakeholders shared their views of Partnerships BC and the government's delivery of large capital projects. Although they were complimentary of the knowledge and skills of the staff at Partnerships BC, they did express some concerns.

These concerns were considered during this review and are discussed in greater detail in the relevant sections of the report.

Government policy requires Partnerships BC to screen all provincially-funded capital projects, with a value of \$50 million or more, using P3 as the preferred procurement methodology unless there are compelling reasons to do otherwise. Stakeholders believe that this threshold needs to be raised to ensure greater cost/benefit returns on these complex and costly projects.

There is a concern that Partnerships BC is potentially biased towards certain procurement methodologies because it is mandated to be both a self-sustaining organization and an advisor to government. This creates the perception that Partnerships BC's advice may be biased towards revenue generating opportunities for the organization. Another concern is the perception that Partnerships BC is competing with the private sector to provide services to government.

Stakeholders also suggested that, considering the maturity of the market, Partnerships BC should focus more on helping communities understand the benefits of using the P3 procurement methodology for particular projects in their area, rather than promoting P3s generally.

Some stakeholders expressed concern about Partnerships BC's involvement in Design-Builds and that government is adopting the Design-Build procurement methodology as its standard, potentially impacting the local economy, particularly small and medium size businesses. Government uses Design-Build methodology where it is thought to offer innovation, design efficiencies and/or cost savings.

Some stakeholders also feel that the government seems to favour the practice of bundling several smaller projects into a single large contract, which makes it very difficult for small and medium sized local contractors to bid on these projects. Bundling was not found to have been a common practice nor has there been any government direction to bundle projects.

Mandate

Partnerships BC's mandate as directed by the government, to promote and implement P3s and other partnership solutions, is clear and being fulfilled. Government's direction to Partnerships BC is communicated through a Government Letter of Expectations, and through the approval of their Annual Service Plan. While not widely understood, the mandate is clear and has been fulfilled by Partnerships BC.

As part of its mandate, Partnerships BC is required to screen all provincially-funded capital projects, with a value of over \$50 million, using P3 as the preferred procurement methodology unless there are compelling reasons to do otherwise. Given the stakeholders' concerns, the government should consider evaluating the screening threshold for capital projects.

Government has directed Partnerships BC to be a self-sufficient organization and is encouraged to seek a "diverse client base" to achieve this objective. As a result, Partnerships BC conducts some projects with other levels of government and in other jurisdictions.

Roles and
Delivery Model

Given governments' core services review and concerns expressed by stakeholders, there is an opportunity to re-evaluate the model through which Partnerships BC currently delivers services. Government could consider centralization in a ministry, continuing with a Crown corporation, privatization or a combination of these approaches to best address particular roles. It should be noted that there are benefits to retaining some or all of the services within a Crown corporation even though the costs are incrementally higher than a model centralized within government. These benefits include board oversight and private sector expertise, as well as the potential for improved flexibility, innovation and risk taking. These services can be considered independently from each other when deciding on the most appropriate delivery model.

Key factors to consider in selecting the best alternative include determining who is best able to provide each service while achieving value, protecting government's interests, and effectively managing risks, costs and resources. Other considerations include maintaining consistency of approach and incorporating lessons learned from each project, as well as addressing stakeholder concerns regarding Partnerships BC's potential bias towards procurement methodologies that create opportunities for PBC to earn revenue.

Future workload demands are currently forecasted by Partnerships BC to decline and should be considered along with the delivery model and roles, in determining appropriate staffing levels.

Partnerships BC performs various roles in the delivery of capital projects. These can include:

- **P3 Promotion** – encourages and supports the development of British Columbia's P3 market.
- **Programming Advice** – provides government with ongoing advice on its capital asset management program and recommendations on procurement of infrastructure.
- **Business Case Development** – conducts the procurement options analysis and assists in writing of business cases.
- **Procurement Management** – coordinates the bidding process, assists with the evaluation of qualified proponents and prepares contract documents.
- **Project Governance** – helps ensure that good project discipline is maintained and government's interests are protected.
- **Project Management** – ensures that the project is completed on budget, on schedule and within scope.
- **Contract Management** – advises the ministry or agency accountable for the project (project owner) during the construction and post-construction phases of a project.

Given the stakeholders' concerns, the government should determine the appropriate delivery model for each of the services that Partnerships BC provides.

Evaluating Value for Money

Value for money is a key factor in determining the optimal procurement methodology under which a potential capital project should proceed. In the sample of projects reviewed, the business case phase value for money ranged from 1.8% to 13.5%, and increased to 2.5% to 22.7% when the project agreement was signed at the end of the procurement phase.

A business case, comprised of qualitative and quantitative assessments, compares the proposed solution against a benchmark to determine the value for money. Partnerships BC and project owners should use the most likely alternative as the benchmark to ensure that value for money is correctly stated.

A sensitivity analysis that shows how changes in the assumptions can affect the results is not always included in submissions to Treasury Board. Project owners and Partnerships BC should ensure that complete information is provided to Treasury Board in order to strengthen decision making. Given the inherent uncertainty in the assumptions made in evaluating these projects, at least one jurisdiction in Canada has set a minimum value for money threshold to go forward as a P3 and government could consider doing the same.

The business case includes a summary of the analysis; however, some project owners found this information difficult to understand which could negatively impact the acceptance of the proposed solution. Partnerships BC should increase transparency by ensuring that project owners fully understand the analysis and its assumptions. Further, the government should consider reinforcing to project owners that they are accountable for their projects.

Partnerships BC has developed a framework to help ensure that a consistent approach is followed by using guidance documents and standard templates. In following this framework, Partnerships BC collaborates with subject matter experts. Risk Management Branch and Provincial Treasury staff may be consulted, but are not formally involved. Project owners and Partnerships BC should strengthen decision-making by ensuring that appropriate government agencies are formally involved.

Governance and Organizational Structure

Board membership consists of six directors with diverse public and private sector experience, ranging from project management to financing. Board members have clearly defined roles and responsibilities.

At the direction of government, the board reviews all business cases that Partnerships BC has developed and makes recommendations to the clients regarding the best procurement method.

From October 2010 to February 2014, the position of board chair was held by the former Chief Executive Officer of Partnerships BC. A contract was approved by the board to enable him to provide professional services to Partnerships BC from October 2010 onwards. While the conflict of interest issue appears to have been generally well managed, there could be the perception by some stakeholders that the contractor role still conflicts with the board chair's role of providing independent oversight. The government should consider reinforcing the conflict of interest guidelines for board members of Crown corporations and government agencies and ensure that those guidelines are consistently applied.

Partnerships BC employs approximately thirty-five full time equivalent employees and six contractors, including an eleven member management team consisting of the Chief Executive Officer, vice presidents and assistant vice presidents. Of the eleven member management team, six are dedicated to projects providing sector specific expertise.

Performance

Partnerships BC has established internal processes that allow for the sharing of lessons learned and best practices. These processes include cross project coordination meetings, staff workshops, reviewing and updating document templates, and peer review processes. In 2012/13, Partnerships BC started formally assessing past projects to identify areas for improvement and to inform future project work. New performance measures were introduced making them more specific and quantifiable.

Operating Costs

Partnerships BC's expenditures are relatively consistent from year to year. In each of the past five fiscal years, Partnerships BC's actual operating expenses have been below budget, with variances ranging from 5% to 14%.

Partnerships BC's employee compensation plan has been approved by the Public Sector Employers' Council and salaries appear reasonable and are in the mid to high range when compared to other organizations. The organization's employee compensation philosophy tries to balance its employee salaries between broader public sector and industry comparators.

Partnerships BC has a performance pay program for all staff that is being phased out under the new Crown Corporation Executive Compensation Policy dated July 2012.

Other expenses reviewed include travel, meals, meetings, contractor, board and membership dues, with only minor differences between the government's and Partnerships BC's meeting and travel expense policies.

A sample of fourteen consultant and contractor files, representing 23% of total files, was also reviewed. More than half of the contract files reviewed did not contain adequate documentation. Partnerships BC should ensure contractor files have adequate documentation.

* * *

We would like to thank the management and staff of Partnerships BC and other stakeholders who participated and contributed to this review, for their cooperation and assistance.



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Introduction

Partnerships BC (PBC) is a Crown corporation created in 2002 to support the Government of British Columbia's (government) commitment to sound fiscal management in the delivery of affordable, performance-based infrastructure that meets the needs of British Columbians.

PBC's clients include public sector ministries and agencies across all levels of government, both inside and outside British Columbia (BC). PBC provides services ranging from business case development and procurement management to advisory services during the design, construction and operations phases. PBC's objectives are to:

- provide specialized services identifying opportunities for leveraging infrastructure and developing partnership solutions;
- foster a business and policy environment for successful partnerships and related activities by offering a centralized source of procurement knowledge, understanding, expertise and practical experience in these areas; and
- manage an efficient, leading-edge organization that meets or exceeds performance expectations.

Between 2003 and 2013, the annual capital expenditure in BC increased significantly from \$2.9 billion to \$6 billion resulting in the construction of new schools, hospitals, roads, bridges and extensions to the SkyTrain network in Vancouver. It is anticipated that annual capital expenditure in BC will decrease to approximately \$5.3 billion by 2016/17. Since 2003, PBC participated in more than 40 capital projects with a combined capital cost in excess of \$15 billion, with individual projects ranging in value from \$15 million to \$2.5 billion. These include projects such as Canada Line, Sea-to-Sky Highway and the Fort St. John Hospital and Residential Care Facility.

When entering into contracts to construct these facilities, government can choose to enter into separate contracts to design and to build the asset, and then borrow the money where necessary; this is known as a Design-Bid-Build (DBB). Alternatively, government can enter into a longer term contract with a private partner who will potentially design, build, finance, maintain, and operate the asset over the length of the contract (typically 30 years). This option is known as a Public-Private Partnership (P3) and is a cooperative venture between the public and private sectors.

PBC's mandate has expanded from promoting and implementing P3s to supporting partnership solutions, which also includes projects with multiple procurement types, as well as Design-Build (DB) projects. DB projects are financed by government and designed and built by the private sector.

Purpose, Scope and Objectives

In the 2011 Throne speech, the government made a commitment to review all Crown corporations to provide assurance they are being well managed and adhering to their public sector mandates.

In keeping with this commitment, Internal Audit and Advisory Services (IAAS) undertook a review of PBC to evaluate its effectiveness in facilitating and delivering P3s and other partnership solutions in BC.

This review evaluated and, as appropriate, made recommendations with respect to the following:

- whether PBC's mandate is clear, adhered to and aligned with government's strategic direction;
- whether PBC's services compete with or have an impact on the private sector;
- whether value for money (economy, efficiency and effectiveness) is achieved by PBC through the services it offers;
- the effectiveness of financial and operational management, including:
 - governance and organizational structure; and
 - fees charged as well as operating and administrative costs, including employee compensation and incentive programs; and
- other matters identified during the course of the engagement.

The scope of this review did not include a detailed examination of the business case and procurement methodologies, or audits of any projects. However, these processes were reviewed at a high level. The Auditor General of BC has previously reviewed five PBC projects and issued a P3 guide entitled *Understanding Public Private Partnerships*."

Approach

Throughout this review, an Executive Steering Committee received regular updates which included areas of concern identified by IAAS.

The approach included:

- conducting interviews with key management and staff across PBC and related stakeholders;
- reviewing and analyzing legislation and policies;
- researching other jurisdictions and comparable organizations;
- reviewing and analyzing financial and variance reports; and
- reviewing and analyzing other key documentation.

This review was impacted by the limited amount of capital project information available and as a result proxy information and broad indicators were sometimes used.

Overall Conclusion

PBC is fulfilling its mandate to promote and implement partnership solutions. PBC is required to screen all provincially funded capital projects, with a value of \$50 million or more, using P3 as the preferred procurement methodology unless there are compelling reasons to do otherwise. Many stakeholders feel that this threshold is too low and should be increased for better cost/benefit returns.

PBC performs a variety of roles and, as many of these services can also be provided by the private sector, there is the perception by some that PBC is competing with the private sector. PBC is a Crown corporation owned by the government and provides services to it, similar to many other areas of government.

There are alternative models for providing partnership solutions that could be considered and government should determine the most appropriate delivery model for each of the services that PBC currently provides.

Value for money is comprised of both quantitative and qualitative factors. PBC has designed a robust process that uses standard templates and guidelines to help ensure that a consistent approach is taken in assessing these factors. However there are opportunities to strengthen decision making and increase transparency.

Compensation and operating expenses appear reasonable and generally consistent with government policy. Improvements could be made to contactor documentation.

1.0 Stakeholder Concerns

Some PBC stakeholders, including construction industry representatives, ministries and agencies, shared their views and concerns of PBC and government's delivery of large capital projects. Stakeholders were complimentary of the skills and knowledge of PBC staff.

The concerns they expressed are summarized below and also discussed in greater detail in the relevant sections of this report.

Threshold for P3s – The Capital Standard, which is government's policy on capital projects, requires PBC to screen all provincially funded projects with a value of \$50 million or more as potential P3s. Some stakeholders stated that the current threshold is too low and needs to be increased. Stakeholders feel that the cost/benefits of P3 projects are not sufficient at current thresholds.

Private Sector Competition – PBC offers several fee-based services to its clients, including procurement advice, business case development, procurement management and contract management. Some of these services can be provided by the private sector, which has led to concerns that PBC is competing with the private sector.

Promotion of P3s – Some stakeholders suggested that PBC should focus more on communicating the benefits of a particular P3 project to help communities better understand the reasons for using this procurement type.

Potential Bias – PBC is mandated to be both an advisor and service provider to government, and to also be a self-sustaining organization. These multiple roles have created the perception that PBC's advice to government could be biased towards solutions that create opportunities for PBC to earn revenue.

Design-Build Procurement Methodology – Some stakeholders are concerned about PBC's involvement in Design-Builds and that government is adopting the Design-Build procurement methodology as its standard. Concerns were expressed about the impact this could have on the local economy, particularly small and medium size businesses. Government uses Design-Build methodology where it is thought to offer innovation, design efficiencies and/or cost savings.

Bundling – Some stakeholders are concerned that government seems to favour bundling, or combining several smaller projects into a single large contract. The industry states that bundling makes it very difficult for small and medium sized local contractors to bid on these larger projects. With only three bundled projects to date, bundling was not found to be a common practice, nor has there been any government direction to bundle projects.

2.0 Mandate

Government established PBC as a fee-for-service organization with a mandate to promote and create public private partnerships which deliver public services and build public infrastructure in BC. Its mandate has since expanded from promoting and implementing P3s, to partnerships solutions which can include DB contracts. While not widely understood, the mandate is clear and being followed by PBC.

Similar to other Crown corporations, government's direction to PBC is communicated through a Government Letter of Expectations (GLE) and through the approval of PBC's Annual Service Plan. The GLE identifies PBC's accountabilities and specifies the actions government expects PBC to take in order to achieve its mandate. In their Annual Service Plan, PBC reports to government its goals, objectives and strategies which will enable it to fulfil its mandate.

Government and PBC also have a contract that describes the terms and scope of services PBC provides to Treasury Board (TB) and the Ministry of Finance on a no-fee basis.

The Capital Standard directs PBC to review business cases and make recommendations to TB. The Capital Standard initially required PBC to screen all provincially-funded capital projects, with a value of \$20 million or more, using P3 as the preferred procurement methodology unless there were compelling reasons to do otherwise. In 2008, the threshold was increased to \$50 million. Many stakeholders think that the current threshold is too low and needs to be raised to ensure greater cost/benefit returns for all parties given the high cost to bid on and administer these projects.

PBC is mandated to be a self-sufficient organization and is encouraged to seek a "diverse client base" to achieve this objective. As a result, PBC is conducting some projects in other jurisdictions (e.g., Saskatchewan, Oregon) and with other levels of government (e.g., municipal, federal) in order to meet its goal of earning 15% of its revenue from outside government. Actual revenues earned from outside the Government of BC ranged from 11% to 23% over the past five years.

Due to stakeholder concerns that PBC competes with the private sector, PBC is mandated to be "cognizant of its supporting and complementary role in project delivery when private sector alternatives are available".

Recommendation:

- (1) The Government of British Columbia should consider evaluating the screening threshold for capital projects.**

3.0 PBC Roles and Delivery Model

PBC performs various roles in the delivery of capital projects, including:

- promoting P3s;
- advising on potential projects;
- assisting with business case preparation;
- evaluating business cases;
- managing the procurement of successful bidders;
- project management and governance; and
- providing advice on contract management.

PBC performs some roles that are offered by the private sector and this creates the perception by some stakeholders that PBC is competing with the private sector. This perception is reinforced by PBC being a Crown corporation mandated to be self-sufficient and therefore operating on a fee-for-service basis, without any government subsidy.

PBC's clients are primarily ministries and government agencies. PBC's fee-for-service model is similar to other government organizations which charge for their services as a means of managing and allocating limited resources (e.g., legal services).

Given governments' core services review and concerns expressed by stakeholders, there is an opportunity to re-evaluate the model through which PBC currently delivers services. There are alternatives to the current Crown corporation model for providing partnership solutions that could be considered. One option is to centralize this function by assigning it to a ministry, which can then provide these services across government. Other alternatives include having the private sector provide all of these services, continuing with a Crown corporation or a combination of these approaches to best address particular roles. It should be noted that there are benefits to retaining some or all of the services within a Crown corporation even though the costs are incrementally higher than a model centralized within government. These benefits include board oversight and private sector expertise, as well as the potential for improved flexibility, innovation and risk taking. These services can be considered independently from each other when deciding on the most appropriate delivery model.

The following table outlines some of the advantages and disadvantages of each potential delivery alternative, which need to be taken into consideration in selecting the best option.

Table 1 Potential Delivery Model Options

CENTRALIZED WITHIN GOVERNMENT	CROWN CORPORATION (STATUS QUO)	PRIVATE SECTOR MODEL
<ul style="list-style-type: none"> • Better government oversight. • Better alignment with government priorities. • Centralized expertise available to all government ministries/organizations. • Standardized processes, practices, standards and documents used across government. • Potential staff attraction/retention issues (public servants compensated at a lower rate than in the private sector). • Standardized approach to government funded projects. 		<ul style="list-style-type: none"> • Competition from firms should result in lower costs in certain areas. • Eliminates perception of government competing with the private sector. • Public expectation that government retains control over public policy and stewardship of public resources.
<ul style="list-style-type: none"> • Centralized staff may lack a comprehensive understanding of each ministry's needs and issues. • Reduced perception of competing with the private sector. • Could centralize procurement functions within government, benefitting from economies of scale. 	<ul style="list-style-type: none"> • Board adds value through increased oversight and expertise. • Potential for improved flexibility, innovation and risk taking. • Greater ability to manage recruitment and retention of key staff. • Perception that PBC competes with the private sector. • Potential bias towards P3 approach. • Knowledge transfer and skills building does not always take place between PBC and ministries. 	<ul style="list-style-type: none"> • Government capacity and expertise is lost. • Government will lose direct control over activities/processes given to the private sector making it more difficult for decision makers to analyze and compare projects. • Private sector organizations will not have government's perspective and protect government's interests.

Key factors to consider in selecting the best alternative include determining who is best able to provide each service while achieving value, protecting government's interests and effectively managing risks, costs and resources. Other considerations include maintaining consistency of approach, incorporating lessons learned from each project and addressing stakeholder concerns regarding PBC's potential bias towards procurement methodologies that create opportunities for PBC to earn revenue.

Future workload demands are currently forecasted by PBC to decline and these should also be considered along with the delivery model and roles, in determining appropriate staffing levels. The roles can be considered independently from each other when deciding on the most appropriate delivery model, and the following discusses these roles and key concerns.

3.1 P3 Promotion

In fulfilling its mandate to promote P3s, PBC encourages and supports the development of BC's P3 market. PBC develops and implements best practices to increase private sector interest, competition and confidence in BC's P3 market.

PBC brings some of its organizational strengths to this role, with the necessary experience and expertise to understand the unique needs and requirements of the P3 market and help develop government's P3 policies.

Some stakeholders feel that the general promotion of the P3 industry as a whole is no longer necessary, given the maturity of the industry and the high level of interest by the private sector.

While PBC has undertaken various initiatives (e.g., workshops, seminars, presentations) to inform communities and stakeholders about a particular project, some stakeholders feel that more can be done to inform the communities about the benefits and increase their understanding of how the P3 model is being applied. Communicating with citizens about projects in their communities should be coordinated with the key partners.

3.2 Programming Advice

Both the GLE and the Capital Standard direct PBC to provide government with ongoing advice on its capital asset management program, recommendations on procurement analysis and general infrastructure advice as required. Government benefits from PBC's expertise, experience and that, as part of government, PBC will safeguard the government's interests. PBC is also a member of the Deputy Minister's Capital Committee.

In addition, the Capital Standard requires PBC to conduct a project screen of all provincially-funded capital projects with a value of \$50 million or more. This initial project screen looks at the project's attributes to determine its suitability for P3 procurement, but does not evaluate the assumptions or assess the investment decision. Many stakeholders think that the current threshold is too low and needs to be raised to ensure greater cost/benefit returns for all parties given the high cost to bid on and administer these projects. In some instances, PBC may also be requested by TB or a ministry to screen projects with provincial funding of between \$20 million and \$50 million to determine if a project warrants a more comprehensive assessment as a P3 project.

Some stakeholders are concerned that PBC could be biased towards P3s given that they are mandated to screen all provincially-funded capital projects with a value of \$50 million or more for viability as a P3, and are also mandated to be a self-sustaining organization. However, the ministry or agency accountable for the project (project owner) is not required to use PBC, with other options including the hiring of private sector consultants to provide services. PBC's mandate to screen projects and be self-sufficient is clear but perhaps not widely known.

Having a strategic advisor within government, be it within a ministry or as a Crown corporation, has the advantage that the public sector perspective is considered when advising on large capital projects and can help to ensure that government's interests are protected. A center of expertise within the government also promotes consistency from project to project and continuous improvement through the application of lessons learned on prior projects.

Private sector advisors could provide some of the same advice; however, steps should be taken to ensure that the appropriate perspective and accountability are maintained.

3.3 Business Case Development

A project proceeds to the business case development phase if the screening process determines that the project is suitable for a partnership solution. PBC may be contracted to assist, advise or lead this phase. The project owner remains responsible for developing the project rationale and service delivery analysis.

PBC develops the procurement analysis which compares the project's estimated cost using the proposed solution against a benchmark to determine value for money. PBC's board of directors reviews each business case before it is submitted to the project board, the project's governance body, for evaluation and approval. Once the project board approves a business case, the project owner submits it to TB for final approval.

PBC's main challenge in this role is the perception by some that it supports P3 solutions, even if they are not always the best procurement method, due to their need to generate revenues. Project owners are accountable for business cases and are not required to utilize PBC's services, having the option to use internal resources, hire private sector consultants, or use PBC staff. Many project owners hire PBC due to its familiarity with government's policies and procedures, which can help project owners navigate the project approval process; many project owners do not have the capacity or expertise to prepare business cases.

There is also a perception that project owners hire PBC because they believe that involving PBC increases the likelihood of TB approving a project. In reality, the success of PBC's business cases may be largely attributed to the standardized approach and rigor that it applies.

Due to the size, complexity, value and significance of these types of projects, a standard approach should be applied regardless of who prepares a business case. This will help to ensure strong project discipline and provide consistent information to decision makers.

3.4 Procurement Management

Once a business case is approved by TB, the project proceeds to the procurement phase. This involves coordinating the bidding process, evaluating and selecting qualified proponents, and preparing contract documents.

Though PBC may be retained by the project owner to provide advice or manage this phase, the project owner is still accountable for procurement management. The GLE directs PBC to seek opportunities to assist government organizations in achieving value for money in the procurement of public infrastructure.

As in the business case phase, PBC applies its quality management framework and uses standardized documents during the procurement management phase to ensure project discipline, consistency and transparency. Best practices and lessons learned from these large complex projects, including guidance documents and templates, are available for use by project owners on other capital projects. Further benefit can be gained by sharing this information more widely to increase government's procurement body of knowledge.

Some stakeholders have suggested that procurement management can be provided by the private sector and that PBC is competing with the private sector. Others point out the value of PBC's involvement in procurement management, including PBC's expertise and experience in the procurement of public infrastructure projects and familiarity with relevant government policies and practices. Some projects may be critical to the government's strategic plan and have a significant impact on communities and therefore it is important to protect government's interests regardless of who delivers the service.

3.5 Project Governance

The Capital Standard mandates PBC to be a member of all P3 project boards. A project board is the main governance body for a project; it helps ensure that good project discipline is maintained and that government's interests are protected.

The project board is usually chaired by a senior executive of the ministry responsible for the project. Other board members may include representatives from TB, project owners (e.g., ministries, health authorities, and universities), a government representative with extensive infrastructure expertise, and other advisors.

A project board's oversight role protects government's interests by ensuring that the project stays on budget, on schedule and within scope. A consistent approach, information about best practices, and insight from lessons learned on other projects are important elements of project oversight.

3.6 Project Management

The project owner is responsible for managing a project to ensure that it is completed within budget, scope and on schedule. The project owner appoints a Chief Project Officer (CPO) who is responsible for overall project management.

The project owner can use its internal resources or hire consultants to fulfill this role. Some industry stakeholders are concerned that PBC is competing with the private sector for this role. PBC has performed the CPO role on four projects, three of which were in an acting capacity until the project owner was able to fill that position. PBC has only performed the permanent CPO role on one of their initial projects.

3.7 Contract Management

PBC can also serve as consultant or advisor during the construction and post-construction phases of a project.

As in other phases, the project owner can use internal resources, appoint an external consultant or use PBC to provide support and advice on financial matters and contract management. Extensive experience and knowledge is needed during this phase due to the complexity and long-term nature of these contracts. Lessons learned during this phase can be applied during the development, evaluation and procurement phases of future capital projects.

Recommendation:

- (2) The Government of British Columbia should determine the most appropriate delivery model for each of the services that Partnerships BC provides.**

4.0 Evaluating Value for Money

PBC works with project owners, other ministries and external advisors when evaluating projects. A key element in this evaluation is the value for money that the partnership solution generates. Two key phases where value for money is assessed are the business case phase and the procurement management phase.

The business case is a detailed assessment of the project's estimated costs, potential risks, and the partnership solutions available, and results in a recommendation to TB regarding the most appropriate procurement method. Value for money is then reassessed at the end of the procurement management phase when the successful proponent has been identified and the costs have been established.

PBC has developed a financial model that assists with the determination of value for money. A detailed examination of the financial model and PBC's business case and procurement management methodologies was not part of the scope of this review; however, these processes were reviewed at a high level.

4.1 Business Case

PBC assists project owners with developing their business cases which are comprised of both a qualitative and a quantitative assessment. The qualitative assessment requires judgments to be made on the magnitude of the relative benefits, or impacts, of each partnership solution option for a particular criterion. The criteria are assessed using a framework developed by PBC and examples include:

- availability of service;
- cost certainty;
- design innovation and excellence; and
- asset performance throughout the lifecycle.

As such, it is possible that the P3 with the lowest cost may not necessarily be the preferred option when other factors are considered.

The quantitative assessment is guided by PBC's financial model where PBC identifies the most appropriate solution and benchmark alternatives for the project and then compares these two alternatives to assess value for money.

In many instances, PBC has used DBB procurement as the benchmark. However this is not always understood by the project owner to be the most likely alternative as the project owner might choose to do DB procurement if a P3 does not generate value for money. Consideration should be given to using the most likely alternative that the project owner would use, to ensure that value for money is correctly stated and is understood by all parties.

Key elements of the financial model include the risks, discount rates, and sensitivity analysis. Risks are assessed as part of the business case for both potential solutions. A risk assessment methodology has been developed which considers advice provided by a team of technical experts. As part of this process, the Risk Management Branch or Provincial Treasury may be requested by either the project owner or PBC to provide advice on various aspects of a project; however, these agencies are not formally involved.

The model also takes into account the time value of money, using a discounted cash flow methodology, which is applied to both options. The discount rate used has a significant impact on the results. A higher rate has the effect of heavily discounting future costs when applied to payments over a long period of time (e.g., 30 years), resulting in a lower net present cost.

There is no prescribed way of establishing the discount rate; different jurisdictions use different methodologies. PBC hires an independent advisor to review and confirm the validity of key assumptions and calculations, including the discount rate.

A sensitivity analysis is also part of the model, showing how changes to financial assumptions, such as discount rates, affect the results. Project owners do not always include the sensitivity analysis with their submission to TB. Where the value for money is below 2%, TB Staff exercise professional judgment in determining whether to request the sensitivity analysis. Including this in all submissions would help ensure that all necessary information is available for decision-makers.

Given the inherent uncertainty of the assumptions made in the value for money calculations, at least one jurisdiction in Canada has set a minimum value for money threshold (5%) that is required to go forward as a P3, and the government could consider doing the same.

While the business case does include a summary of the results from the financial model, some of the ministries interviewed found the model difficult to understand. This may impact the transparency of the analysis and recommendation, and could negatively impact the acceptance of the proposed solution.

The results from the financial model, along with the qualitative assessment and estimated project costs, guide the procurement methodology recommendation to TB.

Recommendations:

- (3) Project owners and Partnerships BC should ensure that the most likely alternative is selected as the benchmark when assessing value for money.**
- (4) Project owners and Partnerships BC should strengthen decision making by ensuring that complete information is provided to Treasury Board.**
- (5) The Government of British Columbia should consider setting a minimum value for money threshold at the business case and procurement phases.**
- (6) Partnerships BC should increase transparency by ensuring that project owners fully understand the financial model and its assumptions.**
- (7) The Government of British Columbia should consider reinforcing to project owners that they are accountable for their projects.**

4.2 Procurement

The procurement phase for a partnership solution is comprised of two stages: Request for Qualifications (RFQ) and Request for Proposals (RFP). The RFQ gauges the market interest in a project and takes approximately nine months. At the end of the RFQ phase, all proponents are assessed and three are selected for the RFP phase. These three are then assessed on technical aspects before price is considered. Preparing an RFP for a partnership solution is expensive and the costs incurred by the two unsuccessful proponents are partially offset. Due to the high costs and complexity of structuring partnership solution arrangements, the market interest in these types of projects typically increases with the contract value, thus driving greater competition.

Once the proponent has been selected, value for money is reassessed prior to the agreement being signed. The revised value for money, along with the successful proponent's information and other pertinent project information, is provided to TB prior to their final approval.

4.3 Quality Assurance

PBC designed a quality management framework to ensure that a consistent approach is followed during the business case and procurement phases by using guidance documents, standard templates, and a prescribed document review and approval process. These guidance documents and templates are available for use by project owners on other capital projects.

In following this framework, PBC forms specialized work groups, with specific roles and responsibilities, to ensure that the quality of key information and deliverables is controlled. These groups follow an established review and approval process, and collaborate with subject matter experts such as Quantity Surveyors, Financial Model Advisors, Risk Management Branch staff and Provincial Treasury staff. However, Risk Management Branch staff and Provincial Treasury staff are not formally involved in the business case and procurement phases. For example, Provincial Treasury may be requested to provide advice to PBC and/or TB in the procurement phase when structuring the financing options.

In addition to these subject matter experts, a Conflict of Interest Adjudicator and a Fairness Advisor are hired to conduct an independent review during the procurement phase. The Conflict of Interest Adjudicator is appointed to provide decisions on potential conflicts of interest or unfair advantage issues identified during the RFQ process. The Fairness Advisor assesses the overall fairness of the procurement process and issues reports at both the RFQ and RFP stages.

Recommendation:

- (8) Project owners and Partnerships BC should strengthen decision making by ensuring that appropriate government agencies are formally involved.**

4.4 Value for Money Assessments

Value for money was only reviewed for a small number of projects (11% of all PBC completed projects); while the information for the business case phase was available, it was not available for the procurement phase of all projects. The projects reviewed showed an increase in value for money at the procurement phase. At the business case phase value for money ranged from 1.8% to 13.5%, and increased to 2.5% to 22.7% when the project agreement was signed at the end of the procurement phase.

For operational projects that PBC was involved in, information was requested from the project owner as to whether the projects were completed on time, on budget and within scope. This information is not available to PBC, nor were the project owners always able to provide it. All eleven projects surveyed were on budget, in scope and on time.

5.0 Governance and Organizational Structure

Currently, PBC's board consists of six directors including the board chair. The board members were appointed in consultation with the Board Resourcing and Development Office and the Ministry of Finance. The members have diverse public and private sector experience ranging from project management to financing. As with other Crown corporations, compensation of board members is set by TB directive.

PBC has approximately thirty-five full time employees, including an eleven member management team consisting of the Chief Executive Officer (CEO), the vice presidents (VP) as well as the assistant vice presidents (AVP) providing sector specific expertise to projects.

5.1 Governance

The roles and responsibilities of board directors and committees are clearly defined and documented. To assist with its oversight role, the board has established two committees which each meet four times per year:

- **Audit & Risk Management Committee** – reviews financial information, risk management, internal controls, audit plans, external audits and reviews board member, CEO and executive expenses, and other related matters.
- **Human Resources Governance Committee** – reviews human resource and compensation policies, makes recommendations to improve board effectiveness and other related matters.

PBC's board has developed a succession plan for the orderly turnover of directors and has a comprehensive orientation program for new directors.

The board members receive detailed information about PBC's internal operations and plans, including operational, financial and human resource updates, external audit reports and other information of interest to the board.

At the direction of government, board members review the business cases for projects that PBC is supporting and make recommendations to the clients regarding the best procurement method.

PBC's board oversees and approves an organization-wide risk register and risk management strategy. The board also oversees the development of, and approves a strategic plan that takes into account both the opportunities and risks facing the organization.

From October 2010 to February 2014, the position of board chair was held by the former CEO of PBC. Due to the fact that the former CEO has specialized knowledge and experience with partnership solutions, a contract was approved by the board to enable him to provide professional services to PBC from October 2010 onwards.

Services included serving as a project board director on several projects that PBC was supporting and conducting special project work as requested by the CEO and approved by the board. The special project work primarily involved small consulting engagements and work conducted for jurisdictions outside of BC. Between November 2010 and March 2013, PBC was billed an average of 20 hours per month for services under the contract.

In order to mitigate the risks of any conflict of interest arising from this arrangement, the board chair was required to recuse himself from any meetings where his projects or his contract were being discussed; one board member, called the Lead Director was assigned to temporarily chair the board meetings when the chair was recused. In addition, the professional services contract and amendments were approved by PBC Board of Directors (excluding the board chair) and the Lead Director was authorized to sign the contract on the board's behalf.

While this conflict of interest issue appears to have been generally well managed, there could be the perception by some stakeholders that the contractor role still conflicts with the board chair's role of providing independent oversight.

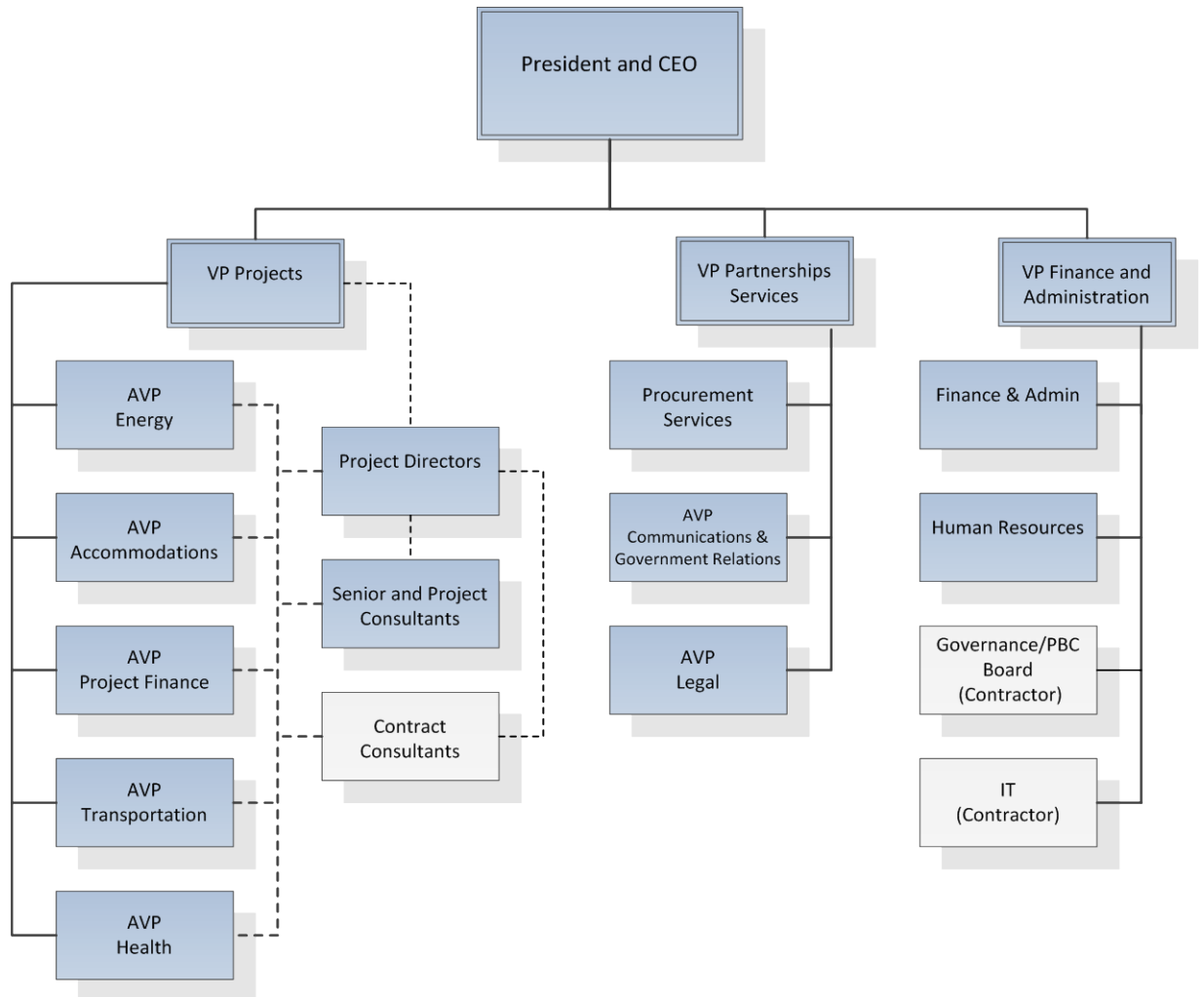
Recommendation

- (9) The Government of British Columbia should consider reinforcing the conflict of interest guidelines for board members of Crown corporations and government agencies and ensure that those guidelines are appropriately followed.**

5.2 Organizational Structure

Since 2007, PBC has employed an average of thirty-five full time equivalent employees and six contractors. Of the eleven member management team, six are dedicated to projects providing sector specific expertise. The organizational structure is shown in the chart below.

PBC ORGANIZATION CHART



6.0 PBC's Performance

PBC has established internal processes that allow for the sharing of lessons learned and collaboration among PBC staff. These processes include cross project coordination meetings, staff workshops, reviewing and updating document templates, and peer review processes. All projects undergo a review of lessons learned. In addition, in 2012/13, PBC started formally assessing past projects to identify areas for improvement and to inform future project work.

6.1 Performance Measures

PBC's Board of Directors develops the vision, corporate goals and performance measures; PBC regularly reports on progress in quarterly operations reports and the annual report. There are three corporate goals supporting PBC's vision:

- Plan and structure partnership solutions for public infrastructure, which are expected to achieve value for money.
- Successfully implement partnership solutions for public infrastructure through leadership in procurement practices and market development.
- Maintain a self-sustaining organization and provide added value to an increasingly diverse client base.

Based on these goals, as directed by government in their GLE, the board developed new performance measures for 2012/13. These measures are fewer (reduced from 16 to 10), but are more specific and more quantifiable. As a result, the new measures are not directly comparable to prior years' measures. Prior to 2012/13, the performance measures were largely qualitative.

For 2012/13, PBC achieved or exceeded nine of the ten performance targets set by the Board of Directors. The one performance measure not achieved was the time taken from the RFQ being issued to the date of the signing of the contract, with one project out of four not meeting the target.

6.2 Utilization of PBC's Staff

PBC's average utilization rate from 2009 to 2013 was 68%. If non-project work performed for government is included (which includes policy advice and government relations), the average utilization rate increases to 87%. These utilization rates are similar to other professional services organizations. PBC's utilization rates are reported to the Audit & Risk Management Committee on a quarterly basis.

There are no set guidelines or standard formulas for calculating staff utilization rates for professional service firms. PBC's utilization rate is based on the billable project hours of professional staff and contractors over total estimated available hours (excludes statutory holidays and vacations).

PBC's charge-out rates are comparable with those of similar consulting firms within BC. Some jurisdictions hire consultants with fees comparable to PBC while others operate on a cost recovery basis which, given that their organizations are within government ministries, allows them to offer these types of services at below-industry rates.

7.0 Operating Costs

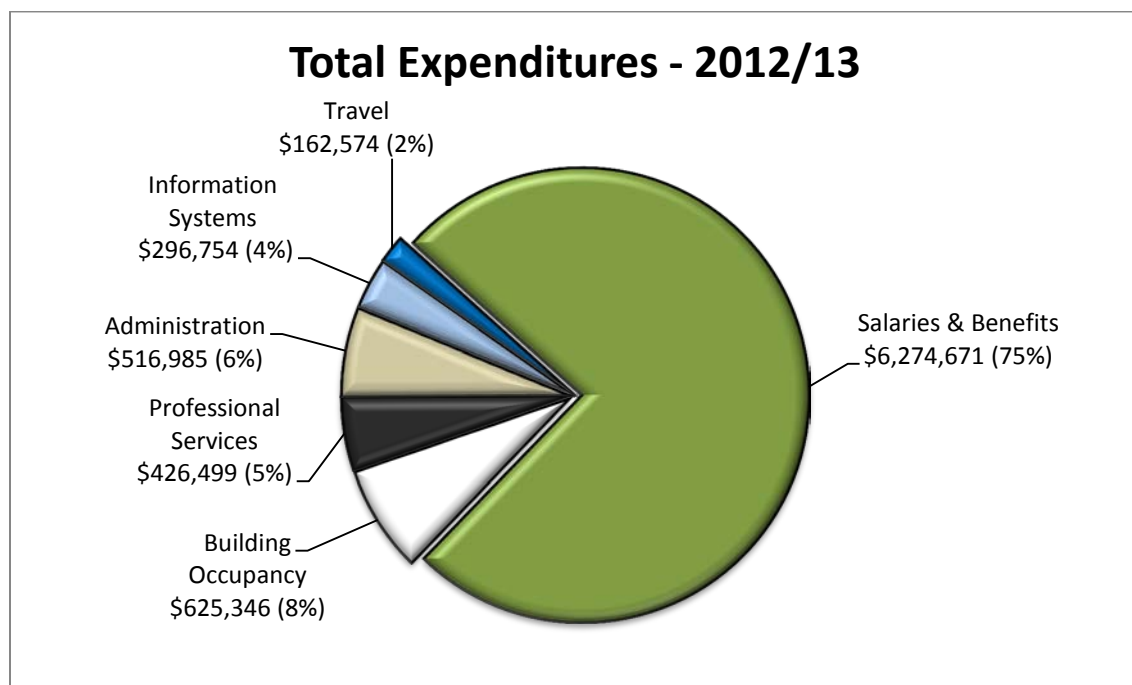
PBC's expenditures have been relatively consistent from year to year. In each of the past five fiscal years, PBC's actual operating expenses were below budget, with variances ranging between 5% and 14%.

PBC uses zero-based budgeting principles to develop its annual operating budgets. As a professional services organization, the factors that are taken into consideration when preparing their budgets include:

- the anticipated number of projects;
- staff resources;
- staff utilization rates;
- compensation; and
- operating expenses.

In fiscal 2012/13, the government directed PBC to identify savings of approximately 2% for fiscal years 2013/14, 2014/15 and 2015/16. PBC then developed plans for tighter cost controls, including a salary freeze for management staff, without increasing charge out rates or reducing service levels.

The following diagram illustrates PBC's major expenditures.

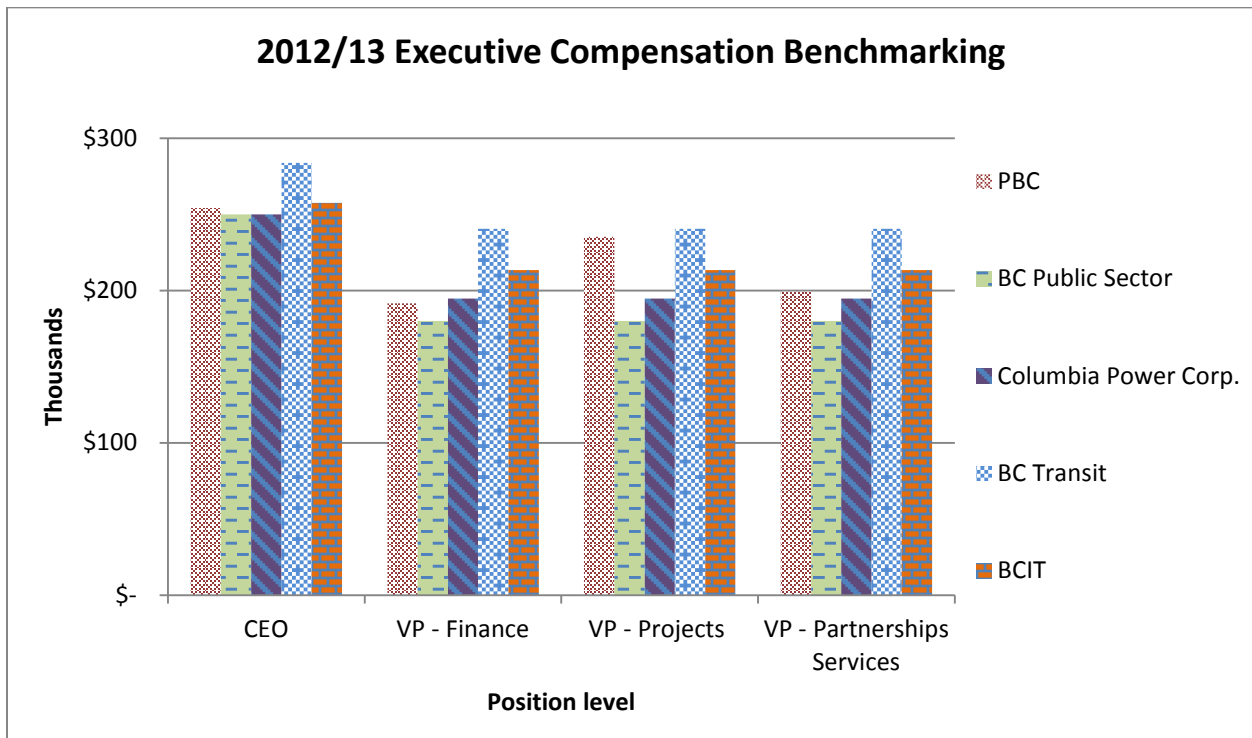


7.1 Compensation

PBC's employee compensation plan has been approved by the Public Sector Employers' Council (PSEC). Compensation costs represented 75% of total operating expenses in fiscal 2012/13.

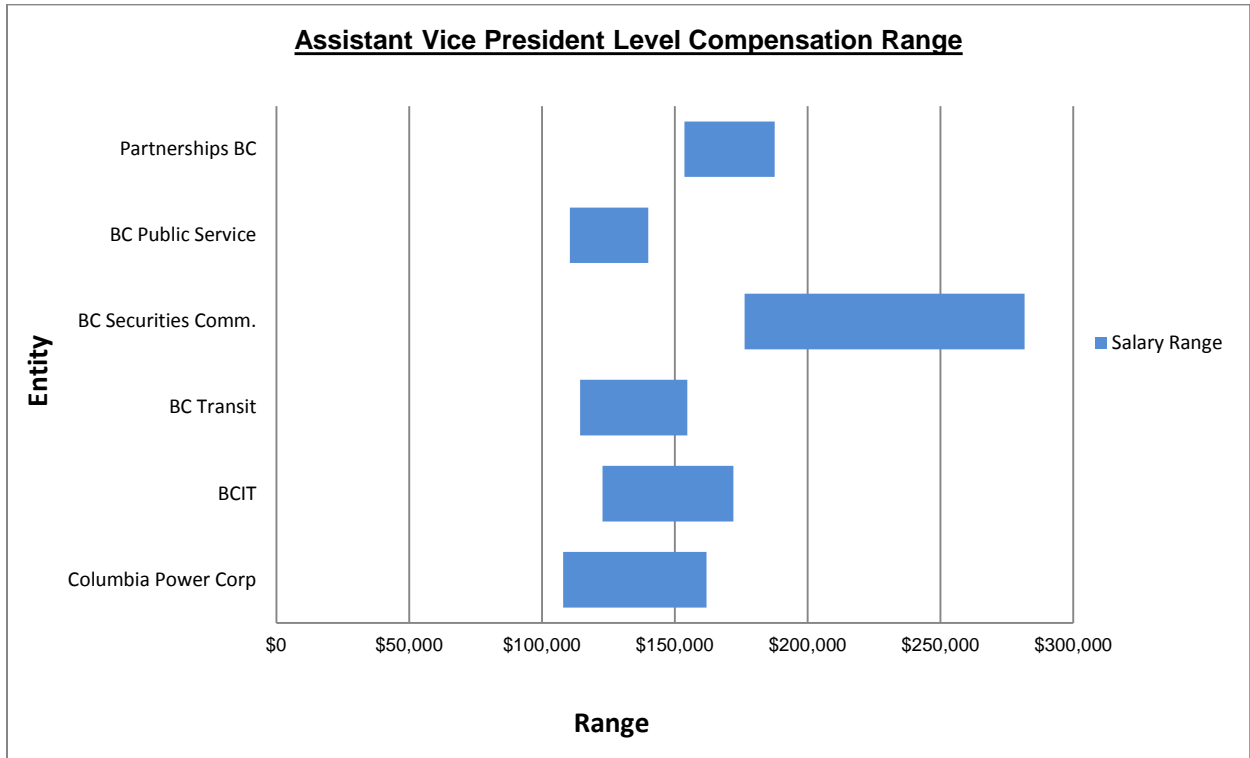
PBC conducts annual reviews of employee compensation, including external reviews that are completed every other year. PBC's employee compensation philosophy tries to balance its employee salaries between broader public sector and industry comparators. As a result, the organization's compensation reference point is a composite (50/50) of these two.

The following graph shows PBC's executive salaries as compared to other BC public sector organizations. Executive salaries are generally in the mid to high range of the comparators.

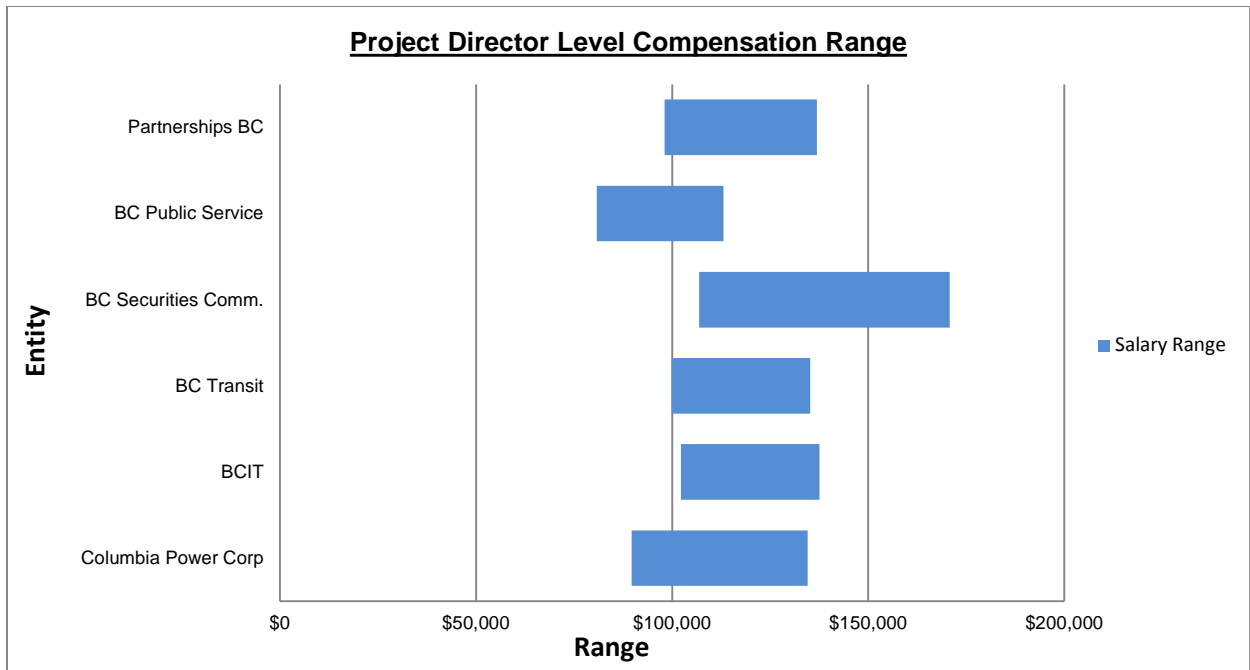


The salaries of PBC's AVPs, directors, and two of its managers were compared to other BC public sector organizations.

PBC's AVP level salaries are in the high range of the comparators. However, PBC advised that this is due to the specialized skill sets required for these positions.



PBC's project director level salaries are in the mid-range of the comparators.



PBC had a performance pay program for all staff that is being phased out under PSEC's new Crown Corporation Executive Compensation Policy dated July 2012.

All PBC employees are excluded from union membership. The benefits package that employees receive is the same one that is provided to bargaining unit staff working for the government. The only exception is annual vacation entitlement which PBC has capped at four to five weeks depending on the position.

The CEO and vice-presidents receive car and parking allowances which amount to \$13,775 per year for the CEO and \$10,717 per year for each of the vice-presidents.

7.2 Other Expenses

Other expenses including travel, meals, meetings, contractor, board and membership dues were reviewed, with only minor differences between government's and PBC's meeting and travel expense policies noted.

Independent contractors are hired by PBC for specific projects to enable the organization to have flexibility with staffing levels. The number of contractors depends on the number and complexity of the projects the organization is involved with. Many of these independent contractors have become employees, which has helped PBC to retain knowledge, skills and experience. Contractor rates were established to ensure equity with PBC staff salaries.

A sample of fourteen consultant and contractor files, representing 23% of total files, was also reviewed. More than half of the contract files reviewed did not contain adequate documentation such as the justification for hiring the successful contractor, the reasons for direct awarding contracts to individuals and small firms or the rates paid. There were two occasions where contractors provided services without a signed contract in place.

Recommendations:

⁽¹⁰⁾ Partnerships BC should ensure contractor files have adequate documentation.

Appendix A – Summary of Recommendations

1	The Government of British Columbia should consider evaluating the screening threshold for capital projects.
2	The Government of British Columbia should determine the most appropriate delivery model for each of the services that Partnerships BC provides.
3	Project owners and Partnerships BC should ensure that the most likely alternative is selected as the benchmark when assessing value for money.
4	Project owners and Partnerships BC should strengthen decision making by ensuring that complete information is provided to Treasury Board.
5	The Government of British Columbia should consider setting a minimum value for money threshold at the business case and procurement phases.
6	Partnerships BC should increase transparency by ensuring that project owners fully understand the financial model and its assumptions.
7	The Government of British Columbia should consider reinforcing to project owners that they are accountable for their projects.
8	Project owners and Partnerships BC should strengthen decision making by ensuring that appropriate government agencies are formally involved.
9	The Government of British Columbia should consider reinforcing the conflict of interest guidelines for board members of Crown corporations and government agencies and ensure that those guidelines are appropriately followed.
10	Partnerships BC should ensure contractor files have adequate documentation.