

Cabinet Decision Document

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Ministry Document Number: ____

MINISTER:

Honourable Gary Collins, Minister of Finance.

TITLE:

Partnerships British Columbia – Status Update and Endorsement of Accountability Measures in Business Plan.

ISSUE: FOR DECISION

At the May 29, 2002 Cabinet meeting, Cabinet approved the establishment of Partnerships British Columbia Inc (PBC). At that time, the Minister of Finance, as PBC's sole shareholder, was asked to report back to Cabinet on expected results.

The purpose of this submission is two-fold: to provide the update on results to date as required; and, to seek Cabinet endorsement of accountability measures as part of PBC's business plan that builds on and helps operationalize the performance commitments in the company's 2003/04-2005/06 Service Plan

RECOMMENDATION:

Endorse PBC's business plan and accountability measures contained therein.

BACKGROUND:

Partnerships British Columbia Inc. (PBC) was established in May 2002 as part of the government's strategic plan to deliver public services effectively and affordably. PBC was created to provide ministries and public agencies with expert advice and support to explore and, when supported by a sound business case, to implement public private partnerships (P3s) and other innovative approaches to providing public infrastructure and services. The company's primary focus is on P3s, which are a cornerstone of the government's program to improve service delivery and encourage economic development.

In the February 12, 2002 Speech from the Throne, the government promised to explore new cost-effective mechanisms for the provision of services and public private partnerships, and indicated that considerable effort would be focused on pioneering P3s. P3s are a key part of British Columbia's strategy to provide affordable infrastructure that meets public needs.

British Columbia faces many infrastructure challenges including:

- Investment in new infrastructure has lagged behind economic growth;
- An aging population;
- Significant deferred maintenance deficits (e.g. health, education and transportation); and
- An urgent need for new and improved health care and education facilities and transportation infrastructure.

P3's offer many potential benefits to help address these challenges, such as:

- **Improving service delivery** by taking advantage of private sector innovation and flexibility. In addition to improving service quality, P3s can often deliver services more cost-effectively than traditional approaches. The resulting savings can then be used to fund other needed services.
- **Improving cost-effectiveness** by allowing both sectors to do what they do best. Government's core business is to serve the public. It is better positioned to do that when the private sector takes responsibility for non-core functions such as operating and maintaining buildings.
- **Increasing private sector investment in public sector infrastructure.** Investments in hospitals, schools, highways and other provincial assets have traditionally been funded by the Province and, in many cases, have added to overall debt levels. P3s can reduce government's capital costs, helping to bridge the gap between the need for infrastructure and the Province's financial capacity. At the same time, government is supporting private sector growth and contributing to broader provincial economic development goals.
- **Reducing public sector risk** by transferring to the private partner those risks that can be better managed by the private sector. For example, a company that specializes in operating buildings may be better positioned than the government to manage risks associated with changing demands for commercial real estate.
- **Delivering capital projects faster** by making use of the private partner's increased flexibility, incentives, and/or access to resources.
- **Improving budget certainty.** Transferring risk to the private sector can reduce the potential for government cost overruns from unforeseen circumstances during project development or service delivery. Services are provided at a predictable cost, as set out in contract agreements.
- **Making better use of assets.** Private sector partners are motivated to use facilities fully, and to make the most of commercial opportunities to maximize returns on their investments. This

can result in higher levels of service, greater accessibility, and reduced occupancy costs for the public sector.

- **Improving life-cycle costing and management of infrastructure.** A life-cycle approach to the delivery and ongoing operations of infrastructure is a cornerstone of the P3 approach. Often, due to management, planning or budget constraints, infrastructure procured and managed by traditional public sector means has not been optimally built or maintained.

To achieve these benefits, PBC is currently focused on resolving a number of issues that are central to the successful implementation of P3s in British Columbia. They include:

- Identifying candidate P3 projects with a high potential for success and ensuring they are founded on sound business cases, management and procurement strategies;
- Addressing project specific implementation challenges (e.g., financial, legislative, risk-transfer, management, governance).
- Managing transaction costs;
- Increasing public understanding and awareness of the potential benefits of P3's; and
- Developing the capacity and skills in both the public and private sectors necessary to undertake P3s in BC.

These issues need to be addressed, in order to help ensure that there are early P3 successes in BC and that the public sector does not pay a risk premium in the marketplace.

DISCUSSION:

Status Update

On May 29, 2002 when Cabinet approved the establishment of PBC, the Minister of Finance, as PBC's sole shareholder, was asked to report back to Cabinet on expected results.

Since that time, to become operational PBC has:

- recruited a Chief Executive Officer from the private sector who has extensive knowledge and experience with public private partnerships;
- established a Vancouver office to be closer to the business and finance centres in addition to its Victoria office that serves its shareholder and many of PBC's clients;
- hired staff that provide a variety of identified skills (e.g., both private and public sector expertise) necessary to deliver services to clients; and
- entered into development agreements on a variety of projects with sponsoring agencies.

In addition, it is expected that the board of directors will be announced shortly with Cabinet approval.

To develop P3 capacity and skill in both the public and private sectors, and increase public awareness of the potential benefits of P3s, PBC has:

- undertaken significant market development work through conferences, speaking engagements, and private sector contacts;
- established strategic relationships with P3 organizations in other jurisdictions such as the United Kingdom and Australia;
- initiated a corporate communications strategy; and

- launched a web site that includes key features such as:
 - a business partnering directory to help businesses establish P3 teams and to offer local companies a means to gain exposure with national or international firms; and
 - P3 project information, including a listing of current business opportunities and the status of current projects.

Most importantly, PBC is currently working on a variety of projects in various stages of development. Its primary focus at this time is on major infrastructure projects in health and transportation, to help address areas of greatest service need and highest provincial priority. PBC provides a range of project services from advisory to hands-on project management depending on the needs and expertise of client agencies. PBC is also involved or leads a number of strategic asset dispositions on behalf of the province. (For more information on active, publicly announced projects, please see appendix A).

Accountability Measures

As part of a Business Plan that builds on and helps operationalize the performance commitments in PBC's 2003/04-2005/06 Service Plan, PBC has developed accountability measures by which the shareholder can hold PBC accountable. The measures focus accountability on five key elements required for a successful provincial P3 initiative: projects, clients, the P3 market, the public, and an effective organization. Specifically, PBC will be accountable for:

Projects

- **Successful projects.**
Completing projects that demonstrate net benefits and value for money for the Province while protecting the public interest.

Client Satisfaction

- **Assisting public sector client agencies in identifying and managing P3 opportunities.**
The level of assistance provided by PBC (which may range from preliminary advice to full project management) will be set out in individual project specific agreements with the client agencies. PBC has entered a Public Private Partnership Agreement with the Province that sets out the terms of engagement with PBC in general and on specific projects that require Treasury Board approval. PBC will work to generate client satisfaction as demonstrated by a desire to retain PBC on future projects.

Market

- **Increasing Market Capacity in British Columbia.**
PBC will stimulate the development of P3 knowledge and experience throughout the public and private sectors. The development of P3 projects will allow British Columbia to develop a world-class capability (in financial, business, legal and other capabilities) that can be exported to other jurisdictions—especially North America where there is limited exposure to this type of infrastructure development. The proposed approach will attract private sector investment in the province's infrastructure while creating a "home grown" capacity.

Public

- **Educating stakeholders about P3s.**
PBC will work to educate the public, government, the private sector and other stakeholders about P3s, and to ensure that British Columbians have the information needed to make informed decisions about P3's. For example, by assisting British Columbians to understand that P3's can work effectively to support a health system that is consistent with the *Canada Health Act*, and by helping the public to understand the benefits of risk transfer.

Organizational

- **Commercial Viability.**
Becoming a commercially viable (financially self-sustaining) company within 3 years.
- **International Profile.**
Developing an international profile for innovation and performance that other jurisdictions look to replicate.

If approved, these accountability measures would be integrated into PBC's 2004/05 – 2006/07 Service Plan.

RECOMMENDED DECISION:

Endorse PBC's business plan and accountability measures contained therein.

SIGNATURE:

Honourable Gary Collins
Minister of Finance

DATE:

May 27, 2003

KEY CONTACT:

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APPENDICES TO SUBMISSIONS

Appendix A – Project List

Appendix A

(a) Active Projects Currently in the Marketplace

Project	Status	Expected Start Date	Expected Completion
Abbotsford Hospital and Cancer Centre	RFP issued in June 2003	2004	2007
Academic Ambulatory Care Centre	RFP to be issued in June 2003	TBD	2006
RAV Rapid Transit Project	RFP to be issued in Summer 2003	2005	2009
Fraser Crossing	RFQ to be issued in Fall 2003	2004	2007
Coquihalla	RFQ to be issued in Summer 2003	Preferred bidder selected in late 2003	

(b) Potential Projects Under Development

- Gateway Projects
- Sea to Sky Highway
- Okanagan Lake Bridge
- Providence Health Care
- Sierra-Yoyo-Desan Road

(c) Other Core Review Related Transition and Strategic Asset Disposition Projects

- Pavco/Bridge Studios
- Open Learning Agency/Knowledge Network
- PNE Transition to City of Vancouver
- Burns Bog Negotiations