

# DAILY COMMERCIAL NEWS

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## AND CONSTRUCTION RECORD

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Auditor General makes recommendations regarding future public-private partnerships

VINCE VERSACE

staff writer

Ontario's auditor general recommends that the transfer of risk in public-private partnerships be supported by the terms of the project's contract.

"In assigning transferable risks, all relevant factors, including those that mitigate the risks, should be considered," stated Jim McCarter, Ontario's auditor general, in his 2008 report. "As well, actual experience from previous AFPs (Alternative Financing and Procurement) should be applied wherever possible. The transfer of risk should be supported by the terms of the project."

Infrastructure Ontario stated that its current AFP model "quantifies the risks" that would be retained by the public sector under the traditional model using a risk-allocation "matrix" based on empirical data.

"Infrastructure Ontario's project agreements have been standardized to include lessons learned on earlier projects to support continuous improvement," added Infrastructure Ontario in its response.

McCarter looked into the new Brampton Civic Hospital in his recent report and concluded that the provincial government could have saved \$50 million if it had not had a private component.

The total cost of the hospital hit \$614 million, comprising \$467 million in design and construction costs for the hospital, which was built on a reduced scale, \$63 million for facility modifications to accommodate equipment installation and \$84 million in financing charges. The hospital was the first in Ontario to be built under a private-public partnership model.

"We noted that a portion of the \$63 million cost to modify the facilities for installation of equipment could have been avoided with better planning," added McCarter.

Among the auditor general's recommendations was a call for the costs and benefits of "all

feasible procurement alternatives” to be evaluated before entering into a public-private partnership.

“Consideration should be given to expanding the involvement and expertise of Infrastructure Ontario to all infrastructure projects,” said McCarter.

“Before a decision is made to enter into an AFP arrangement, a comprehensive market assessment should be carried out.”

Infrastructure Ontario explained that when a project is assigned to it that it does conduct a full value-for-money assessment that does compare costs and benefits of traditional procurement with an AFP approach.

The Residential and Civil Construction Alliance of Ontario (RCCAO) supports looking at alternative financing models, where applicable, to drive investment and infrastructure renewal, especially in transportation. RCCAO did note that the auditor general commented that improvement has been made to the AFP process.

“His statement that government cost of borrowing is lower and that \$50 million could have been saved is unfortunate,” explained Andy Manahan, executive director at RCCAO.

“It doesn’t reflect life- cycle costing and the benefits of spreading out government payments over a longer period as opposed to traditional upfront government financing.”