

## Manderville, Brad W FIN:EX

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**From:** Manderville, Brad W FIN:EX  
**Sent:** Friday, May 13, 2016 1:48 PM  
**To:** Tanaka, Kashi FIN:EX  
**Subject:** RE: PBC chair note  
**Attachments:** 2016 05 13 Estimates Note - PBC - Board Chair v4.docx; Estimates Note - Partnerships BC - Procurement Options Analysis and Level of Private Finance - 5-06-16.docx

Hi Kashi,

Attached is the estimates note concerning the PBC Board's conflict of interest guidelines.

Also attached is another estimates note requested by Dave Galbraith on P3 procurement/financing based on questions that came up in the Health estimates debate last week.

Thanks,  
Brad

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**From:** Tanaka, Kashi FIN:EX  
**Sent:** Friday, May 13, 2016 8:35 AM  
**To:** Manderville, Brad W FIN:EX  
**Subject:** PBC chair note

Morning Brad,

My error here, I should have been a bit more urgent with this request as it was from the DM. I'm going to need it as soon as possible before AM and MMD leave for the weekend.

Let me know if you have questions.

Kashi

Sent from my BlackBerry 10 smartphone on the Rogers network.

**ADVICE TO MINISTER  
ESTIMATES NOTE  
MAY 6, 2016**

**ISSUE: PROCUREMENT OPTIONS ANALYSIS AND LEVEL OF PRIVATE  
FINANCE FOR P3 CAPITAL PROJECTS**

**ADVICE AND RECOMMENDED RESPONSE:**

**Procurement Options Analysis**

- ◆ There are two types of review undertaken to determine whether PPPs should be utilized to deliver major capital projects:
  - 1) Initial PPP screen( undertaken by the Ministry of Finance) – purpose is to assess whether or not those capital projects in the early stages of development and with a total capital cost over \$100M may be suitable for PPP procurement. If the PPP screen indicates that a particular project has attributes that may make it suitable for PPP procurement (e.g., project is complex and has opportunity for innovation), then a PPP option will be included as part of the detailed procurement options analysis in the business plan for the project.
  - 2) Procurement options analysis (led by Partnerships BC) - The procurement options analysis consists of both qualitative and quantitative components:
    - Qualitative: a multiple criteria analysis of PPP vs. traditional procurement models (e.g., assesses the extent to which each procurement model can achieve the project's procurement objectives)
    - Quantitative: determines the difference in value for money between the PPP and traditional procurement models (e.g., DBB) based on the following factors:
      - Risk assessment of up to 150 risks, including optimal allocation of risks between the Province and the private sector (e.g., design, cost escalation, and site risks), and quantification of key risks for the PPP and the traditional procurement models.
      - Assessment of the integration of design, construction, finance and maintenance in the PPP model and related efficiencies and cost-savings.
      - Analysis of asset lifecycle costs, including maintenance/rehabilitation.
- ◆ Treasury Board considers the results of the procurement options analysis and makes the final decision of whether a PPP is used to deliver a capital project.

- ◆ Those projects that are procured as PPPs are ones where there is significant potential risk to the public sector, which can be cost-effectively transferred to the private sector. Examples of such projects and their anticipated value for money attributed to PPP procurement include the following:

- 1) BC Children's and Women's Hospital Redevelopment Project – Phase 2 - \$54 million
- 2) Okanagan Correctional Centre Project - \$39 million
- 3) Surrey Pre-Trial Centre Project - \$15 million
- 4) Interior Heart and Surgical Centre Project - \$33 million

- ◆ There are a number of major capital projects that are not delivered as PPPs. Examples include:

- 1) Royal Columbian Hospital Phase 1 (Total capital cost: \$259 million),
- 2) Site C Main Civil Works (Total capital cost: \$1.75 billion), and
- 3) Pitt River Bridge (Total capital cost: \$198 million)

### Cost and Benefits of Private Finance

- ◆ The cost of private finance is higher than the cost of public finance for PPP projects.
- ◆ Private finance has to bear all project risks transferred to the private partner. Private finance is essential to anchoring the risk transfer. Under PPP contracts, the private partner only gets fully paid if they deliver the project on time, on budget, within scope, and then maintain it to a specified standard for the life of the contract.
- ◆ In most PPP projects, the majority of the project financing comes from the public sector at the government's cost of borrowing, and a much smaller percentage is of private sector financing. As part of the procurement options analysis, Partnerships BC completes an analysis to determine the minimum amount of private finance required to provide certainty around the risk transfer.
- ◆ In addition, private finance involves third party lenders and their technical advisors, which undertake important due diligence and scrutiny, further increasing the likelihood that the project will be delivered on-time, on budget and meet long term performance standards.

## **ADVICE TO MINISTER ESTIMATES NOTE**

### **Upcoming Projects**

- ◆ **Partnerships BC and various ministries are developing business cases for upcoming projects that are expected to include detailed procurement options analysis. These projects include:**
  - 1) St Paul's Hospital**
  - 2) Royal Columbian Hospital – Phase 2**
  - 3) Surrey Rapid Transit**
  - 4) Abbotsford Courthouse**
  
- ◆ **Consistent with past practice, the procurement options analysis will determine the procurement model that provides best value to the Province for each of these projects.**

File Created: May 6, 2016

Name of person responsible for the  
information in the note: Mark  
Liedemann

Phone number:  
604-806-4171

## Manderville, Brad W FIN:EX

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**From:** Manderville, Brad W FIN:EX  
**Sent:** Wednesday, May 11, 2016 11:43 AM  
**To:** Liedemann, Mark A PSBC:EX  
**Subject:** RE: Updated Estimates Note  
**Attachments:** Estimates Note - Partnerships BC - Procurement Options Analysis and Level of Private Finance - 5-06-16.docx

Hi Mark,

Attached is the revised estimates note. Please let me know if you have any questions.

Thanks,  
Brad

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**From:** Mark A. Liedemann [<mailto:Mark.Liedemann@partnershipsbcc.ca>]  
**Sent:** Wednesday, May 11, 2016 10:31 AM  
**To:** Manderville, Brad W FIN:EX  
**Subject:** RE: Updated Estimates Note

Thanks

Regards,

**Mark Liedemann**  
Phone: 604.806.4171

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**From:** Manderville, Brad W FIN:EX [<mailto:Brad.Manderville@gov.bc.ca>]  
**Sent:** May-11-16 10:31 AM  
**To:** Mark A. Liedemann  
**Subject:** RE: Updated Estimates Note

I am meeting with Dave Galbraith to discuss the estimates note at 11am and will send you the note (with any additional edits) after the meeting.

Thanks,  
Brad

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**From:** Mark A. Liedemann [<mailto:Mark.Liedemann@partnershipsbcc.ca>]  
**Sent:** Wednesday, May 11, 2016 9:58 AM  
**To:** Manderville, Brad W FIN:EX  
**Subject:** Updated Estimates Note

Hi,

Can you please send me the updated estimates note we discussed yesterday.

Regards,

**Mark Liedemann**  
Vice President, Projects

partnerships British Columbia  
D. 604.806.4171  
F. 604.806.4190  
[mark.liedemann@partnershipsbc.ca](mailto:mark.liedemann@partnershipsbc.ca)

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ADVICE TO MINISTER  
ESTIMATES NOTE  
MAY 5, 2016

**ISSUE: PROCUREMENT OPTIONS ANALYSIS AND LEVEL OF PRIVATE  
FINANCE FOR P3 CAPITAL PROJECTS**

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**ADVICE AND RECOMMENDED RESPONSE:**

Procurement Options Analysis

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- ◆ There are two types of review undertaken possible assessment steps in to determining whether PPPs should be utilized to deliver major capital projectsspecific infrastructure assets:
  - Initial PPP screen undertaken by the Ministry of Finance – purpose is to assess whether or not those capital projects in the early stages of development and with a total capital cost over \$100M may be suitable for PPP procurement.(used in some, but not all cases) If the PPP screen indicates that a particular project has attributes that may make it suitable for PPP procurement (e.g., project is complex and has opportunity for innovation), then a PPP option will be included as part of the detailed procurement options analysis in the business plan for the project.
  - Detailed procurement options analysis lead by Partnerships BC, with support from the responsible ministry, and reviewed by Ministry of Finance
  - Treasury Board considers the results of the above procurement options analysis Ultimate and makes the final decision of whether a PPP is used to deliver an capital infrastructure project, is made by Treasury Board
- ◆ The pProcurement options analysis consists of bothinvolves a qualitative and quantitative components:
  - Qualitative: component involves a a multiple criteria analysis of PPP vs. traditional procurement models (e.g., assesses the extent to which each procurement model can achieve the project’s objectives)at least two different delivery options, one of which would be a PPP and one of which would be a non-PPP.
  - Quantitative – determines the difference in value for money between the PPP and traditional procurement models (e.g., DBB) based on the following factors:
    - Risk assessment of up to 150 risks, including optimal allocation of risks between the Province and the private sector (e.g., design, cost escalation, and site risks), and quantification of key risks for the PPP and the traditional procurement models.

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- Assessment of the integration of design, construction, finance and maintenance in the PPP model and related efficiencies and cost-savings.
- Analysis of asset-whole lifecycle costs, including maintenance/rehabilitation and cost-of private finance

- ◆ PPPs are not appropriate for all, or even the majority of capital projectsspending in BC. In each of the last five years, PPPs have accounted for approximately 8 – 16% of tax-payer supported infrastructure spending. The minority of Those projects that are procureddelivered as as PPPs are ones where there is significant potential risk to the public sector, which can be cost-effectively transferred to the private sector.
- ◆ There are a number of major capital projects that are not delivered as PPPs. Examples include:
  - Royal Columbian Hospital Phase 1 (Total capital cost: \$259M),
  - Site C Main Civil Works (Total capital cost: \$ XXM), and
  - Pitt River Bridge (Total capital cost: XXM)

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### Cost and Benefits of Private Finance

- ◆ The cost of private finance is higher than the cost of public finance for PPP projects.
- ◆ The pPrivate finance has to bear all project risks transferred to the private partner. Private finance is essential to anchoring the risk transfer. Under PPPthese contracts, the private partnersector only gets fully paid if they deliver the project on time, on budget, within scope, and then maintain it to a specified standard for the life of the contract.
- ◆ In most PPP projects, the majority of the project financing comes from the public sector at the government's cost of borrowing, and a much smaller percentage is of private sector financing. As part of the procurement options analysis, Partnerships BC completes an analysis to determine the minimum amount of private finance required to provide certainty around the risk transfer.
- ◆ In addition, pPrivate finance involves third party lenders and their technical advisors, which undertake important due diligence and scrutiny, further increasing the likelihood that the project will be delivered on-time, on budget and meet long term performance standards.

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## ADVICE TO MINISTER ESTIMATES NOTE

- ◆ The price we pay above the government cost of borrowing on that small portion of private finance generates significant benefits – and the analysis shows time and again it has been worth every penny. s.13

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### Upcoming Projects

- ◆ Partnerships BC and vVarious ministries are developing business cases that are expected to include detailed procurement options analysis. These projects include:
- St Paul's Hospital
  - Royal Columbian Hospital – Phase 2
  - Surrey Rapid Transit
  - Abbotsford Courthouses
- ◆ Consistent with past practice, the procurement options analysis will determine the procurement model that provides best value to the Province for each of these projects.

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File Created: May 5, 2016

Name of person responsible for the information in the note: Mark Liedemann

Phone number: 604-806-4171

## Manderville, Brad W FIN:EX

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**From:** Manderville, Brad W FIN:EX  
**Sent:** Friday, May 6, 2016 4:32 PM  
**To:** Liedemann, Mark A PSBC:EX  
**Subject:** RE: Draft Estimates Note  
**Attachments:** Estimates Note - Partnerships BC - Procurement Options Analysis and Level of Private Finance - 5-06-16.docx

Hi Mark,

Thanks for preparing the draft estimates note. I have provided my suggested edits and comments in the attachment. We can further discuss on Monday if necessary. Hope you have a good weekend.

Thanks,  
Brad

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**From:** Mark A. Liedemann [<mailto:Mark.Liedemann@partnershipsbc.ca>]  
**Sent:** Thursday, May 5, 2016 10:33 PM  
**To:** Manderville, Brad W FIN:EX  
**Subject:** Draft Estimates Note

Hi,

I have worked on the estimates note we discussed earlier this week. I have not had a chance to share it with Amanda, but if you have feedback for me I would be happy to incorporate it.

I am off site at a conference tomorrow, but will be monitoring my emails.

Regards,

**Mark Liedemann**  
Vice President, Projects  
**partnerships British Columbia**  
D. 604.806.4171  
F. 604.806.4190  
[mark.liedemann@partnershipsbc.ca](mailto:mark.liedemann@partnershipsbc.ca)

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## Manderville, Brad W FIN:EX

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**From:** Manderville, Brad W FIN:EX  
**Sent:** Wednesday, May 4, 2016 8:58 AM  
**To:** Liedemann, Mark A PSBC:EX  
**Subject:** FW: Question from HLTH Estimates for FIN

Fyi – let's discuss.

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**From:** Galbraith, David J FIN:EX  
**Sent:** Tuesday, May 3, 2016 5:58 PM  
**To:** Hill, Heather K FIN:EX; Enemark, Gord FIN:EX  
**Subject:** Fwd: Question from HLTH Estimates for FIN

For estimates prep

Sent from my iPhone

Begin forwarded message:

**From:** "MacLean, Shelley FIN:EX" <[Shelley.MacLean@gov.bc.ca](mailto:Shelley.MacLean@gov.bc.ca)>  
**Date:** May 3, 2016 at 5:31:47 PM PDT  
**To:** "Galbraith, David J FIN:EX" <[David.Galbraith@gov.bc.ca](mailto:David.Galbraith@gov.bc.ca)>  
**Subject:** FW: Question from HLTH Estimates for FIN

fyi

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**From:** Michell, Jennifer HLTH:EX  
**Sent:** Tuesday, May 3, 2016 5:31 PM  
**To:** MacLean, Shelley FIN:EX  
**Subject:** Question from HLTH Estimates for FIN

Thought you might want to know of a question deferred to FIN from our Estimates today.

My question to the minister is: what lessons has he learned from the Auditor General's report, which indicate that P3 hospital projects are far

HSE - 20160503 PM 003/BMG/1340

run the difference in borrowing costs that could run to hundreds of millions of dollars. My question to the minister is: what lessons has he learned from the Auditor General's report, which indicates that P3 hospital projects are far costlier than if the government were to build it itself? Is the minister planning on building the new St. Paul's Hospital as a public-private partnership?

**Hon. T. Lake:** The member won't get a complete answer, because the way projects are financed is determined by Treasury Board, based on business plans submitted on each project, on a case-by-case basis. In presentations or business plans presented to Treasury Board, there will be different options, some of which will recommend a different type of financing model than others.

For an example, the first phase of Royal Columbian Hospital, I believe, if I remember correctly — again, Finance governs this through Treasury Board — was not a P3. It didn't lend itself to a P3, but other phases do. In the case of St. Paul's, it will be determined through the business plan and through decisions of Treasury Board.

In terms of the difference between financing directly through government — a direct build, a design-build — versus a P3 partnership, that policy is directed by the Ministry of Finance and best answered by the Minister of Finance.