

**ACROSS CANADA**, public-private partnerships (P3s) are a challenging reality for architectural practices of all sizes. However, even as the umbrella of P3s grows larger, a mounting body of evidence is pointing to the system's flaws.

The latest critique comes from Ontario auditor general Bonnie Lysyk. Last December, her office released a scathing review of infrastructure spending since 2005, when Alternative Financing and Procurement (AFP)—Ontario's name for P3s—was first introduced to the province. The rationale for the new process was to provide the best value for public money, by transferring risk to the private sector. Since then, 74 facilities, including hospitals, courthouses and sporting venues, have been completed or are underway as P3s.

The price tag of these P3s? Eight billion dollars—or 29%—higher than if the same projects were directly managed by the public sector.

In theory, that difference is like an insurance policy, justified by the risks associated with often over-budget infrastructure projects. But the cost of those risks is grossly overestimated, says Lysyk. For the 74 facilities, Infrastructure Ontario estimates the expense of risks—such as unforeseen site conditions, cost overruns, and labour strikes—would be \$18.6 billion with public-sector delivery. That's more than 66% of the base construction cost. Under AFP delivery, risk is transferred to the contractor, and the additional estimated cost to the government is a still significant \$4 billion (15%) premium.

To spell this out: to build these 74 projects directly through the public sector would have cost an estimated \$28 billion. By factoring in Infrastructure Ontario's estimated \$18.6 billion in retained risks, the total comes up to \$46.6 billion.

For the private-sector alternative, the tangible costs—the same base construction price, plus financing costs (at a higher cost of borrowing) and fees for the private-sector partner—tally up to \$36 billion. With the smaller \$4 billion in risk premium allocated to the private contractors, the total comes to \$40 billion.

That yields \$6.6 billion in theoretical savings in favour of P3s. But to arrive at the doom-and-gloom prospect of public-sector projects going 66% over budget, risks are assigned in ways that are unclear at best—and erroneous at worst. The auditor general points out that the maintenance of projects and the risk of delayed approvals are double-counted on the government side. Correcting the accounting for these two risks alone would have tipped the balance in favour of traditional procurement for 18 of the 74 projects.

The assessment of risks on the whole is a murky science. Infrastructure Ontario uses two external firms to assign and value the cost of the

risks. "In our discussions with the external advisers, they confirmed that the probabilities and cost impacts [of each risk] are not based on any empirical data that supports the valuation of the risks, but rather on their professional judgment and experience," reports the auditor general's office. Further details on these calculations are not publicly available, making this shaky ground for significant financial decisions.

For architects, the downsides of P3s are well-known. Bidding for a P3 can involve a massive amount of work that isn't sufficiently compensated—a significant financial gamble for any office. The selection process weighs heavily on the side of lowest cost, rather than the most innovative design. As a member of the winning proponent team, architects work for a developer, not for the building's users. Often they have little direct contact with the client. On both proponent and compliance sides, reams of paperwork can bog down a project's progress—as well as the morale of employees.

P3s also represent poor value for the built environment. With few exceptions, P3 projects fall short of the architectural quality that might have been achieved with a comparable budget, under a traditional stipulated-sum contract.

Clients also find the P3 process frustrating and costly. The auditor general notes one case where an Ontario college procured phase 1 of a project, a building with classroom and retail space, using public-sector delivery. The project was completed on time and on budget. The college was directed to procure phase 2, the construction of a similar building, through AFP. "After inflation and some differences between the two buildings were factored in, the cost per square foot for this second building was expected to be about 10% higher than the cost per square foot for the first building," explains Lysyk's report. "Much of this additional expense stems from higher financing costs and higher ancillary costs (such as legal, engineering and project management fees)." Tellingly, the college tried—unsuccessfully—to be released from using the AFP approach for phase 2. The example demonstrates that there is no reason why well-managed public projects cannot meet the on-time, on-budget requirements that are such a vaunted feature of P3s.

While it's challenging to make the public argument for improved architectural quality and ameliorated work process, the argument for saving taxpayer dollars is a clear one. There are eight billion good reasons why, in Ontario alone, this system needs to change.