



## Press release

### **The Auditor General of Québec presents the conclusions of his watch over the projects to modernize Montréal's University Health Centres – Public-private partnerships (PPP) – Press release no. 5**

Québec, Wednesday, November 18, 2009 – Mr. Renaud Lachance today made public Volume II of the *Report of the Auditor General of Québec to the National Assembly for 2009-2010*.

**Chapter 5** deals with the results of his watch over the projects to modernize Montréal's University Health Centres (UHC) – Centre hospitalier de l'Université de Montréal (CHUM), Centre de recherche du Centre hospitalier de l'Université de Montréal (CRCHUM) and the McGill University Health Center (MUHC).

This report deals with the choice of the public-private partnerships (PPP) delivery method. This watch was carried out mainly with the Agence des partenariats public-privé du Québec (PPP Québec). This press release presents excerpts from the highlights of the report.

The *Public-Private Partnerships Framework Policy* stipulates that the Government of Québec shall encourage resorting to PPP when it is shown that this delivery method offers better value added for the funds invested. The analyses of the value added carried out within the context of the business cases revealed that the carrying of the work on Montréal's UHC using the conventional delivery method would result in costs that would be greater than those of these same projects carried out using the PPP method. These analyses showed major variances in favour of the PPP method.

#### **Objectives of our watch**

The aim of this watch was to obtain the assurance that the analyses of the value added justifying the choice of the PPP delivery method for Montréal's UHC made it possible to rigorously conclude that this method offers real value added for the funds invested and that the relevant information was provided to decision-makers.

We also wanted to make sure that the process for developing these analyses made provision for a critical, expert and independent assessment of the quality of these documents prepared by PPP Québec and that decision-makers have all the necessary information to make their decisions.

#### **Summary of the findings**

In our opinion, the analyses of the value added produced by PPP Québec do not make it possible to support the conclusion that their completion using the PPP delivery method is preferable to carrying out the work under the conventional method (public sector) for the following reasons.

#### **Evaluation of the costs, the contingencies and the risks associated with the design and the construction**

PPP Québec chose to compare the PPP method with the conventional method (public sector) without having evaluated other possible methods such as the management and turnkey methods, which could have improved the efficiency of this sector. The final quantification of the risks occasionally resulted from an exercise of judgment by several stakeholders whose positions vary greatly and from decisions based on studies carried out in other administrations without checking their applicability to Québec's context. These approaches, combined with the absence of a sensitivity analysis regarding the impact on the final result of a variation of the amount of estimated risks, reduce the strength of the conclusions of the analyses of the value added.

## **Asset maintenance and renewal costs and deficit**

The assumptions chosen regarding the asset maintenance and renewal costs and deficit explain in the large part the advantage of the PPP method over the conventional one. Some of these assumptions are inappropriate and greatly accentuate the variance in favour of the PPP method.

- The analyses attribute to the public sector an unrealistic deficit concerning the maintenance and renewal of assets, one that is contrary to the provisions of *the Loi favorisant le maintien et le renouvellement des infrastructures publiques*.
- PPP Québec considers that the public sector, if it opts for the conventional approach, will let the situation deteriorate such that the combined maintenance and renewal deficit for the buildings of the CHUM and the MUHC would total more than \$9.4 billion after 30 years, which represents an unrealistic Facility Condition Index of 94 percent. In 2000, based on the results on an audit, the Facility Condition Index in the health and social services network for three regions representing 56 percent of the building stock reached an average of 20 percent, with the maximum being 37 percent.
- With the PPP method, it is, however, taken for granted that the government will agree, in light of its contractual obligations, to pay the private partner sufficient sums for the maintenance and renewal of the assets within the context of the payments that the government makes to the private partner.

## **Discount rate**

It is recognized that the higher the discount rate used to convert to today's dollars the cash flows associated with the two options, the more the PPP will appear preferable over a conventional public sector method, and conversely, because the PPP method permits the spreading out of expenses over a longer period than does the conventional method.

For the CHUM and MUHC business cases, PPP Québec chose a higher discount rate (8 percent) than the one it adopted for other PPP projects (6.5 percent) during a similar period, without justification.

## **Sensitivity analysis**

The value added analysis framework produces results that vary according to the changes of assumptions and of parameters.

In our opinion, the sensitivity analyses illustrating the impact of a variation of these assumptions do not reveal the uncertainty of the results obtained by the two delivery method options. Nor do these analyses make it possible to analyze the validity and the accuracy of the savings expected by resorting to the PPP delivery method.

What is more, these analyses do not deal with the uncertainty surrounding the "affordability criterion", namely the maximum budget which the private partner will have to design, finance, construct and operate the buildings. It would have been important that decision-makers be able to evaluate the accuracy of this amount disclosed to the tenderers within the framework of the call for proposals.

## **Qualitative analysis**

A quantitative analysis is insufficient to evaluate the option that offers the best value added. Other factors, which are hard or impossible to quantify from a financial standpoint, may have an impact on the value of the options, and these advantages and drawbacks must be reviewed. In the business cases of Montréal's UHC, the qualitative analyses do not deal much with the drawbacks which the PPP method could entail (example: the uncertainty of the transfer of risks,

the long-term survival of the private consortium, the flexibility to meet the needs) and the advantages of the conventional method.

**Decision-making process associated with the choice of the project delivery method.**

This process revealed the following three deficiencies:

- The absence of a formal approval by the authorities concerned, namely the CHUM, the MUHC, the Executive Director and the MSSS, of the content and of the conclusions of the business cases.
- The absence of a critical, expert and independent assessment of the quality of the analysis of the value added carried out by PPP Québec.
- The absence of information conveyed to decision-makers on the uncertainty surrounding the value added of the PPP delivery method and on the real weight of the assumption concerning the asset maintenance and renewal deficit in the analyses of the value added.

The Highlights are available on the web site of the Auditor General of Québec at the following address: <http://www.vgg.qc.ca> (English home page). The full report and the presentation given to parliamentarians are available under the "Rapports" heading of the "Publications" section.

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