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SELECT STANDING COMMITTEE ON
CROWN CORPORATIONS

Victoria

Friday, November 17, 2006

Issue No. 5

IAIN BLACK, MLA, CHAIR

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SELECT STANDING COMMITTEE ON
CROWN CORPORATIONS

Victoria
Friday, November 17, 2006

- Chair:* * Iain Black (Port Moody–Westwood L)
- Deputy Chair:* * Guy Gentner (Delta North NDP)
- Members:*
- * Ron Cantelon (Nanaimo-Parksville L)
 - * Daniel Jarvis (North Vancouver–Seymour L)
 - * Blair Lekstrom (Peace River South L)
 - * Dennis MacKay (Bulkley Valley–Stikine L)
 - * John Rustad (Prince George–Omineca L)
 - Corky Evans (Nelson-Creston NDP)
 - * John Horgan (Malahat–Juan de Fuca NDP)
 - * Chuck Puchmayr (New Westminster NDP)

**denotes member present*

Clerk: Craig James

Committee Staff: Jonathan Fershau (Committee Research Analyst)

Witnesses:

- Larry Blain (President and CEO, Partnerships B.C.)
- Chan-Seng Lee (Partnerships B.C.)
- Rick Mahler (Chair, Partnerships B.C.)
- Grant Main (Partnerships B.C.)

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MINUTES

SELECT STANDING COMMITTEE ON CROWN CORPORATIONS



Friday, November 17, 2006
9:30 a.m.
Douglas Fir Committee Room
Parliament Buildings, Victoria

Present: Iain Black, MLA (Chair); Guy Gentner, MLA (Deputy Chair); Ron Cantelon, MLA; John Horgan, MLA; Daniel Jarvis, MLA; Blair Lekstrom, MLA; Dennis MacKay, MLA; Chuck Puchmayr, MLA; John Rustad, MLA

Unavoidably Absent: Corky Evans, MLA

Others Present: Jonathan Fershau, Committee Research Analyst

1. **Resolved**, that today's agenda be approved.
2. Pursuant to the Committee's mandate, the following witnesses appeared before the Committee:

Partnerships BC
 - Rick Mahler, Chair, Board of Directors
 - Larry Blain, President and Chief Executive Officer
 - Grant Main, Vice President, Partnership Services
 - Chan-Seng Lee, Comptroller - Finance and Corporate Services
3. The Committee recessed from 11:30 a.m. to 11:45 a.m.
4. The Committee met *in-camera* from 11:46 a.m. to 12:15 p.m. to review their meeting with Partnerships BC.
5. The Committee adjourned at 12:15 pm to the call of the Chair.

Iain Black, MLA
Chair

Craig James
Clerk Assistant and
Clerk of Committees

FRIDAY, NOVEMBER 17, 2006

The committee met at 9:36 a.m.

[I. Black in the chair.]

I. Black (Chair): Ladies and gentlemen, good morning. I would like to welcome members, those in the gallery and listening on line as well as our guests this morning — our witnesses — to a meeting of the Select Standing Committee on Crown Corporations, where today's focus will be a review of Partnerships B.C.

I'd like to start by introducing myself. My name is Iain Black. I'm the MLA for Port Moody–Westwood, and I have the privilege of serving as Chair on this committee. I would suggest we start this morning just with a quick round of introductions, and perhaps we'll start with our guests, the folks from Partnerships B.C. If you'd like to take turns introducing yourselves, then we'll go around the table here very quickly and introduce ourselves as the MLAs.

L. Blain: I'm Larry Blain. I'm the CEO of Partnerships B.C. I'm very happy to be here. Thank you for inviting us to participate. My colleagues here, from left to right, are....

G. Main: I'm Grant Main, a vice-president with Partnerships B.C.

R. Mahler: I'm Rick Mahler. I'm the chair of Partnerships.

C. Lee: I'm Chan-Seng Lee and the comptroller for Partnerships B.C.

I. Black (Chair): Welcome to you all. Perhaps we'll start with you, Dennis, if I may.

D. MacKay: Good morning. My name is Dennis MacKay. I'm the MLA for Bulkley Valley–Stikine, and I live in Smithers.

D. Jarvis: My name is Daniel Jarvis. I'm the MLA for North Vancouver–Seymour.

B. Lekstrom: I'm Blair Lekstrom, MLA for Peace River South. Dawson Creek is my home.

J. Rustad: I always want to call him Prince George. John Rustad. I'm the MLA for Prince George–Omineca.

R. Cantelon: I'm Ron Cantelon, MLA for Nanaimo–Parksville.

J. Horgan: John Horgan, MLA for Malahat–Juan de Fuca, and I live in Langford.

C. Puchmayr: Good morning. I'm Chuck Puchmayr. I'm the MLA for New Westminster, and I'm the Labour critic for the opposition.

G. Gentner (Deputy Chair): Good morning. My name is Guy Gentner, MLA for Delta North.

I. Black (Chair): And, indeed, our Deputy Chair of the committee.

I would also like to introduce Jonathan Fershau, who is our research analyst for this committee, as well as, to my left, Craig James, our Clerk Assistant and Clerk of Committees, and behind us, our very capable team from Hansard, who will be recording our proceedings today and making sure that they go down precisely into the archives of provincial history.

I would like to very briefly walk through the agenda for our meeting this morning. The agenda that we have goes approximately three hours. We will aim to be done on time at 12:30 this afternoon. It follows a format as follows. Effectively, the first hour or so we invite you to make a presentation to us. The second hour is allotted to asking questions from the members, and the third hour we go in camera to discuss the presentation and the questions, and to formulate input into what will eventually be a report presented to the Legislature.

Just for your information, the format and structure of this committee are focused in such a manner that we've got terms of reference that are really focused on four key areas.

The first is that we are interested in seeing what you believe your mandate is. That's the first question we ask: what is your mandate? Hopefully, that will come from your presentation through the questions and answers.

The second thing that we try to accomplish in this meeting is to find out how you know that that's your mandate. Show us a linkage to the service plan that's been committed to by your organization to the ministry in question.

[0940]

The third one is: how are you performing relative to the objectives that have been set out in that service plan?

The fourth question that we like to have answered by the conclusion of this meeting is: how do you know that's how you're performing? What are the measurements you use? What are the processes you use? It's so that we walk away from here, through your presentation and through our questions and answers, with a sense that your organization is doing for the people of B.C. what we hope it should be doing.

The terms of reference, also, are structured for this committee — that this is not a forum, for example, for policy debate. We do not get into issues of whether your mandate is appropriate or not — rather, how are you performing relative to that mandate. We will keep our focus and our dialogue and our questions within that context.

With that said, I would turn the floor over to you to begin your presentation. We look forward to it.

Partnerships B.C.

L. Blain: In our presentation here today I would like to start with a brief overview of our governance

structure. Our chair, Mr. Mahler, will take us through that.

Then I'd like to give a bit of an operational background of our activities over the last year and current year. From there I would move into a more specific discussion of the relationship between our goals and how we're being measured against those goals and, finally, a brief sort of forward look. This is an introduction to our corporate governance, so Rick....

R. Mahler: Let me just walk you through this slide, and I'll elaborate on what's there. As it mentions, Partnerships B.C. is wholly owned by the province. It basically was effected, I believe, in the spring of 2002. I was asked to be chair in March of 2003 and spent quite a bit of time working with the Premier's office in putting the board together, which was appointed in May of 2003.

As it says here: "...reports through to the Minister of Finance." I have quarterly meetings with Minister Taylor and also have telephone conversations on any other matters that come up in between those meetings.

The board of directors. We have nine. We currently have one vacancy. Those directors are selected on the basis of their skill mix, the business acumen they bring to the position. We also obviously looked for gender and geographic balance in putting the board together.

We have members on the board who have, I would consider, more than a working knowledge of education, health and transportation, which are three of the key areas of focus for Partnerships B.C. As you can appreciate, these transactions are extremely complex and require more than a deep understanding of finance in order to sort of dig your way through these things. As a result, we're heavily weighted on that side with the board. We have three members of the board who have chartered accounting designations, as well as two members of the boards that have MBAs in finance.

The two subcommittees we have on the board. First of all is the audit and risk management committee. They've been instrumental in putting together policies and practices to ensure the integrity of the financial reporting system as well as designing performance metrics to measure board performance, which Larry will talk about later, as well as helping the management run the corporation. Again, this is bringing the business acumen from the board to Partnerships B.C. to help them run the business.

The human resources and governance committee has been very active since we've been formed. On the governance side, obviously, we've done all of the things that you normally would have to do with a startup company: putting together terms of reference, workplans for the committee, reviews for the board, etc. There's a guideline that was issued for Crown corporations by the government. When you go through those guidelines.... It's quite extensive; it's about a five- or six-page check sheet. Basically, Partnerships B.C. is 100-percent in compliance with those guidelines.

One of the other main mandates of that committee is to ensure that we have succession, both at the board level and at the management level as well.

On the human resources side of that equation, the mandate there is to basically ensure that our salaries are competitive, are in keeping with industry standards. In that context, we do extensive reviews by third-party consultants to ensure that our salaries are in keeping with industry standards.

L. Blain: Chair, you made the point that you wanted us to be able to explain what our mandate is and how our service plan relates to that mandate. What we've done here is show a direct comparison between the specifications from our shareholder and our letter of expectation, and how we have related our specific service plan goals to the contents of that letter of expectation.

We've done some groupings of the contents of the letter and then related it to the specific service plan goals. As I can mention later on, over time with Partnerships B.C. we have refined our goals as we've gotten used to planning against those goals. We've done some redefinition and clarifications. The goals we are working towards in 2006-2007 are slightly different than in 2005-2006, but only because we think we've refined and clarified them to more precisely meet with (a) the expectations of the shareholder and (b) our ongoing business operations.

The letter indicates that we are to provide expert services to the province, to always ensure that the public interest is served in everything that we do — since we are owned by the province of British Columbia — and also to make sure that we demonstrate as best we can that everything we do is fair, transparent and competitive.

We've created the goal number one, which is to structure and implement public-private partnership solutions which serve the public interest. Our basic objective there is that for the universe of opportunities within the province, we pursue those opportunities for doing various kinds of partnerships with various kinds of partnership solutions, and to transact those partnerships in a way that best serves the public interest.

Second is a longer-term objective, which is not specific project-oriented but rather to build a centre of expertise in British Columbia that will grow our market over the longer run and lower our costs — our clients' costs and our proponent costs — over time by becoming a more efficient model, taking advantage of what we learned on previous projects and using that information in the next project and lowering everybody's costs accordingly. So that's not a specific project-by-project kind of objective but one which positions us in the longer run to reap more and more benefits in the marketplace.

That is now described as "encourage the development of the partnerships market in British Columbia." That goes to using our platform of experience. It goes to encouraging active bidder participation in our marketplace and encouraging new market participants to locate resources in British Columbia or even in Canada, which serve the British Columbia market as well. That's what the second objective is.

The third one. The shareholder wants us to be as efficient as possible and to ensure that we have a high quality of delivery in our partnerships and that we

should remain commercially viable. We had interpreted our commercial viability as being in a position to have a service plan each year where revenues exceed expenditures. Right now we have a contract for services with the Ministry of Finance for \$1.8 million a year, which is revenue for us under that contract, which is approximately 15 percent of our total revenue.

Then there's a list of services that we provide under the terms of that contract. Were we not to receive that contract, if the ministry didn't want to pursue that contract, we would have to be in a position where we could adjust our business so that we would still be able to tender a service plan where revenues exceed expenditures. So commercial viability is that we are positioned on an ongoing basis to have revenues exceed expenditures every year.

[0950]

This is a map of the world. The point here is that all the countries that are in red are countries, or jurisdictions within countries, that have made a commitment to a public-private partnership initiative in those countries, either in the form of creating an entity like Partnerships B.C. or in terms of creating a legislative framework that will facilitate P3s. There are over 30 agencies now worldwide. In Canada there is, of course, us, and then there is also an agency in Ontario and in Quebec. In Australia a number of Australian states have agencies. Elsewhere in the world there are a number of all these countries that have agencies.

The growth of public-private partnerships around the world is quite significant. In the United States the market there is starting to develop at a very, very rapid rate, particularly as all of the large capital pools that are centred on Wall Street are now becoming focused on the prospects in the United States market, given that the United States has such enormous infrastructure requirements and is in fiscal deficits.

So far over our, in effect, four years of existence we have been involved in 21 P3 projects that have had total project expenditures of \$4.7 billion in capital costs, of which \$3 billion has been private capital. You can see that the number of sectors where we have been active is quite wide and that we have been involved in quite a number of transactions in different areas.

I think a takeaway point from this would be that you can see the importance of taking what you learn from a bridge project and seeing how you might be able to apply it in a sports centre project. The linkages are more direct in some cases and less direct in others, but nevertheless, there is a large synergy that is created by having a centre where the information is available from one sector to another. As I will describe, we put a lot of time and energy into making sure that we harvest the information, lessons learned and experience on the projects and make them available for use on other projects.

These are some of the projects which are either under construction or are actually completed. The Britannia mine project, a smaller project that we participated in, is now up and running and, I think, is a very successful project. The centre of our interest in that was the technology that was used. The proponent has taken

the risk on that technology, and in fact, the proponents who bid had different technology that they were going to use, so the province was able to achieve what it wanted, which was purified water, while leaving the technological decision up to the business partner.

The Sea to Sky Highway improvement project we're all aware of. The innovation in that project is that.... There were a number of innovations, but I think the central one is that the Ministry of Transportation and the province had a very specific budget in mind, or an allocation of funds, that would be available for this project. The amount of improvement that could have gone into the project were far in excess of what the province felt that it had available, so the affordability line was defined for the proponents. They bid according to how much highway improvement they could provide for a fixed budget.

The innovation was that the market made proposals as to exactly the extent of highway improvements they would provide rather than the province specifying exactly what it wanted and then letting the market bid to that. I think that was actually an innovation which could have relevance in future transactions where affordability is a top priority.

The Abbotsford regional hospital and cancer centre, which is — I may not be exactly right on the number — approximately two-thirds finished, is quite interesting in that for a major greenfield hospital construction site.... At this point in the process there have been zero net change orders, so it's completely within the initial budget.

[0955]

The Gordon and Leslie Diamond Health Care Centre in downtown Vancouver was just opened recently, and I believe that the users of the facility are extremely pleased with what this facility is generating for them.

The Canada line is a project in which we had a role where we were advising the province of British Columbia rather than the project itself, given the significance of the amount of money that the province was putting it. Our role was to advise the province. As on the Golden Ears Bridge project, we were an adviser to them, but essentially it was a TransLink project.

The Sierra-Yoyo-Desan resource road up in the northeast, which has now been open and in operation for some time, dramatically improved the safety factors in comparison to the old road, and I believe is fundamentally contributing to the increased exploration activity in that part of the province.

The William R. Bennett bridge, a floating bridge in Kelowna, is now under construction and has had a very interesting and competitive process.

The Northern Sports Centre in Prince George was a project where the funding was largely in place before the process was actually commenced. It didn't require very much incremental financing, if any. We started into the process seeking a design-build-operate type of contract. At the end of the process we didn't feel we could get an operating contract that transferred sufficient risk to the operator. So this project is going forward as a design-build project, and I believe all the stakeholders in that project are very pleased with where they are now in the process.

The Kicking Horse Canyon, phase 2 project. Again, it's now under construction, and some very innovative responses are there on the construction and technology side.

This slide shows a summary of all of the projects that have reached financial close and are now under construction or are, in fact, in the operation stage.

Our commitment on every project that we work on is to produce a value-for-money report at the financial closing stage and to indicate in that report why we recommended the process that we recommended; what the objectives were of the province or the agency or the owner in the process; what the possibility was to transfer risks; how the project met all the objectives of the province or where it fell short; and what the expected financial benefits might be over the life of the contract.

All of those things together, some of which are qualitative and some of which are quantitative, are what we call value for money. So value for money includes all of those things.

The column on the left under "Expected Benefit" is one aspect of value for money, which are the expected financial savings that might be realized under the contract. You have to understand that these contracts are set up on a performance payment basis. The business partner has to do what it is supposed to do under its contractual provisions and has to do everything in order to receive performance payments for what it has done.

We're assuming that all of the performance payments are paid in their maximum. If all of the payments are paid in their maximum, then these would be the benefits that we would expect under the contracts.

You can see that in every project there are expected benefits. We don't know for sure. The SYD project was one of our very first projects. We were just getting up and running, and at that point we didn't define a public sector comparator or compare the project contract against the public sector comparator, so we don't have an actual financial benefit there other than the fact that the road itself is leading to increased provincial royalties in that area of the province.

[1000]

On the status side you can see that the SYD resource road was in operation three months ahead of schedule. The ambulatory care centre in Vancouver was a few weeks early and on budget. Abbotsford — it's on time; it's on budget. No net scope changes.

The Britannia water treatment plant was completed on time, on budget. The Sea to Sky Highway is currently on time, on budget. The William R. Bennett bridge is currently on time, on budget. The Canada line is on time, on budget. The Kicking Horse Canyon project, phase 2, is currently on time, on budget. The Golden Ears Bridge project is currently on time, on budget, and the Northern Sports Centre is on time, on budget.

This slide is just to give you an indication of some of the new market participants who have been involved in these projects in British Columbia. This is not a complete list, but it's an interesting list. Some of the participants are from outside British Columbia who

work on these projects in combination with local participants.

There are some financial institutions, like ABN AMRO and Macquarie Bank. Major construction companies new to British Columbia — Bilfinger Berger, who is the partner on the Kicking Horse Canyon project, phase 2, and also the Golden Ears Bridge project. Giffels from Ontario, a major stadium builder in Ontario, is now working on the Northern Sports Centre and is also involved in other projects now in British Columbia. SNC Lavalin, of course, has been in British Columbia for some time, but this was their development company and their SNC Lavalin capital company. And on it goes.

Sources of capital. You'll notice that these are sources of capital which are completely new to British Columbia. The Royal Bank of Scotland, the Bank of Ireland, Deutsche Bank, Nordbank, Société Générale, CIT — these are all banks who are lending to the developers who are participating in projects in British Columbia. B.C. Investment Management Corp., the province of B.C.'s pension management entity; the Ontario Teachers; Sun Life; large life-insurance companies. DEPFA is a German bank. Dexia is also.

The construction sector. As I mentioned, Giffels is new. Bilfinger Berger is new to British Columbia. Parsons Overseas is new to British Columbia. Flatiron have been in British Columbia but are now in a much greater way. I think that the point here is that we're having new players, and the more participants you have, of course the more opportunity you have to have competition and innovation in the bidding process.

Since some of these projects have reached financial closing, we have received some recognition for these projects. The Canadian Council for Public-Private Partnerships provided a gold medal for the SYD project for its innovative finance structure. The Abbotsford regional hospital centre was a runner-up for best global project by *Public Finance* magazine, which is an international project finance magazine.

In 2005 the Sea to Sky Highway won a Canadian Council national award for innovation and excellence. The Canada Line received an award from *Project Finance* magazine for the transportation deal of the year. The Abbotsford regional hospital received a merit award from the Canadian Council, and *Project Finance* magazine, which is related to *Euromoney* magazine, gave them a deal-of-the-year award as well.

This year so far, Sea to Sky Highway: *Project Finance* magazine — best global project to reach financial close; and Partnerships B.C., *Public Private Finance* magazine — runner-up for the best government agency team.

A couple of quotes. The chair of the U.K. public-private partnership export advisory group is quoted as saying that Partnerships B.C. is at the vanguard of public-private partnership agencies worldwide, and British Columbia has been receiving international accolades for its early accomplishments in the area of P3 development. Not that we are supposed to go around blowing our horn, but I was told to describe where we are at to date, and so I am doing so.

One of the measures of our performance is the response of our clients to our work, and I'll be making reference to that later, but I thought that I should dwell on it a bit in this process. The first couple of years we did a client survey.

[1005]

By clients, those would be ministries or agencies of government that used us to do a project. We would typically interview the deputy minister or the CEO of the health authority, for example. That would be who we would view as our client. The last time we did this process, we actually had this done by a third party to ensure that it was a completely independent perspective. The first year, I think, our chair did that, but we thought it could be even more independent by having a third party do it.

We also interviewed people in the middle management ranks, as well as just deputy ministers, to get a sense not only of the end result, which would be the deputy ministers' perspectives, but also of the process of what it was like working with us from the middle managers who were actually involved in the project teams.

The results from this recent survey were that in every category over 90 percent of clients were satisfied. I thought that the second bullet was particularly relevant to us and that our clients felt that we understood what they were trying to achieve and what their objectives were. In a sales type of organization the most important thing is to understand what your client is trying to do, rather than them understanding how you are going to do it. Also, I thought it was important that these people who were interviewed would recommend that other people use us and that, at the end of the day, our analysis was objective and neutral with respect to the objectives that the ministries were trying to achieve.

What is it that we do? This is our service model. Since we do market a fairly wide range of services, I thought it would be important to describe what the services are that we provide.

We view the project process as something which commences with the client identifying its own need through some form of prefeasibility analysis and going through a more comprehensive business case, to the point where government approves the project as a capital project or where there is an approval to go forward, which would commence a procurement stage.

A procurement stage could involve a process of early screening of candidates and their qualifications, followed by a more elaborate response to an RFP type of stage, then ultimately going to a one-or-two-preferred-proponents stage and then negotiating a contract. Then, at financial closing of that contract there may be a need in some cases for us to provide an ongoing project-monitoring capability after financial closing and while construction is going on.

Those are all services that we provide. In not every case does the client want us to provide every one of those services, so it's a package of whatever is being sought. What goes into this process is the concept of our centre of expertise and the utilization of best practices based on the experience of what we have worked on to date.

Another key ingredient from our work on developing our market is that we want an active market to create competition in the bidding process. We want best practices to go into this process. We want innovation and competition to go into this process, and we also place a very high priority on the fact that throughout this process there has to be fairness and transparency.

Those inputs go into all of the services that we provide. What we want to come out the other side in the form of a product for a client is an innovative process that leads to the benefits of innovation, that transfers to the business partner those risks which are most appropriately transferred to the private partner and then, ultimately, value for money, as I described before, which would include the qualitative benefits and the expected quantitative benefits, all of which are compared against the initial objectives of the client in starting the process.

I won't go into any more detail than this, I promise you. Through these key phases of business planning and then the procurement in the marketplace and then, finally, the implementation after you have reached a contractual relationship with a partner.... There are a number of aspects of that. In the business planning stage, obviously, it's essentially a lot of analysis and making assumptions as best you can about what the result might be if you take certain alternative routes.

[1010]

There's a very comprehensive quantitative analysis — financial modelling — of the project. We have reached a fairly high level of sophistication in doing a risk analysis, where we identify all the possible risks that might be in the project. We quantify the probability of certain risk outcomes, and we quantify the cost of certain risk outcomes in the event that they were to occur — all of which, I might add, is completely new to capital project planning in British Columbia or anywhere else in Canada. This is a new approach with greater depth of analysis of risk allocation between the various participants in a major capital project.

We do a multicriteria analysis, where the various options are compared to the various objectives of the client or the owner. We calculate a public sector comparator, which is to assume what it is.... We would prefer the owner of the project to assume what they would have done had they not done the procurement option they are currently following. In other words, if they were to do it in a traditional way, what is their best estimate of what the project would have cost? We have refined that to a fairly high degree of sophistication, and so we can then assess against that benchmark what our preferred procurement option should be.

From a planning point of view, the public sector comparator has a critical importance. Before you do the project, you want to know that the option you have chosen will generate the best expected result.

During the procurement process itself we rely fairly heavily on market sounding — on having consultations with the various interested participants in the marketplace as to how the process will work for them, whether they will be interested in participating and

what certain critical points might be. We want to provide to that process a lot of the best practices that we have developed on previous transactions. If we have a request for qualifications that was developed on one process, then we can use that as a starting point on the next process and thereby reduce the requirements for lawyers and a lot of advisory services.

I might make the point that in the best-practices and knowledge management area we've had a significant priority over the last 18 months in building an Internet-based knowledge bank that includes all of the information from all of the projects we have worked on. When we start a new project, we create a team site on that knowledge bank so that the clients can have access to the knowledge they need to get the project going forward. This is a state-of-the-art concept. It's proving to be very useful, and I think it's saving everybody significant amounts of money.

This is our organization chart. The key point I wanted to make here is that we are organized according to the processes of the business. On the left we have a vice-president and a responsibility area of project oversight and project development. So it's basically projects. All of our employees spend some time working on projects, and they spend some time working in the other parts of the company that are basically working on best practices and providing services to projects.

On the left-hand side it's basically projects governance, projects delivery, projects development. The central area is vice-president partnership services, which is developing our knowledge bank, developing our policies and practices. And perhaps most importantly, this area is where we have a commitment to quality assurance.

When a partnership project is in the procurement stage, it's in a public market stage. That is the risk area of our business, where we have to make very, very sure that everything we do is fair, transparent, open and using best practices. So we have a high priority on making sure that all of the documents that go into this process have gone through extensive peer review and have had a high degree of quality assurance before they are used in the procurement process.

[1015]

We're organized that way. We're organized so that the partnership services area is providing the quality assurance on the project area, rather than it all being internal. It gives a kind of third-party or peer-reviewed test on everything we do. I think this is a fairly standard way for a consulting-type firm to be organized so that there's quality assurance layered upon the people who are responsible for delivering projects.

To date, to summarize what I think the platform of experience is for Partnerships B.C. at this point — after, in effect, four years of being in operations — firstly, I think we have achieved very high standards for business planning, for doing procurement options analysis and for doing risk-transfer analysis. Secondly, we are sharing best practices now. We are moving documents from one type of project and into another, and there are demonstrable, significant savings that are resulting

from doing that cross-ministry or cross-project sharing of information.

Our knowledge management system is now up and running and state-of-the-art. We have a high degree of quality assurance. I would argue that for our projects we have the highest level of public disclosure and transparency for capital project procurement anywhere in Canada.

We have achieved a fair and competitive process for every project we have done. We have a fairness auditor, a fairness review participant, for every project, monitoring all of our meetings and processes and providing an opinion at the end of the project that the process was fair, transparent and competitive. We're seeing, as I mentioned before, that the projects we're working on are on schedule and on budget. In every case we expect financial benefits to result from the process.

Going forward, I wanted to highlight a difference between the basis of the '05-06 service plan and the basis of the '06-07 service plan. Just as we have proceeded to gain experience and to evolve and work with our clients, we have changed our focus between '05-06 and '06-07 to some — I wouldn't call it significant — degree. We are now charging for our services on a per-hour or a per-diem or, basically, on a cost-of-service basis.

Initially we were charging cost of service and then charging success or completion fees at the end of projects, the idea being that a project done today would provide some funding for projects going forward. We have discontinued that, so we've actually reduced our revenue base for '06-07 because we thought it was more appropriate to charge on a cost-of-service basis.

We are further focused on providing efficiencies. We invest our benefits in clients and projects. What I mean by that is this. If we develop, for example, a financial model for one project for one client and we have a certain cost of service to develop that financial model and if we use the same model for another ministry for a second project, we won't charge for the development of that model. Private sector entities would try and do that, but we'd only charge cost of service. We, in effect, give away the contents of our knowledge bank in an appropriate way.

That's the benefit of our model. We are flowing through to our clients rather than trying to increase our profitability. We want to remain commercially viable, which is, in the long run, to have revenues exceeding expenses. Any benefits above and beyond that, we want to flow back through to our clients and into the projects. That also means that we generate more benefits by increasing our emphasis on productivity rather than profitability. You'll see in our measures that there's an emphasis on productivity rather than profitability.

The '05-06 service plan and the '06-07 service plan. As I mentioned, we consolidated the goals from '05-06, redefined them and clarified them in the '06-07 service plan. The differences are mainly to clarify then to be of substance, except insofar as goal 3 states that we are to remain commercially viable and increase productivity, whereas before it was stated as commercial viability.

[1020]

Goals, objectives and performance. Goal 1 is on the '06-07 basis. You can see the accomplishments in '05-06. These are the measures against the objectives. The projects that we worked on demonstrated value for money. We had a high level of client satisfaction, and we had new engagements with non-provincial clients. I think this involved an arrangement with the province of Quebec and also some work in the Yukon Territory.

Performance measures in '06-07 — going forward again to increase the number of engagements to pursue those opportunities which are present for us. That has a physical measure of revenue growth which reflects the pursuit of opportunities, again focusing on client response and survey results.

Publishing our value-for-money reports and meeting our project milestones. We have in every engagement a comprehensive list of all of the deliverables, the timing of them and the nature of them. We monitor our progress against those milestones, and then the board of directors reviews our progress against those milestones.

The second goal, which is the broader goal of encouraging the long-term development of our market. We want to improve and perfect our centre of expertise, keep an active bidder community interested in British Columbia and increase the number of participants in our market.

The '06-07 performance measures. Are there new market participants coming to British Columbia or coming to Canada to provide resources for the British Columbia market? Can we show demonstrated examples of where we are showing cost reductions as a result of using information from previous projects, examples of best practices we have developed which are being used throughout government or by other governments and indications of external validation of our work?

The third goal is to remain commercially viable. There's a change here from '05-06. There was a net-income-margin target set by our board of directors, which was an absolute target that we met. Then in '06-07 we are to meet the financial plan targets, which include a net income target of 15 percent, so a cushion or a contingency of revenues exceeding expenditures is our starting-out target. If there are profits exceeding the target, then we would reduce our charge-out rates in the following year so that we could flow the benefits through to clients.

We do have a client survey in alternate years. We do an employee satisfaction survey in the alternate years, and this year we'll be doing one because a very important measure of your ability to perform going forward is if your employees are satisfied with the work environment, committed to staying, committed to the projects and receiving the training and development they need. So it's important that you measure that.

Going forward, starting to think about our '07-08 service plan, some factors that I think are relevant. The Canadian market is expanding. The agencies in Quebec and Ontario are now another year up and running, and they have very significant lists of projects that they're working on. So British Columbia has to compete to make sure that our market is appealing to those who are interested in Canada.

On the one hand, it makes Canada a bigger market from a global perspective, which is good. But it also means we have to be relatively appealing within that market, which is a challenge and which we are working at. I believe that today most market participants would view us as a very appealing market from the point of view of processes and the client understanding documentation and issues.

Within British Columbia there's a very hot construction market, as we all know, which makes it more difficult to achieve risk transfer and to achieve fixed-price arrangements. But that's just something we need to deal with. The province has very significant infrastructure growth, and we have to be capable of identifying the opportunities within that growth to be able to provide our services.

[1025]

Going forward, we have to make sure that we build on our platform of experience and what we have learned to date. Our key to success, I believe, is to be able to use what we have done to improve the efficiency and effectiveness of processes going forward.

If you want more information on Partnerships B.C., if that's not enough, I invite you to go our website where there is a world of information at your fingertips.

I. Black (Chair): Thank you, gentlemen, for the presentation. I am always impressed by a presentation where the presenters resist the urge to show us the org chart until page 16. That's a standard that I watch for. It's always tempting to throw it in as a second chart.

Thank you for that broad overview of Partnerships B.C. Yours is an evolving organization within an evolving and growing community of P3-type organizations both in Canada and around the world. I'm sure we're going to have some interesting questions, and we're going to move to that section of our meeting in a moment.

Before I start writing down a speakers list, I just wanted to remind our guests and our members of the process. We're trying to limit anything resembling a follow-up question if it's not directly related to the first one. So expect me to be rather strict in that regard on both sides, especially with you.

Having said that, the process I would like to follow is to allow each member to ask a question before going to second questions. So we will do a complete round before we go on to seconds — time permitting, of course. I'm open for people to go on the speakers list.

J. Horgan: Before I get to my question.... When I go shopping and I'm going through the magazine racks, I don't see *Public-Private Finance* magazine or *Project Finance* magazine North America. I'm wondering if, in the interests of better information for the committee, you could provide us with recent editions of those journals so that we would have a better sense of what the subscription service would be and who reads it and what they're actually saying.

L. Blain: I'd be happy to provide you with the websites, and you can go and check them out.

J. Horgan: Terrific.

I. Black (Chair): You just don't shop in the right places.

J. Horgan: I guess not. I don't see them at Thrifty's or at London Drugs.

I. Black (Chair): Was that your question? Do I get to move to someone else now?

J. Horgan: No. My question is around compensation. I know Mr. Blain and I have been associates for some time. I used to call him my favourite investment banker, and I think he used to call me his favourite socialist. So we have a long-term relationship. I might be the only socialist he knows, and he's certainly the only investment banker I know. But that doesn't mean I think any less of him.

I am concerned, though — and certainly, I received a lot of correspondence in my constituency office last spring when compensation levels were made public.... In light of the Premier's new directive ushering more work through the door at Partnerships B.C., I'm wondering if the CEO could enlighten us as to what the structure of his bonus package will be and if this increased amount of activity will lead to higher compensation.

Just for the members opposite, I note that the compensation for the CEO is greater than the sum total of all the government members here today. I know a lot of people would think that government members are providing a greater service than the consultancy at Partnerships B.C. With that, I will conclude my question.

L. Blain: I can't answer your question directly, because the Premier's announcement was two weeks ago. We are assessing the impact on our business model in general, and there are a lot of operational issues around that. We need to have a board of directors meeting for them to review what the implications of the model are.

At this point I'm not certain, but I can say one thing. There are two dimensions to what it might mean in terms of the consideration of our compensation philosophy. Any more detailed questions, I think Rick should answer. I think the two points would be: to what extent does the Premier's announcement imply mandated business for Partnerships B.C.? The more your business is mandated, obviously the easier it is to obtain. I think that's a definite consideration.

Secondly, what does it mean for the volume and the scope of what we have to do? I think those would be the two things that would have to be taken into account. I really can't go any further at this point because I'm not exactly sure.

R. Mahler: Just a follow-up on that. When the announcement came out, I had a conversation with Minister Taylor. As I mentioned before, we have yearly reviews of compensation. We were just basically at the start of looking at 2007 with an external consultant, so the conversation I had with the minister is that we

would take the new capital plan or new capital procedure into consideration when we were looking at the '07 compensation.

[1030]

D. Jarvis: Thanks for your presentation. I was just wondering.... I'm just a poor little city boy, so I don't understand most of these things. I was wondering if you could tell me about the risk aspect. Just how does it work, how do you measure it, and what would the advantage to the taxpayer be?

L. Blain: Maybe I could best answer that with an example — say, the Sea to Sky Highway project, for example. There is a wide range of risks that the public owner faces in a project like the Sea to Sky Highway. One is the design risk. What is the scope for innovation and design in a very complicated geotechnical environment? What are the risks of construction price increases in an environment where there are shortages of skilled labour and material prices are changing dramatically?

There's a very significant schedule risk, in that it has to be done in time for the '09 Olympics. And what are the implications of the project becoming behind schedule? What is the risk if you don't maintain the road properly or if you don't have the budget for proper maintenance? What are the consequences of that for expenditures down the road?

At the end of the contract the improvement to the highway project is returned to the province for their operations, and it has to be of a required standard. So there are requirements that the highway be returned in a prescribed condition. All of those things that I mentioned have subdimensions. Different things can happen, like a mudslide, bridge washout — all the consequences of various events that can take place over time.

We list all of those things, and we estimate what the probability might be of certain events occurring and, if they did occur, what the financial cost of those events would be. Therefore, we can value what the benefit would be to the province if the business partner were to take all those risks instead of the province.

Instead of the province, in a sense, self-insuring all these risks, the business partner contractually becomes committed to providing certain highway improvements at a fixed price and is faced with very significant financial penalties if they fall behind schedule towards the end of the construction period and very significant financial holdbacks at the end of the contract if the road is not in the condition that it's supposed to be in. For all of these things the private partner assumes those risks. We put a value to the province — or to the Ministry of Transportation. We place a value on not having to face that risk.

Believe me, if you were to talk to the Minister of Transportation today, I think.... Well, he has said publicly a number of times how comfortable he is with the position he is in on the projects he's working on, because in this environment he doesn't have to worry about the impact of those risks going offside against him. Does that answer your question?

D. Jarvis: Well, yeah, to a degree. Would you be prepared to — say, for example, on the Sea to Sky — come up with sort of an increment or a dollar-and-cent value?

L. Blain: We do. There are those risks that we feel we can quantify the impact of, so in our *Value for Money Report*, we disclose the present value of all of those risks over the life of the project, and it's a number.... I don't have it at my fingertips, but it's a significant number, and it's the quantified risk that is transferred to the business partner. We attribute that as a value to the province in proceeding with this procurement method.

D. Jarvis: So in the transparency aspect of it....

Interjection.

D. Jarvis: Am I out of order now? I was going to ask, although I was out of order: is there a time when my constituents will know that there's a value to them?

L. Blain: They know now. It's in the *Value for Money Report*, and the number is there. It is disclosed. We don't break it down into all of its detail for public disclosure, because we can't reveal to the marketplace how we feel about every risk issue.

[1035]

I. Black (Chair): Thank you for so generously stretching the rules of my question-and-answer period, Member Jarvis. You're new here, I know.

Incidentally, I'm not sure if this is related to it, but on page 9 of the slide handout there's a list of expected benefits from the Sea to Sky Highway. That may also help answer your question, Member. Next I will turn to Chuck for, hopefully, a much more disciplined series of questions.

C. Puchmayr: Maybe I can follow up on some of the previous, with regards to risk. I'm just trying to get an idea here of when government builds a project, the risk certainly is to the taxpayer. When you go into these P3 partnerships, investors have to invest in the project and they have to get a pretty fair and secure return. We're talking some significant pension funds involved in here. So when you're talking about value, are you talking about value to the taxpayer, or are you talking about value to the investor?

L. Blain: We're talking about value to the taxpayer. The analysis is done from the perspective of our client, the owner of the project, and if we have done an analysis which shows that the government owner stands to have a financial benefit in comparison to doing it in a traditional way, then we would recommend that they do it. It's entirely from the perspective of the taxpayer.

C. Puchmayr: What if the traditional way was simply that government is able to borrow money at a cheaper rate than you going out into the investment

community and borrowing? Wouldn't a lot of these projects be cheaper or a better benefit to the taxpayer than investing in something that is probably a minimal risk to the investment community, because they're requiring such a significant proportion of that to be covered off by the risks involved? So wouldn't being able to borrow cheaper than the banks be a value for the taxpayer as opposed to a P3?

L. Blain: In the analysis that we do, if the benefits that we expected from the competition, from the innovation and from the transfer of risk to the private business partner don't exceed the higher cost of capital, then we wouldn't recommend it.

B. Lekstrom: A question from page 13. I think it goes with you as a relatively new organization. The client survey results that you talk about.... I think those are pretty impressive numbers that you see. From the ballpark of the 10 percent left there.... Obviously, I would think, as an organization, you learn from that. Is there any one thing that jumped out at you from the clients, where they said, "Look, we need you to look at this so as to improve," or whatever?

L. Blain: Yeah, that's true. I think that the one comment received — particularly two surveys ago and, to a lesser extent, this most recent one — is that the clients wanted us to have our technical skills even more advanced from the point of view of project management and the skills of the PERT charts and all the technical aspects of monitoring a very large capital project. They would prefer we bring that in-house as a capability rather than in bringing it in through external advisers, because they would feel more comfortable getting the same kind of project management advice from project to project. So we actually have done some training in that area, and we're trying to beef that up.

G. Gentner (Deputy Chair): It is indeed a pleasure to be here today. I know we'll all be able to practise up our debating skills, knowing there was not a session up until, hopefully, tomorrow.

I. Black (Chair): Keep it focused, Member.

G. Gentner (Deputy Chair): I won't follow up the question about whether or not Mr. Blain believes he's worth four times the salary of the Premier. I will go on to page 9 of what was shown on the display — namely, projects which are seen to be on time, on budget. You could pick any one of these, I suppose. One that comes to mind, of course, is the Abbotsford regional hospital and cancer centre. In 2001 it had an estimated cost of \$211 million, and we had a new government that reassessed it with a P3 at about \$328 million, and now we see that the capital cost is \$355 million.

[1040]

Originally it was to be completed in 2007. My understanding is that that's been bumped up. Therefore, on-time, on-budget is questionable. However, I

want to ask the question relative to the total construction costs over the 33-year contract. Is it part of the \$355 million, is it \$720 million, or is it \$1.4 billion?

I ask the question because recently, during the Auditor General's review of the Partnerships B.C. report on Abbotsford hospital.... The report stated:

"However, as we continued our work, one great difference became apparent. Financial statements are about the past. Transactions have already happened; amounts have been paid and goods delivered. With sufficient audit effort it is possible to have a high degree of assurance about a financial statement. However, a report such as that of the Abbotsford hospital, which is written in the first days of a multi-year contract, is essentially about the future, where we believe it is impossible to give a high degree of assurance."

My question, therefore, to the CEO is: what are the actual costs of the Abbotsford regional hospital and cancer centre? Can you reassure this forum that when an audit can be completed after the contract in 33 years, it will meet the projected budget? If not, whose head is going to roll 33 years from now?

L. Blain: The first part of your question about the cost of the project.... I had understood that the purpose of this meeting was to talk about service plans. I don't have a lot of detailed information here on specific projects, so I can't really answer that question here today.

The second part of your question about the ongoing performance of the contract is, I think, a very good question. In my discussions with the previous Auditor General, I think we both agreed that there is a very genuine public interest in reviewing these projects, and Abbotsford would probably be a very good candidate, on some periodic basis — every five years, every ten years — to see whether the contract performance is performing as everybody expected. They have done this exercise in the United Kingdom, and I think they have got some good results out of it about how to improve the process going forward.

I would share your concern — if that's what it is — that we don't know at the beginning exactly how the performance will result. We have a very high level of confidence that we have selected the right partners and we have the right contracts, but of course you can't anticipate the future until you are there. But it should be reviewed on an ongoing basis, I agree.

As to whose head should roll at the end of 33 years, I'm afraid it won't be mine.

I. Black (Chair): Thank you very much, Member. I think the Premier's heart will be warmed by the suggestion that you think he's underpaid for the contributions he's made to the province. I'll be sure to pass that along.

J. Rustad: Thank you for the presentation. The whole idea of Partnerships B.C. is one that I think is quite innovative in terms of the approach and the differences that you can find in terms of how to actually achieve projects.

In many of the discussions I've had with the construction industry — although this doesn't apply spe-

cifically just to Partnerships B.C. — there is a concern around the increasing complexity of proposals and the need for companies, of course, to bring on the expertise in order to put together the proposals. There is quite a cost associated with that on the construction company's side.

The question I have is: have you considered, or are you currently doing, a standardized process around proposals, around the information that you want to receive and the types of format that that information should come in, which would ultimately lead to some streamlining for the industries that would be bidding on the project? Taken that this isn't just something that would happen for Partnerships B.C.; this is something that is broader than that.

In terms of the projects that you're looking at, have you delved into that, and are you currently looking at a process?

L. Blain: I think part of making our market attractive, not just for public-private partnerships.... The large design-build-operate-finance type of projects, but even the smaller design-build type of projects....

[1045]

It's absolutely critical that we standardize as much as possible to lower not only our costs but also the costs of our proponents. The benefits of this come whether it's design-build or whether it's a more comprehensive public-private partnership. The benefits come from the degree of competition. The degree of competition is going to be based upon how appealing they find our market.

I know that large construction companies, when they look at a project, take the probability of the government making sure the project goes ahead times the probability that they will win. That's the probability that tells them. They compare that to the cost of participation, and that's where they make their decision. So we absolutely have to standardize as much as possible.

One of the things we've also learned is that in the market we are currently in, with a very active construction market where everybody's quite busy, a lot of the intermediate-sized construction companies would prefer to be bidding within the context of a public-private partnership where they can work with a developer or a long-term operator. They can share the risks of bidding over a group and over a longer period of time rather than having to incur it all themselves in the event that they lose.

That is, in a sense, making the P3 design-build-operate-finance or design-build-maintain-finance type of model in some cases more appealing in an active market. Our whole thrust behind the centre of expertise, best practices and quality assurances is founded on our desire to standardize our process.

R. Cantelon: Once again, thank you for a very excellent presentation. It's been very informative. I think P3 is, to many people, a bit of a mystery, and I think you've helped us out with that a lot today.

Looking at your presentation, it would seem to me that the approach of the business planning is a key to

achieving the cost benefits that you've discussed. You look at alternates to approaching projects. You expanded a bit on it with the Sea to Sky. I'd be particularly interested in any further expansion but also in the public sector comparators — what sort of aspects you look at in that area and if that would apply to municipalities doing municipal projects.

L. Blain: I think one of the benefits of at least looking at a P3, even if you decide that it's not appropriate in every case — which it is not — is it causes you to look at the life cycle of the project. So it's not just the capital cost, but it's the ongoing expenditure over a long period of time.

This is something that government does not do enough of, in my opinion — to look at the full project cost and to have a comprehensive discussion about: what are the risks in this project and what really, if we do it in a traditional way, is our self-insurance? What are the things that we're not really facing up to?

At least, going through the process causes you to think comprehensively about the whole project over its whole life. You may decide that in a certain case there isn't enough long-term risk that can be transferred or that it's not a project that is open to a lot of innovation. It's a tried-and-true kind of situation, or it's just too small to warrant the kind of transaction commitment that is involved with a bigger P3.

In those cases, you say, "Well, we've done the analysis. We should do a design-build," or: "We should do a design-bid-build." When you think: should a municipality do it...? If you turn that question around, why would they not? Why would you make a \$30 million or \$40 million capital commitment without having thought fully about what the different options are, what the budgetary consequences are ten or 15 years from now and when it has to be rehabilitated and all these things?

It's just a better way of making a big decision. These are large projects involving a lot of money. At least it causes you to go through the exercise. Believe me, when you go through the exercise of really thinking about the risks in a project or the scope for innovation, you'll learn stuff when you go through it. You definitely learn every time.

R. Cantelon: The follow-up was the public sector comparators.

L. Blain: Public sector comparators. Sorry, I forgot that.

It was interesting on the Sea to Sky project that the ministry, had they not done a public-private partnership.... Well, actually, the Sea to Sky has a public sector portion for approximately a third of the total capital cost. The P3 contract is for two-thirds of the total.

[1050]

Of that two-thirds, the ministry felt that had they not done a P3 with one contract over the whole highway, with the operation and maintenance over the life of the contract extended to the whole highway — not just the two-thirds that they were doing the construc-

tion on — what they would have done would be to have broken the contract down into about seven smaller design-build packages. There were no design-build companies prepared to take the risk of the whole project without sharing that risk with other developers and financial interests.

Had they done it without a P3, they would have done the seven design-build packages. So for the public sector comparator, we laid out what those seven packages would have been and what certain risks the province would have had in integrating those seven packages and then came up with a set of assumptions, which would have been their plan going forward had they not.... In fact, it was their plan B. I mean, they had pretty fully developed it in the event that they couldn't have consummated the P3. They would have done this as plan B, and that became the public sector comparator.

R. Cantelon: Great. A very quick follow-up. So this is where the principal benefit is then derived in terms of cost and value to the shareholder — the planning, essentially?

L. Blain: Well, that's where you develop the expectation of the benefit, and it causes you to make the right decision. As the previous question indicated, you don't know for sure until 30 years from now.

I. Black (Chair): Thank you. The last question from our first round here.

D. MacKay: I have to say, Larry, that Partnerships B.C. is obviously something fairly new to the province, and I don't know very much about it. I tried to read the package before I came down here, and I was somewhat confused trying to read the package. You've done a pretty good job of giving me a grasp of the intent of Partnerships B.C. with your presentation today, and I thank you for that.

I still have some questions in my mind about how it actually works. I guess, because I live in a part of the province that doesn't have any P3s underway at the present time up in the northwest part of our province, and I can think of a couple.... I apologize for the preamble here. I will get to a question.

When I look at the projects that are under construction or operating today, a good number of them are highway-related — even the Sierra-Yoyo-Desant Road, a road up in the northeast part of our province. And that dispels the old rumours that nothing is ever done in the northeast part of our province with regards to roads and that they're travelling on potholed roads all the time.

It begs the question. When I think about Highway 37 north and the mining activity that's taking place up there and the lack of infrastructure for power, I'm hoping that you people are in consultation with B.C. Hydro to find some way to make this P3 project work to electrify Highway 37. I'll leave it at that. Now I want to get into my question here.

L. Blain: We are.

D. MacKay: Thank you.

One of the things that I did pick out of your package as I was trying to read through it and understand it.... You talk about improving — this is on page 2 of your letter of intent, I believe it is, shareholders' letter of expectations — customer services to the shareholder and other public sector client agencies. What do you use to measure whether or not you're actually meeting that expectation of improving customer services?

L. Blain: We just do a client survey.

I don't know, Grant, if you know the numbers as to how many people we went to? I'm guessing that it was perhaps 30 middle managers and six to ten deputy minister CEOs, in that order of magnitude. We had a third party interview them and ask them exactly whether they were getting the service that they required, whether it was the right product, what our weaknesses were and how we could improve our service. We as management are measured against our ability to respond to those queries.

D. MacKay: That's done every second year?

R. Mahler: About every 18 months.

I. Black (Chair): We now move into our second round of questions, and I already have a speakers list before me here. Let me remind our members on both sides that the latitude of the Chair with respect to follow-up questions will be directly correlated to the length of the preamble and the relevancy to the question that's ultimately asked at the end of said preamble.

So with that cautionary comment, I will turn to the first name on our second round of questions, which happens to be Blair.

[1055]

B. Lekstrom: I wanted to go back to slide 9, the projects under construction or operating. I'm maybe just looking for some explanation. When I look at the capital costs and expected benefit, the Sierra road definitely shows \$250 million a year in royalties projected as a net benefit. You project that over a 20-year time frame, and you've got a \$5 billion net benefit to the province.

On the others.... When I look at it — and I'll give you an example — whether it be the William R. Bennett Bridge or the Canada line, I see a capital cost and then I see an expected benefit. Is that expected benefit you're showing in that column only in the dollars saved as a result of the P3, or is it in less commuter time? Is all of that taken into consideration when we look at the benefits side of it, as I'm guessing we probably did, in the first one with the royalty infrastructure?

L. Blain: Good question. You know, when government makes a decision about a capital project, there are two dimensions. One is the investment decision, which is: is this a good use of money to spend on this project? Going into that, the investment decision would be: are there benefits for passengers, are there economic bene-

fits from the project, or does it meet government's needs? All of those sorts of things would go into a cost-benefit analysis around that investment decision.

The other part of the government's decision is a procurement decision, meaning: if we're going to do the project, which is the best way to procure it? These benefits would be the expected benefits of the chosen procurement option compared to the public sector comparator. So if they were to do a traditional procurement or what they did do, then these would be the benefits that could reasonably be expected over the life of the contract.

B. Lekstrom: Okay. Another follow-up. I guess I'd be remiss if I didn't point out that the highlight must be the resource road there with the return on the capital investment from the northeast of the province.

L. Blain: I qualified that earlier by saying that was the first project we worked on that we didn't calculate a public sector comparator. These are the benefits. In a sense, they are the investment benefits.

B. Lekstrom: Right.

I. Black (Chair): Constituents of the north can be rest assured that their interests are being advocated for in a very healthy manner here this morning.

J. Horgan: Just to clarify. Member Lekstrom, of course, those royalty benefits would have resulted whether or not public-private partnerships had existed, so I think it's a bit of a stretch to say that were it not for the good work of Partnerships B.C., we would have no royalty revenues from oil and gas in the northeast. But if you want to leave the public with that impression....

Interjection.

J. Horgan: If we can talk about where we were with the Oil and Gas Commission as well, I think it was in the dark '90s when the rain came tumbling down day after day.

I. Black (Chair): Your point? And you do have one, I'm sure.

J. Horgan: I'm moving on to a question, and it relates to performance measurement, which I also know is a fixation for many members and certainly one that we want to focus on today, particularly in light of the bonuses that result from performance within this organization. Prior to Partnerships B.C., the criteria for capital project existed. They were: was it in the public benefit, and what would be the best procurement route to realize that public benefit? I'm not sure why Partnerships B.C. would be adding a benefit, as is outlined on these lists, in terms of the public good.

What I want to focus on is a question about the survey results.

I. Black (Chair): You're almost out of time, Member.

J. Horgan: Yeah, now we've got rules.

The survey results on page 13. With the command and control model of government — this government and every government — where the Premier's office controls activity and directs things, with a CEO who was on the transition team for the new government, I find it quite striking that 10 percent of the respondents, middle managers who would like to be senior managers, had the gall to say: "You're not very good, and we wouldn't recommend you to someone else."

So I'm interested if you could provide us with the data that says those 10 percent of brave souls who stood up to the Premier's office and said: "You know what? I don't think I'm happy." Can you provide the committee with those projects and those individuals?

D. Jarvis: Where were they during the fast ferries?

L. Blain: Pretty obviously, those would be confidential — would they not? — individual responses to a client survey questionnaire. I would think that the people who gave those results would probably not want to respond to us in future were they to know that they were going to be given to you, so I'm not sure I can do that.

[1100]

J. Horgan: That seems to run counter to the transparency argument that we heard earlier on. I mean, if government is going to measure your performance, if you have confidential surveys where individuals are approached by the chair of the board or an organization retained by the chair of the board to ask how well the Premier's friend is doing on these projects, I think it's laudable that 10 percent would say: "Not so good."

If that's confidential information, as contracts are, then that's fine. I guess I have no further questions at this time.

L. Blain: I might respond to it, anyway, if I could. First of all, the comment you made about the SYD road — that the benefits should not be attributed to the P3. All I know about that project is that I do not believe it would have gone ahead had it not been as a P3.

J. Horgan: With a public benefit of that magnitude, why wouldn't government do it?

I. Black (Chair): Now, Member, you've had your opportunity. You've asked your question, and the question has been answered. Now move on at this stage.

L. Blain: Secondly, the importance of our.... This is a serious point with me. Our whole company is oriented towards client service, and the measure of client satisfaction is critical. I think you know as well as I how government works and that if people were working with us and they didn't like the quality of service

that they were getting, they would let that be known, and there would be consequences of them letting that be known.

I. Black (Chair): I'm going to bring things back to order here, if I may. And for the benefit....

J. Horgan: Rather than allow a response to that?

I. Black (Chair): No, actually not, because we're not in an open dialogue here. But thank you for playing.

[Interjection.]

I. Black (Chair): Order. I would like to remind all members, given the preamble of the previous question, that the fixation on performance is not just of passing interest. It is actually a fundamental underpinning of the terms of reference of this committee, which is why I believe we have it as a focus.

C. Puchmayr: I was reading Her Majesty's Treasury document on the value-for-money assessment guidelines. They have now reduced the value for money in the U.K. for P3s to 3.5 percent from 6 percent. They've discounted the rate, and they say that that reflects a more accurate rate. Using a rate of 5 percent, if we were to use that here, the Sea to Sky Highway would cost \$456 million instead of the projected \$600 million. Have you looked at some of the other information that is out there from other countries, which maybe led us into this P3 and are now seeing some concerns with the financing and the cost to the taxpayer?

L. Blain: Yes, of course we are aware of that. In the United Kingdom the way in which they put together their discount rate is different from the way that we put it together, but they end up in the same place. They start with a risk-free base of 3.5 percent, and then they add certain risk premiums onto that, reflecting the stage they are at in the project and the degree to which the project has certain kinds of project risk. So depending on the nature of the project, they put different risk premiums on top of that platform of 3.5 percent, and they end up using a calculation which is very similar to ours.

With respect to your comment about certain problems, I think it's important when you're looking at a market such as the PFI market in the United Kingdom that you should look at the width of the market and not certain cases, that you should look at the broad statistical analysis. And if you look at any broad statistical analysis of the United Kingdom's performance over 15 years, the statistics are overwhelmingly in favour of it being a very positive experience where everybody — stakeholders and users — is pleased with the service that they get from the projects and that there are financial benefits to taxpayers.

C. Puchmayr: Maybe short term, but I'm more concerned about the long-term implications. An example would be that if I were to build a project that I had con-

trol of for 30 years and then turn it back over to the government, would I put a 50-year roof application on that arena? Or would I put a 30-year roof application? Or would the standards of building...?

A lot of public buildings that are built significantly exceed the code so that you have longevity in those projects. Would the scope of these projects not have some ability of an investor to maybe build to code and have the building not last as long as if it were built with a long-term vision as opposed to a short-term financial return?

[1105]

L. Blain: My experience in terms of observing the capital plant facilities in British Columbia is that government has a tendency to build up huge deferred-maintenance balances, because budget dollars are always scarce and other priorities come along. So buildings start to get neglected and are not maintained, and you end up having to build new buildings a lot sooner as a result.

I believe one of the true advantages of a long-term contract is that the business partner is required to maintain the building to a standard and to make rehabilitation expenditures throughout the life of the contract and, at the end of the contract, is required to hand it back in a certain condition that's specified in the contract. If they don't, they suffer serious financial consequence, which the government could then use to put the buildings back into the required state. So I actually would argue quite the opposite.

I. Black (Chair): I have a question of my own. So with the prerogative of the Chair, I'm going to throw it into the mix.

Interjections.

I. Black (Chair): I'll try not to do too much of a preamble on it, in the spirit of good, orderly meeting conduct.

You focused a little bit on knowledge transfer in your remarks. It popped up three or four times during the slides. Knowledge transfer is a tricky business. It involves a variety of processes and a lot of deliberate disciplines in place. I wonder if you could expand, for the benefit of the committee.

Given the importance of knowledge transfer within your environment in this evolving type of organization — and evolving science, if you will, if not business practice — could you touch on what you're doing in this area? What are the processes there? How do you see that evolving in the face of a changing landscape ahead of you?

L. Blain: Yeah, it's critical. We're actually beginning to work on a pan-Canadian basis with other provinces to try and widen our knowledge bank so that we can share learnings with each other. Any of you who have spent any time in a room negotiating a document or preparing a concession agreement or a request for a proposal...

The legal bills are very significant, and to the extent to which you can give them instructions, which is

to start with this draft rather than create a new draft, your savings will be enormous. If you can harvest the products that you paid for on the first project and use them on the second, your savings will be enormous. That's one benefit.

The other benefit is that the proponents on the other side of the table will get a consistent position from the province. If they're negotiating a force majeure clause or some clause, they will know from the previous document where the province came out on that point. It gives you a starting point rather than going through a lengthy negotiation starting at square one.

The benefit of the knowledge bank is to establish positions on issues, and it's to establish clarity of documentation and reduce our legal bills. We worked with Partnerships U.K. to create an Internet-based knowledge bank for our use. We're now seeing it used elsewhere within the British Columbia government. We're talking to the other provinces, as I say, about sharing with them. I think it's a high standard that we have not had in this province before, with respect to using information in this way.

G. Gentner (Deputy Chair): I do want to return quickly to the specific example of the Abbotsford regional hospital and care centre, because it seems to earmark difficulties throughout the so-called measure of success.

Hon. Chair, the CEO evaded the question I asked, and that was: would you bring us the total estimated costs after the 33-year contract? Or 20-year contract — it would expire near 2033, I believe. The response was that he couldn't do it because he didn't have the staff here.

Well, I'm sorry. We're here to measure success. We had an allegation made that we're on time, on budget, and yet the CEO is unwilling to tell us what the total costs will be to the taxpayer. And when the question was asked whose head would roll, he said it wouldn't be his. Therefore, we can only assume that it would be the taxpayer.

My question is: why can't there be an independent government agency, at arm's length, that can conduct value-for-money reviews rather than this — excuse me for saying so — voodoo speculation that Partnerships B.C. is coming up with?

I. Black (Chair): You're coming awfully close to being out of order, Member.

[1110]

L. Blain: I think any company which is marketing certain services has to assess how those services are being received by clients — whether the product is a good product, whether the service is acceptable.

As a matter of just running our company, we have to assess everything that we do, as I think any company would. So that form of assessment is something we will always have to do.

I believe your question is more related to validation for public consumption. In publishing value-for-money reports, which is our commitment to do, it was the first

time ever in British Columbia that anybody had voluntarily produced for public disclosure a description of what had gone on in that process and had provided numbers as to what the cost of the project was and what we think the expected benefits were. We went partway, as far as we could go.

We went to our auditor and asked if they could provide some review of our methodology. Our auditor, the Auditor General, in fact thought that the highest form of public disclosure, in his opinion, would be for the company to prepare an assessment of what it had done and then to have the auditor review the methodology.

Obviously, it's a 30-year contract, so you can't audit something that is in the future. But he could review the methodology. On large projects — there have been three to date — we have gone to achieve validation, and we have done so from our Auditor General.

J. Rustad: Before I get into the question, given the preamble from a previous member, I just can't resist quoting him. In terms of the dark days of the '90s where it rained day after day, I would just say that despite the attempt to build Noah's Ark, in terms of fast ferries — which I suspect would have benefited greatly from the work of Partnerships B.C. — there was still an exodus of the people from the province year after year.

Interjection.

J. Rustad: Thank you for that latitude.

The question I have.... In terms of many of the private sector and even some public sector, often organizations that are in place for longer periods of time can end up becoming a little more challenged in terms of being able to deliver efficient service. We see examples of this both in the private and in the public sector. On slide 4, one of the things that you had mentioned was around improving efficiencies and quality of delivery of partnership transactions.

I'm wondering if you could perhaps expand on plans that you have around that and how you're going to make sure that Partnerships B.C. stays — to use a business phrase — a lean, mean transaction-driven corporation so that it can stay efficient in terms of delivering the benefits for the province.

L. Blain: Well, we're very sensitive about the head count in our organization, so we have increased our establishment marginally over the last three years. We have a very high level of activity right now, and we're trying to rely on external consultants to go through that period rather than to build up a permanent establishment. So we are very sensitive to that.

We are trying to stay razor's edge with our clients and show them new ways to lower costs. I think the most effective way now is when we start a project, we can provide all kinds of information that is templated. If it has been templated because we've done a number before, they don't have to incur the cost of creating a

new concept, new documents, a new business plan or a new risk-transfer matrix. They know what a reasonable position is on a variety of issues, and that starting-out point saves them a lot of money.

So the more we can do that, by training our people and by providing them easy access to information and knowledge, the greater the cost savings will be.

D. Jarvis: Back in the '80s when I was somewhat involved in the construction industry, I saw the interest rates skid up to 20 percent, 22 percent. Now we have, I'm told, a rise in construction costs and all the rest of it. That will probably continue for a few years anyway — the cost aspect of it — but the interest rates could skid up any time, and we'd be in real trouble. In your program, what protection or fail-safe is there for the taxpayer in that instance?

L. Blain: For change in financial markets or interest rates?

D. Jarvis: Yeah.

[1115]

L. Blain: All of the projects or most of them — the large ones — are.... The financing is fixed. If interest rates change, that's to the risk of the business partner. They're fixed before they even start construction. Often with provincial projects, the project is approved and goes through the construction phase. Then if government borrowing is going to finance it, the borrowing is put in at that time. So if interest rates change over the construction period, then the province would bear the risk, one way or the other, on that.

With ours, the project's financing costs are fixed right at the beginning before construction starts. Our annual payments over the life of the contract.... The maximum payments, if all the performance criteria are met, are fixed. They start when construction ends, and they go over the life of the contract. One of the extra benefits is that if the project falls behind schedule, or it fails its commissioning, or it's not designed properly, or it's not operational, we don't pay until the service is provided.

D. Jarvis: So a project could theoretically stand at a limbo position if a contractor is unable to finish his job.

L. Blain: They would have bonding to finish the job and various remedies to conclude, which would be the case with any project. I thought you were referring to the interest rates.

D. Jarvis: I was interested in another thing on top of that. Okay. Thank you. It gives me a rough idea.

R. Cantelon: Really building on Dan's question, we are facing, it would seem, an era of rapidly increasing construction costs where all the contractors are very, very busy. I'd ask you to comment. Does the P3 model work better or worse? And expand on what challenges you face during this kind of economic climate.

L. Blain: For those projects where we have contracts in place, then we like the position that we're in, because all of these risks have been transferred to the business partner. Going forward, as I said earlier, it is a challenge to get these contracts with the same degree of risk transfer, because the risks are higher. What that also means is that if you did it traditionally, the risks are higher as well.

As a government, if you're wanting to go forward with projects, the risks are there. The question is: what's the best way to mitigate those risks? I think it will be more difficult to get fixed-price contracts for constructions, especially those that have certain kinds of commodities in them that are sensitive on pricing.

But at the same time — as I said earlier as well — in this environment, some of the construction companies prefer to be operating within a P3 partnership structure. As the risk levels go up, they want more partners to transfer that risk to, and so they're less exposed themselves. So it works both ways. Definitely, it will be a challenging market over the next couple or three years, which is a good thing.

I. Black (Chair): Last question from this round goes to Dennis.

D. MacKay: The question has to do with Asia-Pacific and the trading partners south of the 49th parallel and out into the Pacific. I noticed, looking at page 5 of your presentation, that the large trading partners don't show up in colour red on the chart there for some reason — showing that they're involved in P3s. I wonder if you can explain why China, India and United States have not shown any interest in this P3 concept.

L. Blain: I can't explain China and India. I'm just not familiar enough with it, but the United States I'm quite familiar with. Over the last two years the American market has really started to get focused. There is a very high degree of activity now, in comparison to two years ago. There have been some major projects committed to.

There have been major partnerships being formed on major capital assets mainly on transportation highways and bridges in United States. I think it's being driven by the fiscal situation of the federal government, and it's in large part a search for new sources of revenue, such as toll revenues for highly needed infrastructure projects, that is driving it.

[1120]

The United States has always had tax-exempt financing for municipal projects. That's been the U.S. policy for decades. Over the last year they passed legislation which enables P3-type structures to take advantage of tax-exempt financing, so they're making a level playing field between the traditional use of tax-exempt financing and P3 use of tax-exempt financing. That again, I think, should really help the market in the United States.

I spoke in New York a number of months ago, and the person on the podium with me was from Morgan

Stanley. He put a slide up which showed the extent of the funds that have been put together on Wall Street alone for P3 type of investing, and it was in excess of a hundred billion. But there aren't nearly enough projects. There's far too much funding chasing too few projects, which — if you are in the project side looking for competition in financing — is a very good position to be in. We get very, very competitive financing on our projects because of that.

The United States market going forward could be both a positive and a negative for us. As the United States market starts to mature, there will be more and more participants in the market, which will be more and more people to our market if we are relatively appealing. I believe that since we are advanced, in comparison to where the United States is, we will be relatively appealing. Again, I think as the U.S. market grows, we should see more competition for and interest in our market as a result.

I. Black (Chair): Thank you.

I'd like to take a moment to remind members on both sides that it is the job of this committee to hold the Crown corporations that fall under our purview to account on behalf of the taxpayers. Within that context, it is most reasonable to ask questions pertaining to the performance of the Crown corporations relative to the mandate and performance expectation they've been given by their respective ministries. It is also very appropriate within that context for us to ask tough questions of the guests we have here representing those Crown corporations.

However, it is not appropriate, and I will not tolerate it as Chair, when we move into the category of being disrespectful towards the people who are in front of us. I would like to remind the members of that fact and caution them in their conduct accordingly going forward.

We have passed the one-hour mark for questions, but I do have two speakers left on the list. With the indulgence of the committee, I will take the last two names on that list, and then we'll move into the in-camera session according to our agenda.

J. Horgan: Certainly, Larry and I have known each other for quite a while. I certainly mean no disrespect, and he knows that. My concern is a public concern about salary and compensation. We've had the private discussion about that, and I think it's appropriate to have a public discussion. I've also looked at the website, and many of the staff at Partnerships B.C. were mainstream government employees and very capable ones in capital divisions in the Ministries of Health, Transportation and Education over the years of the '80s, '90s and into the early part of this century. So it's not a question of capacity or capability.

My concern, and I believe the concern of all of us on this side of the committee, is that what we have with Partnerships B.C. is a publicly mandated private consultancy whereby you can charge exorbitant fees to predominantly public agencies to meet your expenditure revenue components. But it's predominantly gov-

ernment money that was being paid to many of the individuals in your organization as staff persons, and public money that was paid to consultants that you have on staff now.

What troubles me, and I think should trouble the whole committee, is that I believe Partnerships B.C. is a publicly controlled private consultancy firm where salaries are at private sector levels that set a high ceiling for our own public servants to aspire to, which may not be cost-effective over time.

My question then is to the chair of the organization, rather than the CEO: how do you as the chair, with your board of directors, manage the expectations of consultants and former public sector employees now under your banner who are seeking higher and higher compensation over time — all coming from the public purse — to do work that was previously done by public employees at half the cost?

R. Mahler: Mr. Chair, I'll try not to do a preamble in front of my response to that.

I. Black (Chair): That would make you the first to date.

[1125]

R. Mahler: I have one prepared.

Seriously, there are two components in looking at compensation. There's the fairness and competitiveness of that.

As I mentioned before, every year we do a study with an outside consultant. Since I've been here, we've done three and with three different outside consulting firms. What we want to ensure is that our people are being paid to the industry standard and are competitive. Those people that we have on staff are trained up and can walk across the street at any point in time, probably for more money. At the same time we need to attract people from those industries to come and work for us.

Larry put a slide on the board — \$4.7 billion of projects that we're basically negotiating. The people that we negotiate those projects with are bringing with them, across the table, the best minds and best resources they can find anywhere in the world. We need equally fine people on our side. I mean, 1 percent of \$4.7 billion is \$47 million. You can easily lose a lot in that negotiation. So we need to have an A team, if you will, working on our side.

We have trained up a lot of the people who are in the company to that level of standard as well. Basically, again, we are paying at the competitive industry standard.

I. Black (Chair): Thank you, Mr. Mahler. I'd like to congratulate and caution the member on his normal prowess of asking a question which is within the terms of reference of the committee following a preamble that is clearly outside the terms of reference of this committee.

J. Horgan: Thank you.

I. Black (Chair): He has a skill in that area from which we can all learn, Members.

J. Horgan: I don't get a follow-up question?

I. Black (Chair): No, you're not allowed. Our final question will come from Member Rustad.

J. Rustad: The questions I've had are around standardization of the process and the ability to remain competitive. I want to go into one more aspect of that, which was touched on by one of the other members.

A big part of all that, of course, is certainly to have the right people and to compensate those people appropriately. If you aren't doing that, how do you attract those skills and abilities? With regards to doing the same work that government had done in the past, it's a real shame that this level of scrutiny and consideration wasn't in place in the past when projects like the fast ferries were put into place.

The question I have is with regard to... As the Premier had announced, any project over \$20 million would be considered for a public-private partnership. When I had asked earlier about how to keep yourself lean and mean.... What is the capacity that you've got currently to be able to look at projects, to be able to take on projects?

I know that you had answered earlier with regards to the Premier's comments and taking on that work. Obviously, at this point it's an unknown as to how much work would necessarily need to be taken on. But I'm curious in terms of the capacity and efficiencies that you might have to be able to expand the current workload you have to meet that kind of concept.

L. Blain: We really are trying to figure out how many projects above \$20 million are expected across the province. We can go from there to determining what the impact will be on us and what the requirement on each project might be, and the province itself will have a role in determining how we will approach that as our shareholders.

As I said before, I can't really mention that in much detail now, but it's not difficult to expand. It's just that we are reluctant to, because if you expand, then you might have to contract. There are a lot of people issues around that. To get people to be really committed to the organization, they want to know that they have a long-term future in the organization and that they're not going to follow cycles up and down.

We're always very reluctant to expand, but if the new capital standard has implications for us, then obviously we would do whatever is required. The implementation would not be the difficult part. The difficult part is making sure that it's a good, stable environment for employees.

I. Black (Chair): Gentlemen, I would like to thank you for taking the time to come and see us today. We have had a rather spirited exchange this morning. I suspect that given the opportunity, it may have been more spirited.

This area has been an area of spirited dialogue for a long time. You don't have to go too far back in history

to find five cabinet ministers from the former government who were great advocates of a P3 model, and yet we find now that the area continues to be an area of great debate.

However, you have brought with you today an explanation of where you're at and what you've been up to in performance relative to your mandate from the ministry. I thank you for that and for being here to take our questions this morning.

I would suggest to the members that we take a two-minute recess to allow our guests in the gallery to leave, and then we'll move to the in-camera session of our meeting this morning.

L. Blain: Thanks a lot. There were lots of good questions — appreciate it.

The committee recessed from 11:30 a.m. to 11:45 a.m.

[I. Black in the chair.]

I. Black (Chair): We are now back in session. I'll entertain a motion to go in camera.

The committee continued in camera from 11:46 a.m. to 12:15 p.m.

I. Black (Chair): We are back in session. We have just returned from in camera, where we have been discussing the presentation and service plan of Partnerships B.C., one of the Crown corporations for which this committee is responsible in its review activities. Having completed that part of our exercise, I would entertain a motion from the floor to adjourn.

We stand adjourned.

The committee adjourned at 12:15 p.m.

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