

# BC + X = P3

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## BC struggles with the partnering numbers

by Sid Tafler

It's a simple matter of arithmetic. Government revenues have been falling in British Columbia while debt has been rising, but the demand for public projects is growing rapidly in every corner of the province.

Hospitals, roads, schools, recreation centres, everyone wants one, but the BC Liberal government says there's no money to build them. So the government has turned, with zealous enthusiasm, to the private sector, ramping up a new capital projects strategy and inviting private companies to finance, build and operate new projects.

The BC government, led by Premier Gordon Campbell, just over a year in office and weathering a storm of criticism over cutbacks and privatization, is embracing public-private partnerships (P3s) as a method of making the math work for BC.

The charge is being led by Finance Minister Gary Collins, whose top-level bureau-

crats have been busy building a new agency to facilitate an ambitious dossier of P3s and coordinate the \$2 billion in public capital projects built annually across the province.

But the numbers don't work for everyone. A chorus of critics, chiefly among BC's powerful union sector, claims that P3s are ideologically driven and have failed to deliver as promised in the United Kingdom and other countries.

P3s on the scale envisaged by the Campbell government are a new phenomenon on the west coast. The government acknowledges there is a lack of expertise and resources to negotiate and fulfill the complex arrangements between public and private interests. They also admit that the risk of failure is daunting, and of course, the political price of failure would be high.

But the upside seems irresistible: billions of dollars of new public projects sprinkled

around the province without billions of dollars of capital debt added to the government's books.

"P3s present an opportunity – not only to maintain our vital infrastructure, but also to build on it and stimulate further economic growth in the process," Collins told a conference in May organized by the Canadian Council for Public-Private Partnerships.

Collins unveiled a two-pronged strategy to break the capital project logjam: a new provincial agency called Partnerships British Columbia (Partnerships BC), described as a single window for P3 projects, and a new Capital Asset Management Framework, a set of guidelines for government agencies around the province to analyze and meet the need for new infrastructure.

The framework creates the rules of the road, and the separate agency makes sure the roads get built, Collins told the Vancouver conference.

As the new agency takes form and begins sifting through the list of potential projects, the government is hearing warning signals to wade cautiously into the P3 pool, rather than diving in headfirst.

Collins and his colleagues are well aware that the NDP government it replaced dug its own grave with a major capital project; the \$500 million scheme to build fast ferries was plagued with delays, cost overruns and service failures.

"It's important that we get this right," Collins told his audience. "The first two or three projects we build have to be successful or there won't be a fourth one."

Collins' senior staff laboured for the last year to get it right. Chief point-man is Al Sakalauskas, ADM Finance who was named chief operating officer of Partnerships BC. One of Sakalauskas' first tasks is to recruit a chief executive officer from the private sector, among a rare breed of managers fully versed in the intricacies of negotiating complicated P3 contracts.

In the review leading up to the new policy, the government discovered it had no capital management policy to effectively assess a project and manage risks, Sakalauskas said in an interview.

Agencies as diverse as a small school board in northern BC and major Crown Corp-

orations such as BC Ferry Corp. were building provincially financed projects, largely in isolation. In the case of the small school board, the new high school that just opened this year may have been the first project the board had built in 25 years, or current administrators had ever built.

So the capital framework was designed to establish a set of best practices and a new capital management process to provide guidance to dozens of agencies across the province.

One of the most important elements of the framework is the province's new life-cycle approach to capital management, linking capital and operating costs, Sakalauskas said. Back to simple arithmetic: operating costs for a new hospital can exceed the capital cost in two years, so the two must be considered jointly when a new project is planned.

Another key element is ensuring that each project is carefully and thoroughly evaluated. Public agencies are expected to consider a range of options, including whether the project needs to be built in the first place or whether using existing assets more efficiently – such as extending school hours – could reduce capital spending.

And, says Sakalauskas, the new rules encourage agencies to contract the skills they require to plan and build new projects if they don't have those skills in-house.

in a P3, but there will be a steady income stream. The province will pay you every month if you perform." And of course there will be penalty clauses enforced if you don't.

The devilish details of a P3 contract, specifying who is responsible for what and at what cost, entail risks for the province that "could make the fast ferries look like a cakewalk," Sakalauskas told the P3 conference. The province could lose a lot of money if it signs a 30-year concession with a private contractor to build and operate a facility and discovers later that it didn't negotiate a good deal.

Some of the projects Sakalauskas identified as P3 candidates are the Fraser Valley Health Centre (see sidebar on page 19), a new Vancouver convention centre and a new bridge over the Fraser River to ease traffic congestion in the Lower Mainland. It's no coincidence that two of these are health or transportation projects, as the demand for new facilities is greatest in those areas.

The list of potential P3s could be extended to include a few dozen more – from highway upgrades to support BC's bid for the 2010 Olympics to a proposal to generate electricity from methane gas at a municipal garbage dump near Victoria.

The lack of expertise and experience in both government and the private sector in BC are limiting factors. In some cases, several

## BC government... is embracing public-private partnerships as a method of making the math work

The government is considering a range of P3 category options. Depending on the circumstances, the private sector may be asked to design, build, finance, operate or own a particular facility, or perhaps all five. Each project will be evaluated on its own merits and some may still be built through conventional government financing and operation.

The ideal P3 partner, says Sakalauskas, is "a company with a public service ethos, not someone who will beat us over the head for the lowest costs. There won't be super profits

existing companies would have to form a consortium to design, build and operate a facility such as a major hospital. Even running highway toll booths is not a function familiar to BC companies. "People in BC have experience building roads," says Sakalauskas, "but not running a 25-year concession to manage and run a toll road."

What about people from outside BC? Several major banks, project management, property management and legal firms from points east and offshore showed their colours

at the Vancouver conference, including Carillion Canada Inc. ([www.carillionplc.com](http://www.carillionplc.com)), represented by Graham Farley, vice president Private Finance. He recently relocated to Toronto from the UK to take advantage of the growing P3 market in Canada.

Carillion is running 16 P3-type projects in Britain, including five in the healthcare field, Farley told the conference. The British company has its eye on the Fraser Valley Health Centre, which the government would like to present as its showcase P3 project.

The UK experience is held up as a model of success by P3 proponents and as a tarnished example of failure by P3 opponents. P3s in the UK are delivered on time and on budget and customers are happy with the quality of service, Peter Ryan of the British Office of Government Commerce told the conference. The private sector has invested \$47 billion in P3s, and the British government has signed 500 deals; 200 are operational, with another 300 in progress, Ryan said.

The night before the P3 conference began, the Canadian Centre for Policy Alternatives held a public forum that examined P3s from a very different perspective. The timing was not coincidental.

“P3s in Britain have proved to be a costly mistake,” said Dr. Matthew Dunnigan, a Fellow of the Royal College of Physicians in Glasgow, and a featured speaker at the forum. “We have seen a serious deterioration in our acute care system, which is now reaching the crisis stage. People have less access to hospital care, they face longer waiting lists, and the quality of care has been compromised. My research shows clearly that the P3 model doesn’t work in health care.”

Everyone acknowledges mistakes have been made in the UK, where P3 processes were largely invented from scratch. But Ryan says the British government has learned from

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these mistakes and is willing to share its expertise to help others avoid them as they develop and negotiate effective P3s.

plan is to carefully study the experience of other jurisdictions and devise a made-in-BC strategy, Collins said.

## P3 hospital-in-waiting

**T**alk about pent-up demand. The Fraser Valley Health Centre has been on the drawing boards since 1987. It has been reviewed, analyzed, approved and then delayed more times than the people of the Fraser Valley care to remember.

Now it’s being presented as the first major project likely to be developed under the BC government’s new P3 capital program. But it’s a good thing the folks in the valley are used to waiting – finding the right partners and working out the complex P3 arrangements for the long-promised health centre won’t be simple tasks.

The health centre, to be built in Abbotsford, 50 km east of Vancouver, includes a 261-bed acute-care hospital and a cancer treatment centre. The \$210 million project was approved by BC’s NDP government in early 2001, but when the BC Liberals came to power in May of that year, it was put on hold and then referred to the new government’s P3 review.

Partnerships BC, the government’s new P3 agency, and the Fraser Health Authority have been sounding the market for public/private partnership options to build, finance and operate the hospital and various non-medical functions such as housekeeping and security.

“We’re starting from a totally green field so it gives us the greatest variety of options,” said Al Sakalauskas, chief operating officer of Partnerships BC. But we have to see how the market responds. The P3 marketplace in Western Canada is still in its infancy.

There is little precedent to follow as no other major hospital in Canada has been developed as a P3, says project manager Mike Marasco of the Fraser Health Authority, the regional hospital board.

The key to the project, says Marasco, is determining which party is best able to manage risk, defined as the success or failure to provide a specific service, such as developing the building on time and budget or maintaining air and temperature controls at specific levels.

For example, a company that manages millions of square feet of property across North America may be best able to handle the risk of facilities management. Identifying which party is best capable of managing risk will result in the lowest cost of managing that risk.

Another important factor is competition within the private sector, an element required for the government’s entire P3 strategy to succeed. “Value for money is a function of how much competition you can create,” Marasco said.

By forming Partnerships BC and developing a new capital management strategy, the BC government is hoping to create that competition and nurture the P3 market in BC from infancy to adulthood as quickly as possible.

It’s an offer BC has taken up by sending its officials on numerous trips to the Office of Government Commerce in London. The

“What could we learn from others to make sure we hit the ground running and keep that momentum as we move ahead?” Collins asked conference delegates. It’s a multi-billion-dollar question to be carefully pondered by senior BC officials, private sector proponents and by Collins and his cabinet colleagues. *MM*

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