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Partnerships BC: more is less

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You've heard it a thousand times: government should be run like a business. The problem is, those who make this judgment never say which businesses government should emulate. Should the B.C. government be run like Enron or WorldCom? Maybe not. We can hope, of course, that the promoters of this simplistic idea actually mean that government should be effective and responsible, with maximum accountability for the taxes that citizens pay.

If that's the case, you have to wonder what on earth is going on over at one of Premier Gordon Campbell's favourite government agencies: Partnerships BC. It's the Crown corporation that promotes public-private partnerships, or P3s, and the more one delves into this little-known outfit, the more it feels like Alice in Wonderland. Partnerships BC has turned accountability on its head. It promotes government deals that actually guarantee we pay more and get less.

Two of the most familiar P3s in the Lower Mainland are the Seymour Water Filtration Plant and the Canada Line, formerly known as the Richmond/Airport/Vancouver Rapid Transit project, or RAV line. The former was rejected in 2001 after a huge public outcry; the latter went ahead (after being turned down twice) and is now hugely over budget and downsized. Two other large P3s, the Vancouver Convention & Exhibition Centre expansion and the Coquihalla Highway, were embarrassing fiascos.

The PBC Web site states that the agency's job is to determine whether a government infrastructure need "can best be met through a partnership with the private sector". But in practice, PBC is a promoter. Shortly after prominent B.C. Liberal supporter Larry Blain was appointed CEO of PBC in 2003, he told a Vancouver audience that "Our job is to drag government kicking and screaming into the marketplace-that's our mandate. Our corporate interests are aligned with the markets." Blain's contract shows that he is partly compensated (with bonuses of up to 70 percent of his base pay of $275,000) on the basis of performance-and this performance is defined as moving P3s forward.

Public-private partnerships, really just a user-friendly name for privatization, vary from project to project. Some (like the Coquihalla Highway disaster) involve leasing existing assets, but most are new infrastructure projects. These are typically design-build-finance-operate deals where a private company, usually a consortium, goes beyond the conventional design-build contract, actually finances the project, and then operates the facility over a long period-between 25 and 40 years-for an annual fee.

Public-private partnerships persist in B.C. and are set to expand despite the fact that the rationales for them have, one by one, been debunked in the Straight and elsewhere. Early on, supporters touted them as a way to help debt-conscious governments get liabilities off the books. Yet there is little difference between taxpayers servicing the interest on a government loan and paying a yearly fee to a P3 contractor-who uses it to pay off its loan. It's all taxpayers' dollars.

However, there is one important distinction: the P3 fee is always higher, for the simple reason that governments can borrow money at a lower rate than private companies. On a big project, that can mean tens of millions of dollars in extra costs. As for keeping debt off the books, even the free-market International Monetary Fund has severely criticized governments for this accounting trick, demanding that they begin treating yearly P3 payments as debt and not operating costs.

If the rationale for getting the private sector to finance government projects is shaky, the reasons given for having private corporations operate the resulting facility for 30 or more years are just as questionable. Natalie Mehra, coordinator of the Ontario Health Coalition, points out that negotiating P3 contracts is complicated and expensive. "You have to negotiate a contract with the consortium and then with all the subcontractors whose contracts are woven into the master contract-laundry, food services, patient portering, maintenance, cleaning, all the non-medical services," Mehra told the Straight in October. "At the end of these negotiations, the price has often skyrocketed." Mehra gave the example of the William Osler Health Centre P3 in Brampton, Ontario, whose capital costs jumped from $330 million to $550 million.

The source of such enormous cost increases is not difficult to trace. On top of the millions more in financing costs, profit margins on P3s can be outrageous. A 2004 study of P3 hospitals and roads in Britain, commissioned by the Association of Chartered Certified Accountants, found that profits were between 50 and 100 percent.

Closer to home, the Abbotsford Regional Hospital and Cancer Centre is scarcely more reassuring from a public-interest perspective. Partnerships BC's role is troubling to public-sector health workers. PBC was deeply involved in the Abbotsford project, actually forming a special company, Health Co, to develop the P3 contract. And if PBC-which refused to grant an interview for this story- really was looking out for taxpayers, it's hard to explain how it could have proceeded with the project.

Access Health Abbotsford, a private consortium created by several transnational corporations, was the only bidder. During the bidding and negotiating stage of the project, capital costs rose nearly 70 percent, from $211 million to $355 million. The yearly service payments to the P3 consortium doubled from $20 million to almost $41 million per annum, and total costs for the 33-year operational contract skyrocketed to nearly double as well, from $720 million to $1.4 billion.

Now that P3s have proven to cost more than conventional projects, proponents have quit claiming that they save the public money. Instead, they argue that P3s provide "value for money", an extremely complicated concept that involves transferring risk to the private partner. Perhaps PBC boss Larry Blain likes it that way. In the September 2005 issue of Project Finance magazine, he said that "we are using a risk transfer model that is so complex only a few people in the province understand the ins and outs of it."

Richard Neal is a researcher for the BC Health Coalition. A former insurance underwriter specializing in risk transfer, Neal contributed to a critique of PBC's February 2005 "Achieving Value for Money" report on the Abbotsford project for the Hospital Employees' Union. This critique raises many questions about the value-for-money concept and the reliability of the report itself. "P3 consortia in other jurisdictions appear to charge a premium of 30 percent to build hospitals on time and on budget," Neal told the Straight. "This premium, however, greatly exceeds the costs of actual overruns for conventional hospital projects." According to the 2004 Association of Chartered Certified Accountants study, it could be costing taxpayers three to five times as much as the actual cost overruns.

In the case of the Abbotsford hospital, the value-for-money argument is especially dubious. According to Neal (who cowrote a 2003 Straight cover story about health-care P3s), "Any value from Access Health Abbotsford's ability to perform on time and on budget has been diminished by protracted P3 contract negotiations. The original public construction of the new facility was slated for a 2005 completion date. The P3 option will not be completed until 2008, adding $68 million in inflationary costs to the project."

Another local example of P3 cost and completion-date overruns is the 10 Mile Bridge project in Kicking Horse Canyon near Golden. Public financing was in place in March 2003. Then PBC started the P3 process. Almost three years have gone by, with deadline after deadline missed. The completion date is now listed as 2009- a full six years after the money was in the bank. Inflation alone will have added tens of millions of dollars to the project's cost.

Partnerships BC's examination of P3 projects is supposed to involve an unbiased comparison of the two approaches -the P3 and the conventional-by means of a "public-sector comparator". These comparators apply a "discount rate" to P3s, a form of depreciation to assess costs of capital and services over time. The higher the assumed discount rate, the lower the projected costs of a P3 option. But PBC uses a discount rate of up to eight percent, while the U.K. government has dropped its rate to 3.5 percent after intense criticism that its comparators were rigged in favour of P3s. Larry Blain has publicly admitted that the public-sector comparator is easily manipulated. "Public sector comparators won't do you much good anyways, because I can make the public sector comparator as bad as we want to, in order to make the private sector look good," the HEU reported Blain as saying at a March 2003 meeting of the B.C. Municipal Finance Authority.

One of the most serious problems with P3s and PBC's promotion of them is that the whole process is shrouded in secrecy-rationalized by so-called "commercial confidentiality". Even publicly elected officials don't get to see the contracts. "P3s allow megaprojects to be imposed upon local communities without any meaningful consultation," Richard Neal said. "Even rudimentary public scrutiny of projects is prohibited until the contracts are signed, and by then it's too late to stop them. Look at the RAV, St. Paul's Hospital, the Highway 1 [expansion], and the twinning of the Port Mann [Bridge]-none of them would be approved as conventional projects without a lot more public oversight."

When secrecy regarding the spending of tax dollars prevails, the public interest is immediately put at risk. A project involving Vancouver's St. Paul's Hospital is already surrounded by controversy. According to documents obtained by the BC Health Coalition under a freedom-of-information request, Providence Health Care, which runs St. Paul's and Mount Saint Joseph hospitals, wants to close the two facilities and build a single new one as a P3. (In September, Providence claimed that Mount Saint Joseph would not be closed.) In October 2004, the Ministry of Health agreed to pay Partnerships BC $1 million to consult on the project.

The preferred site for the new hospital is the False Creek Flats area near Pacific Central Station on Main Street. In March 2004, the private Vancouver Esperanza Society bought the False Creek property. Two of Esperanza's three directors have connections with the controversial for-profit Cambie Surgery Centre. On March 31, 2004, Providence signed a "right of first refusal to purchase" agreement with Esperanza. The City of Vancouver has agreed to buy back the land if the project doesn't go ahead. Why the city couldn't have made the same deal with Providence directly is unclear. What is clear is that the private land deal will end up costing the public more money.

As the Straight has previously reported, the evidence against P3s is starting to reach critical mass. Public-private partnerships have been assailed by government auditors from Australia and Scotland to Ontario and Nova Scotia as seriously flawed in concept and delivery. Horror stories from Britain of shoddy hospital construction, huge cost overruns, dramatic cuts to medical staff to meet profit expectations, and relentless criticisms from professional medical associations are now commonplace. The 2004 Association of Chartered Certified Accountants study gave a blistering critique of almost every aspect of P3s.

Even private consortia are beginning to shy away from these enormously complex projects, with many P3s in Britain now attracting just single bidders. The same may be happening in Canada. In 2004, the Montreal Gazette reported that William Spurr, president of Bombardier Transportation's North American division, opposed a P3 for new Montreal Métro railcars. Spurr said the need for new cars was urgent and complained that it would take four or five years to define a P3 contract for such an acquisition.

In the face of all the bad publicity, Partnerships BC is developing a siege mentality. It cannot admit that P3s don't work, because its mandate is to promote them. It is now effectively a political organization. Anytime a P3 is criticized, Suromitra Sanatani, vice-president, corporate and government relations, is immediately in print defending the side. As head of the B.C. branch of the Canadian Federation of Independent Business, Sanatani earned a reputation as a ferocious defender of the private sector. Other

PBC executives also go on the offensive. Highly regarded forensic accountant Ron Parks (hired by the B.C. Liberal government on several occasions) was personally attacked for his 2003 study of the Abbotsford hospital deal for the HEU. Mike Marasco, PBC's vice-president, partnership development, declared in a news release that Parks's report "makes a number of biased and naïve assumptions and uses outdated information". What Marasco didn't say: the reason it was outdated is that PBC wouldn't give Parks the most recent information.

A visit to the PBC Web site reveals the standard "Our People" page, which it says is "About Us". But unlike almost every similar Web site, click on CEO Larry Blain's name and there is nothing about the man-just his e-mail address. Ditto every other staff person. (Blain is an investment banker, a former managing director of RBC Capital Markets, and worked in the B.C. Ministry of Finance. He gave the B.C. Liberal party $12,750 between 1998 and 2001, according to Elections BC. He was also a member of the B.C. Liberals' transition team prior to the 2001 election.)

What is Partnerships BC's future? And at what point do B.C. Liberal MLAs tire of Gordon Campbell's partnership with Larry Blain? Campbell and Blain are natural bedfellows. Both are rigidly ideological, and their faith in P3s is not easily shaken by mere evidence. But someone should be shaken: the amount of public money being spent on P3s throughout the province now exceeds $5 billion, with billions more slated to go through the looking glass.

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