

# Public structures, private money

**P3 arrangements were criticized by the Liberals when they were in opposition. But now that they are in government, the Liberals say such deals are the best way to get new infrastructure built in Ontario – they just don't like the term P3s**

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During the last provincial election, the Liberals said so-called P3 hospitals were an Americanization of health care.

After the election – and following the adoption of rules to make sure the government always owns the building and banning major contracting out of jobs – public-private partnerships (P3s) became a good thing.

Now, they're a key to fixing and replacing Ontario's crumbling hospitals and other infrastructure.

The Liberals have announced 36 new hospitals and justice facilities that will be designed, built, initially paid for and, in some cases, maintained for decades by private companies.

Many have been on the books, and badly needed, since the 1980s but never built. Now, they're all slated to be under construction by 2010.

"We've created a renaissance of infrastructure and the economic boom that is going to come with it," says Infrastructure and Renewal Minister David Caplan.

Just don't call them P3s anymore.

Caplan physically cringes on hearing that phrase.

It's considered "contaminated" by former Conservative premier Mike Harris and a euphemism for privatization – selling public assets and contracting out jobs, something this government says it's not doing.

The new tongue-twisting term is AFP – alternative financing and procurement.

It's about building better, faster and cheaper, says David Livingston, the man responsible for managing the deals.

"If you go out on the street and ask somebody, 'who's better at doing a big project, a private-sector company that does it for a living or the government,' what's the answer going to be?" asks Livingston, president and chief executive of Infrastructure Ontario.

Unions and their supporters have a different answer. They say these projects will cost more money and give taxpayers fewer services.

"The thing that drives me nuts is all this privatization crap ... that's just not what this is about at all. It's about delivering something reliable at a reduced price," Livingston says.

Traditionally, the government puts out a contract to design a building, then one to build it, and, in many cases, a maintenance contract. They pay each bill along the way.

Under the AFP model, the government will generally hire a single company to design, build and pay for the project.

When the keys to a finished building are turned over, years later, the province pays the company. The government expects about one third of the project contracts to include 30 years of building maintenance.

With those projects, the province pays a monthly amount for the next 30 years that covers both the cost of the building and the maintenance.

In both cases, the province doesn't pay as much money up front, as it would in a government-financed project, so it can start more projects with the money it has.

But the real cost savings comes from "risk transfer," Livingston says.

In plain language, this means getting a building on time and on budget, and if something does go wrong, the taxpayer isn't on the hook for it.

"If it's (the private company's money), the problem won't occur or if it does, they'll fix it."

When the government does it, history has shown, atrioms get larger, builders run into problems with design, and a myriad of other issues combine to drive up the cost for the taxpayer.

The Thunder Bay hospital, for example, was projected to cost \$140 million. By the time the last brick

was in place, the cost hit \$284 million.

The Sudbury hospital was approved at \$203 million but is now expected to cost taxpayers \$415 million, the government says.

"You don't want to have \$200-million misses, especially if you're doing a whole bunch of them," Livingston says.

The private sector pays more interest when it borrows money than the government does so there are some extra costs to these projects.

But the borrowing cost is just one of "a kazillion elements," and once everything is taken into account, the result is a better building at a lower price, Livingston says.

"There's no sub-agenda. We're just building stuff and trying to get the best deal for the taxpayer."

In British Columbia, the province has done 21 of these projects and expects to save money on all of them, says Partnerships B.C. chief executive Larry Blain.

On a \$355-million hospital project in Abbotsford, for example, the province expects to save \$39 million.

Using the private sector to initially finance public projects isn't a "magic bullet" that will be used for all new infrastructure in Ontario, Caplan says.

"It just has to be a component piece of a total solution. There is a lot of evidence internationally that the method does work."

With more 750 such projects under its belt, Britain is considered the leader in the field.

Caplan points to finance department research there that shows these projects were on time and on budget 88 per cent of the time, compared to just 30 per cent for traditional projects.

Ontario, which has at least a \$100 billion backlog in unmet infrastructure needs, is hoping for similar results. "Our hospitals average 43 years in age, our water pipes are 80 to 100 years old, our schools are literally crumbling around us," Caplan says. "We need some new ways to be able to get at this."

To address concerns raised by union groups and make it clear that AFPs are not a sneaky way to contract out services, the province yesterday told hospital boards they won't be allowed to include any soft services, such as housekeeping, portering or patient food, in their contracts.

The only thing that can be included is hard facility maintenance, such as for fixing elevators or repairing

heating systems.

The AFP contract for a new North Bay hospital, for example, contemplates contracting out only about 30 of 1,500 staff. And regulations require the company to honour all existing union contracts, Infrastructure Ontario says.

All projects are also governed by five principles to ensure the public interest is protected, including, demonstrating value for money, making transactions fair and transparent and maintaining appropriate public control and ownership.

The government will always retain ownership of hospitals, schools and water infrastructure. But in the future, it's possible other things like new courthouses or roads won't be publicly owned, Caplan says.

Natalie Mehra, the director of the Ontario Health Coalition, is convinced AFP projects will cost more.

"In the context of limited resources for health care, if you increase the costs to profit-seeking companies and rafts of middlemen, lawyers and consultants and so forth, that money comes out of care budgets.

"It results in reduction in the number of beds, the size of the facility and the number of doctors, nurses and support staff."

She doesn't buy the government's argument that it saves money by transferring risk to the private sector.

"The private sector isn't into giving gifts to taxpayers for no reason whatsoever. If they're going to take on risk for construction cost overruns or time delays, they're going to charge for it," Mehra says.

She points to a report by the Association of Chartered Certified Accountants that reviewed hospital projects in Britain and found companies were being paid a 30 per cent risk premium, a sum that exceeds past cost overruns.

"The P3 policy of this government is driven not by public interest but by the desire for the pension plans and the multinational companies to find investment tools where they can take a steady rate of return of 10 to 15 per cent for the next 30 years," Mehra says.

Jane Peatch hears these kinds of comments all the time.

"There's a natural Canadian instinct to distrust the private sector," says Peatch, executive director of the Canadian Council for Public-Private Partnerships.

It doesn't help that the MFP computer leasing scandal happened in Toronto, or that there was a court case over privately owned Highway 407, or that P3 hospitals were issues in the last provincial election,

she says.

These events may explain why opinion polls show support for partnerships with the private sector in Ontario lags most other provinces.

Last month, an Environics Research Group poll found 58 per cent support in Ontario for public-private partnerships compared to a Canada-wide average of 64 per cent.

So far, three public hospital projects, two in Ottawa and one in Brampton, have been built with private financing.

The Royal Ottawa Mental Health Centre opened last month and the other two, the Brampton Civic Hospital and Montfort Hospital in Ottawa, are still under construction.

Royal Ottawa's spokesperson Kathryn Hendrick says the hospital was complete in seven years versus the 17 years for the average hospital, and was slightly below budget.

Despite the apparent success of the Royal Ottawa, the Liberals like to distance themselves from it and the Brampton Civic Hospital because these are projects started under the Conservative administration.

The Liberals made some changes, including one that makes sure the buildings were always publicly owned, but they weren't able to pull back contracted services that were included, such as laundry and portering.

The ownership change is a difference but not much of one, says Conservative Leader John Tory.

"It's really just (Liberals) saying we want to prove somehow there was a huge difference made here and when we condemned this before, we were serious, as opposed to what's really happened, which was when they studied it and were thoughtful about it, they realized this is a good way," Tory says.

For the Liberals, Montfort Hospital is the first privately financed project that meets all the criteria for protecting the public interest.

Next month, Infrastructure Ontario will release a review of Montfort's financial details, which it expects will prove taxpayer money was saved.

"I want people to have confidence that they are getting value for money. We want oversight, we want transparency," Caplan says.

"I want to dispel a lot of the myths that are out there, and I want people to know there's a principled basis behind this," he says.

"It's been far too long that we've put this stuff off, and we're delivering."