

Public-Private Partnerships Premier Gordon Campbell

Check against delivery

It's great to be here today and to have a chance to chat with you about a new way of procurement. It's not really new, but it is a way of procurement, which is building not just its momentum but its importance in how we deal with our public sector investments, not just in British Columbia, but in all of Canada.

If we think about it for a moment, we have not had the kind of comprehensive, long-term vision for our infrastructure across the country that we required. There was far more talk in the 1950s and '60s about building the long-term future of the country and the capital investment that was required for that than we have heard typically in, say, the last 20 years. And the fact of the matter is we have actually consumed most of that capital investment, when you think about it.

We are now at the start of a critical phase in the country's future where without finding new ways of investing in our capital across the country – not just in British Columbia but across the country – we're going to find we run out of resources before we run out of the critical demands we need to provide. So when our government was elected in 2001 we felt it was important for us to look at what has become known as P3s, looking at a new way of building partnerships between private sector expertise, private sector risk analysis and the public sector as we strive to try and not just invest for tomorrow and the next year but for the next decade in the future of the province of British Columbia with a very limited resource base to achieve that.

In my line of work there is no end of people to come and say to you, "With my brains and the taxpayers' money we're going to make wonderful music together," and that includes a lot of your colleagues in business who have a really great idea and they're really good people, so why can't they just get a few more million dollars and they'll do it?

One of the things that we've had to try and get under control and think about in the province, whether it's new public safety facilities, whether it's new roads, whether it's new sewer and water infrastructure, whether it's new bridges, whether it's new hospitals or schools, we have literally billions and billions of dollars of demands that are put on the public purse. The challenge for us is: how can we actually invest in that capital plan in a way that allows for us to have a sustainable balance sheet in the long term as well?

I think public-private partnerships are a critical component of our strategy in dealing with that. We don't just have to think differently about capital than we have in the past; we have to think about how we procure that capital and how we procure those projects as we go ahead. That's why we launched our initiative around public-private partnerships.

Now, here's something that's really important. Public-private partnerships are not the best tool for every kind of project. In fact, right now I think Partnerships BC, which has

really been an exemplary institution, agency of public-private partnerships not just across the country but is recognized in other jurisdictions for the great work they're doing....

I still remember when Governor Schwarzenegger came to British Columbia. Do any of you remember that? Well, I certainly remember it. Governor Schwarzenegger is a very effervescent guy. He's got lots going for them. He did a state-of-the-state address earlier this year. You may have missed it. But you should have heard it. This is what he said: 'In British Columbia public-private partnerships are common for building highways, bridges, rapid transit, water treatment and so on, and everyone is happy. Political leaders are happy, business is happy, the public is happy, the economy is happy, and the future is happy.'

Needless to say, I haven't asked for his writer to come up and help me with any of my work. But he can get away with that. I can't.

You know, I think the fact of the matter is when the governor came, we had a chance to show him, for example, the Canada Line. The Canada Line is going to have a huge impact on our community and on our province. It takes literally thousands and thousands of cars off the road. It reduces greenhouse gases dramatically, thousands of tonnes of greenhouse gases. Those are very positive things. It makes our airport one of the few airports in the world that connects people directly to their downtown. It is a public-private partnership. There are dollars from TransLink. There are dollars from the province. This was a breakthrough. There are dollars from the federal government, there are dollars from the airport authority, and there are dollars from the private sector. All of those dollars come together and will give us by the fall of 2009 a new transit line that services not just Richmond but the airport and connects it to downtown Vancouver – will do that in I think it's about 23 minutes. It's been a long time since we've gotten from one of those locations to downtown Vancouver in 23 minutes.

One of the advantages of a P3 is we're actually taking the expertise of the private sector. We're saying: how do we deliver this product? How do we do it in a way that's cost-effective? How do we do it in a way that transfers the risks from the public sector to the private sector? How do we actually motivate the private sector to actually deliver the product in a way that works for all of us publicly?

One of the challenges we face as we confront public-private partnerships is there are still people in the world that say there's got to be a fight between the public sector and the private sector. I frankly think we don't have enough resources to be fighting one another. We have to find a way to bring those resources together and reinforce one another's objectives.

I think people are going to be not just pleased with the Canada Line but I can tell you when we look at the Evergreen Line, when we look at the potential university line or the extension of the Millennium Line out to the University of British Columbia, even when we look at expanding the Expo Line, we're going to be looking very hard at the potential for a public-private partnership model. You know, when you think about it, why wouldn't

we develop a model and utilize a model that puts to work the expertise, the innovation and the thoughtfulness of the private sector in reaching our public objectives? What is the reason for not doing that? I actually can't think of the reason for not doing that. And with our experience so far, I can think of a lot of reasons for doing it.

First of all, let me ask you this question. You can be honest with this. How many of you have ever said the real key to success in this project is if we could just get a little bit more government involvement? Just a little more government is going to make this thing work much better. Well, the fact is I think we have to recognize the public sector has a role to play. Our general role, I think, should be to set standards and to set goals and to try and create innovation throughout the broad economy, create an environment where innovation can take place and can be rewarded. But we don't have to do things to get good quality products.

So as we started the public-private partnership initiative, one of the things that was critical to us was we wanted the public sector to start thinking about the transfer of risk, not something that people thought about a lot in the public sector. Frankly, when the public sector goes over budget... I don't know how many of you paid attention to the tunnel project that they did in Boston. Have any of you heard about that one? It cost about our gross national product in Canada to develop that.

But just think of something simple like the Pattison Pavilion at the General Hospital in Vancouver. Now, this is a little bit of a long story, but this is an example of a government procurement strategy.

I'm not blaming, frankly; you should be clear about this. I accept responsibility on behalf of all elected officials for this kind of a model being in place. I'm not trying to shift political responsibility for it to the public sector or to public servants.

Before I was elected in city hall... I was first elected in Vancouver in 1984. Before that, there was a decision there was going to be a new hospital built at that location. Great, everyone says. You know, the easiest thing to do is to announce a picture: that's what was announced in early 1980s. So we went through this. Then, there was an announcement, a political announcement again, that said we're going to build the hospital now: that was in the 1990s. So they announced they're building the hospital. I think most of us when we heard that, thought it would be things like beds, equipment, maybe some patients in it, but it wasn't. It was: we're going to do a hospital. And they built this frame, this big, tall building, one of the largest buildings in the city of Vancouver: that Pattison Pavilion.

But they had forgotten when they built the frame that they actually had to do things like finish it off, equip it, make sure that there was the staff there to take care of the patients that were there. So it went on and on and on. Finally, what happened was the architects came and they said to the government of the day: we've got a little bit of a problem; we, too, thought you were going to build a hospital – which meant there was going to be heat – we're very concerned about the structural integrity of this building which was designed

to be a heated, working hospital; so you're going to have to start heating this shell. So the government started heating the shell. Now, remember; the hospital is actually probably paid, effectively, with borrowed money. So they're paying the interest on the shell. Now they're paying for heating the shell.

Then, there were some people who didn't have appropriate accommodation. They thought the best place for them to live would be in a heated shell. So they started moving into the heated shell. Then, someone came and said hold it, this heated shell isn't actually residential accommodation, we'll have to have security for the heated shell so that we can keep people from using it as residential accommodation.

So, now, we've had almost ten years of \$100-million investment in the shell, whatever the heating costs were, whatever the security costs were. And, finally, in the late 1990s they said we're going to put people in this building. The building's 22 storeys. They had a very clever way of dealing with this. They said we're going to put people in five storeys of the building. So that was fine; they put the people in the five storeys.

When we were elected we said it'd be a good idea to fill up that building.

So just think of this: it took 20 years from when the announcement was made until that facility was finally operational, fully operational – 20 years. Think of the costs that the taxpayer bore, as they decided how to put that together.

Here's an example of a P3. We announced the Abbotsford Hospital, the new Abbotsford Hospital, I think it was in 2003. There was a procurement process – very complicated. I'm sure PCL and those who were part of the partnership who were building this would say it's a complicated procurement process; it is. It's complicated upfront so we can get something delivered down the road and so that we understand and the private sector investor understands what their investment responsibilities are, what their risks are, what the government's not going to take on as a responsibility, what they've got to do as a responsibility. We went through that process. We went through the procurement. There were some bidders; there was a successful bidder. Construction was begun. This spring the hospital will be transferred to the Fraser Health Authority, and by next fall there will be patients in that hospital.

It'll be a fabulous hospital. It'll meet LEED standards. It will meet a lot of the environmental goals that we've set. But here's what's really important: it's coming in more than on time and on budget. It has taken about five years – about 25 per cent of the time it took to deal with the Vancouver Hospital. It's a larger facility than the Vancouver tower was. It will have the most up-to-date equipment and environmental controls and opportunities which will mean that we'll probably get better outcomes out of that hospital than we have out of some of the previous hospitals we've had.

The Auditor General has done a value-added report, and his estimate is that we think it's in the order of \$35-to-40 million of additional value that we have out of going that procurement route, as to what we normally would do. Well, you know, \$35-to-40 million

may not sound like a lot when we're talking in billions. But every time you don't spend \$35-to-40 million in the long term over the life of a building, you have resources that you can invest in something else.

Most of the P3 projects have delivered significant long-term improvement benefits.

For example, the Sea-to-Sky Highway. Have any of you travelled the Sea-to-Sky Highway? Could you put up your hands? Okay, good. That's good. I'm glad you guys are being physically active: that's important.

As you travel the Sea-to-Sky Highway, that was a project that we put out. The procurement was we went out and we said we have a \$600-million budget; tell us what we can do for the \$600 million. The private sector came forward, and they came forward with their suggestions.

I've heard two things about this project which I think are significant. Number one is: how well it's been managed. It is a huge project; I think there's no one that doubts that. My wife travels up and down the highway to Squamish on a regular basis. She is always amazed at how well they are managed. It's a massive construction project.

Frankly, a lot of people are amazed at the engineering and the design and all those sorts of things. So that's very positive.

But also the Auditor General, independent of us, has done a value of it, and he feels, over the life of the project, we have about \$130-to-140 million of additional benefits than going the traditional procurement strategy. Now, that's a lot of money. We have an obligation in public life to try and make sure we maximize the benefits of the investments we make.

What the P3 model requires us to do and the private sector and, frankly, Partnerships BC to do is to be clear about we want when we start a project, be clear about what we think the challenges are as we begin so we can transfer risk out – which is one of the critical components of this from the public's perspective. Risk transfer is critically important. Actually, one of the great things is you actually start thinking over the life cycle of the project, as opposed to: forget about what it's going to cost to operate something; let's get the capital done. That is a really important component of what we've been trying to put into P3s in British Columbia.

Partnerships BC and the people that have been part of our public-private partnerships have been incredibly successful. So whether it's the new William R. Bennett Bridge, which is going to open up probably a little bit ahead of schedule, on budget, in Kelowna, or the new bridge that's built through the Kicking Horse Canyon. Do you all know where the Kicking Horse Canyon is? It's the Trans-Canada Highway through the Rockies. The most dangerous stretch of highway that we had in British Columbia in 2001-02, when we looked at the two most critically important highways from the point of view of safety –

one was Sea-to-Sky; the other was Kicking Horse. Kicking Horse was the most dangerous.

So we launched a program in partnership with the federal government, again, who agree with us. I'm pleased that they've moved now from an exception, as they did on Canada Line with regard to public-private partnerships. Part of their standard procurement now for these major projects is, also to say: they require or review it to the public-private partnership agenda.

So we start; the builder comes forward with an innovative design, one that I think, quite honestly, we probably wouldn't have thought of. We might have. I'm not trying to belittle, again, the people in the public sector. But the builder came up with an innovative design. He said this is how we think we can do better in building what's called the Park Bridge. It's a big bridge. I don't know if you saw it this morning. It stretches through the Kicking Horse Canyon.

I don't know how many of you...how long most of you have been around, but I've actually been around in public life for a little while now. I have never heard of a project coming not just on budget, but 22 months early. That project came in on budget 22 months early. We got additional resources for the future improvements to Kicking Horse Canyon. It is a phenomenal success. And not only is it a phenomenal success, it's going to become a huge tourist attraction in Kicking Horse Canyon.

It is an example of what happens when you allow the private sector to put its expertise to work in response to a public initiative, a public call. It's just another example I think of what can happen when we do things together and we recognize what can be contributed by those designers and those architects and those builders and those engineers.

We didn't just enhance the safety of the Kicking Horse Canyon. We've got another phase to go. We added an additional two kilometres of highway embankment. We've created not just a spectacular piece of engineering but a great tourism attraction for the people of Golden. We've provided employment. About 80 per cent of the construction team came from the town of Golden, which is about 30 minutes away from the Kicking Horse Canyon, where that project was. It really has just reinvigorated the community. It's reinvigorated, I think, not just the public infrastructure but it's created something that I think British Columbians can all take some pride in.

The Canada line I mentioned earlier: \$92 million of additional benefits. There's the Britannia wastewater improvement plant that we've got, the treatment plant: \$10 million of additional benefits. The W.R. Bennett Bridge from Westbank into Kelowna, where we're doubling the capacity of that bridge: \$25 million of additional benefits. Sea to Sky, as I mentioned: \$131 million in additional benefits.

We cannot afford not to pursue the objectives that we've set for ourselves with public-private partnerships, so one of the things we're trying to do in British Columbia is become recognized for the expertise that we've developed in public-private partnerships

through not only Partnerships B.C. but through our financial institutions, through our architectural community, through our building community, through our construction community.

It's important for us to recognize this as a tool we can actually sell. I mentioned Governor Schwarzenegger coming to British Columbia and being attracted to the public-private partnership initiative. He's probably going to come back and bring some of his colleagues from the California State House to talk about the public-private partnership initiative. We think we've got big infrastructure problems. They have huge infrastructure problems there.

They've asked us to come down and tell them what we've done, how we've done it, what we've learned and what we can build on. Well, this is something that in a province like British Columbia... We don't need to be the largest community in the world. We can just be one of the smartest communities in the world in how we deliver those sorts of products, and that's going to generate all kinds of economic opportunities for us right here. And with those economic opportunities, we build additional responses.

But having said all that, and as enthusiastic as I am about public-private partnerships, I think we have to remember this. It is just a portion of what the provincial government's capital investments are and construction investments are, not to mention what the private sector's construction intentions are. It is probably maybe about a tenth, if you take into consideration all of the private sector investment intentions and projects that they've launched over the last little while that we can see over the next five to eight years. From our perspective in government it's about \$8 billion of projects that we currently have underway, which is about 25 per cent of our projects.

It is not the only thing we are doing but is one of the things we're doing, and actually, there's one benefit that we get from the public-private partnerships, which doesn't come down to what the value-added additional dollars are or the quality of the design work that you get done or the effectiveness of how we deliver the particular projects we give to P3s. It actually brings us into contact with what is, I think, arguably one of the most important and the most difficult industries for the public to understand. That's the construction industry in British Columbia.

It's the construction industry in British Columbia that builds our infrastructure. Whether it's sewer or water or roads or hospitals or schools or housing projects or community centres or libraries, it is the construction industry that drives those initiatives throughout the province. And it's not always multi-billion-dollar projects. Lots of times they're \$2 million and \$3 million and \$6 million and \$8 million projects. And one of the things that this has done is create an opportunity for a constant interaction or flow back and forth between not just the construction industry and Partnerships B.C. but through into the government.

And it's, I think, one of the critical initiatives that we have to think about as we move through to the next stage of this. I think it's fair to say we're through the first phase of

public-private partnerships. There's a little bit of political fuss about it, but it would be pretty difficult to stand up and argue against the success of public-private partnerships. The people that are doing that are people that are not paying any attention. They've got another kind of agenda that they're running. They're not talking about how you build public infrastructure.

But I think that the next phase is to recognize how you take some of the skills that we've developed through public-private partnership initiatives and transfer them through the government. It takes more time now than it used to, but risk analysis is not something that flows through naturally into our government processes. Changing our processes so they're more effective, so they take less time and yet you get the results you want, is not something that flows naturally.

One of the challenges for us is: how do we establish that cross-ministry kind of expertise in government? Partnerships B.C. is one of them for major partnerships over \$20 million, but the question for us is: how do we do that for the other 75 per cent of the projects we have? How do we create those opportunities for learning, for understanding, for harnessing the ability of the industry to meet the goals that we've set for ourselves publicly?

I think that public-private partnerships from my perspective have been a huge success. They are not the only answer to the challenges we face, the infrastructure challenges we face, in the 21st century, but they're certainly going to be a critically important one as we move through the next couple of decades.

They give us an opportunity not just to find more cost-effective means of building buildings; they give us an opportunity to think, as we should, about the life cycle of buildings, the impact on operating costs, etc., in buildings. They give us an opportunity to think about how we can build buildings or design infrastructure so that we're thinking about the long-term upgrades and rehabilitation that may be made. They give us the opportunity to think about how we can meet some of our climate initiatives with regard to reducing greenhouse gas emissions and other challenges that we face like that. They give us the chance to think of our infrastructure in terms of its long-term life cycle, what the maintenance requirements are, how we deal with that over the long term. All of those things are going to be critical to us not just improving our infrastructure but to sustain it over the long haul.

So as you sit in your meeting today, let me simply say to you again that these initiatives that we've undertaken are of critical importance to our province. They will be in your province if you're in another jurisdiction. I should also say that most of the Premiers have talked with me at one time or another about the initiatives we're taking with regards to public-private partnerships. When you think, again, back to the Abbotsford regional hospital, we expect that we will reduce, for example, carbon dioxide emissions by about 3,100 tonnes a year. We expect there's going to be energy savings in the order of \$0.5 million a year. All of those things are critically important to the long-term sustainability of our health care system.

When we think of our road system and we think about the challenges you face in different parts of the province with different regional conditions, etc., and maintenance, there's a whole series of things that we can develop because of the initiatives and what we've learned from Partnerships B.C. When you think of our schools in the province, there are large schools and small schools that need to be built. Because of the initiatives we're undertaking with the construction industry, we think there are lots of opportunities for us to develop an even better template for the educational infrastructure we're building.

So we're sharing our lessons with Oregon, with California, with Washington, with Arizona, with places as far away as Georgia. We're working with Alberta, with Manitoba, with Ontario to try and make sure that they learn and understand the benefits that we have seen from P3s.

I think one of the things that's most encouraging to me is we are slowly building a reputation in our province as a centre where public-private partnerships, the vehicle of public-private partnerships, is recognized as successful. People don't feel they have to go back to square one and invent it all the time in their community. So we will build a large consulting, financial, engineering and construction infrastructure here that actually can export that expertise around the world. Someday, who knows, maybe Larry Blaine will be asked to come to the UK and give a speech. It's possible. It is a real opportunity for us, I think, to continue to lead the way with regard to this.

So let me close with this. I think the province's economy is doing relatively well. We should all be looking with some trepidation at what the future may hold for us. I think we have to be prudent, and we have to be thoughtful, but I believe this. Our province is on the verge of taking our country into the Pacific century. For us to get to the Pacific century and take full advantage of it, we're going to have to have major infrastructure investments, and those infrastructure investments are not going to be just health care or transportation. It could be port infrastructure. It may be a whole series of other infrastructure improvements to meet the needs of people who come to live here and to take advantage of this international centre.

I can't think of a better cornerstone or foothold for us to have on building that future than the public-private partnerships that we've been establishing. That public-private partnership expertise is something that we can sell to the world as the world looks to how they can improve infrastructure and improve the quality of life in a cost-effective and sustainable manner for the people that are trying to create public infrastructure.

I should close by saying how much I appreciate the work and the expertise that we've had delivered to us from Partnerships B.C. I think they have done a great job on behalf of all of us in the province, and I know that they would be the first to say that without an open, direct, straightforward dialogue, conversation and sometimes disagreements with the construction sector across the province, we wouldn't be nearly as successful as we have been.

Thank you for your attention. Let's build more P3s. Thank you very much.