British Columbia's Capital Assets Framework: Guidelines or a Public-Private Partnerships Railroad Job?

(Draft 1a: 19 May 2006)

This is a work in progress, please do not cite without permission from the author so as to ensure the material used is up to date.

Daniel Cohn, Ph.D.,
Assistant Professor,
Department of Political Science
Simon Fraser University
Burnaby, British Columbia
V5A 1S6

Email dcohn@sfu.ca
Tel. 604.291.5667
Fax 604.291.4786

© The Author

* The author wishes to acknowledge the assistance he received from Professor Sally Ruane of De Montfort University, Leicester, UK in developing his interviewing strategy for this project.

Abstract:

The Liberal Party government of British Columbia has had more success in terms of the number of public-private partnerships that they have managed to initiate than any other provincial government in Canada. Observers (whether they believe that this outcome is positive or negative) agree that part of this success is attributable to "The Capital Assets Framework." Introduced in the spring of 2002, this is a province-wide set of guidelines that all ministries, agencies and other public organizations seeking a provincial capital contribution must follow. Adherents of the New Public Management (such as the Liberal Party government) frequently state that public managers ought to be empowered to produce results, and judged by these results, not tied to rigid procedures. With this in mind, the paper examines the Capital Assets Framework guidelines, assessing whether it is more appropriate to see them as tools that have freed the creativity of public sector managers, or as a public-private partnerships railroad job. Evidence for this analysis is derived from documents, news reports and interviews that the author conducted with public and private sector executives in the summer and fall of 2005.

Introduction

In May 2001 the voters in British Columbia, Canada went to the polls and swept away a decade of social democratic public policies instituted by the New Democratic Party. Replacing the New Democrats in power was the BC Liberal Party of Premier Gordon Campbell. The Liberals won virtually every seat in the provincial legislature (77 of 79) and also a strong majority of the votes in every region of the province as well. The new government quickly settled down to a short-term agenda of increasing business confidence, by among other reforms, implementing an across the board 25 percent cut in personal income taxes (the provincial government's largest single revenue source). The financial crisis that resulted was then used over the long-term as a driver to not only cut government activity, but to encourage a rethinking of what the responsibilities of the provincial state ought to be and how the public sector ought to go about meeting these responsibilities (British Columbia Office of the Premier, 2001; Palmer, 2001; Willcocks, 2001). It was within this context of a majority government, enjoying strong popular legitimacy and determined to make the province more business friendly, a financial crisis, and a deeper drive to "re-invent government," that public-private partnerships (P3s) were introduced into British Columbia as an important option for executing large infrastructure projects.

P3s can be understood to be instruments for meeting the obligations of the state (things that there has been a strong social consensus that the state ought to do) that are transformed so as to involve private property ownership as a key element in the operation of the instrument. By contrast, privatization occurs when public obligations are ended. Meanwhile, contracting out does not involve private ownership as a key element in the operation of the instrument. This is because state actors can be substituted without any material change in how the instrument otherwise operates. The word partnership is important and not just a euphemism for hiding a privatization (at least it ought not to be). Partnership means a relationship based on common goals where both entities share benefits and contribute resources over the long-term for both mutual advantage and out of a sense of commitment. This is the sense in which supporters of P3s use the word to describe these arrangements. Those who are opponents or more ambivalent about P3s use this sense of the word to describe how P3s would operate if they did in fact represent undertakings of benefit to the public (Vaillancourt Roseneau, 2000: 219). In a P3 public and private actors form a long-term partnership to meet a common goal which is a publicly agreed outcome (e.g. improvements to information management within a governmental agency or the building and operation of a new health centre). Unlike a traditional contracting relationship, the private partner in a P3 is generally involved in developing how the solution sought by the state ought to work (Cohn, 2005). Genuine P3s also tend to enjoy some form of spatial or functional monopoly (N.A. Engineering News Record, 2002). This is understandable in that if the service could be provided on a competitive basis there would be little need for state involvement.

The conditions present in British Columbia from 2001 to 2005 ought to have been expected to create a substantial policy window that would facilitate transformative policy changes (Keeler, 1993; Kingdon, 1984). Nevertheless, the government ran into substantial difficulty in getting the development of P3s under way. Among its early efforts to employ P3s, two flagship projects, the Richmond-Airport-Vancouver Rapid Transit Line (RAV Line) and the Abbotsford Regional Hospital and Cancer Care Centre

(Abbotsford Hospital), ran into major difficulties. These difficulties were only overcome when the provincial government undertook extraordinary efforts to intervene in the decision making processes of autonomous local officials. This paper begins by looking at these projects. Both are roughly at their half-way points in their development, private partners have been selected and construction has commenced. Financially speaking, the projects have the following presently estimated costs to the public: $1.5 Billion for the RAV line, $1.35 Billion for the P3 plus $150 million in associated work, $1.6 Billion for the Abbotsford Hospital, $424 Million up front plus annual lease payments (Partnerships BC, 2005; Greater Vancouver Transit Authority, 2004a).

Both of these projects are Design-Build-Finance-Operate (DBFO) P3s. In such a project, a private firm is engaged to deliver a service and all needed infrastructure for either a regular lease payment or subsidy, the right to collect revenue from the service, some alternative payment (for example, the right to use land freed up as a result of redevelopment), or some combination of the above. Most of the hospitals built using a P3 process in the United Kingdom are of this type (Canadian Council for Public-Private Partnerships, 2003: 29). These contracts tend to be too big and complex for any one company to undertake. Therefore, consortiums of companies with expertise in different areas (such as the various aspects of construction involved, facilities management and finance) form to bid on them. The partners in these consortiums usually create a special purpose corporation that will carry out the project if their bid is selected. Given the scale of such undertakings, DFBOs also tend to involve very long-term contracts, sometimes for the entire estimated useful life of the infrastructure or the estimated time until it will need substantial refurbishment. The competing consortiums offer rival plans on how they would help the state fulfill its obligations, rather than simply tender to build something pre-designed by the state (Calder, 2004; Macquarie North America, 2001: 4-5). Therefore, the competition is about more than just price. For example, if one design leaves greater potential for future expansion and another provides for easier reconfiguration from the intended use to other uses, and a third still has the absolute lowest cost, then the selectors will have to determine which of those factors overall provides the most benefit.

Consideration of using a DBFO P3 model for both these projects began before the Campbell government was elected. The histories of these projects show that stakeholders, whether public servants, citizens, local authorities, or potential investors, did not know what to expect in the early days of the British Columbia government's P3 efforts and that ministers themselves were sometimes confused about why the government wished to employ this model for meeting its public obligations. There is no doubt that the government could have continued its efforts to introduce P3s without alteration. With all but two seats in the legislature it could have easily bulldozed several into place regardless of opposition. However, such an effort would not have imbedded the belief in the merits of P3s securely into the public-policy process. In order to do this, and achieve "buy-in" from as wide a group of stakeholders as possible, a different approach was required both for P3s and other forms of alternative service delivery. Much of this new approach is codified in a collection of documents released roughly around the government's first anniversary in office, the Capital Assets Management Framework or CAMF (British Columbia, 2002a and 2002b). The third section of the paper looks at the CAMF in further detail and explores its impact.

While written in neutral bureaucratic language, the guidelines lay down certain rules, as well as contextualizing these rules in such a way, as to privilege alternative service delivery solutions over traditional public provision (British Columbia 2002a). The associated overview document goes further and openly encourages public servants to "challenge assumptions," "be creative" and "look beyond traditional approaches" so as to find ways "to meet our service delivery needs that could avoid new capital spending" (British Columbia, 2002b: 2). Although calling the CAMF a P3 railroad job is going too far, the CAMF clearly does support and more fully facilitate their employment than past capital allocation policies used by the government of British Columbia. However, from another view it can also be seen as a methodology for ensuring that poor alternative service delivery projects, such as P3s, don't leave the drawing board. If after rigorous analysis a traditional service delivery model makes more sense, it would be very difficult to proceed with a P3 if there was a fair possibility that the analysis would come to public light at some future date. Even during the Campbell government's first term in power (when it held all but two seats in the legislature), civil society groups regularly released supposedly secret documents that deeply embarrassed the government (see for example Sandler, 2002; McLintock, 2002; Palmer 2002b). Given access to information laws, an active opposition party, and a highly politicized civil society, public access to such an analysis would likely only be a matter of time. Consequently, even though it does privilege the use of P3s and other alternative service delivery arrangements, it can still be seen as holding the potential for genuinely empowering public servants and for unleashing their creativity to undertake projects according to the best means possible.

Two Early Projects, The Abbotsford Hospital and The RAV Line:

The Abbotsford Regional Hospital and Cancer Care Centre

Late in 2001 health care in British Columbia was reorganized by the BC Liberal government. Five very large geographically based health authorities and one province-wide authority (providing highly specialized care such as advanced cancer treatments) were created. The lower mainland now has two such authorities, Vancouver Coastal and the Fraser Health Authority (FHA). In the case of the FHA this involved merging three existing authorities. The FHA serves a population of approximately 1.5 million residents. Among the five health authorities in the province it has the fastest growing population and is expecting at least ten percent further growth over the next five years (Fraser Health Authority, 2005: 3). According to one interviewee, alongside of successfully completing this merger, the managers of the new health authorities were required to reduce anticipated spending by about $130 million so as to meet the restraint targets set out by the government. The FHA initiated a major clinical redesign to allow it to meet this goal as best as possible. The initial plan anticipated closing roughly 40 percent of existing acute care beds and replacing them with chronic care and home care services (Professional Association of Residents British Columbia, 2002).

For two decades provincial governments of various political stripes had been promising to replace the hospital in the fast growing city of Abbotsford. Interviewees agreed that the existing hospital building there had outlived its useful life. Consequently, a new hospital for Abbotsford became one of the top capital priorities for the newly constituted FHA. This was endorsed by the new Liberal government, as was the idea of expanding the proposal to include a new regional cancer care centre (British Columbia

Ministry of Health Services 2003). In the fall of 2001 the now defunct Fraser Valley Health Region and BC Cancer Agency had commissioned PricewaterhouseCoopers to provide an evaluation as to whether the proposed hospital and regional cancer centre would be a feasible DBFO P3. The report was cautiously optimistic. However, it suggested that meaningful savings were not realistically to be expected by employing a P3 model. The report estimated that a savings of approximately 1% could be achieved if everything went smoothly and the estimated monetized values of the risks transferred to the private sector were accurate. If the government was willing to allow not only for the for-profit provision of maintenance, support services and building management, but also some for-profit delivery of health care services (which it was not), then it was estimated that savings would be around 5% .

An important element in such analyses of risks is the "discount rate" which the consultants pegged at a real 6% (PricewaterhouseCoopers, 2002).[1] When consultants and public managers analyze the potential costs involved with a DBFO P3 with a fixed price they create a financial model for a hypothetical and more traditional public procurement to compare the P3 with. As part of this exercise they adjust the costs of this public comparator upwards by the amount of the discount rate. One way to think about this is that the discount rate reflects the risks of inflation and similar future cost pressures that the state believes it can avoid by engaging in a DBFO P3 with known future costs rather than a more traditional public procurement. The above noted discount rate of a real 6% was the one commonly used in the United Kingdom at the time PricewaterhouseCoopers did their report (Grout, 2003: C63). However, many saw it as

[1] The publicly released version of this report was heavily censored. However, the job was poorly done in the electronic version and all that was required to create an un-edited version was to cut the text from the .PDF and paste into a blank MS-Word document.

unreasonably high and in the spring of 2003 the British government lowered the usual rate to a real 3.5% (Byers, 2003). Nevertheless this rate was retained when Partnerships BC did its value for money assessment on the project and subsequent reports showing the project is estimated to save the tax payers money (Partnerships BC, 2005).

According to interviewees, the members of the FHA Board, some of whom had substantial expertise in private sector finance and real estate development, were not won over by either the consultant's report nor other arguments made in favour of a DBFO P3. They instead recommended a design-build contract with more traditional public financing and operation. In part they were skeptical that a privately managed facility could cope with the service demands patients place on a hospital. An even greater concern was that the savings that are usually produced by competitive bidding would not emerge. Although many support services in Canadian hospitals are contracted out, there have been very few hospital buildings that are managed in total by for-profit operators. In conjunction with this, the FHA Board felt that the facility being contemplated would be too small to generate returns on a scale sufficient to attract widespread interest among the firms with the expertise to execute such contracts, given the costs involved in bidding and the risks. At this point the provincial government ordered the Board to accept the project as a DBFO P3 or face removal. Either way, the province had lost confidence in the ability of the FHA Board to lead the project and transferred responsibility for executing the project and some of FHA staff members to Partnerships BC. Subsequently, an operating company was set up to manage the relationship with the successful proponent which will be at arms-length from both the FHA and the Provincial Health Authority.

Some insight into why the government made the decision to over-ride the FHA can perhaps be gained by an interview that the then-Finance Minister, Gary Collins, gave to a trade journal regarding the Abbotsford Hospital. He is reported to have said that the project was not only important as an individual health facility but also for the future of the P3 model in British Columbia. Some projects had to be first and the Abbotsford Hospital was seen as a good candidate. This was not only because of its attributes, but also because of the strong support that voters in the area had shown for the government. He is said to have told the reporter that this reduced the political risks involved as there was little likelihood that voters would change allegiances if the project were to turn out badly (Goldsworthy, 2002).[2] In the end the fears expressed by the FHA Board did come to pass when one of the two finalist consortiums declined to submit a bid, leaving Partnerships BC with an uncontested "best and final offer" stage of the proposal process (Leslie, 2004). From 2001 when the project was first given the go ahead to the day the contract was signed with the private proponents costs increased substantially to the present $424 Million up front cost plus total lease payments of $1.2 Billion over thirty years excluding various adjustments (Partnerships BC, 2005). However, it is difficult to interpret this as being a budget overage. This is because the project scope was also substantially increased by the new government before calling for proposals from potential proponents.

The RAV Line

Discussion of a rapid transit line that would connect Vancouver's southern suburb of Richmond and the international airport (which is located in that city) to Vancouver began

---

[2] The author sent Mr. Collins a copy of this article and gained his written confirmation that it accurately reflects his comments to the reporter.

at least as early as the summer of 1989 (Lee, 1989). In the subsequent ten years little was done to bring the plan to fruition. In the intervening years local government received a new structure. The Greater Vancouver Regional District was created and given responsibility for regional transit and major roadways. These issues were delegated to its transit authority, the GVTA.[3] At this point the new regional government drew up a master plan for development. It recommended that growth be restricted in the south west area of the region (in other words in Richmond) and focused on the still relatively undeveloped eastern and southeastern suburbs. Consequently a rapid transit line for Richmond was moved down the priority list with top priority going to a potential east-west line that would cross the region. Vancouver's ultimately successful bid to host the 2010 Winter Olympic Games restored interest in the RAV Line. Although not supported by the overall regional development plan, it became the GVTA's top rapid transit priority when the province committed its own funds to the project and its resources to lobbying Canada's federal government for further support (Greater Vancouver Regional District, 1999; McMartin, 2003).

One interviewee observed that from the time interest in the project was revived it was clear that private financing would have to be involved as it was unlikely that enough money would be available exclusively from public sources. In January 2001 (roughly six months before the BC Liberals took power) the GVTA commissioned a consultant's report to explore the feasibility of building the RAV line as a P3. The report was cautiously optimistic that a successful P3 could be produced but noted several challenges

---

[3] The GVTA (which is popularly known as TransLink) is a wholly owned subsidiary of the Greater Vancouver Regional District (GVRD). The 35 member GVRD Board of Directors is comprised of delegates from the region's 21 municipal councils. These in turn elect the members of the GVTA Board of Directors from among their own number.

and provided no real estimates as to how a P3 might impact project cost. One reason for this caution was because, at the time, very few transit DBFO P3s existed in North America (Macquarie North America, 2001).

An arm's length company, Richmond Airport Vancouver Rapid Transit Project Ltd. (RAVCO), was created by the GVTA with the purpose of pursuing the RAV line as a DBFO P3. Although it is a subsidiary of the GVTA, it also has representatives nominated by the province, federal government, the airport and the two cities of Richmond and Vancouver on its board, some as voting members and others as ex-officio. In the summer of 2004 the project nearly died when the GVTA's Board of Directors refused to authorize the "best and final offer" stage of bidding. The Board took this decision because both of the finalist consortiums had produced cost estimates well over the GVTA's approved expenditure of roughly $1.35 Billion. There were also concerns that the project was ill-planned to this point and some Translink directors felt they did not have enough information. Some did not like the idea of giving priority to a transit line that did not fit the aims of the official growth plan and some just did not like the idea of P3 as they saw little value in it. At this point the province stepped in and offered financial inducements to get the project moving, including a sizeable contribution towards another rapid transit project planned by the GVTA. Nevertheless, the GVTA board voted down the project a second time and only authorized it on a third vote after further provincial cajoling and after an agreement was reached that reductions would be made in the scope of the project so as to stay within $1.35 Billion. It was also agreed that the whole project might be scrapped if it could not be viably done within the available funding envelope (Campbell & Falcon, 2004; Greater Vancouver Transit Authority, 2004b; Lee, 2004; Skelton, 2004). The winning bid did exceed this number, necessitating the previously approved scope reductions. As well, some of the capital and operating costs necessary for producing a successful project that were supposed to be assumed by the private partner reverted to the public, including moving power lines for trolley buses, building bus stations adjacent to the new train stations and the operating insurance for the line. In other words, the costs of the project will exceed the limit set by the GVTA's Board. However, these excess costs will be carried on other budgets so as to meet the letter of the third resolution (Greater Vancouver Transit Authority, 2004a; Jacobsen and Plewes, 2004; Boei 2004a). A full value for money report on the RAV line has not been made public yet so it is unclear how the public sector comparator was created, and most especially, what discount rate was used.

Even then, it is possible little will be learned from the exercise. Public transit is generally unprofitable and usually requires some form of public subsidy. The degree depends on ridership volumes which are notoriously difficult to predict when a project is in its planning stages. Reports done for the RAV Line had margins of up to 20 percent (Jacobsen, 2003: 11). Further complicating the use of a P3 model is that transit is a service that is provided directly to each user who can generally choose other means of transport and who can be put off by actions of either the public or private partner. In many cases, determining which party is accountable for under-performance will not be clear. For example people may stay away if the stations are unclean (a private partner responsible in the case of RAV), or if the buses that connect to it are not on time (a GVTA responsibility). But what if they come to perceive the transit system as a whole is susceptible to crime? Given these complications and the unpredictability of ridership, the

GVTA will have to pay additional subsidies to the private partner if the agreed ridership forecast is not met and has assumed 90 percent of the cost of ridership risk (Jacobsen and Plewes, 2004: 14; Boei 2004b). This potential for substantial and difficult to estimate liabilities provides a further explanation as to why some of the GVTA's directors were hesitant to approve even the revised project (Boei 2004a). It was also a factor that led Standard & Poor's to change the outlook on the debt issued by British Columbia's Municipal Financing Authority from stable to negative, although it did not go so far as to downgrade the Authority's credit rating (Calder, 2005).[4]

Why were P3s undertaken in the Case of these two Projects?

As has been shown, local decision makers saw little in the way of a compelling reason to undertake either of the two projects discussed above as P3s. The concerns they expressed were at least partially supported by Research from the United Kingdom. This has shown that DBFO P3s tend to work best in the case of projects that:

- Have very little direct customer service as part of their make up, things such as highways, bridges and other "dumb" infrastructure,
- The private sector has extensive experience (there are very few privately maintained hospitals in Canada and virtually no large scale transit operations run privately any where in North America).
- Maintenance is politically problematic as the public pressures governments to spend on other priorities (such as salaries and new services) so that the infrastructure gets run down and becomes more costly than it should be to

[4] The Authority issues debt on behalf of all of British Columbia's municipal governments and given the role of the GVRD and GVTA, the debts they issue to finance capital projects make up a sizeable component of the Authority's borrowing.

repair (Taylor, et al 2001).

Of these three factors, only the latter can plausibly be said to work in favour of doing these two projects as DBFO P3s. This does not mean these projects will turn out poorly. It only means that the project teams involved in these two undertakings will have to work extra hard to realize some of the benefits that are widely acknowledged as occurring with the DBFO P3 model.

Among the most frequently cited benefit was that the DBFO P3 process allowed the public sector to capture a great deal of knowledge from private sector experts that might not come to the fore in a traditional project. This is not only a question of bringing more minds to the task and accessing a wider range of expertise. There is also a logical problem in traditional public sector projects where design, construction, finance and the ultimate operation of the infrastructure are handled in a disaggregated manner, with each partner bidding only on its own part of the project. One interviewee noted that if private sector construction companies are asked to bid on a project designed by someone else, to be financed by someone else, and owned and operated by yet another party, they are not going to waste time and money thinking about how to do a better project. If they do their costs will be higher and they will lose the bid.[5] By specifying outcomes that had to be achieved, and then leaving the consortiums bidding for the contracts to devise the best solutions for achieving these outcomes, to as great a degree as possible, interviewees involved with all three projects believe substantially better projects have been developed. To this end, all of the projects took steps to better harness private

[5] This in part explains why even with more traditional public procurements, interest is growing in using consortiums to develop so called design-build and design-build-finance "turn-key" projects. They are called by this name as all the public owner has to do once they take delivery for the infrastructure is "turn the key" to start them.

sector knowledge. An example was the issuing of multiple iterations of the "requests for proposals" and/or "output specifications". The initial versions were revised after consulting with the qualified bidders and gaining some insight into the information contained in these very large documents that posed unnecessary difficulties or barriers to innovation.

Another benefit noted by some interviewees in using any P3 model was certainty as to the final scope of each project. Even if it was more expensive, they at least knew what they would be getting at the end of the day. In support of this, one interviewee made reference to the province's highway 91 which was completed as an arterial roadway rather than a superhighway when cost over-runs increased its costs to the point that some overpasses had to be abandoned and replaced with stop lights.

Are there other benefits of a political nature that accrued through doing these projects as P3s? One benefit that was cited by many interviewees was that using a P3 locked in the province and eliminated its ability to wiggle out of its commitments to each project. Both of these projects had been talked about for a long time. Planning had been started and stopped as various provincial governments promised funding and then withdrew it over the last fifteen to twenty years. Managers noted that politically speaking it will be far more difficult for the province to back out now that it has signed contracts with a private partner than it is would be if the partner receiving the funds were only a local authority.

While these reasons make sense for local public servants, and in part explain why some of them were a little surprised when the decision makers they answer to bulked at doing P3s, what benefits could the province see in doing these projects as DBFO P3s?

The lack of a clear answer to this question helps to explain why these projects became as controversial as they did. Second, the government found itself quickly on the defensive in that it had to justify undertaking each and every project as a P3 rather than as a traditional public procurement based on the objectives that were aimed at in such traditional procurements, rather than its own neoliberal objectives. Why was it varying from the default choice? As an example, the government quickly found itself stumbling for answers when a report prepared by a prominent accounting firm questioned whether the Abbotsford Hospital would actually meet the main benchmark the government had publicly set for the project, reducing costs to the taxpayer. This ought not to be surprising as it is very unlikely the costs of any project can be reduced by converting it into a P3 unless one is willing to believe in the ability to suspend economic logic (Cohn 2005). This is also why proponents of P3s more realistically speak about value for money. In other words, cost is only one factor that ought to be considered, the inherent quality of the project must also be taken account of. When confronted with the opinion of the accountants (who had to piece their evidence together using forensic techniques due to the government's lack of disclosure) even the health minister had to admit the case in favour of building the Abbotsford Hospital as a P3 was not fully established. The situation provoked the following rebuke from Vaughn Palmer, British Columbia's most widely read political columnist:

> The Liberals have articulated only the vaguest notions about public-private partnerships. And they have deliberately, systematically withheld key information about the Abbotsford P3.
>
> Now we have the spectacle of one of B.C.'s most respected accounting firms being forced to rely on cloak-and-dagger methods to try to get some measure of the project.

> The case for a P3 to build the hospital in Abbotsford is "not proven," to quote the health minister. Until the case is proven, the Liberals should not be risking tax dollars on this adventure (Palmer, 2002a: A14).

In that the province's motivations for going down the P3 road were at best unclear they bred suspicion among stakeholders. There is always a risk that governments will use the P3 model to "Enronize" their books, in other words turn capital costs (which count as debts) into lease payments (which don't) so as to claim they are reducing deficits and debts when in fact they are not. This possibility was raised by consultants hired by unions opposing the RAV Line P3 after these experts reviewed some important correspondence between the Premier's top public servant and the CEO of Translink (Auerbach, 2004). Preventing this requires a great deal of vigilance on the part of accountants (Fitzsimmons, 2002). The suspicion of unions and other civil society stakeholders was only compounded by the use of the term P3 in association with transactions that were clearly privatizations such as the virtual sale of BC Rail and the Coquihalla highway. Unions in British Columbia came to see P3s as a threat and something to be opposed on principle (CUPE BC, 2006a). This view was further strengthened by provincial legislations which abrogated a number of clauses in union contracts so as to facilitate the contracting out of support services, such as would occur through the construction of a DBFO P3 hospital (see for example, Beatty and McInnes, 2002; Bermingham, 2002). Even some prominent investors were unclear as to why the provincial government wanted to embark on the construction of infrastructure using P3 models and hesitant to commit capital to the province (Greenwood, 2003a and 2003b). A clearer statement was needed as to when, where, how and why P3s (as well as other alternative service delivery mechanisms) ought to be employed. Also needed was a way to evaluate the risks involved in such projects and prioritize the goals public servants and agencies funded by the province ought to be meeting when they request capital funding (Tafler, 2002: 17).

The Capital Assets Management Framework (CAMF):

Released at roughly the first anniversary of the BC Liberal's election victory, the CAMF was meant to give answers to the questions of what the government's aims were in embracing P3s and other forms of alternative service delivery and how public servants should go about evaluating the options available for undertaking any given project. Speaking to a constructions trade conference, the then finance minister, Gary Collins summed up the official position of the BC Liberals by saying that they were pursuing "objective-based government" (Goldsworthy, 2002). By this he meant that the government of British Columbia had embraced one of the central elements of the New Public Management, focusing more attention on meeting the real needs of the public (in other words fulfilling the obligations of the state) and less on doing so in any single manner. Instead, accountability would be exercised not by fulfilling obligations in an identical manner, but by using a common decision-making process to determine in each case what the best means was for meeting each obligation. Again in keeping with the tenants of the New Public Management, the aim was officially to empower public servants to find the best and most innovative solutions for delivering the objectives specified by the political executive (Cohn, 1997; British Columbia, 2002b).

The CAMF is actually several documents of which two of the most important are the overview and the guidelines documents. The former explains the major principles that ought to guide capital spending and requests for capital funding by agencies and local governments accountable to the provincial government. It also sketches out the steps that should take place in order to achieve a successful request for capital. The much larger guidelines document explains in greater detail the sorts of information that each agency and provincially accountable body ought to be able to present at each stage of the process, the capabilities it ought to possess in order to successfully complete both a request and to manage the ongoing project that results (British Columbia, 2002b and 2002a).

The Overview starts by stating that CAMF has the following objectives:

1. "To establish best practices in capital asset management across the public sector."
2. "To support ministries, health authorities, school districts, crown corporations and other public-sector agencies to think creatively and find the most efficient ways to meet British Columbia's infrastructure needs" (British Columbia, 2002b: 2).

Under each objective a number of principles are laid out and each of these is associated with guidelines and tools in the larger Guidelines document (British Columbia 2002a).

The principles associated with objective number 1 are:

a. Sound fiscal and risk management
b. Strong accountability in a flexible streamlined process
c. Emphasis on Service Delivery

Under the second objective the principles are:

a. Achieving Value for Money

b. Protecting the public interest

c. Competition and transparency (British Columbia, 2002b).

None of the above ought to be particularly disturbing to anyone. Public servants were reminded that capital requests ought to flow from their ministries' and agencies' business plans and that they would have to make a solid business case for each investment including a demonstration of need and how risks associated with the investment and its lifetime operating costs would be mitigate. They were also encouraged to be creative in searching for solutions and not feel constrained to playing it safe. They were further advised that each unit within the government would be held accountable for the effectiveness with which they used capital spending to meet the obligations of the British Columbian state to its citizens. Finally, and in contrast with the situation surrounding the Abbotsford Hospital, they were given clear guidance on the importance of keeping the public informed about the key details of projects at each step and as soon as feasible unless such details would compromise the commercial viability of a project (British Columbia, 2002b). While it is true that disclosure has improved, one private sector interviewee felt there was still too much secrecy today surrounding P3s in British Columbia. In his view the need for keeping most details of a P3 secret dissolves fairly soon after a deal is signed. This is because market players (those who could use the details to gain commercial advantage) will be able to figure them out with fair accuracy in a few days. Consequently, when details are held secret over the long term, the only people kept in the dark are the general public.

The drawing of a relationship between capital spending and each unit's business plan, the apparent freeing of managers to managers in return for greater accountability in terms of achieving outcomes set by their political masters and the avowed decision of these political masters to step back from the process of project design, make the CAMF a textbook new public management exercise (Aucoin, 1995; Hood, 1991; Osborne and Gaebler 1993; Moynihan, 2006). It is also a text book new public management exercise in another way as well in that it seeks to substitute wherever possible market-type-mechanisms for traditional bureaucratic mechanisms in terms of achieving accountability and managing finances (Cohn, 1997).

It is in this area where problems begin to emerge with the CAMF. The first is that part of sound financial and risk management is to transfer risks to those parties best able to bear them (British Columbia, 2002: 3). In other words, the government believes it can save money by finding private parties to bear its risks for it. While possible in the short term or in one single project, it defies economic logic to believe the any state can do this over the long term (Cohn, 2005). Furthermore, by evaluating each project as a stand alone proposition, risks might be well managed in each project, but the overall risk situation of a ministry, agency or even the province as a whole might be severely compromised. Finally in terms of realizing objectives so as to bring about objectives based government public servants are told that they should seek to meet the obligations of the state identified by their political masters with the lowest capital costs possible, rather than the lowest actual cost (British Columbia, 2002b: 4) .

Specifically under objective two's principle of value for money, public servants are told that: "Value for money will be enhanced through strategic use of public and private sector resources" and that they will be expected to "identify suitable projects for alternative capital procurement" (British Columbia 2002b: 5).

In the conclusions, public servants are reminded that a key priority of the government is to maintain a balanced budget while ensuring necessary service delivery and that as a result: "The framework promotes alternative service delivery options, including public-private partnerships" but that it also "provides checks and balances to ensure accountability and effective management" and that agencies must meet their "inherent responsibilities" to serve the public and deliver necessary services (British Columbia, 2002b: 6).

Not surprisingly, those who were, and still are, critical of the government's embrace of P3s, expressed skepticism about the above narrative. For them, the guidelines are not neutral bureaucratic procedures meant to realize obligations of the state in the best possible manner and free the creativity of the public sector, they were a P3 railroad job (CUPE BC, 2006b). While this might be going too far, it cannot be denied that one main impact of the CAMF was to change the terms of debate regarding P3s. Instead of making it necessary to explain why a P3 was justified. It would now be necessary to explain why a P3 (or some other form of alternative service delivery) was not being employed.

The CAMF also told investors that unlike in the past where governments backed down whenever a P3 ran into even a little criticism, the government was now committed to seeing realistic projects through to completion rather than buckling to vocal critics. One interviewee noted it was not just the previous NDP government that had done this, but that the Liberal's were equally guilty of cutting and running in their early days. This tendency to abandon projects was also noted by the consultants hired to assess the feasibility of using a P3 model to build the RAV (Macquarie North America, 2001, 1). Therefore something such as the CAMF was needed to restore investor confidence. The

CAMF also sends an unmistakable message to public servants. Not only is the government seriously interested in alternative service delivery arrangements (such as P3s), but each agency has an obligations to report if there are feasible alternatives to traditional capital projects every time they deal with such issues. Consequently, public servants who might not have previously invested too much time canvassing such options, due to their uncertainty as to how a recommendations involving alternative service delivery would be received, now had every incentive to seriously study them. As one private sector interviewee noted: It was not that public servants in BC were unaware of P3s, they just did not necessarily feel that governments had a strong appetite for them previously.

In wrapping up this discussion of how the CAMF can be seen as driving P3s, rather than simply empowering managers to undertake them when they feel they are appropriate, something must also be said about Partnerships BC. The same day the CAMF was unveiled, the BC Liberal's also announced that a new agency had been created to act as a sort of in-house consultant on P3s and champion for their implementation which would be called Partnerships BC (Enchin, 2002).

At a practical level, the creation of such an agency allows for the substantial transaction costs associated with P3s to be spread across the entire provincial public sector and to be averaged down across time. The current head of Partnerships BC has estimated that 20 percent or less of all the capital projects in BC might be suitable candidates for P3s (British Columbia Executive Council, 2003). Consequently, few ministries or local agencies could be expected to keep a staff of experts on call to undertake deals. If there was no internal government consultant they would be fully dependent on the for-profit sector for such advice. Second, the intellectual property created to further deals remains in the hands of the province when Partnerships BC is involved and can be applied in subsequent projects so as to successively lower the costs of undertaking a similar task in the future. Several interviewees commented on the need to take this into account when looking at the relatively high transaction costs for the initial group of P3s and to bear in mind that to the extent intellectual property was reused, these were actually investments not operating costs.

However, there is also Partnerships BC's role as a champion of P3s. Its relationship here to the CAMF is actually spelled out in the agency's operating directions. In order for it to act as such a champion there has to be a willingness as well on the part of government to use P3s. Consequently: "The shareholder [(sic) government of British Columbia] will: … continue to direct and encourage public sector agencies to consider alternative procurement consistent with government policies (e.g. the Capital Asset Management Framework). (British Columbia Ministry of Finance, 2003: 4).

Having looked at how the CAMF could be seen as driving P3s it is also important to acknowledge that the same document can also be a potential barrier to execution of poor projects or ones that are ill-thought-out, at least until more work is done on them. It is an interesting question to ask whether or not the Abbotsford Hospital or the RAV Line would have proceeded in the same format as they did if the CAMF was fully in place when consideration began on these projects. For example, it is still not widely known in British Columbia that the Fraser Health Authority only proceeded with the Abbotsford Hospital P3 under direct orders from the province and on threat of removal if board members refused to authorize the project. If the CAMF had been fully in place there would have been a much greater and deeper volume of studies and reports. These would either have answered the questions that the Fraser Health Authority's Board had when they rejected the project. If not, they would have provided a paper trail that could have been requested under freedom of information rules so as to publicly expose their hesitancy to proceed and explain it. In the case of the RAV line, although there was far more transparency in terms of the release of documents and studies than was the case with the Abbotsford hospital, this author can still not discover any meaningful information regarding the public-private comparator model. More importantly, the project flies directly in the face of the Greater Vancouver Regional District's "business model" as described in the official growth plan (1999). This is a clear violation of CAMF rules and one has to wonder if the project would have been able to continue if planning had not been underway before the CAMF was released?

Conclusion:

Although this author must confess his skepticism regarding public-private partnerships, it is also important to acknowledge that these projects are part of public finance and will not be going away any time soon. It is also important to acknowledge that, like any other tool, they are not the source of problems. Rather it is the decision to use them inappropriately that creates difficulties. This paper explored the introduction by British Columbia of the CAMF as a tool for resolving problems that the government was facing within its efforts to employ P3s so as to meet its obligations to provide services to the people of the province. These problems were illustrated by making reference to two major P3s where consideration of the use of a P3 model commenced before the introduction of the CAMF. It is indeed possible that if the CAMF had been fully in place when these projects commenced, the government would have had fewer political difficulties and more support from stakeholders. They would have appeared to have been acting in a less-ad-hoc manner, and more in keeping with a logical process meant to realize legitimate public policy objectives. It is also possible that more thought would have gone into the initial pre-approval stage of these projects as the need to produce the reports required by the CAMF, and their potential public exposure would have encouraged such preparatory work. On the other hand, the CAMF can also be seen as giving a privileged position to the use of P3s and other forms of alternative service delivery. There are also fundamental problems with the way in which projects are evaluated as stand alone elements rather than as part of the overall pattern of government. This gives a false sense of what can and cannot be achieved through transferring risks to private parties. While it is going to far to say that the CAMF represents a P3 railroad job, it also cannot be denied that the document turns the tables on the procurement process, making it necessary to justify not using mechanisms such as P3s rather than forcing public-servants to defend their use.

In sum, whether or not the CAMF fulfills its publicly stated purposes of empowering managers to do the best job possible in achieving the objectives set by the government in terms of service delivery, or a method for forcing through P3s and other alternative service delivery projects will depend a great deal on how the CAMF rules are used and the degree that they are adhered to only in law or in their full spirit. For those who fundamentally disagree with the objectives set by a neoliberal government, such as the Campbell administration in British Columbia, that will never be seen as a positive outcome. For those who wish to improve public management the CAMF holds out a bit more promise. Although the specific rules and guidelines it contains might need alteration, the idea behind it is useful.

Appendix 1: Interviews

Abbotsford Regional Hospital and Cancer Care Centre

- David MacLean, MD, Dean of Health Sciences, Simon Fraser University, and former Board Member, Fraser Health Authority
- Mr. Brian Woods, Vice President, Corporate Services and Chief Financial Officer, Fraser Health Authority
- Mr. Mike Marasco, Vice President Partnership Development, Partnerships BC and Project Director, Abbotsford Regional Hospital and Cancer Care Centre

Richmond Airport Vancouver Rapid Transit Line

- Ms. Jane Bird, President and CEO, RAVCO
- Mr. Doug MacCallum, Mayor of Surrey British Columbia and Chair, GVTA

Sea-to-Sky Highway

- Mr. Peter Milburn, Acting Assistant Deputy Minister, Highways Department, British Columbia Ministry of Transportation and Executive Project Director, Sea-to-Sky Highway Improvement Project
- Mr. Richard Fyfe, Supervising Solicitor, British Columbia Ministry of the Attorney General and Procurement Director, Sea-to-Sky Highway Improvement Project

Partnerships BC

- Mr. Larry Blain, President and CEO, Partnerships BC
- Mr. Mike Marasco, Vice President Partnerships Development, Partnerships BC and Project Director, Abbotsford Regional Hospital and Cancer Care Centre
- Ms. Jennifer Davies, Senior Communications Consultant, Partnerships BC

Private Sector Executives

- Mr. Nicolas Hann, Managing Director, Macquarie North America Limited
- Mr. Mark Hodgson, Managing Director, Infrastructure Advisory Practice Vancouver, Deloitte (formerly with PricewaterhouseCoopers)
- Ms. Jane Peatch, Executive Director, The Canadian Council for Public-Private Partnerships

<u>Appendix 2: Correspondence</u>

- Mr. Gary Collins, former Finance Minister of British Columbia, June 2001-December 2004.

<u>Literature</u>:

Aucoin, P. (1995). *The New Public Management: Canada in Comparative Perspective*. Montreal: Institute for Research on Public Policy.

Auerbach, L. (2004) *Memo to Barry O'Neill, President Canadian Union of Public Employees, BC Division Regarding the March 31st Letter from Ken Dobbel to Pat Jacobsen on Performance Payments for the RAVRT Project (Dated 14 October)* . Vancouver: CUPE BC Div.

Beatty, J. and McInness, C. (2002). Patients and Students First, *Vancouver Sun*, 26 January, A1.

Bermingham, J. (2002). Private Health Care Firms met with Bureaucrat, *[Vancouver] Province*, 26 June, A19.

Boei, W. (2004a). RAV Line gets Final Approval: Construction to Start in 2005, *Vancouver Sun*, 2 December, A1 and A4.

Boei, W. (2004b). Contract Protects Taxpayers, Translink, RAVCO says: But Taxpayers Remain Liable for Ridership Levels on the Transit Line, Chief Executive Larry Bell says, *Vancouver Sun*, 20 November, E1-E3.

British Columbia. (2002a). *Capital Assets Framework Guidelines*. Victoria, BC: British Columbia Government.

British Columbia (2002b). *Capital Assets Framework Overview*. Victoria, BC: British Columbia Government.

British Columbia Executive Council (2003) *Transcript of the Open Cabinet Meeting May 30*. Victoria, BC: British Columbia Government. Retrieved 30 June 2005 at: http://www.gov.bc.ca

British Columbia Ministry of Finance (2003). *Shareholder's Letter of Expectations between The Minister of Finance and the Chair of Partnerships British Columbia*. Victoria, BC: British Columbia Government.

British Columbia Ministry of Health Services. (2003). *News Release: Government Honouring Promise for New Hospital (23 January)*. Victoria, BC: British Columbia Ministry of Health Services.

British Columbia Office of the Premier. (2001). *Guidelines for the Core Review*. Victoria, BC: British Columbia Government.

Byers, S. (2003). “Full-text of Stephen Byers' speech: The former transport and local government secretary's speech to the Social Market Foundation in London today.” *Guardian Unlimited* (Manchester and London: *The Guardian*) Retrieved 09/10, 2005 from http://politics.guardian.co.uk/thinktanks/story/0,10538,969677,00.html .

Calder, P.B. (2005). *Research Update: Municipal Finance Authority of British Columbia 'AAA' Ratings Affirmed on Provincial Support*. (Toronto: Standard & Poor’s) Retrieved 18 January 2005 from http://www2.standardandpoors.com

Calder, P. B. (2004). *Approaches to Canadian Infrastructure Financing: Past, Present, and Future.* (Toronto: Standard & Poor’s) Retrieved April 21, 2004 from http://www2.standardandpoors.com .

Campbell, G., & Falcon, K. (2004). *Letter to Chair Doug McCallum and Members of the Greater Vancouver Transit Authority Board* (Issued with News Release 2004OTP0049-000492 ed.). Victoria, BC: Office of the Premier of British Columbia.

Canadian Council for Public-Private Partnerships. (2003). *The Canadian Case for Hospital PPP Projects*. Toronto: Canadian Council for Public-Private Partnerships.

Cohn, D. (2005). The Public-Private Partnership “Fetish”: Moving Beyond the Rhetoric. *Revue Gouvernance, 1*(2), 2-24.

Cohn, D. (1997). Creating Crises and Avoiding Blame: The Politics of Public Sector Reform and the New Public Management in Great Britain and the United States, *Administration & Society* 29(5), 584-616.

CUPE BC. (2006a). *The Drive to Privatize*. Vancouver: CUPE BC. Retrieved online on 20 April 2006 at: http://www.cupe.bc.ca/index.php4?id=1027 .

CUPE BC. (2006b). *Fact Sheet: The Liberal Attack on the Public Delivery of Services*. Vancouver: CUPE BC. Retrieved on 20 April 2006 at: http://www.cupe.bc.ca/359 .

Enchin, Harvey. (2002). Platform for Partnerships Launched: Liberals create Powerful Quasi-Governmental Agency to Encourage Corporate Cooperation, *Vancouver Sun*, 31 May, D5.

Fitzsimmons, C. (2002). Public-Private Partnerships and the CA Profession, *Beyond Numbers*, November. Retrieved online on 20 April 2006 at: http://www.ica.bc.ca/kb.php3?artid=1154 .

Fraser Health Authority. (2005). *Fraser Health Authority Strategic Plan*. Surrey, BC: Fraser Health Authority

Goldsworthy, Rachel. (2002). Objective Based Government Remains Liberal Target in B.C. *Journal of Commerce, 91*(92), n/a.

Greater Vancouver Regional District. (1999). *Livable Region Strategic Plan*. Burnaby, BC: Greater Vancouver Regional District.

Greater Vancouver Transit Authority. (2004a). *News Release: Final TransLink Board Vote Approves RAV Line [1 December]*. Burnaby, BC: Greater Vancouver Transit Authority.

Greater Vancouver Transit Authority. (2004b). *News Release: Rapid Transit Expansion*

[30 June]. Vancouver, BC: Greater Vancouver Transit Authority.

Greenwood, J. (2003a). Teachers Blame B.C. for Botched Road Project, *National Post* 25 July, FP3.

Greenwood, J. (2003b). Teachers put B.C. Investing on Hold, *National Post* 15 May, FP1.

Grout, P. A. Public and Private Discount Rates in Public-Private Partnerships. *Economic Journal* 113 (486), C62-C68.

Hood, C. (1991). A Public Management for all Seasons? *Public Administration*, 69(1), 3-19.

Jacobsen, P. (2003). *Memo from Pat Jacobsen, CEO to the GVTA Board of Directors: Approval of Procurement Strategy and Funding Commitment for Richmond-Airport-Vancouver Rapid Transit*. Burnaby, BC: Greater Vancouver Transit Authority.

Jacobsen, P. and Plewes, S. (2004). *Memo to GVTA Board of Directors from Pat Jacobsen, Chief Executive Officer and Sheri Plewes, Vice President Capital Management & Engineering: Richmond Airport Vancouver project - Summary of Best and Final Offer Proposal Stage and Proceeding to Preferred Proponent Stage [26 November for 1 December Board Meeting]*. Burnaby, BC: Greater Vancouver Transit Authority.

Keeler, J. T. S. (1993). Opening the Window for Reform. *Comparative Political Studies, 25*(4), 433-486.

Kingdon, J. W. (1984). *Agendas, Alternatives, and Public Policies*. Boston: Little, Brown.

Lee, J. (2004). Victoria Declares RAV Line Dead, Assails Translink Board. *Vancouver Sun,* (19 June), A1.

Lee, J. (1989). Whalley, Richmond ties Announced: Transit to Grow 'n' Grow. *The Vancouver Sun,* (31 July) A1.

Leslie, T. (2004) Only One Bidder Left to Build New Hospital. *Abbotsford Times* (10 February), 7.

Macquarie North America. (2001). *Report for the Greater Vancouver Transportation Authority [on using public-private partnerships to develop the Richmond-Airport-Vancouver rapid transit line and the new Fraser River crossing] part 1*. Vancouver, BC: Macquarie North America.

McLintock, B. (2002). Leaked Notes Outline Cuts to Health Care, *[Vancouver] Province*, 5 March, A4.

McMartin, P. (2003). RAV Line Follows the Money: *The Vancouver Sun* (29 May), A4.

Moynihan, D.P. (2006). Managing for Results in State Government: Evaluating a Decade of Reform, *Public Administration Review* 66(1), 77-89.

N.A. Engineering News Record. (2002, Editorial: Private-Public Partnerships will have Twists and Turns. *Engineering News Records,* (5 June) 64.

Osborne, D., & Gaebler, T. (1993). *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector*. New York: Penguin.

Palmer, V. (2005). Expanding Expansion of Convention Centre puts New Minister on the Spot. *Vancouver Sun,* (7 September), A3.

Palmer, V. (2002a). Liberals' Pet 'P3' a Long Way from Reality, *Vancouver Sun*, 10, May, A14.

Palmer, V. (2002b). Liberals' Redesign Script Stumbles over Details, *Vancouver Sun*, 24 April, A22.

Partnerships BC. (2005b). *Project Report: Achieving Value for Money: The Abbotsford Regional Hospital and Cancer Care Centre*. Vancouver: Partnerships BC.

PricewaterhouseCoopers. (2002). *Fraser Valley Health Centre/Eastern Fraser Valley Cancer Center, Public-Private Partnership Review Final Report*. Place of Publication not provided: PricewaterhouseCoopers.

Professional Association of Residents British Columbia. (2002). *Report on the Health Authorities' Health Services Redesign Plans [23 April]*. Vancouver: Professional Association of Residents British Columbia.

Sandler, J. (2002.). Bid to Keep Report Secret Foiled, *Vancouver Sun*, 22 March, B3.

Skelton, C. (2004). RAV Line was Short 'Hundreds of Millions': Project bids far Higher than Translink Budget. *Vancouver Sun,* (10 May), A1-A2.

Taflor, S. (2002). BC + X = P3, *Summit*, September, 16-19.

Taylor, M., Barker, K., Callahan, B., Denison, D., Ebanja, S., & Kelly, R. et al. (2001). *Building Better Partnerships: The Final Report of the Commission on Public Private Partnerships*. London: Institute for Public Policy Research.

Vaillancourt Roseneau, P. (2000). The Strengths and Weaknesses of Public-Private Policy Partnerships. In P. Vaillancourt Roseneau (Ed.), *Public-Private Policy Partnerships*. Cambridge, MA: MIT Press.

Willcocks, P. (2001). The Cutting Edge of Campbell's 'New Era'. *The Vancouver Sun* (3 July), A10.