

P3's

(or "No Country for Old Contractors")

Public Private Partnerships have suddenly become the method of choice for the Province of B.C. capital spending programs. We have been, as a Construction Industry, very busy over the past three or four years with an unprecedented boom in condominium building and resource sector spending. Just about every type of construction activity has been flourishing and in the mix, few of us have spent much time worrying about what the Provincial Government has been up to with its much heralded Public Private Partnership agenda. Even when Premier Gordon Campbell announced that forthwith all projects over 20 million dollars would be examined for P3 potential we as an industry hardly flinched. After all, wouldn't P3's just mean more construction work and even better times for everyone in the industry? But slowly some reality has been seeping through. The Subprime Mortgage crisis in the US has many of the traditional builders of public infrastructure such as Schools, Hospitals, Highways and Sewage Treatment Facilities starting to think that maybe the next project is not just around the corner. The Industry has started to look over its shoulder at those projects that carried us through many tough times in the 80's and 90's and what we see is a huge Pac Man gobbling up the provincial Capital Project Budget at a ferocious rate and that Pac Man is labeled P3.

Now wait, wasn't the Public Private Partnership model supposed to mean more construction not less. Well the reality is that debt is debt no matter from whom it is borrowed or how it is dressed up. The P3's debt financing goes on the books just the same as a Bond issue floated to build any Project under traditional procurement. The "Construction Pie" is not getting larger, as I was told it would with P3's, it is just getting cut up a different way. Multinational construction companies that never really could compete against the highly competitive and

efficient regional firms are now getting a huge slice of provincial spending and local firms that have contributed for years to local economies are being dealt out. As I was told recently by a highly placed official at Partnerships BC, my firm must “adjust to the new reality”. Adjust in this context is a euphemism for “go big or go home”. As going big is somewhat difficult for a Victoria based Contractor when faced with competition from Germany, London or Omaha and the realities of putting together billion dollar financing packages, “go home (out of business)” is the probable answer.

So one asks why is the Province so anxious to go down this road given that the very sector that supported the Liberal government, and worked so hard on 3 Elections to see it in power, is now slowly but surely being dealt out of the Public Construction Sector? Recently a major conference on Public Private Partnerships was held in Vancouver where the Premier was a keynote speaker and major speakers from around the world extolled the virtues of P3's. It seems the *raison d'être* is simple, P3's are on Time, on Budget and a better deal for the Taxpayers. No question about that insisted all the speakers who were, incidentally, employed mostly by the very entities that are beneficiaries of these multi million dollar projects. But where is the evidence of all this. And what about 100 years of design and building by local construction companies and designers performing work on time and on budget, what about the Island Highway Project, numerous Schools, Hospitals and other Wastewater Treatment facilities done so well in the past. Unfortunately for the most part the evidence of P3 success is provided by the very entities that benefit most from the system including Partnerships BC. How is it possible that the Abbotsford Hospital that had only one bidder could be such a financial bargain for the Province? “Well we compared it to the public sector comparator” says Partnerships BC and it was good value. Hmm. In an environment where even the best cost consultants are struggling to come to grips with escalating construction costs in all sectors, how is it that the “public sector comparator “ is so accurate. The truth is we are selling huge amounts of our public construction industry off at a rapid pace with no real idea whether it is a good deal or not.

On time and on budget? Compared to what? Our Firm has completed hundreds of public sector projects in BC over the past 25 years and we have seldom been late and never over budget. I know that because when we bid on a Stipulated Sum Contract we have a contracted fixed budget and an attached schedule to the Contract. If we are late the Province has penalties it can assess and if we are over budget we must absorb the cost at no fee to the Province. Our firm used to build highways bridges, I say “used to” because most of the provincial budget for Highways is being spent on the “Sea to Sky Highway” which is all being built by one Firm. When all the expertise in the Province is concentrated in one Consortium how do the rest of us participate? “go Big or go Home” unfortunately my home is in Victoria, BC, not Omaha Nebraska.

Currently the Capital Regional District is under a direction from the Provincial Government to install secondary sewage treatment for Greater Victoria. The Province has further mandated that this \$1.2 billion dollar project be built if at all possible as a P3 Project. In simple terms what this means is that those of us who live, work and help build the community on Vancouver Island are about to get the heave ho for a consortium of bankers and multinational contractors from far afield. Although some local procurement will certainly be done such as buying gravel or hiring hourly dump Trucks, the management and engineering jobs and the general construction contracts for all the sewage plants and pipelines will almost certainly be handled, like the Sea to Sky Highway or the GoldenEars Bridge, by one foreign company. Remember how well the Cambie Street merchants were treated by the Canada Line Project? You can be sure that local sensitivities will be the furthest things from the minds of the chosen cartel. It is also hard to imagine, that with so much money riding on a choice of whether to go P3 or not, that the local construction community’s capabilities will be given much consideration in the choice of procurement method. The way I see it a P3 is currently a done deal.

This whole P3 debate reminds me of another provincial policy foisted on an unsuspecting public almost half a century ago. At one time the Ministry of Forests managed our Forests and parcels of timber were put out to bid to medium sized timber companies who cut and milled the trees. A system of Tree Farm licenses

was brought in whereby huge tracks of forest were managed by large forest companies. These companies supposedly had the mandate to run local sawmills and log sustainably within an annual allowable cut. Fast-forward 50 years and the Timber is all gone, the Mills are all gone, and even the Pulp Mills teeter on bankruptcy. One has to wonder where we would be today if smaller local firms with an interest in their communities had retained the ability to access the Timber.

In summary I do not believe that we must wrap up large portions of our Public Construction Budget and hand it out to huge Construction Consortia. Our province was built by British Columbia Contractors, Engineers and Architects. We have become known around the world for our expertise in many Engineering fields because we had opportunity here at home to develop it. If the current model continues I fear that we will be simply a Branch Office Province. One Architect from the UK, at the recent P3 conference in Vancouver, acknowledged that the medium sized regional builders were being forced from the market in the UK as P3's took hold. I see the survival of my firm inextricably linked to the public construction market being **Accessible, Fair, Open** and **Transparent** and as a (getting rapidly older) contractor I do not like what I see with P3's.

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March 2008