

**Subject: Approach to Municipal Government, and PPPs for Municipalities Conference April 11/12, 2002**

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FYI some of my notes from a PPP conference this week, the notes being on Surrey's approach (apparent) to government and to PPP for municipalities

Mayor MacCallum of Surrey - talk about a difference from DNV approach:

- have done a lot of PPP in Surrey
- No tax increase in 9 years
- Do not believe in use of debt - live within our means
- Cdn cities 15 years behind the world in infrastructure
- governments try to be in everything and should not be because they do things poorly for the most part.
- "if I can find it in the yellow pages, and there are more than two suppliers (competition), why are we (municipal government) doing it?"
- public sector "lousy at administration and operations" - should only do what we absolutely have to and that the private sector will not or cannot do.
- "govern" is from the Greek "keber" (sp??) which means "to steer", not "to row". Service provision by government does not mean we have to actually do it; almost always better to contract it out and make the private sector liable for cost overruns, mistakes, operating cost overruns, etc.
- 1982 study: of some 82,000 US towns, nearly 30,000 had NO full time employees contracted out, volunteers
- concern over liability in building inspections may suggest doing this by PPP - are enforcing provincial code, not our own
- savings via PPP (contracting out) solid waste collection 25%, street cleaning 49%, traffic signal maintenance 36% (study) and he guesses Surrey savings are greater than this
- Surrey tender garbage and recycling and some swimming pools maintenance every five years
- PPP has created hundreds of jobs in Surrey through the building of things that would not happen otherwise
- Skytrain a disaster - wrong way to do it - single source supplier, no competition
- "the significant problems we face cannot be solved at the same level of thinking we were at when we created them" Albert Einstein. Need new

approaches, of which PPP is one.

-It was also clear from the intro speech by Gary Collins, Minister of Finance, that the days of "free capital" are over. If you want to do something, be prepared to prove you have tried everything before you look to the province for money. And even then, get in a long line.

A few common themes of many of the speakers:

-ownership is irrelevant -let whoever the public sector wants to own it do so - PPP does not mean ownership, but can if that is what the contracting government wants.

-Operations however is everything - typically 80% of the project costs over the life is operations, not the capital. The biggest savings is in the private sector operating a facility, not in them building it. DB is fine, but only minor savings that way compared to DBO. But even DB shifts risks to the private sector.

-GVRD broke every rule in the book for having a successful PPP on Seymour water - it could not have been better designed to fail if they were trying to ensure its failure

-NAFTA has little or no effect on municipal governments - this is a smokescreen created by special interest groups.

-Public sector does not have and the public probably won't accept the "carrot and stick" incentives that the private sector has, which makes that sector faster and more efficient.

-The Shrybman theorem (he is the author of CUPE "legal opinion") - Implied in his "opinion" are two false assumptions:

(1) Despite the fact that Canadians have done large and small successful PPPs all over the world, and third world countries have learned to do them, Canadian are a stupid people with no business smarts; hence if American companies do PPP here, we will be raped and pillaged.

(2) International trade laws are an evil thing, and municipalities need the flexibility to break them and will want to break them AND are subject to them.

-Do not "over engineer" your RFPs. Do not tell the private sector what you want in terms of bricks and mortar, but rather in terms of service - the end result - the deliverable. Surrey thought they wanted an overpass; but RFPd to move people from a to b, and the private sector built a much cheaper UNDERpass. Do not tie their hands in a RFP unless you want fewer bidders and higher bid prices.

-there is much better control of the private sector in a PPP than you

have of your own public sector workforce because the PPP contract has carrots and sticks. If the PPP fails to meet schedule, service standards, etc, they get hit with financial penalties, and in the extreme can even lose their investment. The BC PPP handbook (put out on Jenny Kwan's watch) makes this same point. How do you apply carrots and sticks to the public sector - basically impossible.

-PPP is an OPPORTUNITY, an option. Not all things for all projects for all people.

-can't do PPP with your own internal forces - you have to have specialist help and there are significant transaction costs, especially if you get the big firms (KPMG, etc) or lawyers in. Do not get them in until you have a business case, and try to use small firms who have real experience. But have expert advice to form the business case and pick the projects or you may make the same well known errors as GVRD did.

-best opportunities are where public service performs poorly - capital projects subject to cost overruns - can lay off risk on private sector - and operations, and cases where councils are worried about personal or corporate liability e.g. water treatment. Try for user pay situations.

-BC has the weakest water standards in the country and much of the worst water, including Vancouver's.

John