

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

Date: Sat, 13 Apr 2002 16:05:12 -0700

From: "John Hunter" <johnhunter@idmail.com>

To: "Ernie Crist" <CristE@dnv.org>

CC: "FONVCA" <fonvca@fonvca.org>, "Allan Orr DNV" <allandorr@shaw.ca>, "Angela Trudeau" <a.trudeau@canada.com>, "Bill Tracey DNV" <bill_tracey@telus.net>, "Brian Platts DNV" <brian_platts@telus.net>, "Cathy Adams DNV" <cathyadams@canada.com>, "Corrie Kost DNV" <kost@triumf.ca>, "Dave Sadler DNV" <davesadler@telus.net>, "Elizabeth James CAGE" <cagebc@yahoo.com>, "Eric Anderson hotmail" <eric_g_andersen@hotmail.com>, "Maureen Bragg" <m.bragg@shaw.ca>, "Peter Thompson DNV" <bedeconsulting@shaw.ca>, "Co Mayor Don Bell" <don_bell@dnv.org>, "Councilor Bill Denault" <bill_denault@dnv.org>, "Councilor Doug MacKay-Dunn DNV" <doug_mackay-dunn@dnv.org>, "Councilor Ernie Crist DNV" <ernie_crist@dnv.org>, "Councilor Heather Dunsford DNV" <heather_dunsford@dnv.org>, "Councilor Janice Harris DNV" <janice_harris@dnv.org>, "Councilor Lisa Muri DNV" <lisa_muri@dnv.org>

Dear C. Crist

I do not believe the public sector can be as effective (get it done, get the right thing done, and get it done right) or as efficient (lowest practical cost, on schedule) as the private sector at very many things, because the incentives are not right and the personal risks and rewards are just not aligned to produce that result in the public sector.

In the private sector I am allowed to take intelligent or calculated risks, and in fact will be rewarded for that in bonus if I provide a better product or faster schedule. If I am a poor producer or incompetent, I can be shown the door. If I miss schedule on a few projects, or overrun costs, etc., they will replace me with someone who can do it better. As a minimum I can kiss my annual raise and bonus goodbye. The reason of course is that the private sector company is hit by those cost or schedule impacts - they can't just turn to some taxpayers and say "Gee, I goofed, give me more money".

In the public sector, there is usually no carrot or stick, and it is difficult to get rid of poor performers or quickly financially reward good ones. These are just two factors - there are many others. In a sense, we the public WILL NOT ALLOW the public sector to do as well as the private sector - we handicap them in a dozen ways and do not reward them appropriately to get the behaviour we claim to want.

A speaker at the conference gave an example - he does buildings for the public and private sectors both, and he does not hold up schedule and stop work in a private sector case just because of a minor fault in a drawing. BUT in his work with the public sector, they will often hold up schedule for minor or inconsequential problems like that, because they are not at risk/reward on schedule, BUT they do fear someone will criticize them for a lack of perfection.

One PPP project I did overseas for a public sector company was estimated to take seven years to build by them. We did it in three, 28% under their budget on capital, and 15% under their budget on operating (we operate). This is not unusual, unfortunately (or fortunately, depending how you look at it).

My own view is that our Council has been badly misled on PPP risks and rewards by a lot of the disinformation out there. Had they been PPP, you would never have had a Walkerton, or this Dollarton Highway mess, I suspect. The reason is simple - that profit motive some people seem to fear. If I am a private sector company operating Walkerton water, I face contractual penalties of hundreds of thousands or millions (or loss of total investment) if I make a big mistake and people get sick or die. My reputation will be destroyed and I will never do another water project anywhere for years, if ever (like Arthur Anderson after Enron). So it is not going to be an untrained and incompetent Stan Kobel running the plant. And there won't be a beer fridge. And there will be a P. Eng. in charge of the plant.

Do you seriously believe a private sector company would start the Dollarton Highway construction before the land assembly was complete if they are assigned overall risk for the project as they would be in a typical PPP? Not a chance. The profit motive would prevent that. But apparently DNV did - possibly at the political level. And other than the lowly taxpayer, who will suffer for this? No carrot, no stick. Mis-aligned motivation.

So we can sure make DNV operate much better. But I think to aspire to matching private sector performance, while a good general target, is a stretch. And like Surrey, I think we should contract out what we reasonably can. Council's first duty is to the ratepayers, and that duty demands operating at minimum practical cost.

John Hunter

-----Original Message-----

From: Ernie Crist [<mailto:CristE@dnv.org>]

Sent: April 13, 2002 1:55 PM

To: 'John Hunter'; 'Co Mayor Don Bell'; 'Councilor Bill Denault';

'Councilor Doug MacKay-Dunn DNV'; 'Councilor Ernie Crist DNV';

'Councilor Heather Dunsford DNV'; 'Councilor Janice Harris DNV';

'Councilor Lisa Muri DNV'

Cc: 'FONVCA'; 'Allan Orr DNV'; 'Angela Trudeau'; 'Bill Tracey DNV';

'Brian Platts DNV'; 'Cathy Adams DNV'; 'Corrie Kost DNV'; 'Dave Sadler

DNV'; 'Elizabeth James CAGE'; 'Eric Anderson hotmail'; 'Maureen Bragg';

'Peter Thompson DNV'

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

Thank you for your message:

There are two ways in which municipal services can be provided. One is either through the public sector made possible provided the public sector is as efficient as the private sector or more so.

Theoretically this is possible if a municipality is run efficiently and along private sector benchmarks. How this can be accomplished has been thoroughly dealt with by Osborne and Gabler in their book "Re-inventing government". This has certainly not been followed in the District. On the contrary - any and all efforts by people such as myself which included a great deal of work have either been ignored, ridiculed and or have resulted in harassment.

This leaves only one alternative and that is the one followed by Surrey and other municipalities.

The bottom line is this - you either do the job properly and or you must suffer the consequences. That goes for both leaders and followers. There is no room for incompetence and or "two bit" machiavellian manipulation as a substitute for effective leadership. The bottom line is this - you either do the job or you move over. In the District the job has not been done so move over.

Ernie

-----Original Message-----

From: John Hunter [<mailto:johnhunter@idmail.com>]

Sent: Saturday, April 13, 2002 1:20 PM

To: 'Co Mayor Don Bell'; 'Councilor Bill Denault'; 'Councilor Doug MacKay-Dunn DNV'; 'Councilor Ernie Crist DNV'; 'Councilor Heather Dunsford DNV'; 'Councilor Janice Harris DNV'; 'Councilor Lisa Muri DNV'
Cc: 'FONVCA'; 'Allan Orr DNV'; 'Angela Trudeau'; 'Bill Tracey DNV'; 'Brian Platts DNV'; 'Cathy Adams DNV'; 'Corrie Kost DNV'; 'Dave Sadler DNV'; 'Elizabeth James CAGE'; 'Eric Anderson hotmail'; 'Maureen Bragg'; 'Peter Thompson DNV'

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

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

