

## **Canadian Design-Build Conference Design-build touted for public-private projects (May 1, 2002)**

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VICTORIA - While public-private partnerships include highly successful-and often low-profile-service-provision projects like NAV Canada's privatization of air traffic control and the Department of National Defence's arrangement with Bombardier to provide pilot training at Moose Jaw Air Force Base, design-build is one of the more obvious uses for P3, says B.C.'s Assistant Deputy Minister of Finance.

Steve Hollett cited a survey by PriceWaterhouseCoopers in Britain that found 27 P3 defence, water, transportation and health projects were delivered on time and to budget, yet often with better quality, design and even greater social benefits than traditional public-sector projects.

Tim Stanley, vice-president of building engineering with Marshall Macklin Monaghan, addressed the role of design-build in public-private partnerships. The big challenge with any project is risk management. P3s sometimes fall apart because the private sector refuses to take on certain risks, but Stanley sees proper risk management as part of true partnership. The leader of the P3 team should identify the risks and allocate each one to the player best able to manage it.

Financial institutions like to see design-build as part of the P3 process, Stanley said. They like the cost and scheduling certainties that the private sector offers and because P3s are driven by viable business plans for marketable opportunities, there's a certain level of confidence that the private sector can and will deliver-on time. The public sector is also comfortable with design-build because their costs and schedules can be fixed.

One of the advantages to using design-build in public-private partnership projects is the innovation the private sector brings to bear. Financing flexibility allows partners to minimize capital costs while maximizing scheduling benefits. Design-build teams may inject equity into a project, for example. While it's not the norm, some projects may call for investment as a requirement for participation. It encourages long-term commitment and can help assemble the best team, Stanley said. He also noted that people invest a lot of sweat equity in pursuing a project and it's nice to have other equity at the end of the day.

Even some consultants hired by a contractor for a design-build project may invest some equity, Stanley said, although they are usually hired as service providers. There is potential for architects and engineers involved with a design-build project to face conflict of interest problems since they are paid by the builder (or may even be in joint venture with him) and certify progress on behalf of the owner. Stanley, however, includes a supplementary general condition that the owner's representative must agree with the certification before it is processed. In administering \$1 billion in projects so far, he has never seen a consultant act unprofessionally.

Most Canadian P3 design-build projects have focused on transportation and health care initiatives. Alberta's recent long-term care projects, partnerships between regional health authorities and the private sector, have seen projects completed in less than a third of the time, for as little as half the cost, of equivalent traditional projects. With that kind of record, says Marie Fontaine, project manager for Alberta Infrastructure, the province can afford to replace and add all levels of continuing care beds much more quickly. She cautioned that having firm goals and frameworks was essential to the success of the projects and government support-in the form of openness to new ideas and processes-is crucial.

Those factors have been missing in B.C. to date, although the provincial government is taking steps to change that.

Frank Blasetti, Assistant Deputy Minister of Transportation, said that his ministry's budget for new projects will shrink from \$196 million in 2001/02 to \$52 million in 2004/05, in spite of a rapidly growing need for new highways and bridges. For P3s to take up all that slack, the province is developing a policy framework for this spring and by the fall should have flexible legislation to establish the province's power to grant concessions to the private sector in place.

Flexibility is the name of the game throughout the design-build process. It's what makes the private sector more efficient and therefore successful. Along with flexibility though, maintaining focus on the cost plan and scheduling is crucial-another entrepreneurial strength and another reason that design-build will be increasingly important in public-private partnerships.