

Frank McKenna on public-private partnerships from former New Brunswick premier

Frank McKenna, former premier of New Brunswick believes his learning experience in government showed him that there could be “as many scars as stars” when it comes to public-private partnerships.

He addressed an audience at the Ontario Club on September 29 that gathered to listen to the former politician talk about his experiences in building partnerships with the private sector.

As a self-described disciple of the book *“Reinventing Government,”*¹ Mr. McKenna made public-private partnering an important part of his mandate in government. He believes that the government often dissipates too much energy on services that are not essential to the public. “Its job should be steering, not rowing.”

He added that public-private partnerships (P3s) rise out of the government’s fundamental need to promote economic growth, while at the same time, reduce government’s size.

Mr. McKenna outlined several motivations for developing public-private partnerships:

1. Larger projects and greater efficiency. An example is the government practice of building a section of highway each year as finances permit, which ultimately yields a very poor return on investment.
2. Limited exposure to capital cost increases. Five regional hospitals were being built at the beginning of Mr. McKenna’s mandate that were \$500 million over budget before they even opened.
3. Economic stimulation. More private sector activity translates into greater economic performance.

Mr. McKenna also noted several challenges to successful P3s:

1. **Clash of corporate cultures.** During the integrated justice project in New Brunswick, the private sector contractor came back and asked for more money while delivering less IT functionality.
2. **Lack of reward for good ideas.** The PEI construction company that initiated the concept of a fixed link bridge ended up losing in the bidding process.
3. **Integrity of the process.** It is imperative to demonstrate objectivity, but you usually pay the price. The youth custodial centre RFP that was conducted under complete objectivity, and picked the best bidder, did not account for the political ramifications of a non-Canadian solution.
4. **Failure to deliver.** There are many great examples of schools that utilize P3s, but there was one proponent that did not deliver, and it has diminished the successes.
5. **Getting local content.** Sourcing a local supplier, although easier to defend, is not always a guarantee of performance.
6. **Need for a common yardstick.** Everyone has a different set of measuring tools. Governments rarely include opportunity cost, whereas the private sector always accounts for return on investment. Governments seldom look at cost overruns.
7. **Accountability.** The private sector has a naiveté when it comes to accountability. The government needs to satisfy the provincial comptroller, auditors general, opposition parties, public accountants, unions and the media. Companies entering into P3s would do well to have public affairs spokespersons to defend the project along with the government.

¹ Osborne, David and Gaebler, Ted. A. *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector*. Perseus Press, 1992.

8. **Political and collective bargaining cycles.**

These do not often correlate with P3 schedules.

9. **Strength of leadership.** Will political officials defend the project when needed?

10. **Level of need.** Governments only tend to look for outside providers when fiscal pressure is intense.

11. **Closeness to community.** Municipalities are closer to labour issues than the provinces or the federal government. They often walk away from good projects because of a lack of organizational structure and intestinal fortitude to support them.

12. **Cost and quality.** Government finds it difficult to make qualitative analyses. It is much easier to sell the lowest cost than the best service.

Mr. McKenna offered several solutions to meeting the challenges of public-private partnerships:

1. Sell successes. e.g. the fixed link bridge
2. Reward good ideas and designs.
3. Be less rigid on specifications and process.
4. Utilize better measurement tools.
5. Reduce paperwork and speed up the process.

6. Take responsibility for a failure to deliver.

7. Don't give up

The former premier firmly believes that the logic behind P3s is just as urgent today as it has been over the past ten years. Canada needs to move from a commodity based economy and government needs to "stop worrying so much about cafeteria food and clean campgrounds," and concern itself with vital public services like education and health care.

In response to questions, Mr. McKenna stressed the need to balance the process with the outcomes from P3s. He suggested allowing ministers to provide some political context to the selection of the private provider.

He stressed that Canada currently has a great deal of good counsel to offer the world market on how to structure P3 projects well. As for ensuring public accountability, he pointed to the New Brunswick toll highway in which a third party monitoring organization has been charged with the duty to ensure that environmental integrity and efficiency is maintained by both partners.

Mr. McKenna's speech was delivered on September 29, 1998 in conjunction with the release of the 1998 National Inventory of Public-Private Partnership Projects and the 1998 Opinion Research Study. The Canadian Council for Public-Private Partnerships and the Canadian Chamber of Commerce sponsored the event, with co-sponsorship from PricewaterhouseCoopers.
