

Healthy Savings; Costs Trimmed By More Than \$56-Million For North Bay Pilot Project

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As the number of public-private partnerships grows across the country, hospitals are leading the way, both in terms of numbers and in terms of setting the standard for **P3** contracts, particularly in Ontario. The new North Bay Regional Health Centre served as a pilot project for a made-in-Ontario model that is currently being rolled out to other similar projects.

The project was announced in fall 2005 as part of the provincial government's ReNew Ontario program, which earmarked more than \$30-billion for infrastructure investments. It will see the construction of a new, 388-bed, 720,000-square-foot facility that will house both the existing North Bay Regional Health Centre and the Northeast Mental Health Centre. The \$551-million redevelopment contract signed with Plenary Health Project Co., a subsidiary of Vancouver's Plenary Group Canada, closed this past March and the new facility is expected to be completed by 2010. PricewaterhouseCoopers estimates savings of \$56.7-million under this alternative financing approach compared to traditional modes of delivery.

As a design, build, finance and maintain model, the hospital remains publicly owned and publicly controlled, but Plenary Health will be responsible for the construction as well as the maintenance of the facility for 30 years. "The **P3** advantage is shifting the life cycle performance of an asset over to the private sector," explains Mark Bain, a partner who leads the public infrastructure projects practice group at Bennett Jones LLP, in Toronto. The law firm acted for the government and the hospital in the North Bay deal. "This does away with what is historically the government approach to try to finance initial capital at a minimum cost, leaving the burden of maintenance and renewal to future years."

Mary Lowe, vice-president of communications and corporate relations at **Infrastructure Ontario**, the Crown agency that project manages the bulk of the province's infrastructure investments, says the other big advantage of this type of project is that it features a fixed price that is not paid out to the private sector consortium until construction is completed. After that, scheduled repayments are made annually on a performance basis.

"The installments are based on their performance to keep the facility up to the specifications agreed to," explains Lowe.

"If the lights aren't working in an operating room for five days out of a month, they get paid less." With that kind of incentive, the result is that the private sector operator is encouraged to keep the facilities in good repair right up until the end of the 30-year contract.

Paul Dunstan, president of Plenary Group Canada, says this type of model is effectively a 30-year warranty on the facilities, which is good value for the public investment. "We have hundreds of pages of detailed specifications we need to live to, but we believe in ourselves and our partners that we can meet those standards," he says.

Putting together the kind of contract that can address all possible contingencies for such high-tech buildings over long a time period is no small feat, especially the first time out, says Bain. "It shouldn't come as a surprise that it's a complicated undertaking because it's 30 years worth of decision-making compressed into a short time frame," he says. Bain says asking people to think in new ways, particularly in taking such a long-term view of a project, can be challenging in the early days.

Rick Byers, managing director of government investment banking at BMO Capital Markets, in Toronto, worked with **Infrastructure Ontario** on its first few public-private partnerships, including the North Bay Regional Health Centre, agrees. "It's not until you've gone from start to finish from the conception of a project to financial close and construction that you really understand fully the issues you have to deal with and the risks that are out there," he says.