

Royal Park Protection Group Inc. AGM 10 November 2011

This is a talk about how PPPs can make you sick as well as poor.

The script could have been written by John Brumby. On the 9 June Ted Baillieu announced that the government had decided to finance the \$630 million Bendigo Hospital through a public-private partnership because he claims it represents better value for money than financing the project with government borrowings.

Where is the evidence for this? Both the Royal Children's Hospital and the Royal Women's Hospital were set up as 25-year PPPs. Based on the Auditor-General's 2009 audit they will cost the taxpayer an extra \$1.5 billion - or about \$61 million a year more - than if they had been financed out of government borrowings building *exactly* the same hospitals and using *exactly* the same contractors.

The difference is the interest paid. Compared to an interest expense of 5.5 per cent for government borrowings, the audit showed the taxpayer is effectively paying interest expenses of 9.1 per cent for the RWH and 13.7 per cent for the RCH.

Under the national PPP guidelines used by the Victorian government, a Public Sector 'Comparator' (PSC) is constructed to give a 'truer' basis of comparison between public and private funding of projects. The key assumption in constructing any PSC is the claim that the actual interest paid by the government underestimates the real cost of public financing. These costs include claimed inefficiencies inherent in government contracting – such as cost over-runs. Other assumptions include the claimed ability of private Partners to take over 'risks' otherwise embedded in public ownership.

In the case of the RCH, the so-called hidden costs of public ownership were assumed to be \$1.2 billion or \$48 million a year, which is a fantastic amount given the government option is premised on the government using the *same* designers, builders and maintenance company as the private equity partner. The efficiencies inherent in private design, construction and maintenance can be captured in the traditional tender process.

But because the comparator hasn't been produced for the Bendigo Hospital (and can't be until the PPP operator has been chosen) it is probable that the PSC interest or discount rate will be at least 8 per cent even as the government borrowing rate remains at 5.5 per cent.

Even at 8 per cent interest (modest for PPPs), over the 25 years of the PPP the payout would be \$2.05 billion compared to \$1.3 billion financed by public

borrowings or \$82 million a year compared to \$52 million. Scrapping the Bendigo PPP and financing the hospital by borrowings would save the difference of \$30 million a year which would be sufficient to fund borrowings of \$545 million. This would be enough to refurbish public hospitals in Ballarat and Mildura.

The RWH PPP involves waste. The RCH PPP is a rort. The original private equity partner was the now-failed Babcock and Brown. It offered an upfront payment of \$35 million to win the deal. It welshed on the deal and, according to the A-G, the promised payment was never enforceable. A few months after getting the PPP contract it onsold its equity to a related party incorporated in the tax haven of Guernsey for \$91 million, earning a capital gain of \$30 million. The equity partner is now a company listed on the London exchange.

But there is more to the sorry story. The planned Stage 11 of the RCH development involves 'related commercial developments'.

The 2007 land legislation gives the RCH authority to lease or licence up to 4.1 hectares of Royal Park on or near the present RCH site. The government claimed in 2007 that the leased site would be smaller than the existing hospital site.

The plans show that the total area occupied by the development will be 5.9 hectares, including four garden spaces in and around the irregular shape of the hospital and the Flemington road garden frontage. These bits are green but effectively alienated from the park.

The commercial development covers 1.2 hectares fronting Flemington Road. According to the plans (obtained with difficulty by the Royal Park Protection Group and seven other very angry local citizen groups) it consists of a seven-story boutique hotel with 90 rooms, underground car parking for 800 cars on top of the 1300 car spaces for the hospital, plus two gyms, a supermarket, childcare facilities, hairdresser/beauty salon, post office, florist, dry cleaner, doctors consulting suites upstairs and three general retail outlets including children's clothing and toys. There is also provision for a restaurant/bistro/bar plus café and a garden terrace next to the café in Royal Park.

There is no need for this commercial development on land for free which would be worth at least \$15 million to developers. The hotel is not needed for parents of patients. 85 per cent of the patients will be in single rooms with provision for parents to sleep in the rooms, plus there is more parent accommodation across the road and plenty of hotel/motel accommodation for visiting doctors within easy walking distance of the hospital.

There are better ways to spend health dollars than on lavish hospital PPPs designed to generate fortunes for financiers.

The \$90 million a year in unnecessary payments compared to government borrowings would be sufficient to pay a salary increase to public hospital nurses an additional \$3,000 or five per cent a year without chiselling their conditions and undermining hospital safety by increasing patient ratios and replacing professional nurses with nursing assistants.

But it gets worse. The feature of the hospital is a two-story tropical reef aquarium in the foyer. It will be a breeding ground for streptococci. The fish like streptococcus but patients in hospital don't. Cross infections usually involving streptococci bacteria are now the biggest killer in acute hospitals.

The biggest outbreak of legionnaires' disease in Australia's history occurred in 2000 at the Melbourne Aquarium which resulted in more than 100 infections and 10 deaths. It was reported in the Lancet which, as I understand it, is read by most doctors.

The warm water found in aquariums is a breeding ground for bacteria and the aerosol formed as water evaporates in humid conditions is the transmission mechanism for bacteria which is may be harmless to health persons but potentially lethal to sick children.

The other feature in the RCH is the meerkat enclosure. Meerkats are notorious carriers of rabies in their native South Africa. In 2006 a child was bitten by a meerkat at the Minnesota Zoo. To minimise risk, the child was immunised and all six meerkats in the enclosure were put down.

The hook to persuade taxpayers that they needed the \$1.8 billion Southern Cross Station (and super profits for the financiers and construction firm employed on the project) - rather than use the money to build a first class urban rail system - was the wavy roof.

It has since been shown to be a health hazard because diesel fumes are trapped under the roof.

Despite the 'risks' transferred to the private operators, the roof is being fixed up at taxpayer expense. Even though the station was designed and built in the midst of an 11 year drought, there was no provision for water harvesting from the copious roof. The modification was made after the station was commissioned at the expense of the Victorian taxpayer. The massive cost of the station was justified on the ground of the necessity to have a prestigious central station for Melbourne any Victoria.

That justification was undermined by the cheap jack DFO (Direct Factory Outlet) as part of the station complex decorated with outdoor advertising signs along the Spencer Street frontage.

Of course the closure of parkland for commercial development is a threat to health as well theft.

Open space has been alienated in Albert Park for the GP, Yarra Park for the Tennis Centre and a soccer ground with the promise in each case there would be no net loss of parkland.

Most of South Bank was crown land. Apart from the Cultural Centre, most of this land has been alienated for luxury apartments and the Casino. The new museum, which was already being built at South Banks and some \$15 million spent on the foundations, was stopped and the site redeveloped as an international trade and exhibition centre to provide more a more compatible client base for the Casino.

The museum was built in the Carlton Gardens next to the Exhibition Building where the two architectural styles scream at each other across a huge layer of concrete.

This multi million dollar waste of taxpayer money and alienation of public gardens in order to allow the Casino operators make most of their profits from problem gamblers addicted to poker, occurred at the same time the Kennett government was selling off more than 200 government schools, sacking teachers and closing hospital wards on the grounds that the state was facing a financial crisis caused by the previous government.

In office the Bracks /Brumby government was at its most sleazy when it attempted to justify the privatisation of public land which rightfully or morally belonged to the three most disadvantaged groups in the community – those with intellectual and physical disabilities, those who are mentally ill and those whose circumstances mean they must rely on the state to supply safe and affordable housing.

These groups all had their needs ignored by the government in favour of rent seeking developers. Australand was able to alienate the 20 hectare site of the Royal Park mental asylum for an upmarket housing development with the excuse that it would provide accommodation for commonwealth games athletes and with the promise that it would ultimately provide 200 ‘affordable’ houses for people on the public housing waiting list. It didn’t. Nor did the development provide any profit for the state government.

Australand is now developing 3.5 hectares of Carlton public housing land justified on the grounds that it was essential for the social integration of public housing tenants with the broader community through a 'salt and pepper' mix of public and private housing.

In fact the private development is in the form of two 'gated' communities featuring exclusive open space, all secured behind a 2.5 metre wall. Despite 40,000 people on the public housing waiting list there will be no net increase in public tenant numbers on the Carlton Garden Estates following the \$200 million development.

The most egregious re-development is on the 27 Kew Cottages site which displaced 400 intellectually disabled residents. This was justified on the grounds that they should be re-integrated into the community. It is a bogus and cruel argument. Firstly it ignores the evidence that most of the residents would prefer to be with their peers rather than the general community. Secondly, it ignores the needs of some 4,000 intellectually disabled on the waiting list for accommodation which could have been best met by redevelopment of the site for the disabled to provide *extra* accommodation and reduce the waiting list.

The developer is the Walker Corporation which employed the former Labour Senator, Graham Richardson to lobby the Victorian government. Between 1999 and 2007 the developer gave \$205,000 to the State ALP, \$300,000 to the federal ALP and \$300,000 to the coalition parties.

When I initially began to look at the Wonthaggi desalination plant I was concerned about cost, whether Melbourne needed the water and if so, whether there were cheaper alternatives. The decision making process leading up to the decision (after the 2007 election during which the Bracks government attacked the more defensible proposal by the Coalition to build a small desal plant on the Geelong side of the bay) to build what was then the biggest reverse osmosis plant in the world, capable of supplying up to 56 per cent of Melbourne's current water demand, without benefit cost analysis or environmental impact statement was seen by me as certainly scandalous and probably corrupt.

What really surprised me was is that the plant won't have the capacity to produce 200 Giga Litres of potable water a year defined in the contract as water with less than 0.5 milligrams per Litre of boron. This provides the opportunity for the Baillieu Government to get out of the contract under on terms favourable to the Victorian taxpayer.

Boron is a toxin which, after a 900-page review of everything written on boron in 2008, the Harvard medical school concluded that boron is a health hazard to children.

The toxicity of boron is proportional to mammal weight. Thus the ingestion of 0.5 mg/L may be safe for an adult weighing 70 kilograms but according to the standard formula used to translate toxicity results from experimental rats to humans, a safe level for a bottle-fed baby is probably no more than 2-3 mg/L for a baby weighing 6 KG.

Reverse Osmosis desalination plants work by pushing water under pressure through a filter. The problem is the size of boron molecules are the same as water molecules. RO plants can't get boron levels down below 0.5mg/L consistently and the efficiency of the filters in removing boron declines over time. This is why most RO plants are small and the water produced is mixed with large volumes of dam water from rain to get the boron level down to a safe level.

To get boron levels down to 0.3 mg/L (i.e. safe for infants) from the 200 GL plant at Wonthaggi would require a mixing bowl larger than the capacity of Sydney Harbour.

According to the Auditor-General the capital cost of the plant is \$18 billion and the operating costs are \$6 billion over the 29 year life of the plant discounted to the present. This means that if the contract is honoured by the present government the cost of capital before one litre of water is produced will be about \$3 million a day. It means that future Victorian governments will not be able to afford to finance infrastructure such as public transport, schools and hospitals in the future.

Even if the capital cost is treated as a sunk cost, paid for out of general revenue, the operating cost of the plant means the water produced will cost at least four times the cost of water from existing dams and even more if any shortfall in existing water supplies were met, as they can be, by recycling and conservation. There is no sensible reason for producing water from the plant. This is re-enforced by the public health threat of unsafe levels of boron in the water for foetuses, babies, infants, small mammals and a wide range of plants

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10 November 2011

