Public-Private Partnerships in Canada
Definitions and Debates

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PPPs: Canada in a Global Context
The Ontario PPP Landscape
PPP the Next Generation: The Move to Municipal Projects

The Canadian Municipal Infrastructure Report Card, Summary of Physical Asset Condition

<table>
<thead>
<tr>
<th>Infrastructure</th>
<th>Replacement value of all assets (2009-10) (Note 4)</th>
<th>Rating (Note 2)</th>
<th>Assets in very poor and poor physical condition (Note 3)</th>
<th>Assets in fair physical condition (Note 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal roads</td>
<td>$173.1 billion</td>
<td>Fair: requires attention</td>
<td>20.6%</td>
<td>$25.7 billion</td>
</tr>
<tr>
<td>Drinking water</td>
<td>$171.2 billion</td>
<td>Good: adequate for now</td>
<td>2%</td>
<td>$3.4 billion</td>
</tr>
<tr>
<td>Wastewater</td>
<td>$121.7 billion</td>
<td>Good: adequate for now</td>
<td>9.3%</td>
<td>$7.7 billion</td>
</tr>
<tr>
<td>Storm water</td>
<td>$69.1 billion</td>
<td>Very good: fit for the future</td>
<td>5.7%</td>
<td>$3.9 billion</td>
</tr>
<tr>
<td>Total</td>
<td>$556.1 billion</td>
<td></td>
<td></td>
<td>$30.7 billion</td>
</tr>
</tbody>
</table>

Federation of Canadian Municipalities: Annual Conference and Municipal Expo
Halifax, June 2011

John McBride, CEO – PPP Canada
June 6, 2011
PPPs as Contested Policy Option

• Unions critical of PPP impact on workers

• Community groups oppose what they see as the creeping privatization of public services
  – Loss of public control
  – High cost of private financing

• Planners concerned about loss of long-term control over community assets, and meaningful civic engagement in decision making
What exactly is a public-private partnership?

“A P3 is a long-term contractual arrangement between the public and private sectors where mutual benefits are sought and where ultimately (a) the private sector provides management and operating services and/or (b) puts private finance at risk.”

(Garvin and Bosso, 2008)

PPP Definition Excludes:

Outright privatization: no long-term contractual arrangement

Traditional procurement: private finance not typically at risk over life of project
Models of Public-Private Partnerships to Deliver Large Infrastructure Projects

- **Design-Bid-Build (DBB)**: A government department or public sector agency who finances the facility through tax revenue, debt financing, bonds, etc. The public sector employees typically operate the facility, but it can also be contracted out to private firms. The public sector owns the facility, usually for perpetuity. The public sector gets return on investment and often operates at a financial loss. The public sector controls toll or user fee rates.

- **Design-Build (DB)**: The public sector hires a contractor or concession team to design and build the facility to meet public performance specifications using a competitive tendering process, typically at a fixed cost. The private sector finances the facility, possibly with some public subsidy. The private sector operates the facility for a period of 25 to 50 years. The private sector owns the facility, typically for perpetuity. The private sector gets return on investment and the public sector runs the facility. The private sector controls toll or user fee rates.

- **Design-Build-Finance-Operate (DBFO)**: The public sector finances the facility, possibly with some public subsidy. The facility is leased to and operated by the private sector over a period of 25 to 50 years. The private sector typically operates the facility. The private sector gets return on investment and the public sector runs the facility. The private sector controls toll or user fee rates.

- **Build-Own-Operate (Outright Privatization)**: Private sector firms who finance, design, build, and operate the facility. The private sector gets return on investment and operates the facility. The private sector controls toll or user fee rates.
## PPP Motivations and Concerns

<table>
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<tr>
<th>Motivation for PPP</th>
<th>Concern with PPP</th>
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<tbody>
<tr>
<td>Raise private money to pay for capital costs of infrastructure</td>
<td>More costly than when delivered using traditional methods; windfall profits</td>
</tr>
<tr>
<td>Stimulate innovative project designs</td>
<td>Non-competition clauses limit system wide planning and service integration</td>
</tr>
<tr>
<td>Deliver value for money by transferring project risks from the public to the private sector</td>
<td>Contractual obligations reduce long-term policy flexibility</td>
</tr>
<tr>
<td>Encourage competition to bring down project costs and improve efficiency</td>
<td>High need for data confidentiality can limit meaningful public consultation</td>
</tr>
<tr>
<td></td>
<td>Cost savings achieved by reducing worker wages and benefits</td>
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</tbody>
</table>
Are Infrastructure PPPs in Canada actually PPPs?

- Nearly all compensate private sector investors through availability payments rather than directly through user fees
  - Little new money and government still responsible for raising payments through taxes
  - Transfer construction rather than operations and revenue risk
  - Not a form of creative accounting: PPP finance accounted for on balance sheet

- Private finance is involved, but not necessarily at risk over the life of the project
  - Most of the money is coming from debt or bonds, rather than higher risk private equity
  - PPP in Canada are now seen by the industry to be fairly safe investments that can be handled by banks: investors seeking higher returns are looking elsewhere
  - Governments are ‘renting the money’ (Boardman, 2011)

- Decision making and governance process is quite similar

- Union contracts are typically respected:
  - Projects are typically unionized, though it may be public or private sector unions involved
What Drives Value for Money of PPPs

Value for Money and Risk in Public–Private Partnerships

Evaluating the Evidence
Mari Siemiarycki and Naem Farsaqqi

A round the world, large-scale public infrastructure projects have increasingly been designed, built, financed, and operated through public-private partnerships (PPPs). The main government rationale for delivering hospitals, schools, prisons, water treatment plants, roads, and subways through PPPs is the prospect of providing improved public services at a lower lifecycle cost, also known as value for money (VIM; Wall & Connolly, 2009).

In its simplest form, VIM is defined as a measure of the extent to which cost savings are achieved when delivering a public infrastructure project through a PPP relative to a traditional government-led procurement approach. Proposed drivers of VIM in PPPs include contracts that encourage innovation, the management of complete lifecycle costs, and the allocation of project risks such that governments are protected in case of large cost overruns and revenue shortfalls (Garvin & Bosso, 2008; Nizar, 2007). However, because in most jurisdictions it is common that technical evaluations of VIM are not publicly released, the underlying sources of VIM, and, thus, the central basis on which the decision to proceed with a PPP, are not well understood.

The aim of this article is to determine how project planners have structured, evaluated, and selected the preferred model of partnership between the public and private sector to deliver high stake public infrastructure projects in order to realize VIM. In particular, we examine three interrelated issues based
The Subjective nature of risk transfer figure

- In our sample, transferred risks accounted for on average **49%** of base cost of delivering the project through traditional procurement.
- With little demand or operations risk transferred, what justifies such high risk premiums being assigned.

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<tr>
<th>Risk Category</th>
<th>Retained Risk by Province at Average Impact (as % of contract portion)</th>
<th>Design Build Finance Operate PPP Model</th>
<th>Traditional Government Procurement Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy/Strategic</td>
<td>Total Contract</td>
<td>5.6%</td>
<td>20.4%</td>
</tr>
<tr>
<td>Design and Tender</td>
<td>Design and Construction</td>
<td>1.7%</td>
<td>19.4</td>
</tr>
<tr>
<td>Site Conditions/ Environmental</td>
<td>Design and Construction</td>
<td>1.1%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Construction</td>
<td>Design and Construction</td>
<td>1.4%</td>
<td>16.6%</td>
</tr>
<tr>
<td>Equipment Risk</td>
<td>Construction and Operation</td>
<td>0.0%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Permit and Approvals</td>
<td>Design and Construction</td>
<td>0.0%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Completion and Commissioning</td>
<td>Design and Construction</td>
<td>0.1%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Life Cycle and Residual Risk</td>
<td>Maintenance</td>
<td>46.1%</td>
<td>132.8%</td>
</tr>
<tr>
<td>Operational</td>
<td>Operations</td>
<td>0.3%</td>
<td>51.5%</td>
</tr>
<tr>
<td>Project Agreement</td>
<td>Total Contract</td>
<td>1.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Total Risk Retained by Province</td>
<td>Total Contract</td>
<td>16.2%</td>
<td>76.9%</td>
</tr>
</tbody>
</table>

Shaoul, 2005, 453

- ‘irrespective of whether and how much risk is actually transferred and to whom, it should not be forgotten that the main risks are those that arise from technical obsolescence and changing regulation, government policy and demand, as earlier studies have shown, and the public sector will still hold these.’

Shaoul, 2005, 453
Planning concerns in the VfM appraisal

Key planning concerns not mentioned in detail in the VfM reports

• Sources and details of innovation?

• Meaningful public consultation

• Policy lock in: potential lost long-term flexibility for facility planning and public policy
Are PPPs ‘only show in town’?

• Diverse views: some practitioners, particularly at the local level, see the provincial and federal government pressuring municipalities, boards and agencies to use PPPs to access government money.

• Others view PPPs as one tool amongst many, used when VfM makes sense
  – A fraction of all infrastructure funds in Ontario allocated to PPP.
  – Projects that no longer make sense as PPPs have been cancelled
Innovations in Local PPPs:
Mixed Use Buildings, Multiple Operators
Conclusions

- Recent Canadian approach to PPPs is less ideologically driven than what we’ve seen in the past or in other countries
  - PPPs in Canada are not being widely used to recast the way that public services are delivered, or who provides them
  - Not being used to move project financing off balance sheet

- Selective transferring of demand risk and limited use of private financing has maintained long-run public flexibility
  - Emphasis on managing construction risks

- There have been few outright failures in Canada, especially recently

- Concerns remain about high cost of using PPP, and particularly private financing and risk transfer, as opposed to traditional government procurement