



BACKGROUND

FRONTIER CENTRE FOR PUBLIC POLICY • BACKGROUND NO. 114 • SEPTEMBER 2013

Public Private Partnerships

A Primer for Regina Voters

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Introduction

“Although P3s are portrayed by opponents as controversial, they are widely supported by relevant stakeholder groups.”

On 25th of September, the citizens of Regina will vote in a referendum for the first time in 20 years. The question? Whether the city should use a traditional contract to construct a new wastewater treatment plant or to proceed with the council’s unanimously preferred option of a public private partnership (P3).

This backgrounder presents an overview of what exactly a public private partnership is, and an analysis of existing research into why they work.

Although P3s are portrayed by opponents as controversial, they are widely supported by relevant stakeholder groups. The one notable exception is labour funded organizations. But like farmer lobbies or military contractors, we should expect them to oppose initiatives that could in any way diminish their own revenue.

In this backgrounder, we demonstrate that these kinds of partnerships are not new or controversial by showing just how common public-private partnerships are across Canada and around the world.

Moreover, we illustrate that rather than being a financial risk, public-private partnerships actually function as a type of insurance against the risks of cost-overruns and delays.

What is a P3?

Public Private Partnerships, often referred to as P3s or PPPs, can be difficult to precisely define given the wide array of types of partnerships that exist.

The World Bank notes the challenge of precisely defining P3s:

“There is no broad international consensus on what constitutes a public-private partnership (PPP). Broadly, PPP refers to arrangements, typically medium to long term, between the public and private sectors whereby some of the services that fall under the responsibilities of the public sector are provided by the private sector, with clear agreement on shared objectives for delivery of public infrastructure and/ or public services.”¹

P3s can be most easily understood as being partnerships between the public and private sectors (as the name indicates) to deliver infrastructure so that the risks and rewards are shared between the partners.

Under a P3, costs are spread out over the lifetime of the asset and payment is only made to the private operator if the operation and the maintenance is kept to a high standard. Significantly, the contractor, rather than the government, is responsible for the costs of any delays or budget blowouts.

Infrastructure construction tasks that can be contracted out to the private sector as part of a P3 include Design (D), Build (B), Finance (F), Operate (O) and Maintain (M).

P3 projects incorporate some, but not necessarily all of these aspects.

The proposed plan for the new Regina wastewater treatment plan is a DBFOM, encompassing all of these five aspects.²

Importantly, the government still retains ownership of the asset. This contrasts with privatization, where the private sector owns the assets and is responsible for delivery of the service.

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Traditional Procurement Methods

In Regina, the referendum question will ask residents whether or not the city should “publicly finance, operate and maintain the new wastewater treatment plant through a traditional Design, Bid, Build (DBB) approach”, which means that the city would:

“contract with a consulting engineer for the development of detailed design drawings and specifications. Then, a small number of separate construction tender packages would be issued and awarded on low-bid basis. The WWTP would be operated and maintained by City staff. Coordination of tenders and construction inspection would be done under contract by the design engineer.”³

Unfortunately, under this procurement method, the government would be liable to cover any cost overruns and would not receive compensation for delays in construction. Under traditional procurement methods, governments are on the hook for cost overruns, and there are no financial penalties for schedule delays. As well, the city would not be eligible for a \$58.5-million P3 federal grant if it doesn’t use a public private partnership.⁴

Note that even under the traditional method, private contractors are involved. The crucial differences are that in a P3 one firm can streamline the process, being involved from start to finish, and is responsible for part of the financing.

Under traditional procurement methods, governments are on the hook for cost overruns, and there are no financial penalties for schedule delays.

Supporters

Public Private Partnerships are not merely favoured by “corporate elites.” In fact, they are supported by many international and Canadian organizations, as the following quotations illustrate.

United Nations Economic Commission for Europe:

“PPPs avoid the often negative effects of either exclusive public ownership and delivery of services, on the one hand, or outright privatization, on the other. In contrast, PPPs combine the best of both worlds: the private sector with its resources, management skills and technology; and the public sector with its regulatory actions and protection of the public interest. This balanced approach is especially welcome in the delivery of public services which touch on every human being’s basic needs.”⁵

International Labour Organization:

“The International Labour Conference stated in its conclusions that public-private partnerships had potential as a source of funding and expanded knowledge base and called for the establishment of effective partnerships with other development actors, and the mobilization of financial and human resources, including from the public and private sectors.”⁶

Organization for Economic Development and Co-Operation (OECD):

“Through harnessing the private sector’s expertise in combining the design and operation of an asset a PPP can provide the service in a more efficient manner compared to traditional forms of procurement.”⁷

World Bank:

“PPPs can mobilize additional sources of funding and financing for infrastructure. PPPs can help improve project selection, subjecting assumptions to the market test of attracting private finance. Countries with relatively long PPP histories have found that PPPs manage construction better than traditional procurement, with projects coming in on time and on budget more often. PPPs can also help to ensure adequate maintenance keeps assets in a serviceable condition.”⁸

Conference Board of Canada:

“PPPs can generate substantial efficiencies when used to deliver the right projects. These efficiencies include lower costs or improved quality or performance outcomes; an increased likelihood of completing projects on schedule and within budget; improved management of project risks; more rigorous management of public spending; and greater certainty that newly built assets will be maintained in good condition over the length of the contract.”⁹

Canadian Federation of Municipalities:

"Canada has one of the most developed P3 markets in the world, but there is clearly more room to leverage the expertise and financing of the private sector to meet our infrastructure challenges and maximize the long-term infrastructure plan."¹⁰

Saskatchewan Chamber of Commerce:

"P3s are not inherently good or bad, they are a policy tool that fit some circumstances but not others. P3s are most successful when a clearly identified public need can be combined with a well-defined private interest. The benefits of P3 procurement do not always outweigh the costs, which is why almost all jurisdictions undertake an early screening of projects to determine if a project is suitable for the P3 procurement process. This valuation process has become quite refined throughout Canada."¹¹

Vancouver Board of Trade:

"As the name suggests, Public-Private Partnerships involve a collaborative effort between government and private-sector companies. Under such an agreement, private companies are contracted to build public infrastructure for citizens. Since the private company's pay is based on performance, workers have an incentive to deliver high-quality work in a timely manner. Likewise, the private company is fully responsible for all cost overruns, which transfers risk away from the government and encourages innovation. As a result, Public Private Partnerships can help governments ensure that large, complex and risky projects get built on time and on budget. If the work fails to meet quality standards outlined in the contract, the private company faces penalties, and is required to bring the work up to standard."¹²

There are, however, critics of P3s and their concerns need to be addressed.

Public Private Partnerships can help governments ensure that large, complex and risky projects get built on time and on budget.

Critics

The Canadian Union of Public Employees (CUPE)

CUPE is the most powerful group opposing the P3 wastewater project in Regina. They have brought in a number of speakers and they have used considerable resources in their attempt to derail the proposed P3 treatment plant.

CUPE has drawn attention to the fact that the city council has not released all of the financial information on their decision to endorse this P3 project. Specifically, they claim that the council is hiding information that would otherwise persuade the public that a P3 is a bad idea.¹³

In reality, those who have seen all of the financial details—namely the city council—actually voted unanimously to proceed with the P3 project. Surprisingly, many councilors who might have been expected to take the union's perspective supported the decision.¹⁴

Keeping some financial details and negotiations temporarily confidential is a standard business practice, especially where a final private partner has not yet been selected.

Regina Water Watch (RWW)

Another critical group is RWW, but it is a group funded by CUPE. They use similar tactics as other "community" groups that exist in other cities as part of CUPE's ongoing national crusade against P3s.

Unfortunately, this group and many of its supporters use the word water to evoke drinking water, when the project is about wastewater (i.e. "keep our water pure"). Implying that the private operator would not look after the drinking water (which is a curious implication, given that, unlike the city, they'd be held liable).

Petition signatories

In Regina, approximately 20,000 people signed a petition to hold a referendum on this project. While many who signed the petition are surely against the proposed P3 project, but even 20,000 is not an overwhelming majority of the citizens in a city of around 200,000.

Putting aside whether or not people knew the P3 was about wastewater treatment, rather than drinking water, supporting a vote does not mean they endorse a particular side of the debate, it merely shows they believe the question should be resolved by a public vote. Note that the Canadian Taxpayers Federation endorsed the referendum, yet also support the P3 project. Additionally, it doesn't measure the intensity of their desire to revisit the issue. Signing a petition is relatively costless, so sometimes people will sign them simply to get the signature collector off of their doorstep.

Public Private Partnerships in Practice: Federal Government Overview

Canada's procurement process is considered the most predictable and timely in the developed world. Projects take an average 16 to 18 months to complete.¹⁵ This results from many factors including Canada's standardized practices and legal expertise. Canadian P3 projects provide certainty for bidders, which helps produce vigorous competition and reduced costs for the public sector.

Between 2009 and 2011, 39 projects—with combined capital investments of approximately \$21.7-billion—which reached financial close during the this period (39 in total) culminating in a combined capital investment of approximately \$21.7 billion reached financial close.¹⁶

Savings vary from project to project. Edmonton's Anthony Henday Drive Southeast Ring Road resulted in savings of a few million dollars, while the Autoroute 30 project south of Montreal resulted in savings of \$751-million.¹⁷ The savings range from 0.8 per cent to 61.2 per cent for projects examined in a 2010 Conference Board of Canada Report.¹⁸

P3 Canada Fund

PPP Canada was founded in 2009. It is responsible for the P3 Canada Fund. The first round of funding began that year and PPP Canada has launched four subsequent rounds.

PPP Canada has focused its market development approach, on improving the quality and P3 feasibility of projects submitted by building on experience. The P3 Canada Fund has committed over \$770-million to 16 P3 projects across Canada with over \$3-billion in capital costs.¹⁹ These infrastructure projects include transportation, water/waste-water, solid waste disposal, and brownfield redevelopment.²⁰

The 2013 federal budget included funding of \$1.25-billion over 5 years for the P3 Canada Fund. It also included \$10-million to assist other levels of government with procurement.²¹

Saskatchewan

Saskatchewan has had little experience with P3s to date. But, the province established a P3 Secretariat in 2009 to help determine where P3 projects make sense. All infrastructure projects with a minimum cost of \$25-million will be screened by the Secretariat for consideration as a P3.²² The Secretariat was established as a division of the Ministry of Government Services and had a budget of \$650,000.²³

Unfortunately, after a backlash from Saskatchewan's public sector unions, the Secretariat was disbanded in September 2009 after a mere 9 months of operation.²⁴

Elsewhere in Canada

BC, Ontario, Alberta, and Quebec all have specialized infrastructure agencies that are in charge of P3s.²⁵

Partnerships BC

Partnerships BC participates in planning, delivery and oversight of major infrastructure projects in British Columbia. Partnerships BC's expertise gives the provincial government the ability to plan and procure complex projects, that involve the use of private sector expertise, services, and capital.

Founded in 2002, Partnerships BC has been involved with 35 projects totaling \$12.5-billion, of which \$5-billion is private sector capital. The projects provide:²⁶

- Five new hospital emergency departments;
- Two new regional cancer centres;
- More than 1,000 new acute care hospital beds;
- More than 1,100 new residential care beds and assisted living units;
- New capacity to accommodate more than 1,000,000 outpatient visits annually;
- Two new secondary schools that will facilitate 21st century learning;
- Two new correctional facilities with security enhancements;
- 133 modular classrooms to reduce crowding in schools;
- Six new bridges that will improve the movement of goods and services;
- 390 kilometres of highways enhancing driver safety;
- 30 kilometres of rapid transit;
- Treatment of up to 500,000 cubic metres of contaminated water annually; and,
- A new university campus.

Infrastructure Ontario

Infrastructure Ontario works with municipalities, universities and other public sector entities to assess the viability of P3s for the delivery of large scale infrastructure projects (\$20-million or more). Their Alternative Finance Program has resulted in over \$23-billion of capital projects since 2006.²⁷

City of Winnipeg

Canadian cities also have the ability to undertake P3s with financing from the PPP Fund. Winnipeg is a prime example. The city has undertaken two prominent road construction projects: the Chief Peguis Trail and the Disraeli Freeway (and bridges). The projects were both completed on time and on budget, with estimated savings of \$10.4-million²⁷ and \$47.7-million²⁸ respectively compared to traditional procurement.

Some examples of Canadian water/wastewater PPPs

Project	Province	Gov't Level	PPP Model
Cochrane Water Treatment Plant	Alberta	Municipal	Design-Build-Finance
McLoughlin Point Wastewater Treatment Plant	British Columbia	Municipal	Design-Build-Finance
New Dartmouth Water Treatment Plant	Nova Scotia	Provincial	Design-Build-Finance
Evan-Thomas Water and Wastewater Treatment Facility	Alberta	Provincial	Design-Build-Finance-Operate-Maintain
Taber Wastewater Treatment Plant Upgrade	Alberta	Municipal	Design-Build-Finance-Operate-Maintain
Kananaskis Wastewater Treatment Plant	Alberta	Municipal	Design-Build-Finance-Operate-Maintain
New Wastewater Treatment Plant	British Columbia	Provincial	Design-Build-Finance-Operate-Maintain
Victoria Wastewater Treatment Plant	British Columbia	Municipal	Design-Build-Finance-Operate-Maintain
Cartier (New) Wastewater Treatment System	Manitoba	Provincial	Design-Build-Finance-Operate-Maintain
Moncton Water Treatment Facility	New Brunswick	Municipal	Design-Build-Finance-Operate-Maintain
Dysart Wastewater Treatment Plant	Ontario	Municipal	Design-Build-Finance-Operate-Maintain
Cavan-Millbrook Wastewater Treatment Plant	Ontario	Municipal	Design-Build-Finance-Operate-Maintain
Okotoks Water & Wastewater System	Alberta	Municipal	Design-Build-Operate-Maintain
Lac La Biche Wastewater Treatment Facility	Alberta	Municipal	Design-Build-Operate-Maintain
Jasper Wastewater Treatment Plant	Alberta	Municipal	Design-Build-Operate-Maintain
Sooke Wastewater System	British Columbia	Municipal	Design-Build-Operate-Maintain
Port Hardy Water & Wastewater Treatment System	British Columbia	Municipal	Design-Build-Operate-Maintain
Canmore Water & Wastewater System	Alberta	Municipal	Operate-Maintain
Goderich Water & Wastewater System	Ontario	Municipal	Operate-Maintain
Brockton Water & Wastewater System	Ontario	Municipal	Operate-Maintain
Winnipeg Wastewater System	Manitoba	Municipal	Service Contract

Award Winning P3s:

Public Private Partnerships (P3s) to deliver infrastructure in Canada are nothing new. Various forms of P3 have been used for many years in Canada. Over 100 infrastructure projects have been procured using P3s since the early 1990's. Over time, Canadian governments have developed expertise in procuring P3s. The "second wave" of P3s, which began around 2004 has been particularly successful.²⁹ Agencies such as Partnerships BC have gained international recognition for their successes.

For some examples of the type of projects financed through P3s in Canada, consider the Canadian Council for Public-Private Partnerships (CCPPP) annual award winners for outstanding Canadian public-private partnerships (P3s). They present awards based on excellence in project financing, service delivery, and infrastructure.

The 2012 winners were:³⁰

Kelowna and Vernon Hospitals Project

The project includes a facility management model with several buildings 50 kilometres apart that are administered by two regional health authorities. The contractor took over responsibility for maintaining the existing facilities and three new facilities in 2009.³¹

BC Cancer Agency Centre for the North

This facility was long overdue for Northern British Columbians. Before the facility was built, Northern residents were required to travel to Southern B.C, far from their families, in order to receive treatment. The 54,000 square foot facility will serve over 750 patients per year. The cost of the project was \$91.5-million, and is part of a fixed-priced, performance-based agreement with Plenary Health to design, build, finance, and maintain the centre for 30 years.³²

Centre Hospitalier de l'Université de Montréal CHUM

This project replaces three existing hospitals, with one new facility of about 332,655 square metres in downtown Montreal. The value of the project is \$1.37-billion.³³

Humber River Regional Hospital New Acute Care Facility

This project is the first fully digital hospital in North America, which will automate both complex and routine operations. The cost is \$1.75-billion, including \$1-billion of private construction-phase financing.³⁴

Fort St. John Hospital and Residential Care Project

This \$301.8-million facility includes a 55-bed hospital and 124-bed residential care facility for seniors. The contract is expected to save taxpayers \$20.7-million.³⁵

Northwest Anthony Henday Drive project

The project entails design and construction of 21 kilometres of four and six lane divided roadway. There are eight interchanges, five flyovers and two railroad crossings. The road, which opened to traffic in November 2011, will save residents \$240-million over the life of the 30-year agreement, and deliver shorter commute times.³⁶

Disraeli Bridges & Freeway Project

The project included replacing a two-kilometre stretch of the Disraeli Freeway in Winnipeg, with a new road and two bridges over the Red River and railway. The agreement resulted in a 17 percent cost savings compared to the traditional funding model.³⁷

P3s Around the World

Public Works Financing began its International Major Projects Survey 20 years ago to monitor P3's around the world.³⁸ The database includes reports on about 3,000 transportation, water or buildings projects valuing \$1.4-trillion that are being planned, built, or operating in 140 countries.³⁹

United States

Similar to Canada, P3s in the United States are not new. Private firms have been involved in public infrastructure for over 200 years.⁴⁰ There were 377 P3 infrastructure projects in the United States between 1985 and 2011.⁴¹ The first P3 in water and sewage utilities took place in Burlingame, California in 1972, when the city contracted with a private firm to operate its wastewater treatment plant. In 1990s there was a large increase in P3s in the United States.⁴² Indianapolis has been one of the most successful jurisdictions at using public private partnerships. The city contracted out the operation and maintenance of its two sewage treatment plants in 1994, which brought remarkable and immediate results. In the first year the contractor's experience and efficient management reduced the operations and maintenance budget by almost 42 percent, from \$30.1-million to \$17.6-million.⁴³ Since 1994, some \$189-million was saved through the improvements that were made to the wastewater and storm water systems. This partnership brought substantial environmental benefits with a 100 percent compliance rating as well as 85 percent decrease in the number of discharges in the first four years.⁴⁴

According to the Public Works Financing annual report in 2012, the six largest water and wastewater firms in the United States currently operate, maintain, and/or manage 720 water facilities and 939 wastewater facilities in 1,319 municipalities.⁴⁵ The National Council for Public-Private Partnerships states that the average US city uses P3s for delivering 23 out of 65 basic municipal services.⁴⁶

Europe

Between 1990 and 2009 there were more than 1,300 PPP contracts signed within the EU, with a combined capital value in excess of €250 billion.⁴⁷ The United Kingdom is the European jurisdiction with the most experience with P3s. It was responsible for two thirds of the P3 projects in Europe between 1990 and 2009. Spain accounted for about 10 per cent. France, Germany, Portugal and Italy each represented between 2 and 5 per cent of the European P3 projects. Eastern and Central Europe have a much smaller share of P3 projects.^{48/49}

The largest, recent P3 project in Europe is the Sud-Europe Atlantique High Speed Railway Line. It involves the design, construction, financing, operation, and maintenance of a high-speed rail line from Tours to Bordeaux in France. The contract was signed in 2011 for 50 years with an investment of €7.82-billion.^{50/51}

Public Private Partnerships as Insurance

To put the P3 versus traditional procurement projects in context, consider the example of consumer product warranties.

Suppose you were purchasing a low cost printer. Would it make sense to buy an extended warranty? Probably not. The replacement cost of the printer is low, and printers are fairly predictable: either they break right away—in which case they can be returned to the vendor—or they degrade gradually over time. Those are the same reasons why a city wouldn't buy a warranty when purchasing stationary.

Now, suppose you're buying a new car. Many things can go wrong, and consumers generally don't have the tools and knowledge to fix them as cheaply as a garage can. In this case, a warranty makes a lot of sense.

Suppose that you declined the warranty. Unless you've really done your homework, garages will probably be able to charge you a premium when you bring your car to them. They also might sell you services you don't need, since you won't know whether you really need it or not. Since the garage profits right away, their incentive is to sell you as much repair as possible. Fortunately, you can consult competing garages who also want your business.

Hypothetically, say that you decline the warranty while signing a contract pledging to purchase all repairs from the dealership. In this case they wouldn't even have to consider competitors prices. They would make every effort to charge you as much as possible for as many repairs as they can convince you are necessary. Your only cost control is to defer maintenance. No one would sign this contract. Yet, that is essentially the business model that CUPE is trying to sell taxpayers for the new waste water treatment in Regina. The P3 option is the equivalent of taking the warranty.

If you're not convinced by this analogy, consider public roads. They were purchased by the city from private contractors who have no obligation to make sure they stay in good condition. In fact, they make more money every time they have to repair roads. Since cities are under pressure to keep costs down, and they often defer maintenance. But putting off maintenance leads to more expensive repairs later. With a public-private partnership, the contractor needs to ensure that the road remains in good condition over the life of the contract. If the company fails to meet those conditions, it is subject to fines. In the worst case scenario, the contract is enforced by the courts. Since companies that undertake P3s are typically large, they cannot afford to have their reputations threatened by the courts.

The same holds for wastewater treatment plants. There are already several treatment plants in North America that have been financed through P3 agreements. There has not been a problem with any of them. The contractor is required to turn over the plant at the end of the agreement. Contrast this with traditional government monopoly models. Their first priority is to make money, and there is no competition to keep the rates in check (unlike in a P3, where that can be spelled out in the contract).

Going back to the car example, you can either buy insurance up front and know what you're getting, or you can rely on your dealership to sell you the services you require at exactly the right price. Even if the insurance policy might mean a higher sticker price, the long term benefits will be much larger and more predictable.

The Regina Wastewater Proposal

The P3 wastewater project being voted on is fairly routine. It is a design-build-operate-finance (DBOF) project, which means that the private partner will undertake all of those functions. It will be responsible for ensuring that the wastewater treatment plant is in good condition when it is turned over to the city after 30 years when the agreement expires. The cost of the project will be over \$224.3-million, including \$58.5-million from the federal government's PPP Fund.^{52/53} The private contractor will also provide \$103-million to finance the project.

The alternative to the P3 project would require the city to finance the project itself. According to an assessment by Deloitte, the savings to the city over the life of the P3 project will be \$79.6-million, or \$276 for every city resident.⁵⁴ Given that Deloitte stands to lose a great deal of business if their estimates is wrong, there is good reason to believe that they are correct.

Aside from transferring the risk for cost overruns and construction delays to the private sector, the P3 proposal will also shield the city from uncertain future costs. For instance, if wastewater quality standards change, the private partner will bear the cost of upgrading the facility.

Conclusion

While public private partnerships are often portrayed as controversial, they are widely endorsed by groups as diverse as the International Labour Organization, the World Bank, and the Conference Board of Canada.

Opponents of public private partnerships are naturally very vocal, largely because P3s divert work and revenue away from the public sector unions. But like all lobby groups, their claims should be carefully scrutinized.

Given the Canadian and international evidence, there is good reason to believe that the proposed P3 wastewater project in Regina will be in the best interest of the city's residents.

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Date of First Issue: September 2013.

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ISSN 1491-78

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