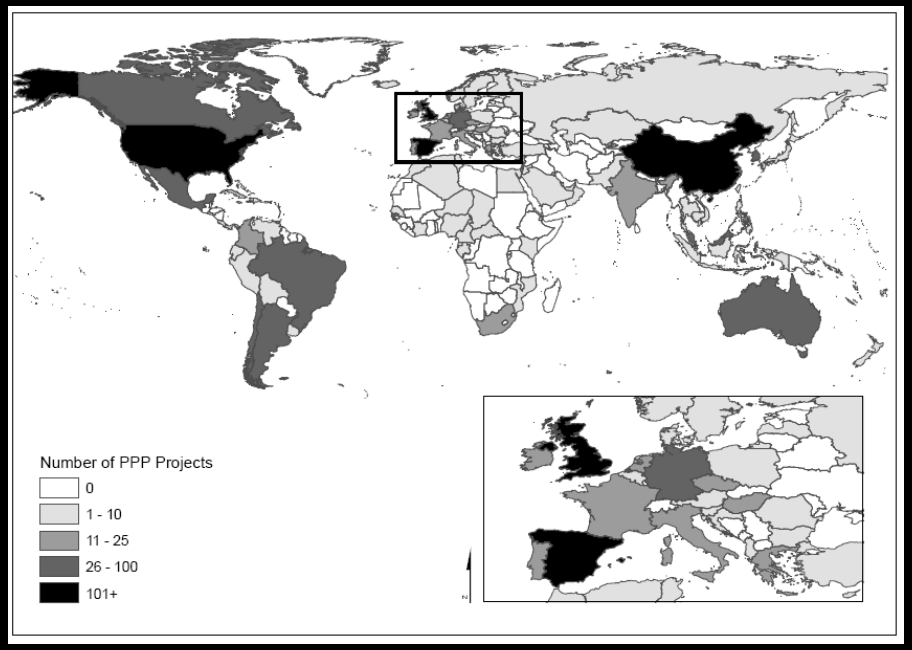
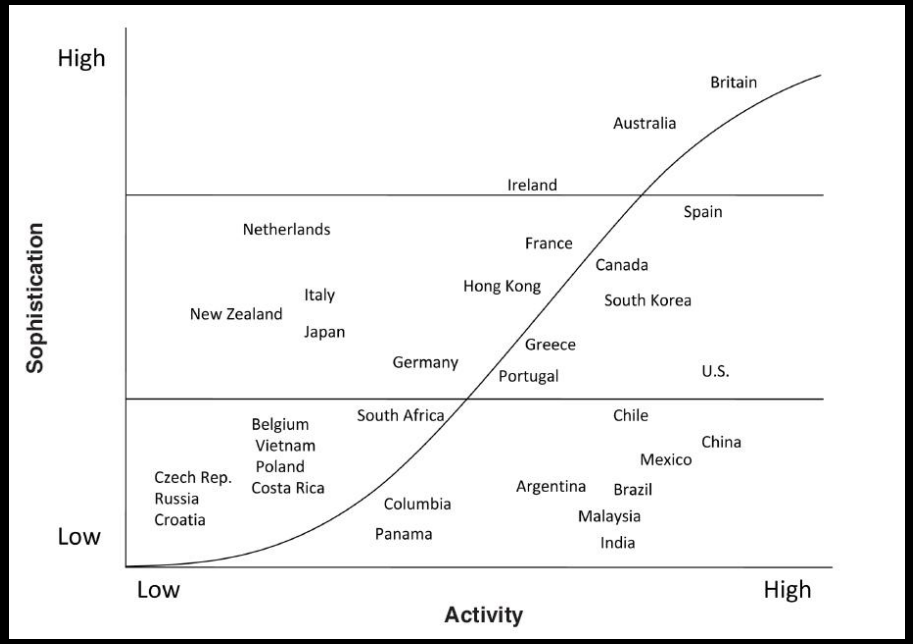
Public-Private Partnerships in Canada
Definitions and Debates

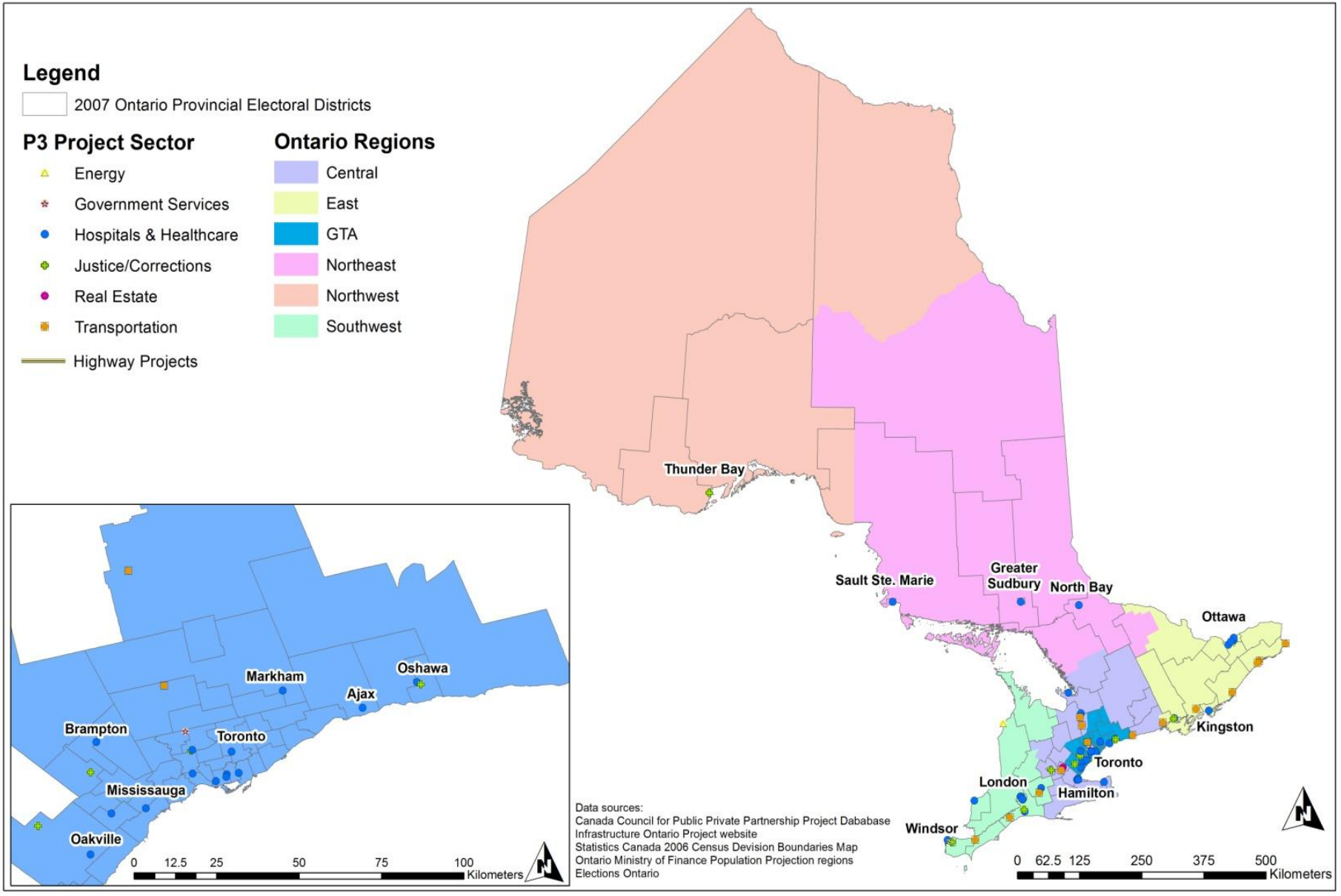
Matti Siemiatycki Geography and Planning University of Toronto

PPPs: Canada in a Global Context





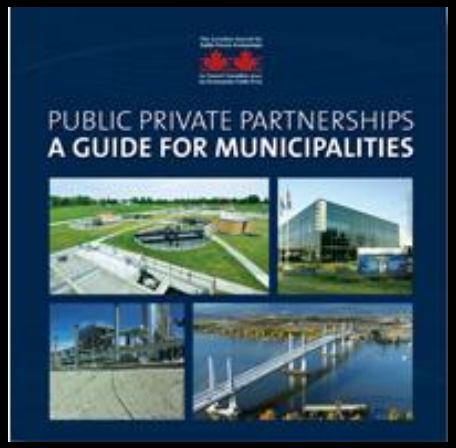
The Ontario PPP Landscape



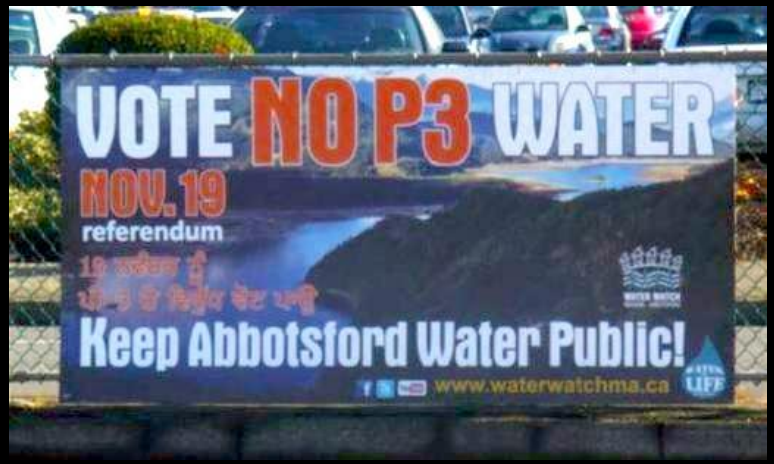
PPP the Next Generation: The Move to Municipal Projects

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

Infrastructure	Replacement value of all assets (2009-10) (Note 1)	Rating (Note 2)	Assets in very poor and poor physical condition (Note 3)		Assets in fair physical condition (Note 3)	
			%	Replacement value	%	Replacement value
Municipal roads	$173.1 billion	Fair: requires attention	20.6%	$ 35.7 billion	32.0%	$ 55.4 billion
Drinking water	$171.2 billion	Good: adequate for now	2%	$ 3.4 billion	13.1%	$ 22.5 billon
Wastewater	$121.7 billion	Good: adequate for now	6.3%	$ 7.7 billion	25.7%	$ 31.3 billion
Storm water	$69.1 billion	Very good: fit for the future	5.7%	$ 3.9 billion	17.2%	$ 11.9 billion
Total	$538.1 billion			$50.7 billion		$121.1 billion



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."

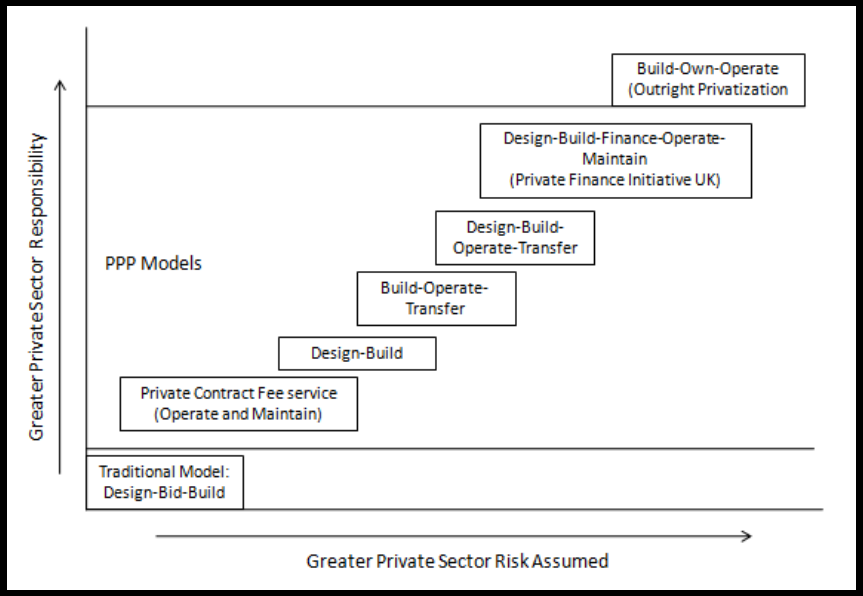
(Garvin and Bosso, 2008)

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



	Greater public responsibility ↔ Greater private responsibility			
	Design-Bid-Build (DBB)	**Design-Build (DB)**	**Design-Build-Finance-Operate (DBFO)**	**Build-Own-Operate (BOO)**
Who defines performance specifications?	A government department or public sector agency			Private sector firms
Who designs and constructs the facility?	The public sector works with a team of consultants to design the facility. Then a contractor is sought to build it as designed.	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.		Private sector firms
Who finances the facility?	The public sector, through tax revenue, debt financing, bonds, etc.		The private sector, possibly with some public subsidy.	The private sector
Who operates the facility?	Public sector employees typically operate the facility, but this can also be contracted out to private firms.		The facility is leased to and operated by the private sector over a period of 25 to 50 years.	The private sector
Who owns the facility?	The public sector		Typically the public sector	The private sector in perpetuity
Who gets return on the investment and how?	The public sector through user fees, but such facilities often operate at a financial loss		The private sector through user fees and/or fixed government payments over the life of the operating contract	The private sector owner through user fees and possibly public subsidies
Who controls toll or user fee rates?	The public sector		Contractually negotiated between public sector and private firms	The private sector owner, subject to government regulation

PPP Motivations and Concerns

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

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

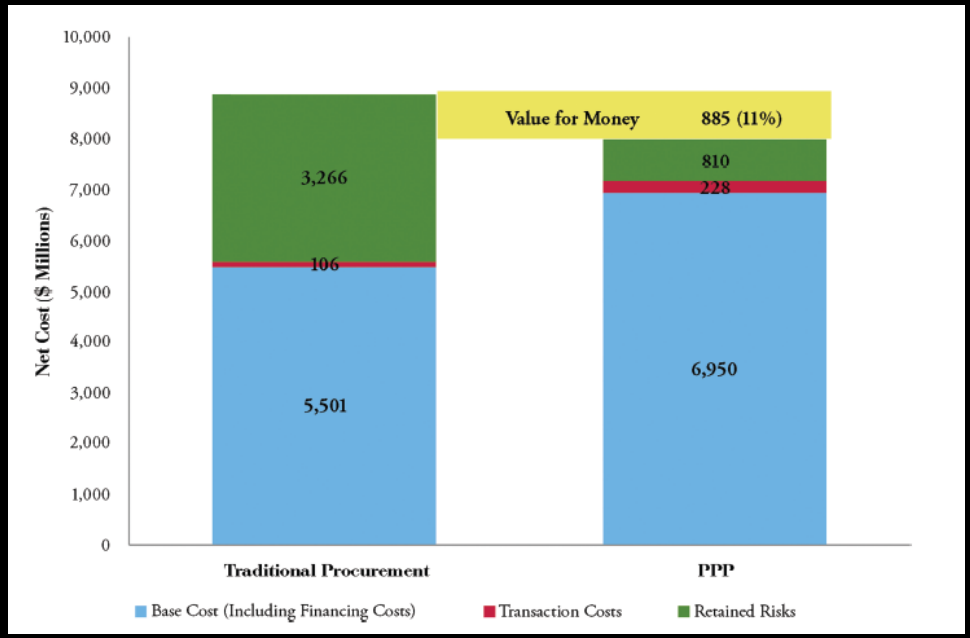
Matti Siemiatycki and Naeem Farooqi

Problem, research strategy, and findings: Delivering improved public services at lower cost, also known formally as *value for money* (VfM), is often the main rationale for procuring large infrastructure projects through public–private partnerships (PPPs). However, it is unclear whether the ex ante assessments of PPPs account for key planning concerns, including limitations on community consultation, contractual lock-ins that curtail public flexibility to make future plans, and a political preference for PPPs that may influence the way that projects are structured and evaluated. This set of questions is examined for 28 infrastructure PPPs delivered in Ontario, Canada, and interviews with 18 senior political, government, and private-sector participants in the province's PPP industry. We find that transferring of construction risks from government to the private-sector partners drives VfM results, and may overvalue the extent to which planning related risks can be transferred.

Around 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* (VfM; Wall & Connolly, 2009).

In its simplest form, VfM 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 VfM 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; Nisar, 2007). However, because in most jurisdictions it is common that technical evaluations of VfM are not publicly released, the underlying sources of VfM, 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 stakes public infrastructure projects in order to realize VfM. 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

		Retained Risk by Province at Average Impact (as % of contract portion)	
Risk Category	Portion of Contract Impacted	Design Build Finance Operate PPP Model	Traditional Government Procurement Model
Policy/Strategic	Total Contract	5.6%	20.4%
Design and Tender	Design and Construction	1.7%	19.4
Site Conditions/ Environmental	Design and Construction	1.1%	1.1%
Construction	Design and Construction	1.4%	16.6%
Equipment Risk	Construction and Operation	0.0%	0.8%
Permit and Approvals	Design and Construction	0.0%	0.2%
Completion and Commissioning	Design and Construction	0.1%	0.7%
Life Cycle and Residual Risk	Maintenance	46.1%	132.8%
Operational	Operations	0.3%	51.5%
Project Agreement	Total Contract	1.0%	0.0%
Total Risk Retained by Province	Total Contract	16.2%	76.5%

Infrastructure Ontario VfM Risk Allocation Matrix

- '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

THE GLOBE AND MAIL

PUBLIC SPENDING

The hidden price of public-private partnerships

BARRIE MCKENNA
OTTAWA — The Globe and Mail
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111 comments

Public-private partnerships are all the rage in Canada for big infrastructure projects – roads, bridges, waste-water plants and the like.

Federal Finance Minister Jim Flaherty is a huge fan. So is Ontario, which has done more public-private partnerships, including 40 hospitals, than any other government in Canada.

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