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THE CASE FOR PUBLIC-PRIVATE PARTNERING IN INFRASTRUCTURE DEVELOPMENT

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Other PPI Documents

Winning in Global Infrastructure Markets:

- Consultation Paper
- Conference Report

Public-Private Infrastructure Ad Hoc Steering Committee

The Public-Private Infrastructure Ad Hoc Steering Committee was established following the national conference on *Public-Private Infrastructure* (PPI), organized by Industry Canada and its Team Canada partners in September 1998. The Committee is a private sector group working with government to oversee the implementation of the key action items identified at the conference. It consists of members representing a cross-section of firms from both the industrial and financial sectors with a vital interest in PPI.

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What Are Public-Private Partnerships in Infrastructure?

Infrastructure describes facilities and systems which provide basic services essential to the functioning of the economy. Examples are transportation, communications, power generation, energy delivery systems, water and wastewater facilities, waste disposal, education and health facilities and other public service buildings.

Public-Private Partnerships (PPPs) in infrastructure or *Public-Private Infrastructure* (PPI) are contractual models through which the private sector invests in the design, construction, financing and operation of infrastructure facilities. Participating firms (developers, engineers, builders, operators, financiers) take on, for a negotiated return, some or many of the project risks and

roles historically assumed by governments. The private participants' stake in the project guarantees their commitment to economic efficiency while serving the public interest.

PPI projects can be implemented under a wide variety of organizational and legal models, including Build-Own-Operate-Transfer (BOOT), Build Operate Transfer (BOT), Design-Build-Finance-Operate (DBFO) and other concessional arrangements. All PPI projects share at least two common features: industry takes design and construction responsibility, and industry is required to make a long-term commitment to the project.

Depending on the risk transfer to the private sector, PPI projects may be built without engaging the credit or balance sheet of the public sector sponsor.

PPI is used increasingly around the world to enable, or accelerate, construction of badly needed projects, while allowing governments to reduce expenditures and achieve greater economic efficiency in service delivery.

Why PPI Partnerships?

All governments face increasing demands to ensure the availability of high quality infrastructural services and are expected to do so in a timely and cost-effective manner.

At the same time, they are facing pressures to reduce debt, lower taxes and reallocate resources to core areas of government responsibility that cannot be handled by the private sector.

The PPI process means greater transparency and accountability: more intense scrutiny of costs and benefits, relevance and payback, leading to the selection of the best proponents for the best projects.

Canadian firms need to hone their PPI skills at home to develop a track record that will allow them to compete in global markets Resigning the domestic PPI market to foreign developers is a likely result of starting late.

What's in it for the Public Sector Partner and for Taxpayers?

PPP allows governments to create value through lower cost, higher quality, or both, while turning attention to areas central to their mandates, such as health, education, or security.

More infrastructure can be created sooner, through private finance, and with greater cost effectiveness. Capital costs can be capped or avoided.

Efficiency is served by allocating specific risks to the party best able to manage them. Examples of risks which can be wholly or partly allocated to the private sector include demand risks, construction risks, financing risks, and even political and regulatory risks.

New export capabilities can be created.

What's in it for the Private Sector?

Experience, revenue and retained earnings growth position firms for bigger jobs abroad as well as at home

The total volume of work may increase if investment is freed from the constraints of government budgets.

What's the Downside?

There are some myths about PPI that need to be confronted. It is not true that public authorities can always borrow more cheaply than private firms. It is not true that employment levels must fall. It is not true that service or quality standards fall – quite the contrary.

On the other hand, changing the way the public sector manages infrastructure projects is not easy, and employees have legitimate concerns that need to be addressed up front.

Firms used to quick turnarounds, cost before quality, and risk avoidance may be dismayed by the new level of responsibility they

have to carry. In particular, PPI project development and bid costs can be daunting.

What's Canada's Track Record?

The global PPI market is growing rapidly; however, Canada's share of projects is small.

Domestic PPI projects have mainly involved design-build-operate responsibilities under lease rather than ownership conditions.

Governments at all levels in Canada lag other OECD countries in adopting the PPI model and its fundamentally new financing philosophy.

Although Canadian firms participate in international consortia, with rare exceptions there is not enough domestic PPI activity to allow them to build export credibility.

That said, there have been a number of projects in Canada which have been completed or awarded on the PPI model, including the Confederation Bridge to PEI, the 407ETR toll road around Toronto, Cobequid Pass and Highway 104 in Nova Scotia, water projects in Dartmouth, Winnipeg, Moncton and in the Regional Municipality of York, Hamilton-Wentworth airport, and the TeraNet land registry system in Ontario. Others are under negotiation.

How Can Public Policy Create the PPI Advantages?

Forceful leadership from political and public service leaders and private proponents is required to communicate the benefits, counter the myths and bring about change in traditional government procurement practices.

Learn from abroad. For instance, the UK *Transfer of Undertakings (Public Employees) Act* deals with employment security issues in a manner satisfactory to unions, in a country with leading-edge PPI practices.

Legislation and regulations at all levels need to be reviewed so as to enable, not prohibit, the PPI approach when it produces value for money.

Documentation of best practices, consensus terms and even sample contract language can speed project planning.

Training at least a cadre of public service managers in PPI procurement should be on the agenda for every medium-to-large government in Canada.

Cost and quality must be balanced better. Traditional public tendering processes tend to force low initial cost at a sacrifice in quality and longevity. Transparency needs to be part of the new scheme.

Business needs to understand political calendars and public interest issues better, and to deal more empathetically with unions.

What Needs to Happen Now?

Project developers, financiers and other private sector players need to develop or acquire PPI expertise and credibility by:

- developing models for financing and implementing PPI projects;
- being prepared to bear substantial bid costs;
- arranging appropriately structured financing and seeking financial partners;
- investing in project equity, with its risks and potential for higher returns;
- demonstrating a willingness to share risks, responsibilities and rewards with sponsoring governments;
- developing advanced risk management and insurance mechanisms;
- educating themselves on the virtues of consensus and public support in government decision-making; and
- continuing to invest in superior technologies.

Governments need to:

- demonstrate commitment to a growing domestic PPI market by sponsoring projects, recognizing success and its champions, and improving bid processes;
- work with the priv te sector and organizations like the Canadian Council for Public-Private Partnerships (CCPPP) in developing best es, including the description of projects in terms of service outcomes, quality and value for money;
- develop methods capable of demonstrating that whatever method is chosen for a particular project, it represents best value for the taxpayer dollar;
- ensure that legal and taxation frameworks do not inadvertently preclude PPI solutions, and reduce or remove associated red tape;
- train public service leaders in PPI methods; and
- consult employees and their representatives regarding workforce issues.