



For the Record

The road to saving our services

We can't afford to fix our highways, sewers and transit on our own. But public-private partnerships can help do the job, says former finance minister Michael Wilson (reprinted from the Globe and Mail – March 8, 2004)

A handful of projects operating in Canada – and the track record of countries like Britain and Australia -- have demonstrated an innovative way to deal with the crumbling infrastructure that bedevils cities around the world: public-private partnerships. As the P3 model works in Britain and Australia, private-sector partners not only finance, design and build a project, they also maintain and operate it.

Contractual penalty provisions guarantee that services will be operated and maintained to a high standard, and that facilities will be kept in good repair throughout the life of the contract. When those facilities revert to the public sector, they are in good shape, not victims of years and years of underinvestment.

The federal and provincial governments, and every city and town council across Canada, know that our infrastructure is wearing out faster than we can repair or replace it. Roads are congested and in poor repair, water mains leak, transit systems struggle to cope. For the past 15 years, governments have concerned themselves with eliminating deficits, cutting taxes and funding programs like health care, education and social welfare. In 1962, 22 of every 100 public dollars spent in Canada were for capital

investments. By 2002, the proportion had dropped to 12. Now the bill for those years of neglect is coming due.

How big is the gap? In Ontario alone, rebuilding the province's crumbling hospitals, schools, roads, water and sewer systems will cost an estimated \$75-billion. Some set the national bill at \$130-billion, or higher, with more than \$16-billion needed for water treatment and distribution, almost \$37-billion for wastewater facilities, \$10-billion for roads and bridges – the list goes on.

Those are just the amounts required to meet existing needs. They don't begin to address future replacement (50 per cent of our civil infrastructure will reach the end of its serviceable life span in the next 25 years) or expansion to meet the demands of a growing population.

Yet even if we consider only replacement and refurbishment, the figures are large enough to dispel any notion that this investment will come from the public purse. Federal, provincial and municipal tax bases are stretched to the limit. The current federal spending freeze and a \$5.6-billion deficit in Ontario are ample evidence of budgets under severe pressure.

Fortunately, the infrastructure deficit provides an opportunity to transform for the better a badly flawed system. If we

to harness the expertise and vast financial resources of the private sector to achieve public-policy goals.

With public-private partnerships, the role of governments will change. Their task will be to identify needs, select partners, design appropriate contracts and then let the partners get on with the job of delivering the service. Governments will continue to be responsible for monitoring the contract and enforcing regulations.

Where P3 has been used, the results are impressive. Billions of dollars of private capital has flowed into the construction and upgrading of highways and bridges, schools, prisons, airports, water systems, transit, energy utilities, ports, airports, police stations and housing.

Britons protect their National Health Service as carefully as we guard our health-care system, yet in the past five years the Blair government's Private Finance Initiative (PFI) has delivered the biggest new hospital-building program in NHS history. In England alone, 64 major capital projects worth more than \$26-billion have been given the green light. All of the 21 hospitals already completed opened on or ahead of time, a rare feat when the government was builder and project manager.

Under the P3 model, the government specifies how much it is going to pay and when it wants the project operating.

For more information:

Information on the infrastructure investment deficit is available on The Canadian Council for Public-Private Partnerships website at: www.pppcouncil.ca/resources_infraDeficit.asp.

grasp this opportunity, Canada will enter a new era in which governments are able to harness the expertise and vast financial resources of the private sector to achieve public-policy goals.

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Under the P3 model, the government specifies how much it is going to pay and when it wants the project operating. After that, taxpayers are off the hook. If the

construction costs go over budget, the private company is obliged to absorb them. If the project isn't operational by the date specified, the company may be forced to pay a penalty for every day it is late.

Value-for-money studies show that in the appropriate context, a P3 will provide faster, better and cheaper services than traditional government delivery or procurement. Naturally, the private partners expect to make money, and to this end they will strive to innovate and operate more efficiently. After examining projects financed under the PFI, the Britain's National Audit Office found that making a profit and delivering value for money to taxpayers are not mutually exclusive.

This week the Ontario government released a discussion paper on P3 as the start of a public consultation on infrastructure financing. It is a frank admission that years of neglect have left our public infrastructure in disrepair, and it recognizes the need for, in the words of Public Infrastructure Renewal Minister David Caplan, "real, positive change in the way we plan for, procure, finance, deliver and manage public infrastructure projects." Canada has the ideal partners for P3: a dedicated, professional civil service, a vibrant private sector, and considerable private capital, such as pension funds, looking for good long-term investments. With the infrastructure-investment gap growing bigger by the day, we cannot afford to ignore this dynamic model.

Michael Wilson is Chair of The Canadian Council for Public Private Partnerships and former Minister of Finance, Government of Canada.