

The Canadian Council for  
Public-Private Partnerships



Le Conseil Canadien des  
Sociétés Publiques-Privées

# Position Paper

Building a Better Tomorrow  
through Public-Private Partnerships

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Response to the Ontario Government's  
Discussion Paper on Infrastructure  
Financing and Procurement

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## Summary

The Canadian Council for Public-Private Partnerships applauds the Government of Ontario's recognition that there is a serious infrastructure deficit facing the Province and that new approaches are needed to meet the challenges. The Council is Canada's national voice on public-private partnerships, with membership from the public and private sector in almost equal numbers. The Council disseminates information on P3s that are used by decision-makers across Canada at all levels of government and business. We believe that P3s bring together certain intrinsic features of each sector to maximize the quality of services and leverage the value of assets provided to the public.

This paper provides an overview of successful approaches to infrastructure financing, development and operation, primarily through public-private partnerships. These practices represent a compendium of research conducted by The Council over the past five years, supplemented by studies from other respected organizations in Canada and other countries. Apart from this paper and representation at the stakeholder meetings, The Council would be pleased to provide any further expertise to the Government of Ontario as it designs and rolls out its infrastructure plan.

Below are some highlights from this paper – a synopsis of what makes P3s such a compelling and effective infrastructure development model for governments around the globe.

- 1) Output-based contract specifications provide a much more effective public interest protection than prescriptive, input-based contracts.
- 2) An enhanced and independent regulatory environment ensures that P3s achieve their maximum benefit and oversight remains relevant.
- 3) Accurate Public Sector Comparators using an independent consultant and consistent accounting principles facilitate value for money comparisons.
- 4) Appropriate measurement and allocation of risks are integral to assessing the true value of P3s.
- 5) Penalty and incentive mechanisms leverage the advantages of the profit motive already inherent in P3 projects.
- 6) The structure of public control and ownership should be assessed on a project-by-project basis, but the design-build-operate-model has proven to be one of the most efficient models adopted worldwide for infrastructure development.

- 7) A positive working relationship, frequently associated with veteran P3 partners, can often provide greater value than “command and control” governance.
- 8) Fairness, transparency and efficiency can best be achieved through proactive communications, balancing freedom of information with proprietary know-how, establishing a solid business case and minimizing protracted RFP processes.
- 9) P3s lend themselves to long-term strategic planning and life cycle costing. Considering P3 as a proven process rather than a political doctrine can further enhance multi-year planning.
- 10) The UK has demonstrated the benefit of standardized contracts and comprehensive guidance to delivering efficient infrastructure development. A focused P3 department with clear authority and proven skills (e.g. City of Ottawa) contributes to the speed of delivery and market response.
- 11) Dedicated infrastructure funds and the implementation of user fees are effective tools to leverage investment and attract private capital.
- 12) Proactive communications and more flexible legislation will help remove many of the barriers to P3s, especially at the municipal level.

## The Challenge

It is clear that the Government of Ontario has recognized the significant infrastructure investment deficit currently facing the Province and the need for new approaches to financing, developing and managing infrastructure projects. While it is a widely held belief that the provincial and municipal governments are in a crisis when it comes to infrastructure development, the evidence from individual sectors and jurisdictions is still somewhat anecdotal.

A comprehensive inventory of current and future infrastructure needs will go a long way in helping the Province define the problem and establish strategic priorities. Professional, industry and government associations (e.g. Canadian Water and Wastewater Association, Canadian Society of Civil Engineering, Association of Municipalities of Ontario) are the most logical partners with the Province to compile such an inventory. The Canadian Council for Public-Private Partnerships itself has already published two sets of case studies (see enclosed for 2001 edition) from across the country on successful P3 projects and is currently working on a similar publication devoted to the municipal sector. A third set of case studies documents findings internationally in the healthcare sector.

It is also critical that a common methodology be developed for dealing with government debt. While accounting standards related to the treatment of capital

assets are improving, the issue of “off-book” versus “on-book” debt needs to be resolved, especially among government auditors, before alternative financing models can be appropriately evaluated.

## Guiding Principles

In the Discussion Paper, the Government articulated five Guiding Principles that will be used to evaluate the efficacy of various models. The Council has addressed each of these below, with evidence and cases where P3s have achieved or enhanced each of these principles.

### Protection of Public Interest

Two mechanisms are key to ensuring that the public interest is protected in any P3 scheme.

#### Clear and Effective Contract Provisions

The final contract negotiated between the government and the public partner becomes the linchpin for how the asset will be built and operated as well as what happens if the private partner does not meet its obligations. While P3 contracts necessitate much more detailed performance specifications, they do not have to be overly prescriptive. The protection of the public interest can be maintained much easier if the contract clearly specifies outcomes, rather than details input specifications. In the case of operations like water treatment plants, the government agent can use water quality standards as easily quantifiable outcomes, but does not need to dictate how these standards are achieved.

#### Enhanced and Independent Regulatory Environment

A compelling argument for using P3s to develop and operate infrastructure is that the role of regulator is separated from the role of operator. The decision to *set and enforce* standards should not be conflicted by the obligation to fund service or equipment upgrades to *achieve* the standards. In the case of infrastructure that the public considers to be implicit to a high quality standard of living (clean water, modern hospitals, convenient transportation, well-maintained roads), the separation between regulatory and operational functions is quite compelling. It is the government’s job to ensure public services are adequately provided, not necessarily provide them. When these two functions reside within the government or in an agency of the government, the potential for conflicts exist. Ontario’s gas industry provides an excellent model of efficiency and objectivity, where prices are relatively stable, regulations are effective and operations are efficient.

As with any outsourced government service, there is a perceived risk that the further away the government is from providing the service, the less control it has over

protecting the public interest. However, the provision of public goods and services is only as good as the standards and regulations that govern them. Where the Government will be breaking new ground when it comes to collaboration with the private sector, the mechanisms for regulatory control will need to be worked out before any asset is built or contract drafted. Again, however, the greatest value will be gained by regulatory controls that are output rather than input based.

## **Value for Money**

The value for money test is one of the most important – and complicated – exercises in structuring effective P3 agreements. However, there are three fundamental criteria that ensure the Government, and the taxpayers, receive value for their investment.

### **An Accurate Public Sector Comparator**

Without a comprehensive and accurate benchmark with which to compare alternative delivery models, the Government and the private sector will be hard pressed to prove that a P3 could deliver value for money. There has been a lot of literature written on developing effective Public Sector Comparators (PSCs), some of the most valuable from the UK. Although The Council will not go into detail here, some concepts deserve special note:

- 1) Responsibility for drafting the PSC should lie with a completely independent body (either inside or outside government) that has no vested interest in the outcome of the process.
- 2) Accurate comparisons among government departments can be difficult enough, let alone against a private sector solution. Consistent accounting principles and similar treatment of capital expenditures and debt will ensure you are achieving an “apples to apples” comparison.

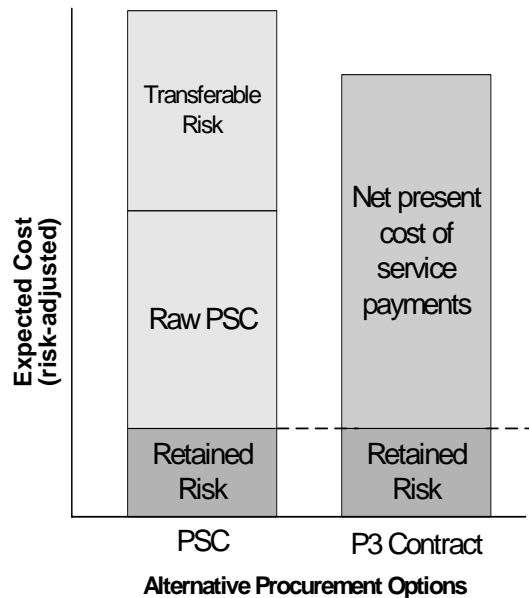
### **Appropriate Measurement and Allocation of Risk**

While government borrowing rates are often cited as the most compelling reason to use public financing, a thorough analysis of risk reveals that there is more to value for money than simply interest rates. The valuation of risk transfer is a difficult exercise; yet allocating a financial value to risk transfer is an important way to objectively measure value for money against a public sector comparator.

Proper risk analysis recognizes that conventional capital procurement exposes the government to a number of risks, including design and construction, operation, legislation, regulation, available volume, technology, residual value, finance and employment risks. The risk of construction cost overruns remains one of the most significant risks to be allocated and valued. In the U.K., a 2002 Auditor’s survey found only 22% of PPP projects had cost overruns (versus 73% of public projects), with most overruns relatively small and none due to the private sector charging more

for the work specified.<sup>1</sup> The Auditor's study also found 75% of Private Finance Initiative (PFI) projects were delivered on time or earlier (most of the late ones were delayed by two months or less, versus 30% of previously surveyed public projects).<sup>2</sup> This is also an important factor when evaluating the value for money of a P3. Another survey determined that PFI projects delivered a 17% risk adjusted savings as against the Public Sector Comparator.<sup>3</sup>

The total risk-adjusted value for money assessment of the PSC and a rival PPP bid should consider not only the raw private construction costs but also the value of risk that may be assumed by the private sector partner rather than by the government agent (see Figure below).



The best approach to P3 risk sharing is to allocate each risk to the party best able to deal with it. Optimum risk allocation generally begins with allocating most commercial risks to the private party, most regulatory risks to the public party, and the sharing of additional risks. The early PFI projects in the U.K. attempted to excessively transfer risk to private partners in a way which was either not acceptable to the private partner, or for which the risk premium demanded by the private partner was high, leading to an inefficient project model. More recently, the National Audit Office has provided significant guidance<sup>4</sup> on the appropriate allocation and pricing of project risk. In Australia, Partnerships Victoria has released a guide<sup>5</sup> that contains a comprehensive matrix for risk allocation and valuation, which is integral to the value-for-money criteria to be tested under the program.<sup>6</sup> The Council has also written several publications and made presentations that discuss risk allocation in various sectors.

<sup>1</sup> National Audit Office, "PFI: Construction Performance" (February 2003), p. 2.

<sup>2</sup> Ibid., p. 4.

<sup>3</sup> Private Finance Initiative Journal, Vol. 5, Issue 1, March/April 2000, p. 71.

<sup>4</sup> See [www.nao.gov.uk](http://www.nao.gov.uk)

<sup>5</sup> See [www.partnerships.vic.gov.au](http://www.partnerships.vic.gov.au)

<sup>6</sup> Department of Treasury and Finance, Victoria, Australia, "Partnerships Victoria: Practitioners' Guide", June 2001.

## Penalty & Incentive Mechanisms

Contracts that contain clear incentives for exemplary performance and penalties for under-performance can provide additional value for money assurances. While governments often concentrate on punitive measures for poor performance and contract breaches, there is significant benefit to rewarding outstanding service or improved efficiencies. Combined with the profit motive of the private sector, these provisions will help leverage additional value in the construction and operation of Ontario's infrastructure.

## Public Control & Ownership

The crux of the Government's Guiding Principle of "Appropriate Public Control/Ownership" lies in the definition of "appropriate". While the risk of full privatization (i.e. selling the control and ownership of an asset outright to the private sector) is considerable, at the other end of the spectrum, there is much less benefit in developing infrastructure using a simple design-build or operations and maintenance contract. Such schemes off-load few risks to the private sector, and therefore offer comparatively fewer long-term benefits.

The concession or design-build-finance-operate model has become one of the most popular P3 options around the world, especially involving assets with a direct revenue stream. Such schemes usually keep the ownership of the asset in government hands while offering the private partner access rights and some form of control during the term of the agreement. This allows the private partner the ability to meet its obligations as well as satisfy the needs of lenders, who require some asset control in return for favourable financial terms. Finally, should the private partner default, its rights are terminated and the control of the assets returns to the government.

In the case of long-term contracts, where the benefits and risks can be significant, there are several important mechanisms that can balance these two competing factors:

- 1) A reasonably established security, such as a bond or other formal security, will ensure a financial cushion should a contract default arise. Given the financial obligation on the part of the private partner with such requirements, it also ensures that only financially stable companies become preferred proponents.
- 2) Clear and realistic performance criteria ensure that the asset is well maintained and operated throughout the course of the agreement.
- 3) One or multiple renewal dates give both parties the option to walk away, but may also avoid a costly re-tendering process.
- 4) Contract language should anticipate changes in government, legislation, economic conditions and revenue streams.

## Accountability

Many of the factors that enhance accountability are the same as the ones that support the principles above. There is also a significant intangible benefit to be gained through a positive working relationship between the government agent and the private partner. Such a relationship cannot often be prescribed in a “command and control” contract, but rather comes from a mutual understanding of each partner’s needs, a joint tenacity to work through conflicts without resorting to formal dispute resolution, and a trust that each partner is acting with the best interests of the project in mind. In case studies on successful P3s, this factor continually comes up and both partners agree that it is something to be valued.

## Fairness, Transparency and Efficiency

The Council recommends the following considerations with regard to fairness and transparency:

The Abbotsford Hospital P3 in British Columbia provides an excellent example of transparency when it comes to the Business Case and Request for Proposal process. The project website contains almost every document associated with the project, from the Business Case developed in 2000/2001 to the entire Request for Proposal document released in 2003/2004, to updates on each project milestone. This openness, combined with a sound communications plan, keep the bidding process open to the public and helps ensure stakeholder support for the project. Best practices from the UK have shown that such measures are critical during all stages of the P3 process.

The second element of note related to fairness and transparency is the delicate balance of the public’s need for Freedom of Information and the private partner’s need to protect proprietary know-how. Many legal advisors tell P3 proponents that they should consider any part of the contract public information. While this certainly helps both partners avoid public criticism, it may also mean that the government does not receive truly innovative proposals. One way to alleviate the private sector’s reluctance to propose proprietary innovations is to reward it in the RFP process (e.g. assign it a separate value) and to provide incentives during the agreement phase (e.g. provide a greater proportion of the revenues if standards are exceeded or assets are delivered early).

In terms of efficiency, The Council recommends the following:

- 1) Establish a market grade proposal, through market analysis and a widespread RFEI process, before developing the RFP.
- 2) Recognize that a protracted and prescriptive RFP process will add undue burden to the proponents, and result in a more expensive solution. If due diligence is spent in drafting an effective RFP document up front, less time will be spent in the proposal stage and the government is more likely to get an appropriate market response. Traditionally, P3 competitions in Canada

have been expensive for both the public and private sectors. Structuring the RFP to get the optimal amount of information from the proponent will help reduce some of these costs.

## Infrastructure Financing & Procurement

### Long-Term Strategic Planning

The Council applauds the Government's acknowledgement that a long-term strategic approach to infrastructure investment is the most sensible methodology. Without a comprehensive plan, Ontario will continue to patch the holes in its current infrastructure until it finally needs to be replaced. Life cycle costing dictates that this approach to infrastructure management is shortsighted and extremely costly.

The inherent nature of public-private partnerships lends them to long term planning. A sound design-build-finance-operate agreement ensures that the asset is adequately maintained over a number of years and returned to the government in peak form. The nature of government budgeting means that capital maintenance is subject to annual budget fluctuations. A long-term P3 contract ensures that sufficient funding is available to maintain an asset in good condition over the life of the contract.

Municipalities and school boards typically expense the cost of an asset in the year of acquisition, rather than capitalizing the cost of the asset and depreciating it over its useful life. This accounting treatment discourages long range planning and encourages a piecemeal approach to infrastructure financing. Changes in these accounting practices as well as increasing the use of P3s will help government agencies institute long term infrastructure planning.

When a private partner is responsible for the design and construction of an asset as well as the operation and maintenance for 20 or more years, it must take into account the life cycle costs. As a result, construction and operational practices are employed which maximize the long-term value of the asset. Traditional government procurement often defeats such long-term forecasting in favour of cheaper construction costs.

Much of the success of the PFI program in the United Kingdom can be attributed to the government and public's fundamental belief in the value of delivering infrastructure through the private sector. As evidenced by the start of PFI under the Conservative government and the expansion of PFI under the Labour Government, the program has clearly transcended political doctrine. It is no longer viewed as an ideology, but rather as a prudent business practice to get infrastructure developed better, faster and cheaper. While the scale of P3 activity in Canada is relatively small compared to the UK, there are many lessons to be learned from three consecutive UK governments expanding the use of P3s.

## Efficient Infrastructure Development and Operation

In the Discussion Paper, the Government has solicited opinion on what it can do to assist public institutions to achieve efficient procurement. Again, the United Kingdom provides an excellent model. Although the UK's centralized government system lends itself to more universal procurement practices throughout the country, the local authorities have benefited greatly by the adoption of standardized contracts and comprehensive guidance materials for hospitals, schools and water/wastewater treatment plants.<sup>7</sup> Standardization means that individual governments do not have to “reinvent the wheel” when it comes to effective procurement and contract language. The challenge with standardized contracts is to retain a degree of flexibility that allows the government to reflect local market conditions, but well thought out templates will achieve this goal over time. The Council has also published several guidance documents as well as case studies that detail successful procurement practices at the provincial and municipal level.

Some other beneficial procurement practices initiated closer to home were in the City of Ottawa. The City utilized three highly successful tactics in getting some much needed infrastructure projects off the ground:

- 1) A Strategic Delivery Unit was formed with expertise in P3 procurement.
- 2) A third party fairness commissioner was appointed to ensure that the procurement process was fair and transparent
- 3) The Strategic Delivery Unit and municipal departments were given clear direction to fast track the procurement and planning approval process

These practices, combined with a firm commitment from both City Council and staff, resulted in the development of several new recreation projects with minimal impact on property taxes.

Along with giving procurement officers the authority they need to develop P3 projects efficiently, they also need to be given the necessary skills. Training in the field of PPP should be on going within the government in the early years of such activity.

## Optimizing Investment<sup>8</sup>

Many other countries have utilized infrastructure funds to attract private capital. These funds may provide debt, equity, subordinated debt or a combination of each. Some are dedicated to specific sectors. These funds have been especially attractive because expert investors familiar with the provision of public infrastructure manage them. They can bid on projects at a relatively low cost and with lower economic return. They may also consider smaller projects than the

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<sup>7</sup> For more information, see the UK's local government procurement agency (4ps) at: [www.4ps.co.uk](http://www.4ps.co.uk)

<sup>8</sup> See also “Private Finance for Public-Private Partnerships”, November 2000.

typical \$100 million plus projects normally attractive to investment banks. These infrastructure funds serve to accumulate pools of money from retail and institutional investors that would otherwise not invest in providing public services.

The adoption of user fees in conjunction with private finance can be a controversial course of action. What they do achieve, however, is a revenue stream that is essential to attracting private capital and a way to ensure that those who benefit most from the service pay for it. Aside from the critical importance of political support in imposing user fees, they are most appropriate when:

- There is a clearly defined user
- There is a demonstrable value applied to the user
- Fees can be linked directly to costs
- The fee is set at a cost recovery rate equal to the users' perception of the value added

Shadow tolls or fees paid by the government based on usage may be an appropriate strategy to transfer usage risk and mitigate the public's resistance to user fees. This model has been used for several road projects in the UK as well as the Fredericton-Moncton Highway.

## Leveraging Human Resources

The Council believes strongly that while the focus of the Government's infrastructure development plan is getting assets built better, faster and cheaper, the success of these projects will rely heavily on the people that operate them.

Public sector unions in Ontario have generally been vocal opponents to any schemes that may result in weakening collective bargaining (real or perceived). Public-private partnerships, in particular, often evoke significant fear among employees who are afraid their security and benefits will be eroded under a private operator. While this opposition is characteristic of almost any P3 initiative around the world, several proven strategies have been employed to mitigate conflict and even gain popular support among union leaders.

The Council's publication "Transitioning Staff from Public to Private Organizations in Public-Private Partnerships" (see enclosed) provides an overview of many of these strategies and is a valuable resource on how to successfully manage collective bargaining issues, but there are two topics (proactive communications and more flexible legislation) that warrant particular emphasis.

Case studies of employee transitions at the Vancouver Airport, Royal Ottawa Hospital, Goderich Water & Wastewater System and Bruce Nuclear Power Station all recognized the critical importance of open communications with union leadership and members throughout the process. One of the greatest concerns of such transitions is fear of the unknown, and both the government agent and private partner need to communicate what changes will come into effect and what opportunities lay ahead. Employees need to be told clearly and honestly what is happening and be given an effective forum to voice their concerns.

There are currently a number of legislative disincentives at the municipal level concerning employer-employee relations when services are transferred to the private sector. In particular, barriers can be found in the application of the successor employer provisions of the *Labour Relations Act* to employers who purchase businesses from municipalities that bind such employers to the collective agreements existing at the time of the sale. Some collective agreements also prohibit or severely limit the municipality's ability to contract out services to the private sector. In contrast, employers who purchase businesses from the provincial government are expressly exempt from such provisions.

Additionally, municipalities that employ fair wage policies may discourage potential private sector partners by requiring them to calculate and pay wages and benefits on a rigid and inflexible basis, and by preventing innovative forms of compensation such as incentive pay, bonuses and profit sharing.

## Selected Evidence from Successful P3s

There are numerous examples from Canada and abroad that have demonstrated significant benefits to municipal and provincial governments that used the P3 approach to infrastructure development. Some of these are illustrated below, and others can be found in The Council's detailed P3 case studies and project inventories.

### Hospitals

Over the past seven years, the United Kingdom's National Health Service (NHS) has experienced the biggest new hospital building program in its history under the Private Finance Initiative (PFI). In England alone, 64 major capital schemes worth over £11 billion have been given the go-ahead, 21 are already completed and operational, and a further seven have signed contracts and are under construction. All the completed hospitals have opened on or ahead of time, which never happened under traditional public sector infrastructure development.<sup>9</sup>

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<sup>9</sup> Rt. Hon. John Hutton, Minister of State for Health, Government of the United Kingdom, "Address to the 11<sup>th</sup> Annual Conference on Public-Private Partnerships" November 24, 2003.

While the UK Government recognizes that like any major new initiative, there have been some growing pains in the design and planning of PFI hospitals, it is hard to argue with the positive effect it has had on communities throughout the country. In 1997, half the buildings in the NHS were older than the NHS itself, which was created over 50 years ago. Today this figure stands at less than a quarter. By 2010, as new hospitals and primary care premises are opened, 40% of the capital stock will be less than 15 years old. The Minister also recognizes that PFI is not the only model being used to build new hospitals. He said: “We are not cutting back on public capital investment. Quite the opposite, PPPs are in fact helping to add value to this massive increase in public investment not detract from it.”<sup>10</sup>

Canada also has some noteworthy examples of hospital development using non-traditional financing, construction and operation.<sup>11</sup> The East Coast Forensic Hospital in Nova Scotia is financed under a 25-year lease/sublease. This co-located facility with the Central Nova Scotia Correctional Centre is the first of its kind in Canada. It was able to stay on budget and experiences annual cost savings in the order of \$250,000 due to operational efficiencies and shared services.

The University Health Network’s bond offering also broke new ground in hospital financing in Canada. It allowed the hospital redevelopment to be approved sooner (three months in total) and construction to be completed faster than through traditional grants-based funding, which would have meant an estimated 15 – 25 year project timeline.

The Royal Ottawa Health Care Group’s operating contract has proven to be a model for success. The contract stipulates a fixed annual fee, allowing for predictable multi-year budgeting and additional costs borne by the private operator. Total savings of over \$6 million have been achieved over the first five years and the project’s tripartite agreement between the hospital, private partner and union is a model of effective employee transition.

## Highways & Bridges

Three examples<sup>12</sup> of P3 road projects in Canada demonstrate the important role that tolls (user or shadow)<sup>13</sup> play in the development of new highway infrastructure. Highway 104 (Cobequid Pass) in Nova Scotia was the first to include non-recourse financing and achieved an important risk balance between the government, the contractor/operator and the lenders. Cost savings are estimated at \$10 million (8%) on the capital cost of the project, and the road has provided a safe and high quality alternative to the Trans Canada. It also proved the advantages of a special purpose vehicle (Western Alignment Corporation) to manage the interests of the partners.

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<sup>10</sup> Ibid.

<sup>11</sup> For more information, see The Canadian Council for Public-Private Partnerships publication “The Canadian Case for Hospital PPP Projects”, November 2003.

<sup>12</sup> For more information, see The Canadian Council for Public-Private Partnerships publication “Successful Transportation Public-Private Partnerships in Canada and the USA”, November 2002.

<sup>13</sup> See “Optimizing Investment” above.

The Fredericton-Moncton Highway was built under a 50-year design-build-finance-operate concession agreement. Initial capital cost savings were estimated at \$170 million and operating savings are \$13.7 million over 20 years. The road was built 10 to 15 years earlier than through traditional procurement, and although the tolls were removed in 2000, the government continues to make traffic volume payments (shadow tolls) to repay the toll-based debt.

The Confederation Bridge stands as one of this country's most prolific and successful P3 projects to date. Although its scale is considerably larger than any bridge required in Ontario, there are many lessons to be learned from the way it was built, financed and operated. The 35-year design-build-finance-operate (DBFO) contract includes a \$41.9 million (1992 dollars) fixed annual payment to the private partner, which represents estimated annual cost savings of \$9.2 million. The 13-km bridge was built in three and a half years and the 100-year service life means the government will save an amount equal to the level of the subsidy every year for 65 years, once it has been transferred back from Strait Crossing Development Inc. (SCDI). The construction, financing, revenue, operation and maintenance risk are all borne by SCDI, representing a significant value to the Government of Canada.

## **Water & Wastewater Treatment**

Of the G-7 countries, Canada has perhaps the least experience with water and wastewater P3s, but there are several large- and small-scale municipal water/wastewater treatment plants that provide excellent models.

The City of Moncton entered into a 20-year licensing agreement with USF Canada in 1998 under a two-part DBFO contract. The \$85 million contract is expected to save the municipality \$23 million versus a traditional design-build approach. Water quality must meet or exceed Canadian Drinking Water Guidelines, the rate is fixed for 20 years and the company must adhere to a detailed repair and replacement schedule.

In December 2000, USF Canada began an operations and maintenance contract for the Town of Goderich's water supply and distribution as well as wastewater collection and treatment. Performance guarantees ensure exemplary drinking water standards and the Town shares the savings resulting from improved efficiency. Cost savings of 8% have been achieved based on the \$1.4 million annual payment from the Town.

The Regional Municipality of Haldimand-Norfolk (now Counties of Haldimand and Norfolk) entered a five-year operations, maintenance and management contract with US Filter in 1998 (renewed in 2003) for their wastewater treatment facilities. The 34% (\$1 million per year) cost savings have been reinvested in water and wastewater infrastructure and performance has exceeded requirements. Existing staff was offered equivalent wages and benefits when transferred from the municipality.

## **Schools & Universities**

Just as in the healthcare sector, the United Kingdom has invested billions in its public schools under the Private Finance Initiative. As of June 2003, there were 50 signed

projects representing a capital value of £1.3 billion and covering nearly 600 schools. Twenty-three of those projects are operational and the government has allocated £1.6 billion for FY 2002/03 and 2003/04. Most contracts involve a 25-30 year agreement during which the private partner must ensure the assets are well maintained. They typically bundle the schools, representing a capital investment of between £50 million and £100 million supplied by the private sector, in return for a guaranteed payment over the length of the contract. Although the projects are being delivered on time and on budget, new approaches are being considered, including the standardization and centralization of regional projects to achieve greater cost efficiencies and faster approval.<sup>14</sup>

Canada has two major P3 initiatives in the school sector of note – one previous and one still in development. The Nova Scotia schools program has been one of the most hotly debated P3 initiatives in Canada. Much of the controversy centred on the Province’s treatment of the operating leases as “off-book”. However, this debate has both overshadowed the significant benefits that the P3 schools achieved as well as the importance of standardized and acceptable accounting treatment.<sup>15</sup> The build-lease-operate-transfer contracts succeeded in: delivering 39 schools in record time, introducing a new way of designing and planning school infrastructure, and providing outsourced maintenance services at greater value.

The Calgary Board of Education is in the midst of a tender process for the design, building and possible financing of 29 new schools and refurbishment of existing capital. The total project is estimated to be in the range of \$255 to \$300 million, and may prove to be a valuable model for school projects in Ontario.

## Conclusion

Public-private partnerships, both here in Canada and around the world, have proven to be a compelling means to leverage private capital and expertise in addressing critical public infrastructure needs. This paper has only scratched the surface of options available under the P3 model, and governments such as the United Kingdom have shown that P3s can be quite adaptable when it comes to addressing the five Guiding Principles articulated by the Government of Ontario.

As the market for P3s continues to mature domestically, expertise on both sides of the partnership equation will increase accordingly. This growing expertise will encourage more sophisticated contractual provisions and a more effective regulatory environment, making P3s the success they have proven to be in so many jurisdictions.

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<sup>14</sup> Public Private Finance, A Special Report on Education: “Focus: Incorporating the PFI Report”, June 2003.

<sup>15</sup> See “The Challenge” above.