Public-private partnerships an important option for improving Canada's transportation infrastructure

Press Release: The Fraser Institute – Thursday, May 30, 2013

VANCOUVER, BC--(May 30, 2013) - Canadian governments should increasingly consider public-private partnerships (P3s) as they confront the challenge of improving Canada's roads, bridges, railways, and other public transportation, argues a new report from the Fraser Institute, an independent, non-partisan Canadian think-tank.

"Canadian and international evidence shows that P3s tend to be built on time and on budget, and they typically outperform conventional infrastructure projects," said Charles Lammam, Fraser Institute associate director and co-author of **Using Public-Private Partnerships to Improve Transportation Infrastructure in Canada**.

"P3s also provide greater value for money and opportunities for innovation, allowing Canadians to benefit from higher quality infrastructure and often at a reduced cost to taxpayers."

Using Public-Private Partnerships to Improve Transportation Infrastructure in Canada explains why P3s outperform the conventional process (whereby governments direct every phase of the project separately, including designing, building, financing, operating, and maintaining the infrastructure), dispels myths and misunderstandings about P3s, emphasizes the conditions under which P3s are most successful, and measures the extent to which P3s are currently used in Canada.

In a P3 infrastructure project, a single private-sector partner is responsible for two or more of the following tasks: design, build, finance, operation, and/or maintenance. The project usually lasts several decades.

"P3s are not a form of privatization. The public sector sets the project goals and retains ownership, while the role of the private sector is to meet the government's quantity and quality requirements-things like highway safety or traffic flow," Lammam said.

The report notes that the benefits of P3s come from improved incentives for the private-sector partner to provide timely and high-quality results. A key feature of P3s is that the private-sector partner takes on some of the project's risks that would otherwise have been borne by taxpayers. For example, if the risks of construction delays are assigned to the private partner, then the private partner has a stronger incentive to finish the project on time; if not, it loses out on some profit.

"P3 projects that include private financing for up-front capital costs motivate positive performance since the private-sector partner has its own money at risk. With payment conditional on meeting the public sector's preset criteria and penalties levied otherwise, the private-sector partner has a strong incentive to deliver favourable results," Lammam said.

"Assigning multiple tasks to a single private-sector partner also encourages increased quality and efficiency throughout the project's life. After all, the private-sector partner has an interest in designing the infrastructure in the initial stage so that it is more cost effective to operate and maintain later on. These incentives do not exist in the conventional process."

The report concludes that to ensure successful outcomes, P3s should be used selectively and employed with proper care on the part of government.

"Rather than blindly encourage the adoption of P3s, governments should focus on establishing a framework in which P3 projects have the ability to succeed and create value for money," Lammam said.

"Critics who are fundamentally opposed to P3s often point to specific projects that are problematic and claim that specific cases discredit the P3 model. The reality is that the overall pattern of P3 projects shows them to be an effective alternative in the provision of infrastructure."

The report notes that from 1985 to January 2013, Canada had cumulatively planned, started, or completed 59.5 transportation P3 projects (three of which are shared with the United States) at a total cost of US$44.4 billion. Approximately 60 per cent of those projects occurred in British Columbia and Ontario.

"British Columbia and Ontario are leaders in terms of using the P3 model, but more widespread adoption could improve the design, quality, and overall management of Canada's vast transportation systems."

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