



THE CASE FOR PUBLIC- PRIVATE PARTNERSHIPS

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It's easy to take public infrastructure for granted but recent events like the Skagit River Bridge collapse on I-5 in Washington State are a sharp reminder of how important infrastructure is to our daily lives and the wider economy. After all, roads and bridges allow us to get to and from work and move commercial products over great distances.

As governments here in Canada wrestle with the challenge of providing high-quality transportation infrastructure, they should increasingly consider public-private partnerships (P3s).¹ The record shows P3s are

more likely to be built on time and on budget and they offer greater value for money than conventional infrastructure projects.

In the conventional way of providing infrastructure, the government manages and procures each phase of the project separately. The government typically hires a firm to build the infrastructure based on a prescriptive design and then assumes responsibility for operating and maintaining the infrastructure, perhaps outsourcing some aspects of care to private companies.

In P3s, the government partners with the private sector to share the risks and rewards of providing public infrastructure. The government agency involved in the project establishes the project goals and desired outcomes (without being prescriptive about the means) while a consortium of private companies takes on the task of achieving them. A single private partner assumes stewardship of the project and responsibility for multiple tasks. Table 1 summarizes the key differences between P3s and the conventional method.

Consider a hypothetical example wherein a provincial government wants to partner with the private sector to build a highway. The government would decide on strategic matters such as the route, traffic flow, and measurable safety outcomes. The private partner then designs, builds, and usually operates and maintains the highway according to the government's requirements. The private partner gets paid directly by the government or through tolls paid by drivers.

The provincial government still owns the highway and is ultimately responsible for ensuring adequate services. The point of a P3 is to harness the innovative capacity, ef-

iciency, and expertise of the private sector for achieving the public sector's ends.

That the private partner wants to make a profit is fundamental to the success of a P3 project. A P3 contract is structured so that the private partner's profit depends on whether it achieves government objectives like finishing the project on schedule and meeting technical requirements. While payment on delivery helps keep the private partner on track, other features of P3s also help drive improved performance, including risk-sharing.

Risk-sharing occurs when the private partner takes on some project risks that would otherwise be borne by taxpayers. Delays and cost overruns are common risks in constructing public infrastructure. In a conventional project, taxpayers pay these extra costs; in a P3, the private partner is on the hook. Being responsible for poor performance encourages the private partner to avoid delays and cost overruns.

The profit motive and other unique features of P3s are why evidence points to P3s having a strong record in the construction phase, with projects generally completed on time and on budget. In a recent analysis of 19 Canadian

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Table 1: Key differences between public-private partnerships and conventional procurement

Public-Private Partnerships (P3s)	Conventional procurement
Integration of multiple project phases	Each project phase procured separately
Contact sets desired outcomes	Contract dictates means of delivery
Payment conditional on delivery	Regular payments throughout construction
Up-front costs financed mostly by private sector	Up-front costs financed mostly by public sector
Private-sectore management	Public-sector management

Source: Adapted from Iacobacci (2010)

P3 projects from 2004 to 2009, an impressive 90 percent finished on time or ahead of schedule (Iacobacci, 2010).

Evidence from the United Kingdom and Australia shows that P3s substantially outperform conventional projects in the construction stage, both in terms of cost and completion time. A UK study of 11 P3s and 39 conventional projects found P3s typically finished 1 percent earlier than scheduled, while conventional projects finished 17 percent behind schedule. Cost overruns averaged virtually zero in P3s, compared to 47 percent in conventional projects (Mott MacDonald, 2002).²

Similarly, an Australian study of 21 P3s and 33 conventional projects found partnerships were delivered 3.4 percent ahead of schedule, while conventional projects were delivered 23.5 percent behind schedule (Duffield et al., 2007).

Most P3s in Canada involve the private partner in operating and/or maintaining the infrastructure after construction is completed. The long-term involvement of the private partner fosters operational efficiency and higher quality outcomes; and independent value-for-money assessments consistently show P3s have the potential to produce benefits over multiple decades. One key reason is that the private partner—again, motivated by profit—has a keen interest in innovatively designing the infrastructure so that it is more cost effective to operate and maintain over time.

Despite the clear benefits of P3s, opponents often attempt to discredit the P3 model by pointing to particular cases where a P3 project had problems. The overall pattern of P3s, however, shows they are superior in terms of predictable costs, delivery time, and operational efficiency.

Some projects are better suited for the P3 model than others. Those most likely to succeed as a P3 have certain characteristics like potential risk-sharing benefits and measurable performance outcomes. And to truly capture the benefits of the P3 model, governments must develop the proper framework and capacity to both engage in and continuously monitor P3 projects.

Thankfully, no one was seriously hurt when the Skagit River Bridge collapsed. But the incident should remind us of the importance of maintaining existing infrastructure and investing in new projects. As long as governments are in the business of infrastructure, P3s are important option that can help improve the quality and provision of our roads, bridges, and railways.

Notes

1 For a complete discussion of the points and evidence mentioned in this article, see Lammam et al. (2013).

2 For additional evidence on the performance advantage of P3s in the UK, see NAO (2003).

References

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