Understanding Public Private Partnerships

Addressing the Infrastructure Gap

Governments across Canada are struggling with inadequate or failing public infrastructure such as roads, bridges, highways and hospitals and a limited ability to address those inadequacies with current tax resources. It is projected that Canada's infrastructure deficit is as high as $125 billion.

Governments around the world are recognizing that while they are the best (often the only) bodies to set public policy and regulate performance, they are not often the most efficient when it comes to project management. Governments can spend money strategically, and with the assistance of private expertise, the results achieved provide greater efficiencies. This is the growing trend in Canada—partnering with the private sector through public private partnerships in the development and maintenance of public infrastructure.

Defining Public Private Partnerships

A public private partnership is a partnership arrangement in the form of a long-term performance-based contract between the public sector (any level of government) and the private sector (usually a team of private sector companies working together) to deliver public infrastructure for citizens. A public private partnership could be any kind of infrastructure or service such as a new hospital or bridge or highway, a new type of technology that delivers services in a faster and more efficient manner, or a new federal government building—anything that citizens typically expect their governments to provide.

Public Private Partnerships in B.C.

Public private partnerships are expected to help meet up to 25 per cent of B.C.'s capital infrastructure requirements, and without these partnerships, this amount of work simply could not be accomplished.

Under a public private partnership, taxpayers pay for the project, but only once the facility is built, and then pay is based on performance. Public private partnerships must demonstrate that public interest will be served and value for money can be achieved, otherwise the project does not proceed as a partnership. Public private partnerships must further provide some mix of the following benefits in order to deliver good value to government and to citizens:

- **Timely Delivery:** By taking advantage of private sector financing, government can build the infrastructure that B.C. needs, avoiding up-front capital costs and paying for infrastructure only when it is ready to be used.

- **Risk Transfer:** In conventional government construction projects, contractors regularly pass along cost increases from schedule delays and overruns on materials and labour. Government must also pay to repair problems with ongoing operations and maintenance. Under public private partnerships—especially those in which the private sector commits to operate a new facility for a fixed period—the contractor, not government, is liable for those cost risks. And if the contractors don't deliver, they don't get paid.

- **Innovation:** Private companies that are fully responsible for overruns have a greater incentive to innovate at every stage: through design, financing, construction methodology, and in operations and maintenance. That innovation accounts for a good part of the overall savings to government and results in better products and services.

- **International Investment:** These projects attract international financial investment into the B.C. economy, again freeing up domestic tax dollars for other priorities.

- **Job Creation:** Private sector investment creates jobs for British Columbians. Further, building infrastructure—such as roads and bridges—sets the stage for even more growth and opportunity.

In all projects, government retains ownership, control and responsibility. By setting standards through contracts and legislation, and by closely monitoring product service and delivery, government ensures that the public's needs are met—and that the public interest is served.

Serving the Public Interest

Prior to considering a partnership option, a detailed business case is prepared to consider life-cycle costs of the various procurement options. Life-cycle costs include not only the capital costs of building and constructing an asset, but also the ongoing operations and maintenance costs, the costs of major upgrades and rehabilitation over time, and the costs associated with decommissioning or disposing the asset at the end of its useful life. Undertaking a life-cycle cost analysis presents an accurate picture of project costs. The detailed business case enables up-front decision-making for a project.

Unlike privatization, government enters into a long-term business relationship with a private partner and oversees the public's interest for quality, safety and certainty.

Government can enforce service delivery standards through the performance-based provisions of the partnership contract.

In a partnership, the government role changes from that of directing and managing infrastructure to one of oversight and maintenance of quality service outcomes.