

Public Works Financing International Major Projects Report, October 2011

Why Canada Leads on P3s

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In Canada, P3s are an entrenched way of delivering infrastructure. The database of the Canadian Council for Public-Private Partnerships (C2P3), the lobby group for P3s, lists 150 projects,¹ with health care accounting for more than a third, transportation over a fifth, justice a tenth and rest scattered through recreation, education, energy, defense and government services.

The Canadian experience is driven by the provinces. Although the federal government did an early and famous project² in the 1990s, it has only recently adopted a centralized policy driver for P3s: an agency dedicated to the idea.

The evolution of P3s in Canada went through two stages: first, random, ad-hoc projects done by all levels of government, and then, starting in 2002, some provinces began to set up agencies such as Partnerships BC³ and Infrastructure Ontario⁴ with clear mandates and defined objectives.

These agencies, with the political support of their respective governments, have developed

systems and procedures for assessing, awarding and monitoring P3 projects, leading to a robust P3 market with lenders, equity providers, builders, lawyers, consultants and governments all developing specialized expertise. Now an estimated 10% to 20% of total infrastructure spending is done through P3s⁵, according to a 2010 Conference Board of Canada report.

The figure is higher in British Columbia and Ontario, the two leading jurisdictions, which together account for more than two-thirds of the 150 projects in the C2P3 database.

One reason is the leadership of the independent agencies set up to deliver P3s. Business executive Larry Blain, former CEO and now Chairman of Partnerships BC, was paid a starting salary in 2006 of \$519,488, with expenses of \$45,325. His bonus scheme was based, in part, on the number of P3s undertaken by the Crown corporation. PBC has completed 14 projects, has seven under construction and four in procurement.

Provincial governments decide which projects are a priority, the agencies advise which ones might be viable as P3s, and then the agencies run the procurements. The government departments for whom the agencies work administer the projects once they're built.

In the early days, there was some effort to keep P3s off the governments' balance sheets, but

¹ Canadian Council for Public Private Partnerships Project Tracker

<http://projects.pppcouncil.ca/ccppp/src/public/search-project?pageid=3d067bedfe2f4677470dd6ccf64d05ed>

² The eight-mile-long Confederation Bridge, opened in 1997, links Prince Edward Island to mainland Canada.

³ Partnerships BC
<http://www.partnershipsbc.ca/>

⁴ Infrastructure Ontario
<http://www.infrastructureontario.ca/>

⁵ Dispelling the Myths: A Pan-Canadian Assessment of Public-Private Partnerships for Infrastructure Investments
http://www.conferenceboard.ca/Libraries/NET_WORK_PUBLIC/CTI_DispellingTheMyths_Jan2010.sflb

that was not successful. That was linked with the idea that a P3 could attract new funds for infrastructure.

Now projects are reflected in the government's assets and liabilities, and P3s are seen as a method of procuring projects, rather than a funding source.

A few projects have generate revenue directly, such as the tolls paid to cross the Golden Ears Bridge in Vancouver⁶ or fares on transit projects, but most are paid for with annual provincial budget appropriations, in much the same way governments make annual allocations to pay the interest and principal on bonds.

Canadian P3 projects have gone through phases dictated by governments' decisions on infrastructure priorities. Building new hospitals and adding additions to old ones has been a major area in Ontario for some years, but the focus is shifting to urban transit and colleges and universities, as well as several major highway expansions.

British Columbia has built P3 hospitals, highways and bridges, Quebec hospitals and highways, and Alberta has used P3s for public schools and segments of highway ring roads around the two major cities, Calgary and Edmonton.

The provincial success with P3s may be due to historical factors governing the relationship between the provinces and federal government. While the federal government is a vital source of funds for all kinds of programs, Canada's constitution gave the provinces jurisdiction over highways, education, health care, most courts and some jails, the main areas of P3 activity.

Some municipalities were always interested in P3s, but there is a concerted push now, partly driven by the relatively new federal P3 agency, PPP Canada⁷, to increase municipal involvement.

Financial data on the benefits of P3 deals for the private partners is hard to come by, but the fact

that the same companies contend for project after project suggests they are profitable.

Procurement costs in P3s are higher for both governments and bidders. Citing a British study, the Conference Board said winning bidder's costs were 3.8% of the capital budget.

For governments, the Conference Board calculated that transaction costs averaged 3.5% of Ontario P3 project budgets, including advisory fees and project management costs for the life of the contract. A traditional procurement would have cost 1.8% of the budget, according to the Conference Board.

P3 procurements can take a long time from project announcement to signed contract, but with the experience of many projects, the provincial agencies have cut that time to under a year now on some projects.

¹ **Canadian Council for Public Private Partnerships Project Tracker**

<http://projects.pppcouncil.ca/ccppp/src/public/search-project?pageid=3d067bedfe2f4677470dd6ccf64d05ed>

¹ The eight-mile-long Confederation Bridge, opened in 1997, links Prince Edward Island to mainland Canada.

¹ Partnerships BC
<http://www.partnershipsbcc.ca/>

¹ Infrastructure Ontario
<http://www.infrastructureontario.ca/>

¹ Dispelling the Myths: A Pan-Canadian Assessment of Public-Private Partnerships for Infrastructure Investments
http://www.conferenceboard.ca/Libraries/NET_WORK_PUBLIC/CTI_DispellingTheMyths_Jan2010.sflb

¹ Golden Ears Bridge
<http://www.partnershipsbcc.ca/files/project-goldenears.html>

⁷ PPP Canada
<http://www.p3canada.ca/home.php>

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British Columbia Shows The Way On P3s

For the provincial government of British Columbia, public-private partnership procurement is the default option for capital projects worth over C\$50 million (US\$30.2 million). The province has reached this state after nearly a decade of P3 development, in which it has increasingly standardized agreements and fine-tuned systems of project development and oversight.

Starting with transportation infrastructure, B.C. has extended P3 procurement into healthcare and other sectors. Since adopting P3s early last decade the province has completed 14 projects in various sectors and has eight under construction. It is also procuring four new schemes, including the estimated C\$1.4 billion (US\$1.4 billion) Evergreen light rail line between Coquitlam and Vancouver via Port Moody and Burnaby. Other deals still in bidding include accommodation upgrading for homeless people in Vancouver, a smart metering scheme and a cardiac clinic.

B.C.'s entry into the world of private financing in 2003 was rocky. The province's attempt to procure a long-term concession for the existing Coquihalla tolled highway floundered in the face of public suspicion. The province had enacted enabling legislation and drafted output-based performance specifications. It had also attracted over 20 expressions of interest. But it had failed to win hearts and minds.

By enhancing its communications strategy and increasing transparency, the provincial government improved community acceptance for P3s, easing the path for the roughly C\$600 million (US\$600 million) Sea-to-Sky highway

between Horseshoe Bay and Whistler on Highway 99. Completed successfully in 2009 by

a consortium including Macquarie North America Ltd., the project was B.C.'s first major P3.

Originally planned for conventional procurement, the Sea-to-Sky project was converted to a performance-based P3 on grounds of value for money and completion date certainty. The contract was signed in June 2005 based on a modified version of the U.K. design, build, operate and maintain system, which served as a model for future B.C. projects.

Subsequent major transportation long-term DBFOs include the C\$130 million (US\$130 million) Kicking Horse Canyon highway improvement, in the Rocky Mountains, and the C\$144 million (US\$140 million) William R. Bennett floating bridge at Okanagan Lake, Kelowna, opened in May 2008. Another large transportation deal covers the C\$810 million (US\$800 million) Golden Ears cable stayed bridge over the Fraser River, completed in June 2009.

In B.C., individual provincial ministries are responsible for identifying and leading the development of capital projects. Unlike the U.S., Canada and B.C. operate parliamentary systems in which the elected politicians of the ruling party or coalition run government departments as ministers. The whole P3 procurement process is coordinated by a Project Board, including of several provincial ministers. A separate Treasury Board, also with ministers, exercises fiscal control, giving approvals at key steps.

Throughout the development, of B.C.'s projects, Partnerships British Columbia (PBC) plays a key role. Following the British model, B.C. early last decade established PBC as a provincial government-owned company reporting to the Minister of Finance. PBC is staffed by

procurement experts who are supported by external consultants. Among PBC's first consultants was CH2M HILL, recruited early on to advise on procurement of the Sea-to-Sky project. Other advisers at the time included Ernst & Young and the law firm Fraser Milner Casgrain..

PBC is charged with bringing together ministries, agencies and the private sector to develop PPP projects. It also helps manage the execution of project procurement on best value for money principles. For each proposed project, PBC initially undertakes a business case analysis. If the project has more than \$50 million in provincial contributions, it will first be considered as a public-private partnership unless there is a compelling reason to do otherwise.

Before invitations for prequalification bids or other initial solicitation documents are issued, a P3 project requires approval by the provincial government's Treasury Board. Such approvals endorse PBC's recommended project delivery methods and have the secondary effect of providing potential bidders with confidence that the projects are real.

The Treasury Board further reviews the projects at their request for proposals stage if their costs or scope have changed significantly. The Treasury Board must also approve selection of the preferred bidder by the procuring agency, PBC and the Project Board. It must also sanction the final contract signing.

Over the last decade, British Columbia's procurement processes and contract documentation have become increasingly standardized as the province's track record grew. At the same time, B.C.'s substantial P3 pipeline and favorable business environment has helped create a competitive market for private sector service providers. As well as nurturing a community of P3 specialist advisers, B.C. has become a prime hunting ground for international project developers, with bidders emanating from countries including Australia, France, Germany, Spain and the U.K.