CIRANO Note, prepared by Benoit Aubert, December 2007

Definition

Public-private partnerships (PPPs or P3s) are long-term contracts, between governments and private partners, that may cover the financing, design, construction, operation, and maintenance of infrastructure. Benchmarks for performance, as well as the allocation of responsibilities, investments, benefits, and risks, are fixed contractually.

Benefits

Expanding the role of the private sector can benefit the government in six major ways: refocussing its activities, curbing construction costs, accelerating the entry into service of the infrastructure, reducing operating costs, relieving the pressure on public funds, and alleviating the risks born by the government.

The core mission of government is to design and deliver public services to the community. This responsibility does not mean that the government must produce these goods and services itself, but only that it is the sole body with authority to perform arbitrage between conflicting social and economic goals. Therefore, a government participating in a PPP is in no way shirking its responsibilities, but rather refocussing on its core mission. For example, since the admission of the Island into Canada's Confederation in 1873, the federal government has had a constitutional obligation to maintain a continuous connection between Prince Edward Island and the mainland. Building and operating Confederation Bridge as a PPP will allow the government to fulfil this obligation without being burdened with the associated day-to-day operations. At the end of the 35-year concession, ownership of the bridge will be transferred to the federal government for one dollar (the design life of the bridge is 100 years).

PPP agreements allow for a tighter control of budgets and costs. A study by the Comptroller and Auditor General of the United Kingdom indicated that 73 per cent of construction projects developed in the traditional fashion experienced cost overruns, compared with only 22 per cent of those executed under a partnership.[1]

Partnerships usually allow the construction or refurbishing of infrastructure to be accelerated. Under these arrangements, compensation to the private partners is very often conditional on the infrastructure being in service. Also, there are frequently clauses that provide for a penalty in the event of time overruns. To illustrate, in the case of the highway linking Moncton and Fredericton, the ribbon-cutting and official opening to traffic occurred on October 23, 2001—five weeks prior to the planned date of November 30.

[1] House of Commons (UK) Public Accounts – Thirty-fifth report, 30 June 2003.

Frequently, the private sector possesses a level of expertise that may be lacking in the public sector. By resorting to PPPs, the government can tap into a pool of professionals whose specialization is the activity at hand. Delegated management of the maintenance of Alberta's road network yielded savings exceeding 25 per cent.[2]

Public coffers are burdened with heavy debt loads. It is increasingly difficult to free up funds for the rapid implementation of any infrastructure required on short notice. For example, the city of Saint John (New Brunswick) recently decided to proceed with a PPP for its new filtration plant. The quality of the water currently provided is unsatisfactory, and the municipality does not have the resources for the necessary investment before 2012. A PPP will allow the work to be hastened and ensure the provision of high quality service to the population more rapidly.

The concept of PPP relies on transferring risk from the government to the private sector. This allows the government to exercise greater cost control and guarantees the incentives of its private partners, whose profits are directly linked to their performance. The government avoids the risk of cost and time overruns with the project.

Hurdles

The design of private-public partnerships is a first hurdle to using them for financing. By definition, they imply long-term collaboration and require substantial investments from the private sector. PPPs are complicated agreements that must be hammered out in tough negotiations.

A second hurdle to PPPs is the political risk. To attract voters, a political party may be tempted to promise to renegotiate agreements signed by the incumbent government, especially as they relate to financing modes. Public administrations will need to learn to respect long-term commitments if they use PPPs.

A third hurdle to financing by PPPs springs from the public's perception. The idea of the private sector profiting from the provision of services for the common good may be poorly received, even if the total cost is less than under traditional arrangements. This damages the image of PPPs, often unjustly.

In Quebec, a delicate budgetary balancing act must coexist with the requirement for a massive renewal of public infrastructure. It is essential to opt for management modes for these works that ensure their durability while containing costs as much as possible. In light of this, it is vital to consider the benefits offered by PPPs.

[2] Source: Canadian Council for Public-Private Partnerships. *Successful Transportation Public-Private Partnerships in Canada and the USA*. November, 2002.