

QPBRIEFING

Conference Board report pushes P3s

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by Jonathan Jenkins

Public-private partnerships can deliver badly needed infrastructure on time and on budget and Ontario is leading the way, a Conference Board of Canada report says.

“In terms of volume, Ontario is definitely in the forefront,” Vijay Gill, the report’s author said in an interview.

P3s as they are commonly known, have been used in Ontario longer and more frequently than elsewhere in Canada, although Quebec, Alberta and British Columbia are also making use of the technique.

Infrastructure Ontario prefers the term “alternative financing and procurement” and says on its website an AFP “brings together private and public sector expertise in a unique structure that transfers the risk of project cost increases and scheduling delays typically associated with traditional project delivery.”

Governments have always contracted out much of their construction work to private firms but the difference with P3s is the private sector brings in financing of its own, and often design work as well. Gill says this puts the risk for delays and cost overruns more on the private firm’s balance sheet and helps keep them from ballooning.

“Typically, if it takes three years to build something, they won’t get any money from the government until the thing’s completely built,” he said.

“With a traditional project, they’d likely get milestone payments monthly regardless of what’s going on.

“If you go over a month in terms of the project length, you have to pay the interest costs on all of the project, rather than if you get a month delay on a milestone payment and you’ve already been paid 90 per cent, that’s not a big deal.”

The result is P3s are completed on schedule and less likely to go over budget, Gill said. Of 42 projects he studied, 35 were on time or early 40 were finished within six months of their expected finish date.

Gill has worked for the better part of a year on the research, with funding coming from the government of Alberta, Infrastructure Ontario, Infrastructure Québec, Partnerships British Columbia, PPP Canada, and The Canadian Council for Public-Private.

Ontario has been using P3s since 2006, when the government decided to use them for infrastructure redevelopment, Infrastructure Ontario's Paulette Den Elzen said.

"IO was created at that time to deliver on the model," she said, although she added projects must first get assessed on a value for money basis.

If the assessment shows a project won't be cheaper with a P3 or AFP, it won't be used. she said, and many projects in ministries such as transportation, health and attorney general are still delivered traditionally.

A major AFP project now underway is the Eglinton Crosstown Light Rail line, in which the request for qualifications just recently closed.

Van Elzen said IO plans to announce a shortlist of bidders for a contract to design and construct the track, stations and grade and elevated guideways for the line in the fall.

That process though has not been without critics – the Construction and Design Alliance of Ontario has said the estimated \$4-billion contract is so big most of the industry players can't handle it, reducing competition and driving costs up.

Another frequent knock against P3s is a loss of control over a public asset to a private firm, something Gill said a previous Conference Board study found not to be the case.

P3s are also gaining acceptance with municipal governments, where despite the fact total infrastructure spending rivals that of the provinces, the typically smaller project size makes them less attractive.

"There's a floor and once you go under that floor, it's off the table," he said.

Another reason private sector partners have shied away is the tendency for municipal projects to get easily derailed with changes of administration, a phenomenon Toronto transit users are very familiar with.

The report recommends a public education push to get the benefits of P3s out in the public and suggested municipal wastewater projects would be good candidates.