

Testimony of
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On
The International Experience with Public-Private Partnerships
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Good morning.

I would like to comment today on Canada's experience with the delivery of performance-based infrastructure and, within that, our particular experience in the Province of British Columbia.

In 2002, the Premier of British Columbia announced the creation of an agency (Partnerships BC) to deliver a partnership program, and its first PPP project, the Abbotsford hospital and cancer centre. A private partner would design, build, finance the project and maintain the facility for 30 years. The public health authority would retain ownership of the building and would provide the clinical care and be accountable for programming decisions. The government's decision was based on international experience demonstrating that the private sector could bring efficiencies and innovation to a major capital project, and would take commercial risks that could be better managed by business rather than the government.

At the time, experience with the performance-based approach to the procurement of infrastructure was in the United Kingdom and Australia. So to undertake the project, Partnerships BC examined documents and best practices from the UK; hired Partnerships UK as an advisor; and used design and legal advisors from Australia. Bidders came from outside Canada and combined with local Canadian-based construction companies. The financiers and the capital came from outside Canada from more mature markets.

The hospital project was completed on time and on budget, and led to a value-for-money proposition when compared to traditional procurement. The users of the hospital - clinicians, patients, visitors - rave about the progressive design and user-friendly atmosphere.

Since 2002, the Canadian performance-based partnership market has evolved to becoming one of the most advanced and attractive in the world. To date, there have been more than 200 projects that are operational, under construction and in procurement. Of the 10 Canadian provinces, six have agencies focused on partnership procurement. Local governments across the country are using performance-based procurement for major projects. The Federal government formed PPP Canada as a crown corporation to partially fund partnership projects proposed by provincial, territorial and local governments, and to advise on the procurement of major Federal capital projects.

Based on a review of partnership projects in operation or under construction from 2003-2012, a recent report from the Canadian Council for Public-Private Partnerships highlights the following cumulative economic impacts:

- 517,430 total full-time equivalent (FTE) jobs, including 290,680 direct FTE jobs
- \$32.2 billion in total income/wages and benefits, including \$19 billion in direct income/wages and benefits
- \$48.2 billion in total gross domestic product (GDP), including \$25.1 billion in direct GDP
- \$92.1 billion in total economic output, including \$51.2 billion in direct economic output
- \$9.9 billion in cost savings
- \$7.5 billion in tax revenue to government.

As governments moved into performance-based procurement, the private sector responded. International developers set up Canadian operations. Canadian developers expanded their capacity to do partnership business. Canadian construction companies became members of bidding consortia rather than contracting directly with government. Business and legal advisors developed performance-based expertise. The Canadian banks developed a capital market for loans and bond issues. Canadian pension funds and life insurance companies, seeking long-term high quality investments, added infrastructure to investment allocations.

Looking back over this period of development, the core benefits of performance-based infrastructure procurement that have emerged for elected leaders and public sector project owners are:

1. Planning discipline and preparation. Performance-based infrastructure projects require comprehensive and long-term definition, costing and risk assessment. Many pitfalls are avoided before a shovel hits the ground.
2. Certainty. Projects are on or under budget, and on or ahead of schedule, and key risks are assumed by the private partners. This is a key benefit of performance-based, financially-motivated contracting.

3. Life-cycle asset management. In a performance-based approach the private partners have to maintain and rehabilitate the asset over 15-30 years, and they have to leave the asset in the required condition or face financial penalties.
4. Efficiencies and innovation. Competition and the profit motive can lead to startling results, where the winning proposal provides solutions that the public owner never contemplated. This happens over and over again.

It is also important to emphasize what partnerships are not, at least in Canada. A partnership does not need to be associated with a new source of revenue. We have performance-based roads that are not toll roads. We have non-performance-based roads that are tolled. And we have partnership projects for bridges that are tolled but the public owner takes the toll risk. And to be absolutely clear: a performance-based infrastructure project is not a free project. The obligation of the owner to make performance payments over the life of the contract becomes a debt obligation or a contingent liability of the owner. The project is accounted for on the government's books. Finally, performance-based infrastructure works best, and generates the most benefits, as new, greenfield projects, and should not be confused with the privatization of existing assets.

I would like to conclude with a summary of what government can do to create a successful and attractive performance-based infrastructure market. And a market that is successful and attractive is one that can be characterized as having an informed and disciplined owner; fair and transparent procurement processes, and an ample supply of aggressive and competitive bidders. The conclusions here are based upon the Canadian experience, and I don't necessarily prescribe them in your context here.

First, a policy framework driven by political commitment is critical. In Canada, at the Federal level and in many provinces, including British Columbia, the cornerstone of policy is the requirement that for projects over a certain amount (\$50 million in B.C.) a performance-based approach has to be considered in the planning process. This provides a great deal of discipline across government. An interesting capital planning policy development within the United States is taking place within Westcoast Infrastructure Exchange, which includes Oregon, California, and Washington (and also British Columbia). Within the Exchange, each jurisdiction is examining its capital planning policy, and Oregon, for example, has recently passed a law which now requires performance-based review by the Department of Treasury for projects above \$50 million.

Second, the six provinces in Canada that are undertaking partnership projects, and the Federal government, have created institutions that are focused on the planning and delivery of performance-based infrastructure projects. These organizations vary across the country but what they have in common is that they provide services across government in all sectors and

they provide a memory of guidance documentation. Each agency provides a single interface with the private sector, and provides a consistent approach for that government across all sectors. They also talk with each other, which serves to provide a degree of consistency and standardization across the country, although, I repeat, they do differ. The Westcoast Exchange is contemplating an exciting approach to achieving the same end. It is proposing a certification process whereby projects in procurement can be certified by the Exchange as following best practices, which will provide great comfort to bidders and thereby heighten the appeal of that market.

Third, the greater the flow of partnership projects in a market the greater the appeal of that market to bidders, as they can amortize the cost of entering and sustaining a presence in the market across a greater number of projects. Bidders typically do not limit themselves to a single sector and, therefore, a market that has a multi-sector approach will be more appealing. British Columbia has a population of approximately 4 million, and since 2002 there have been more than 40 performance-based projects amounting to more than \$17 billion in total capital cost. Starting essentially with projects in the health care and transportation sectors, the range of projects has expanded to include: rapid transit, sports centre, an electric generating powerhouse, water and wastewater treatment plants, waste-to-energy plants, social housing, correctional facilities, a university campus, worker's accommodation facilities, an airport, and a high security government building. This approach gives B.C. much more attention in the market than would be warranted if the focus remained limited to just one or two sectors.

Finally, technique in the design of performance-based infrastructure procurement can have a powerful effect in generating value-for-money. For example, it is critical to the effectiveness of a performance-based contract that equity investors and lenders provide capital such they are fully exposed to the risks they take, and that government as owner is not exposed to these risks. It is equally important that the amount of private financing be "optimized" such that investors do not receive a return on capital that is not at risk. Accordingly, B.C. projects are characterized by combinations of private capital and public grant contributions, the latter typically financed by government borrowing.

Another example is in the evaluation process, where bidders are given "price adjustments" if they come up with an innovation that reduces costs unrelated to specific project, say by lowering clinical costs through an innovation in hospital design. Improved technique in project design is a by-product of having an agency with experience and expertise.

This completes my testimony and I appreciate the opportunity to appear before the Committee.

