

Thursday, June 22, 2006

## **CANADA MUST CREATE THE WINNING CONDITIONS FOR PUBLIC-PRIVATE PARTNERSHIPS, SAY TD ECONOMISTS**

**TORONTO** – Canadian governments have been joining countries around the world looking to public-private partnerships (P3s) as a partial solution to financing and managing public infrastructure. In a comprehensive report released today, TD economists are calling on Canadian policymakers to create the winning conditions for the P3 market to flourish. Entitled *Creating the Winning Conditions for Public Private Partnerships (P3s) in Canada* and available online at [www.td.com/economics](http://www.td.com/economics), the study represents the latest in a series of TD Economics' reports that addresses key challenges faced by the country in raising its standard of living.

### **Conventional approach falling short**

While the government takes on the bulk of the activities related to financing, designing, building, maintaining and operating public infrastructure, P3s involve the sharing of these responsibilities across the public and private sectors. These sophisticated arrangements have been used extensively in jurisdictions such as the United Kingdom, Australia and New Zealand. In contrast, Canadian governments have been slow to embrace P3s over the past decade, although that may be starting to change.

“Governments have been turning to new approaches such as P3s in recognition of the fact that the status-quo is not doing the job,” says Derek Burleton, Associate Vice President and Senior Economist of TD Bank Financial Group. Burleton notes that despite the huge improvement in budget positions in most parts of the country, growth in overall public capital spending has fallen short of growth in the economy over the past three years, partly reflecting the competition for tax dollars from health, education and other areas of public service. As such, not much of a dent has been put in Canada's sizeable infrastructure gap, believed by many to be \$50-\$125 billion. “There is a growing consensus that the choice in strengthening infrastructure is not between the traditional

approach and P3s, but between using a P3-style model and deferring urgently needed projects indefinitely.”

### **Bringing the private sector on board**

Still, P3s have proven to be more than just an infrastructure funding alternative for cash-strapped governments. This approach opens up opportunities for the public sector to harness the innovative spirit and talent of the private sector, and in doing so, deliver infrastructure more cost effectively at equal, or even enhanced, levels of service. “A U.K. study showed that about one quarter of P3 projects were delivered late compared to almost three quarters in the public sector. Moreover, cost over-runs were recorded by only one in five P3 projects compared to three out of four in the public sector.”

### **P3s having trouble getting off the ground**

In spite of their potential to generate value for money, P3s have had difficulty gaining traction in Canada. Probably the largest roadblock to more widespread use of public-private partnerships is the country’s relative inexperience in using these arrangements and the resulting lack of public understanding. As an example, Burleton points to one common misperception. “P3s are believed to be little different than privatization, when in actuality, the government retains ownership of the asset and continues to establish the ground rules.” As a result, P3s have been trapped in a classic Catch-22 situation. “Faced with public skepticism, governments have tended to shy away from using P3s, leaving little opportunity to showcase their benefits,” says Burleton.

### **It’s all about the P3 model adopted**

At the same time, the potential for P3s to provide value for money is heavily dependant on the strength of the public procurement model adopted. International experience has shown that there are four essential building blocks for a successful P3 program within government – a standardized assessment and selection process, a high level of expertise in the public and private sectors, an open and transparent environment and a strong commitment from political leaders.

But, while jurisdictions such as the U.K. and Australia are regarded as world leaders on touching all of these bases, less commonly known is the fact that some promising models are being developed right on Canadian soil. “British Columbia, in particular, has been receiving international accolades for its early accomplishments in the area of P3 development,” says Burleton. Ontario, Quebec and Alberta have also been making progress in moving their P3 programs forward.

Still, with provincial P3 models likely to be shaped along somewhat differing lines and at different speeds, Canada’s P3 market is at risk of becoming increasingly fragmented. To the extent that provincial practices and procedures are consistent across the country, the winning conditions for the P3 market would be further cemented. “In addition to the need for provinces to working together to harmonize their approaches, there is a real opportunity for the federal government to become a champion in the area of P3s.”

-30-

For more information, please contact:

Derek Burleton  
Associate Vice President and Senior Economist  
TD Economics  
416-982-2514

This report, “Creating the Winning Conditions for Public-Private Partnerships in Canada” (including charts) is available in PDF format on TD Economics’ Home Page at: <http://www.td.com/economics>.