Learning Your Three P’s

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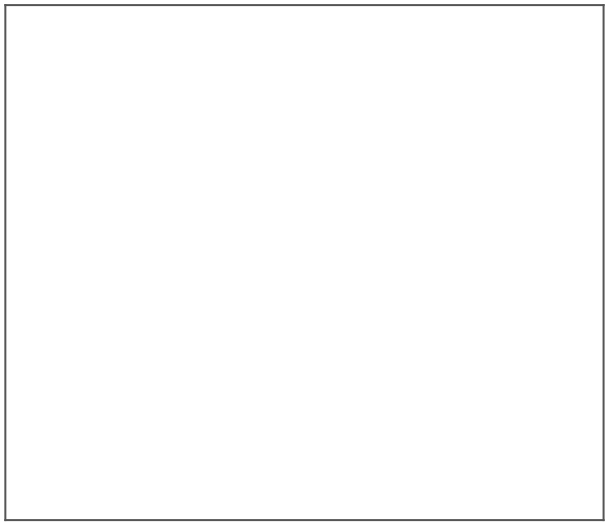
Everyone has heard of 'the three R's': reading, writing and 'rithmetic (obviously spelling wasn't one of them). More recently, it has also become 'reduce, reuse and recycle'. But what do you know about the three P's? Or, perhaps more accurately, what do you know about P3: public private partnerships?



Over the last decade or two, public private partnerships (or 'P3' in consultant-talk) have seen increasing and widespread use in the delivery or municipal infrastructure requirements ranging from recreational facilities to hospitals to bridges to toll highways. According to Industry Canada's P3 Public Sector Readiness Assessment Guide, 'There is mounting worldwide evidence that public-private partnerships, prudently administered, can result in a win-win scenario for both the private and public sectors.'

What does that have to do with my municipality, you might ask? Well, with mounting infrastructure deficits, not only throughout Manitoba but across Canada and throughout the industrialized world, municipal and regional governments are looking more and more to alternative mechanisms for the financing and delivery of infrastructure and services. At the same time, changes in municipal legislation in Canada have provided municipalities with increased powers to contact and enter into new relationships with other municipalities and private entities. This has facilitated the exploration of these alternative delivery mechanisms. Private

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public partnerships is one way in which this is being done.

What are P3 arrangements? They are essentially legal agreements under which a government entity and a private sector entity share risk, reward and responsibility in providing a public infrastructure or community facility and related services investment. The extent to which there is actual private sector involvement can be as varied as there are available types of projects to be considered. A few of the possible combinations and permutations (some of which you may already be familiar with):

1. Operations and Maintenance: The municipality contracts for a private partner to operate and maintain the public facility (e.g. sewer and wastewater treatment plants, solid waste removal, road maintenance, recreation facilities).
2. Design - Build: The municipality contracts with the private partner to design and build the facility that meets the municipality's requirements (many infrastructure projects).
3. Lease or Lease-Purchase: The municipality contracts for the design, finance and construction of a public facility or service which is then leased to the municipality for a specified period of time and which may involve ultimate ownership by the municipality (for example buildings, computer equipments, vehicles).
4. Design-Build-Operate: The private sector designs, builds and finances the new asset under a long-term agreement and then operates the asset or facility during the term of the agreement. In some cases the ownership is transferred to the municipality after a particular period of time.
5. Build-Transfer-Operate: The private sector partner is responsible for the design, construction and operation of the facility, however its ownership remains with the municipality.

What are the advantages? Potential cost savings is certainly one of the main objectives of a P3 relationship. The idea is that the private sector can, in certain circumstances, provide the infrastructure or services at a lower overall cost to the municipality. Another benefit is that risks can be shared and apportioned with a private sector partner. In many circumstances, municipalities see opportunities for enhancing revenue and generating economic benefits for the municipality. Others see an opportunity to improve levels of service or provide for services that a municipality may not be able to easily fund through its capital budget.

As with any contractual arrangement, there is always a potential downside. Depending on the sharing of risks and responsibility, there can be a loss of direct control by the municipality. Approaching a P3 relationship without appropriate public consultation and involvement can also result in political risks. Without clear arrangements setting out responsibilities and

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service delivery standards, there is the risk that the performance by the private sector partner will be unreliable or unsatisfactory. A P3 arrangement may also require the consideration of pre-existing collective labour agreement requirements.

When should P3 be considered?

- When the municipality does not have the financial resources or expertise to go it alone.
- Where service levels or quality would be increased.
- When the services or project could be delivered sooner than if only the municipality were involved.
- Where there is likely to be competition among a pool of potential private partners seeking the contract.
- Where some costs can be recovered through user or service fees.
- Where there are economic development opportunities.

The existence of these alternative models for delivery of public services and development of public infrastructure require municipalities to rethink some of the things that they have just taken for granted. Is there a reason that the municipality needs to own and operate its sewer and water systems (or recreation centre - plug in the municipal service or facility of your choice)? Would this be better accomplished through a regional agency? Are there potential private sector partners who would be interested in sharing the risks and rewards? Would this be in the best interest of the resident electors over the long-term? Does it fall within the limits of what our municipality is authorized to do under The Municipal Act? If there are incentives and tax relief involved, is there the power to make these commitments?

Public private partnerships are not a cure-all. However, these days infrastructure renewal and service demands regularly out-strip the capacity (both financial and political) of municipalities. There is a need to consider different ways to provide residents with the services that are essential to building strong, healthy communities. P3 is just one more tool in the municipality's infrastructure and services toolbox.

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