

The Canadian Council for Public-Private Partnerships



Le Conseil Canadien pour les Partenariats Public-Privé

2018 Federal Pre-Budget Submission

The Federal government is in the midst of rolling out its unprecedented 12-year, \$186 billion infrastructure program across the country, which presents a unique opportunity to provide strategic advice on how to maximize the return on federal investments as the funds start to be allocated.

The Canadian Council for Public-Private Partnerships (CCPPP) fully supports this long-term infrastructure plan and the creative companion initiatives of the Canada Infrastructure Bank and the Smart Cities Challenge. As evidenced by their impressive 25 year track record, public-private partnerships (P3s) can make an important contribution to ensuring these initiatives are successful.

The ready availability of Canadian private capital to invest in public infrastructure is at the heart of the P3 success story - there are now 261 P3 projects across the country either operational, under construction, or in procurement. The value of those projects that have reached financial close now exceeds \$122 billion.

Independent research has also demonstrated the economic impact of P3 projects as well as the cost savings to government. On average, every year, P3s create \$14 billion in economic activity, support 115,000 job years, and generates \$5 billion in additional wages and \$4 billion in federal and provincial tax revenues. To date, P3s have saved governments as much as \$27 billion across the portfolio of projects. When incorporating the fact that P3s are completed on average one year quicker than traditionally procured infrastructure, there is an additional \$10 billion in value added to the economy.

P3s and the benefits they bring to government, continue to garner strong support among Canadians. Nanos Research has been polling quarterly on the issue and P3s consistently have enjoyed 2/3 support of Canadians. When digging deeper into the numbers it is clear that Canadians are skeptical regarding governments' ability to build infrastructure on-time or on budget, but on the other hand, are generally opposed to privatization of public assets. P3s strike the balance of optimizing the strengths and expertise of government and the private sector by structuring appropriate risk sharing and incentives to ensure high quality infrastructure is built on-time and on budget and with a lifecycle approach to maintenance which in combination drives maximum value for taxpayers. .

CCPPP believes that the Council and our members can be instrumental in assisting the government as it implements its ambitious program. There are a handful of concrete initiatives and policy recommendations that we believe can help jurisdictions across Canada maximize the return on their infrastructure investments.

The following are CCCPP's recommendations for the 2018 Federal Budget:

Support a More Ambitious Education and Capacity Building Program for Public-Private Partnerships

CCPPP dedicates a significant amount of its time and resources focused on regional events, meetings, and research to expand the knowledge base of federal, provincial, territorial, municipal, indigenous, and international public officials on the value and appropriateness of P3s and smart, innovative procurement options.

With a move to more local choice over projects to be implemented and procurement methods, these efforts will need to be increased to ensure the return on federal investments are maximized, leading to more public infrastructure being built across the country.

A larger and targeted portfolio of research will enable stronger evidence-based infrastructure policy and a greater number of regional events will strengthen the awareness, understanding and adoption of smarter, more innovative procurement methods. These programs could be readily mounted at a **cost of \$250,000-\$500,000 per year**, depending on scale of ambition.

Support Legal, Technical, and Financial Advisory Services for jurisdictions pursuing P3s

Perhaps the largest barrier to jurisdictions pursuing a P3 procurement approach is obtaining the legal, technical, and advisory services needed to execute a successful P3. Whether it is performing a value for money assessment, structuring the technical requirements in the tender documents, or having a strong legal contract to govern the asset, communities often need outside assistance. The upfront due diligence in a P3 can be a barrier to their adoption. Even though the long-term savings of a P3 more than make up for these costs, they can be large enough to deter a jurisdiction from absorbing all of those expenditures. This situation can be further amplified when it is a small and/or new jurisdiction to P3s.

CCPPP proposes the Federal Government assist communities in accessing needed expertise to determine whether a P3 will provide best value for money and also with project procurement. There are a few ways in which this can be achieved:

- 1) The federal government could create a P3 Project Preparation Facility (PPF) that provides the financial, technical, and legal advisory services to municipalities, indigenous communities, and provinces/territories that are looking at pursuing public-private partnerships. The PPF could be housed in a Crown agency or within Infrastructure Canada and would have the necessary in-house expertise to help communities through the process.

- 2) The federal government could create a Project Preparation Fund that would allow communities to access resources to hire financial, legal, and technical expertise from the private sector or other jurisdictions with these in-house services.
- 3) The federal government could allow soft costs to be included as eligible costs in its infrastructure programs. Currently, the costs to evaluate the viability of a P3 are absorbed by the community.

Multilateral Development Banks around the world are already in the PPF line of work. Generally, there are three main objectives of project preparation facilities:

A. Awareness Building: A PPF targeting awareness building aims at improving knowledge and understanding of P3 best practices and lessons learned. This portion of a PPF is delivered through a number of channels such as conferences, workshops, training and seminars. The Canadian Council for Public-Private Partnerships already delivers a number of these events annually that could be leveraged by a PPF.

B. Creating an Enabling Environment: A PPF can also support designing and implementing P3 policy, strategies, legislative/regulatory reforms, institutional or sectoral reforms for jurisdictions. The scope of the work in this area depends on the current regulatory and institutional frameworks in place in a jurisdiction.

C. Transaction Advisory Services: Finally, a PPF can support specific transactions. This can be, for example, conducting feasibility studies, developing tender documents, template project agreements, project structure, choosing financing model, designing viability gap funding, etc. This is really where the largest gap exists currently for governments in Canada and should be a focal point for a PPF.

Create a long-term, sustainable, and flexible infrastructure fund for First Nations

There are a number of barriers to building long-lasting, high quality infrastructure in First Nation communities. But there are a few concrete actions the federal government could take that would lead to at the very least, incrementally better results.

- 1) Creating a long-term infrastructure plan that would allow funds to flow over multiple fiscal years would eliminate the unnecessary March 31st deadline that can delay a number of projects on-reserve given the cash managed nature in which INAC currently funds infrastructure. Between shortened building seasons, dependence on winter roads in some cases, and higher costs, the March 31st deadline can pose a number of problems.
- 2) Creating a long-term plan would also make it easier for innovative financing and procurement approaches to be utilized as funding agreements could be spread over multi-years.
- 3) A long-term plan would allow for a project pipeline to be built, which would attract more private sector interest and allow for the proper planning of projects, which can raise the quality and drive down their costs.

Marry Canada's Innovation and Infrastructure Agendas

Canada lags behind a number of OECD countries in its high speed connectivity. Gigabyte communities have been proven to increase economic growth and productivity. Equally important, communities with 5G or greater capacity are a basic necessity for drawing next generation talent to Canada. Given that P3s entail large construction projects, they present a unique opportunity to install the necessary broadband infrastructure at the same time, which will support business, government and city-wide growth.

This not only aligns with the government's Smart Cities initiative, but it also presents significant cost savings to lay fibre during construction rather than having to go back and tear up an asset to install fibre. CCPPP refers to this as a "Dig Once" policy.

Aside from ensuring broadband capacity, marrying the two agendas also allows for government to be more ambitious with the infrastructure that it builds. There is an opportunity to build smarter, greener infrastructure that puts Canada at the forefront of innovation, whether that is fully digital hospitals or highways and roads equipped with technology to maximize traffic flows and autonomous vehicles as examples. Public-Private Partnerships are at the core of these endeavours and can help the federal government reach its full potential on an innovation agenda.

Conclusion

The federal government is on the right track with regard to its long-term infrastructure plan. CCPPP does see a few areas for opportunity to enhance and maximize the record investments being made.

Harnessing the benefits of P3s will ensure that Canada builds the world class infrastructure needed to establish itself as a global leader for generations to come. CCPPP welcomes discussion and would be pleased to provide further details on the proposals outlined above.