Public-Private Partnerships:
Learning from the Past, Building for the Future
David Caplan

When I was appointed as Ontario’s Minister of Public Infrastructure Renewal in October of 2003, I faced a portfolio characterized by poor planning, under-development, and infrastructure needs with a predicted cost of $100 billion—minimum—to repair and maintain. My first thought was, how could our province, which had a total infrastructure investment budget of only $2.1 billion in 2000, $1.9 billion in 2001, and $2.5 billion in 2002, possibly tackle such a financially daunting task?¹ Our government’s challenge was to promote modern and efficient public infrastructure projects in Ontario that delivered quality public services, stimulated economic growth, created jobs, and improved the quality of life in our province—and we had to do so despite enormous financial barriers. A review of the tools at our disposal made it evident that to succeed we had to find new options. This led us by necessity to explore “alternative financing procurement,” (AFP) or what has become better known today as public-private partnerships (P3s).

P3s, pioneered in the United Kingdom and Australia, entail taking a long-term performance-based approach to procuring public infrastructure. In the P3 model, the private sector assumes a major share of risk related to financing and construction; private sector partners are also responsible for ensuring the effective performance of the infrastructure including design, planning, and long-term maintenance.² Through the collaborative efforts of the public and private sectors, P3s have succeeded through a procurement strategy that promotes innovation, effective design, consolidation, and financial accountability. To put it in the simplest of terms, a P3-procured project utilizes the strengths of both sectors while the public sector retains ownership of the asset (see Figure 1).

² “What is a P3?” P3 Canada: http://www.p3canada.ca/what-is-a-p3.php

Figure 1: From http://www.farmingfirst.org
Although the UK and Australia were the first to succeed in creating partnerships between the public and private sectors and were able to complete a number of large-scale projects, they failed in dealing with aggressive communications battles within their jurisdictions. Learning from their experience, we in Ontario quickly recognized the need to put together a framework that would achieve two goals: 1) establish a strategic plan for the P3 model, and 2) prepare to proactively manage foreseeable controversies from both the political critics and industry pundits who were unfamiliar with the P3 process.

Ontario developed a framework that was outlined in the 2003 white paper, *Building a Better Tomorrow*. The title was more than a slogan for us; it clearly reflected what we hoped to accomplish in Ontario with the P3 model. *Building a Better Tomorrow* was our challenge—our raison d’être.

The Ontario framework had a foundation of five key principles:

- The public interest is paramount;
- value for money must be demonstrable;
- appropriate public control/ownership must be preserved;
- accountability must be maintained; and
- all processes must be fair, transparent, and efficient.

These sound and clear principles created a shield for our efforts, one that could parry the attacks that would be launched against the P3 model. Many of the critics of the model came from within my own party (the Ontario Liberal Party), who expressed concerns regarding privatization and the potential for high costs. The critics were reluctant to relinquish control or change the procurement format that they had grown comfortable with, and it was extremely challenging for our leadership to convince various government ministries of the value and benefits of P3s. The challenge of this internal inertia within the various ministries pushed us to hone these five principles in order to leverage our argument supporting P3s and to carefully demonstrate that this new tool would to work to everyone’s advantage. We were keen to avoid what had happened in Australia and the UK, where government ministries had started to fall back into old procurement habits, re-assuming the degree of project risk that they had in the pre-P3 days.

In Ontario, public sector unions enjoy a significant level of political influence. Public sector union leaders were vocally concerned over the potential bundling of
operations (the maintenance services of a facility) in the P3 model. In response to a proposed P3-financed health facility, these unions leveraged potential public concern about the intrusion of the private sector into the public health care system (the protection of the “public” aspect of the Canadian healthcare system has become akin to religion for many Canadians). The unions originally saw P3s as a government tool that was created to strip away what they had fought so hard and so long for: public sector delivery in the healthcare system. Their fear that the public health care system was about to be taken over by the private sector through alternative means of procurement needed to be addressed before any shovel went into the ground on any project.

Liberal Members of Provincial Parliament who were sympathetic to public sector unions and ministers responsible for portfolios with a vested interest in the old system put the proposed P3 procurement under critical scrutiny from within the government. After identifying the arguments and concerns of our opponents, I drew upon the five foundation principles to tackle their reservations head on. No matter, we still continued to hear a variety of reasons why the status quo should not be changed.

When critics argued that P3 projects would cost more and increase the deficit, we refuted their claims by noting that P3s would provide clearly demonstrable value for money by comparing the cost of delivering the project using a P3 model versus that of a traditional delivery method. When they argued that P3s would kick-start the privatization of public infrastructure, we countered that public ownership and the public interest would remain paramount. When critics said that accountability would be lost in a buck-passing game between the public and private sectors, we were able to emphasize again that we would provide a constant stream of information to encourage regular feedback, and that we would publicize the project timeframes and responsibilities of all parties involved. And finally, when concerns were expressed over the bidding process and the potential for monopolization, we were able to assure critics that the bidding process would be fair, open, transparent, and efficient. The five principles enabled us to establish credibility for the program before it was launched. As a result, we did not have to deal with criticism unleashed late in the process; we dealt with it early in the planning process.

Once we had we had a firm platform and foundation, we insisted on a management process capable of driving large-scale projects forward, one that would effectively and efficiently address issues that would undoubtedly arise from bringing all the P3 partners under one umbrella.
To achieve this goal, we created Infrastructure Ontario (IO), a crown corporation designed to be a branch of the government composed of representatives from all parties involved: the financiers, the contractors, the government, as well as the public sector unions. IO was the ribbon that tied all of these service offerings together, because in order for any P3 project to work, all the gears needed to work together. The IO mechanism was vital to ensuring P3 projects were delivered on time and on budget. The creation of IO affirmed our commitment to being fair, open, transparent, and efficient. It also addressed the public sector unions’ concerns regarding the potential bundling of the project’s design, construction, maintenance, finance, and operations.

It was important for me to include union representatives in the process, a position many of my peers in the Liberal caucus did not support. Infrastructure Ontario exemplified what we were trying to accomplish with the installment of the P3 model. IO’s ability to be an all-encompassing, one-stop shop for the procurement of large-scale infrastructure projects proved to make P3s very attractive in Ontario. With a mechanism in place to execute P3-procured projects, the rest of my tenure as Minister of Public Infrastructure Renewal was devoted to continually improving a model that worked very well.

The William Osler Health Centre was a particularly challenging project for IO. From the outset, we had to deal with over-bundling (when a P3 contract specifies the exact inputs required for the facility) and a poorly written contract that resulted in significantly higher costs than what was outlined during the original “value for money” (VFM) proposal.

The William Osler Health Centre was one of the first design-built P3 projects in Ontario and it suffered from over-bundling, in this case, since the operations were written into the contract. This project changed from being output-oriented to input-oriented and, in this particular case, the health centre was procured as a design, build, finance, maintain, and operate (DBFMO) project where the degree of private sector involvement and risk reached the highest level prior to potentially tipping into privatization (see Figure 3). Writing the operations of the physical plant of the hospital into the contract led to cost overruns and an overly complicated construction process in what was still a relatively

Figure 2: William Osler Health System
new process. This generated plenty of media interest and was consequently heavily debated in the provincial legislature.

During the debates and proceedings on November 14, 2005, New Democrat MPP Shelley Martel stated: “I think the government is making a huge, huge mistake in going down the road of private sector financing in the same way the Conservatives did before, when the Liberals used to criticize that, because it will cost taxpayers more. We will see a draining of money, which should go into health care services in the community and hospitals, actually go to pay for increased additional costs because of the private financing. That's the wrong way to be doing this. We should be funding these hospitals through public financing.”

Although it was under considerable political pressure, the government did not abandon the P3 model. It was unpleasant at the time to deal with the barrage of negative media inquiries and pointed critiques of political opponents, but the William Osler experience and the accompanying debate led to the implementation of standardized contracts. Standardization of project contracts now ensures that over-bundling is avoided and that P3 projects closely follow the original VFM proposal. This new benefit
addressed Ms. Martel’s (and others’) fears of “costing taxpayers more” or the hiding of accurate costs. These standardized contracts would eliminate the growing costs of bundling operations into a P3 model.

We gained considerable experience through the many refinements to the P3 framework and process, and we were able to provide a public service that could be trusted by taxpayers to be on time and on budget. We could then begin to adapt and apply the process and framework in changing environments. P3s could go beyond tackling gaps in the health care industry to lending a hand in the repair and building of public roads, bridges, and even municipal water supplies. Eventually, in 2006, Ontario used a P3 project in response to the tragedy that occurred in Walkerton.

In May of 2000, Ontarians were severely shocked by the news that seven people had been killed and more than 2,500 had fallen severely ill after drinking from their local water supply in the municipality of Walkerton. Tests showed that the water supply had been contaminated with the *E. coli* bacteria. Amidst public outcry, a large-scale inquiry into the matter revealed that the contamination was caused by runoff from nearby farming operations leaking into the town’s main water supply. In response to this tragedy, the municipality had to resolve the crisis in an efficient and timely manner. The inquiry, now known as the Walkerton Commission, produced countless recommendations that had impacts on municipal water and wastewater treatment systems across the entire province. A number of the commission’s recommendations were soon mandated through legislation. Municipalities and the provincial government were forced to meet the new standards and to explore innovative ways of moving forward. Due to the cost and the impact associated with the new standards, Walkerton opted to carefully experiment with the P3 model and selected Veolia as its private-sector partner to help better manage its water and wastewater treatment systems in 2006.

Since then, the public-private partnership between the municipality of Brockton (formerly Walkerton) and Veolia Water has provided Brockton with a “multi-barrier approach to protecting drinking water” that has saved the town approximately $2 million—a reduction in cost of approximately 50 percent over the previous operator—while achieving extremely high regulatory compliance with Ministry of the Environment
and Ministry of Health. This partnership also ensured that Brockton retained 100 percent ownership and control of its water and wastewater resources and systems.

In this scenario, Veolia and the Walkerton/Brockton P3 project satisfied all five of the principles outlined in Building a Better Tomorrow. The public interest remained paramount; its value for money was certainly demonstrated; the city retained 100 percent ownership of its water; Veolia maintained accountability; and the entire process was transparent and open to the public. This project validated the model’s ability to have a P3 project come in on time and on budget, even in the face of a crisis. Through the combined efforts of the public sector (the Municipality of Walkerton) and the private sector (Veolia), the risk of a future tragic E. coli contamination was dramatically reduced. The experience has since become an exemplary case study of how adaptable the P3 model can be when urgent and necessary repairs are required.

Ontario’s progress in improving the P3 process through the development of the William Osler Health Centre and its creative response to Walkerton’s water crisis show the critical importance of P3s in the province. In the execution of the recommendations of the Building a Better Tomorrow process, Canadian P3s have become “the most predictable and timely in the world taking an average 16-18 months to complete.” This statistical record has stood even through the financial crisis of 2008 and 2009, as P3 projects in Canada continued to successful completion, even in the face of economic hardship. Canadian P3 projects have reached financial close at a consistent rate of about 10 to 15 projects annually, a rate that has been steady compared with most other countries.

These statistics and the growing public confidence in P3 projects show that the system is working well. Ontario’s vision to add P3s to its economic development toolbox has proven to be extremely successful for the province; Ontario’s people, companies, and institutions should be rightfully proud. Innovative minds and persistent efforts led to unprecedented collaboration between the public and private sectors, resulting in the successful completion of important infrastructure projects that otherwise would have been unaffordable. Ontario’s Minister of Health, the Honourable Deborah Matthews, stated earlier this year that “the alternate financing plan that is building hospitals across

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4 “What does the Canadian P3 market look like?” P3 Canada: http://www.p3canada.ca/p3-market.php
5 “Canada Emerges as a P3 Leader”, The Conference Board of Canada, June 2013.
this province is delivering them on budget and on time. We simply would not have been able to replace our hospital infrastructure if we had used traditional methods of financing. We are getting very good value for money. We’re getting projects built. They’re coming in under budget and on time. The result is that we have a highly renewed infrastructure across this province.” As infrastructure challenges continue to grow exponentially, both in Canada and around the world, P3 projects are a critically important tool for governments to embrace.

Our goal was to build a better tomorrow for Ontario. We believe the P3 innovation helped us to achieve that objective.

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David Caplan: Vice-Chairman at Global Public Affairs

Elected to Queen’s Park in 1997, Caplan was appointed to several high-ranking portfolios including Deputy Government House Leader, Minister of Public Infrastructure Renewal, and Minister of Health and Long-Term Care during his 14 years as MPP for Don Valley East. As Minister of Public Infrastructure Renewal, Caplan was responsible for leading the modernization of the province’s infrastructure and planning for future population and economic growth.

Following his retirement from politics, David has since joined Global Public Affairs as Vice-Chairman.

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