The Future of Public Private Partnerships (P3s) in Alberta

Issue

Alberta is at a crossroads with respect to how it implements and administers infrastructure projects. The Province's current fiscal deficit, infrastructure deficit, and growing population are exerting pressure on how Alberta will finance its future. Alternative financing arrangements such as P3s offer the Province a smart debt solution.

Background

The scale of Alberta's infrastructure deficit is difficult to estimate precisely. In the 1950s, Canada spent more than 3 percent of GDP on infrastructure. By 2015, spending had fallen to 0.4 percent of GDP. There currently exists no bone fide source on the stock and condition of infrastructure assets in Alberta. However, a number of prominent think tanks and thought leadership institutions have attempted to size Canada's infrastructure deficit. Estimates range from $50 billion to $570 billion with most averaging between $110 billion and $270 billion, but the consensus opinion is that Canada should be investing significantly more capital in infrastructure.

Over the past 10 years, the federal government has responded by increasing investments in infrastructure and launching targeted initiatives such as creating the Canada Infrastructure Bank. However, the federal government is not able to tackle this issue alone. Sub-national governments also need to play prominent roles in forming Canada's infrastructure. Now, more than ever, the Government of Alberta needs to explore all options for leveraging budget dollars to address infrastructure needs.

The traditional procurement model for public infrastructure has been the "design, bid, build" model where, on a project-by-project basis, the Province solicits bids to build a school, hospital or courthouse. Not only are the costs of construction borne by the Province but the long-term cost of maintenance is borne by the associated government agency (e.g., school board or health authority). The public private partnership (P3) model combines the design and construction costs with the long-term maintenance and/or operating costs, as well as the financing of the costs. This model allows the Government of Alberta to privately finance certain portions of its social infrastructure and finance only where the project can demonstrate cost and/or schedule savings through a formalized value for money test. This smart debt not only finances infrastructure acquisition, but it also formalizes and commits to the long-term maintenance or operation of infrastructure.

P3s are not well understood by both the general public and the business community, and Albertans are traditionally not fond of the Province incurring long-term debt. As a result, the benefits of the P3 model need to be clearly communicated. It also must be noted that the P3 model is not applicable to every project. The high transaction costs and social service characteristics associated with each individual project create a feasibility hurdle that restricts P3 to only 10 to 15 percent of infrastructure projects. Beyond this, the value for money test applied to project candidates can ensure those projects chosen for P3 will provide value for Alberta's stakeholders. Therefore, P3 cannot be considered a replacement of traditional procurement, but merely an alternative.

Alberta used to be considered one of the frontrunners P3 provinces in Canada. The first P3s in Alberta saw the creation of a joint task force within the Departments of Transportation and Infrastructure. Most of the

P3s completed under this structure won awards and generated praise from industry groups. Although Alberta has done a superior job closing some of the most successful P3s in Canada, in recent years there has been a lack of commitment on the part of the provincial government to provide long-term support to P3s. Alberta is now falling behind as provinces such as British Columbia and Ontario become leading P3 political entities.

The Alberta Chambers of Commerce recommends the Government of Alberta:

1. Promote public education and encourage the use of public private partnerships (P3s) as an alternative model for public infrastructure growth and maintenance; and
2. Provide guidance, information, and support to municipalities in the planning and administration of P3s.