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Public/Private Partnerships  
in Quebec

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(DAIS) and responsible for the building design of the project, has longstanding experience in the Aboriginal Lands.

Noelene Cox, a dedicated teacher with 11 years' teaching experience and currently Acting Principal of Oak Valley Aboriginal School, has a strong interest in Aboriginal Education and places importance on forming partnerships with the community to achieve educational outcomes for their students.

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*PEB is keen to hear of other facilities designed to meet the educational needs of cultural and ethnic minority communities. If there is sufficient interest it is hoped to organise an international experts' meeting on this topic in 2004 or 2005.*

## **PUBLIC/PRIVATE PARTNERSHIPS IN QUEBEC**

For some time now in Quebec (Canada), the Treasury Board Secretariat (TBS) has been promoting public/private partnerships (PPP) as a solution to the need to rehabilitate the public building stock. The TBS describes this as the best value-for-money solution for liquidating the maintenance and operating deficits of public buildings such as schools. It also elaborates on the main benefits of this solution:

- savings across the board;
- a reduction in costs over the duration of the project/service;
- financial participation by the private sector;
- better risk spreading;
- faster project delivery;
- more creative or innovative solutions;
- long-term contracts;
- performance measurement and performance incentives;
- enhanced public management.

The distinctive feature of the Treasury Board Secretariat's solution is the scale of the proposed partnerships. Rather than setting up PPPs for more classic types of subcontracting, the idea is to extend the principle to every aspect of public building management. The correct term is therefore outsourcing. The idea is to manage one contract rather than several. Are our organisations ready to meet the challenge? What will the impact of PPPs be on existing collective agreements reached by regular employers,

or on current laws and ministerial directives? Is the solution cost-effective? How can management performance be assessed before and after a PPP?

### **Contracts between public organisations and private firms**

The first step in answering these questions is to look at types of service delivery other than in-house provision. They fall into three main categories:

- Contract of supply: the client merely specifies the kind of service required and agrees on a price with the supplier.
- Subcontracting: the client requires work that is more complicated or not entirely standard. Subcontractors are left relatively free to decide how the work will be carried out.
- Outsourcing: this implies a close link between the client and the outsourcing company, two important factors being networks and the duration of the contract (clan-type link between strategic allies).

Public building managers should study the situation closely before choosing the best type of public/private partnership for their organisation. Their choice must be based on an analysis of the situation as it stands compared with the situation they would like to see. How do they proceed? By looking at the production costs and information costs of the service that might be outsourced.

When it comes to production costs, there are two basic questions:

- Does the public organisation have the right technology? Specialisation by private firms usually means cost savings through learning, innovation and economies of scale.
- Can the public organisation deliver more economically? Vertical integration or in-house delivery may ensure that subcontractors do not "cream off" profits. A degree of organisational inefficiency may even be tolerated to ensure that the organisation is not exploited.

As for information costs, it is important to take an holistic view. What are the transaction costs for the resources used or foregone by managing the work involved in the services to be outsourced?

- Upstream costs of service provision: research and information costs, cost of negotiating, making decisions and drawing up contracts.
- Downstream costs of service provision: inspection and monitoring costs (performance indicators), cost of adjusting to unforeseen events, cost of disputes and litigation, liability costs and residual losses owing to insufficiently or inappropriately co-ordinated performance.

If managers, after serious analysis, decide that it is beneficial to proceed with subcontracting or outsourcing, they should remain on their guard. The temptation may be to draw up the simplest form of contract in order to minimise production or information costs, but they should be warned that a highly uncertain transactional context (service delivery) will inevitably lead to asymmetrical information, parties less able to make credible commitments and a situation conducive to opportunist behaviour.

### Contracts: flexible or not?

One way of dealing successfully with the interfaces and boundaries between private firms and public organisations is to draw up a full contract. This will set out details of guarantees, insurance arrangements and the reputation of each party to protect client and supplier against fraud; a cost-benefit analysis, and a description of the obligations on each party in every possible scenario, the purpose being to minimise costs and encourage private firms to make technological improvements.

However, there are serious constraints on the use of full contracts:

- It is impossible to identify every contingency (particular for long-term contracts, *e.g.* ten years).
- The likelihood of the various scenarios may be hard to assess.
- Once an agreement has been reached, the contract may prove too complicated to handle (some run to several thousand pages).
- It may be hard to verify transactions (how can a judge be given proof that the private firm has failed to meet its obligations?).

Another possible approach to interfaces and boundaries is to draw up a sequential contract. Its aims are twofold: to avoid the need for the parties to anticipate the future

and agree on their respective obligations and rights before services are delivered (lower transaction costs, validation of the situation as it arises to allow for mutual adjustment); and to reduce the risk of opportunist behaviour by selecting a private enterprise with corporate principles and values similar to those of the public organisation (checking the reputation of each party, relying on trust and cultural sanctions).

Sequential contracting is generally characterised as follows:

- Sequential contracts cover the lifespan of a component or sub-system (5, 10, 15, 25 years or more).
- Commitment is high in private firms, and driven by quality and the desire to expand.
- The negotiation procedure is consensus-based.
- Contracts are not detailed but contain adjustment clauses with respect to price and quantity.
- Public organisations agree to rely on private firms, in return for greater involvement by such firms and more organisational flexibility.
- Sequential contracting focuses on performance within a framework of omnipresent values and principles.

In conclusion, managers of public building stock should bear in mind the need to start with an in-depth analysis of the management approach and principles prevailing in their organisations so that they can assess as accurately as possible how services will be delivered in the future.

*The information sources on which this article is based are available on request from the author:*

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| <i>Predominant transactional context</i> | <i>Not very dominant</i>  | <i>Average</i>  | <i>Very dominant</i>                    | <i>Extremely dominant</i>             |
|--|---------------------------|---|---|---------------------------------------|
| Uncertainty about transactions required  |                           |   |   |                                       |
| Complex transactions                     | Supply<br>(full contract) | Subcontracting<br>(full or<br>sequential<br>contract) | Outsourcing<br>(sequential<br>contract) | In-house<br>(collective<br>agreement) |
| Intellectual property hard to identify   |                           |   |   |                                       |
| Opportunist behaviour                    |                           |   |   |                                       |
| Specific investments ("hostage")         |                           |   |   |                                       |
| Performance hard to measure              |                           |   |   |                                       |