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Procurement alliances key to securing water work: report

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Contractors who want to be part of addressing Canada's massive sewer and water infrastructure deficit need to align themselves with consortiums capable of delivering design-build-finance-operate (DBFO) contracts and to become active in promoting policies that will see such contracts become commonplace, says Elizabeth Brubaker, executive director of Environment Probe.

"Construction companies who can position themselves to work with those who offer the full DBFO package have the most to gain from the coming boom in infrastructure projects," she said.

"These aren't necessarily only large multi-national corporations, but smaller companies with local and specific expertise."

Brubaker, author of the report, *A Bridge Over Troubled Waters*, for independent policy think tank the C.D. Howe Institute, noted that sewer and water system construction projects frequently rack up cost overruns.

Part of the problem is a lack of on-staff project management and engineering experience.

"But I think there's an additional, and more important, explanation of cost overruns," she said.

"Municipalities are short on incentives to estimate costs accurately."

She pointed to studies by Oxford University professor Bent Flyvbjerg, who charges that cost estimates are often "strategic misrepresentations" designed to get infrastructure projects rolling.

"A high benefit-cost ratio increases the likelihood that a project will go forward and is in the interest of all who will benefit from the project, from politicians, to consulting engineers, to construction firms," said Brubaker.

"In a public project, all of these parties have incentives to underestimate costs and few incentives to control them. In the event of cost overruns, they will suffer few penalties."

According to the report, DBFO contracts are game changers.

"Private projects have different accountability mechanisms and change these incentives," she said.

"Under a well-designed DBFO, shareholders, rather than taxpayers, will suffer if costs escalate. Private consortia have powerful incentives to keep costs under control. If, after a competitive bidding process, you issue DBFO contracts over an extended contract period, with a contract incentive to build on time and on budget, you can be sure that they're building something that offers long-term efficiency over the life cycle of the facility."

Even large municipalities are often lacking in water system maintenance and operating expertise, when compared to private companies, some of which have more than a century of accumulated experience, she said.

While municipalities are quick to take advantage of government grants to build up sewer and water infrastructure, Brubaker said that grant programs are a double-edged sword.

"When they get the money, they often overbuild the type of infrastructure the grant targets," she said.

"Some municipalities have built to 40 per cent overcapacity and they're now on the hook for the operating costs of the unnecessary infrastructure."

The Ontario government estimates that municipalities will need to spend as much as \$34 billion between 2005 and 2019 to meet their water and wastewater needs.

That deficit could be financed with private funds, said Brubaker.

Canadian pension funds, in particular, are eager to finance such operations, but are investing money outside the country where such public-private enterprises are more commonplace.

Brubaker argued that before the country's actual water and wastewater infrastructure deficit can be assessed, there needs to be a move to a full-cost recovery model.

Municipal water revenues in Canada cover only a fraction of the cost of service provision, construction and the environmental costs of water and wastewater operations.

"We're not even sure how much going to full cost will affect the use of water services," she said.

"Until we start charging the right price for water, we can't make a judgment about whether we need to expand capacity or whether capacity is already adequate."

Brubaker advised contractors to not only press for legislation that mandates water pricing reforms, but also to advocate for more private financing of sewer and water infrastructure.

"Municipalities aren't going to build infrastructure if they don't have sufficient capital or operating funds," she said.

"Sufficient funds are simply not going to be coming from upper levels of government.

"If the infrastructure is going to be built, it's ultimately going to have to be paid for by those who use and benefit from it."



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