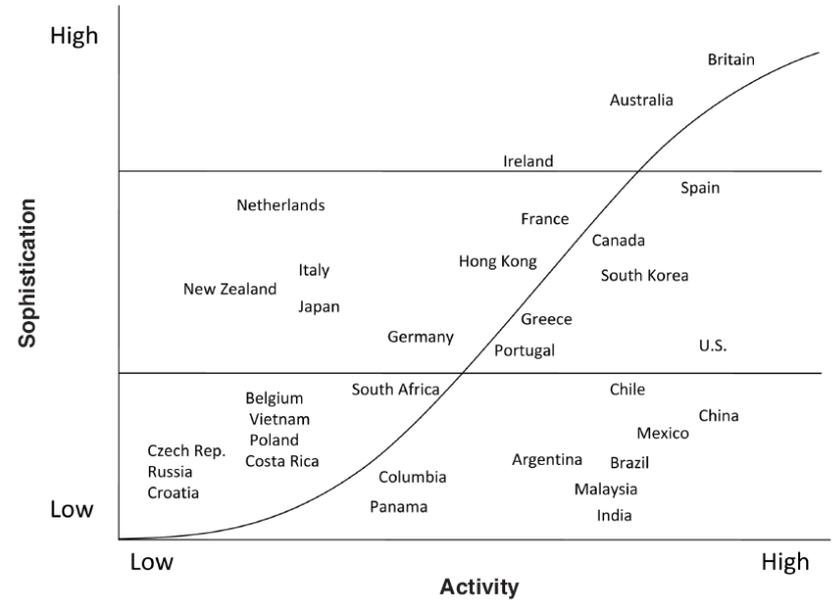


**THE THEORY AND PRACTICE
OF PUBLIC-PRIVATE PARTNERSHIPS
IN CANADA**

PPPs: A Truly Global Phenomena



P3 DEFINITIONS AND THEORY

What exactly is a P3?

- “A P3 is a long-term contractual arrangement between the public and private sectors where mutual benefits are sought and where ultimately (a) the private sector provides management and operating services and/or (b) puts private finance at risk.” (Garvin and Bosso, 2008)
- PPP Definition Excludes:
 - Outright privatization: no long-term contractual arrangement
 - Traditional procurement: private finance not typically at risk over life of project

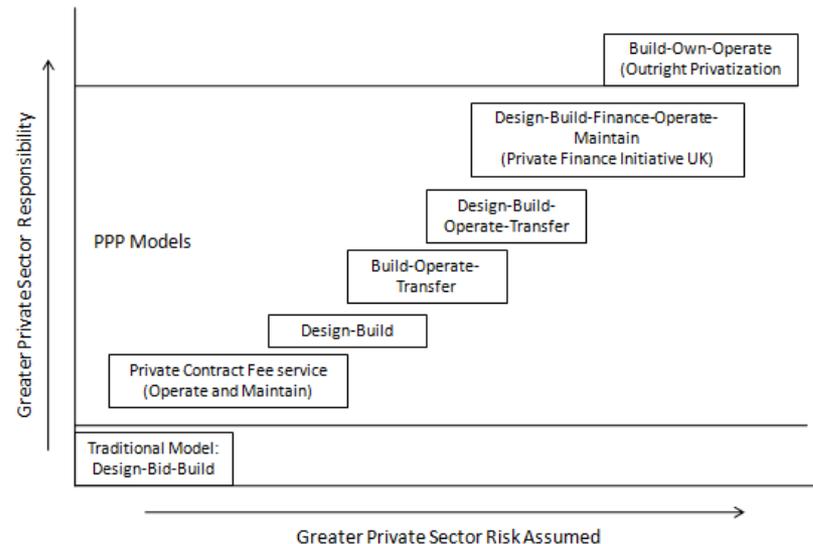
Key PPP Features

- Mid/long term contracts
- Investment of private capital exclusively or co-investment with public funds
- Risk allocation between private and public parties
- Performance related pay (based on results and outcomes)

Models of Public-Private Partnerships to Deliver Large Infrastructure Projects

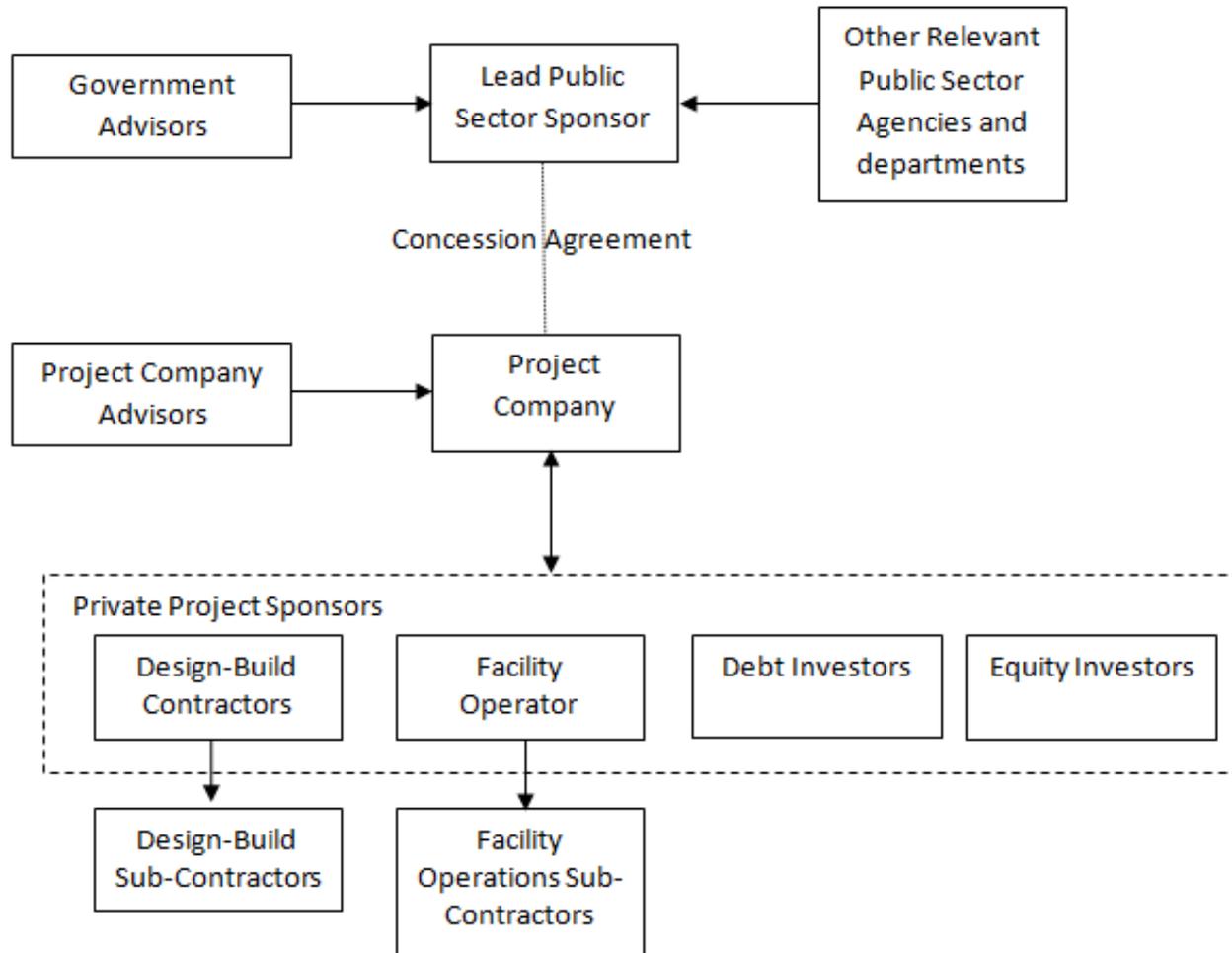
Three Key dimensions define PPP

1. **Bundle:** Which aspects of project delivery are included in the PPP bundle
2. **Risk:** Which risks are transferred to the private sector (construction; availability; demand)
3. **Payment mechanism:** How is initial financing repaid (user fees, shadow tolls; availability payments)



(Source: CCPPP, 2009)

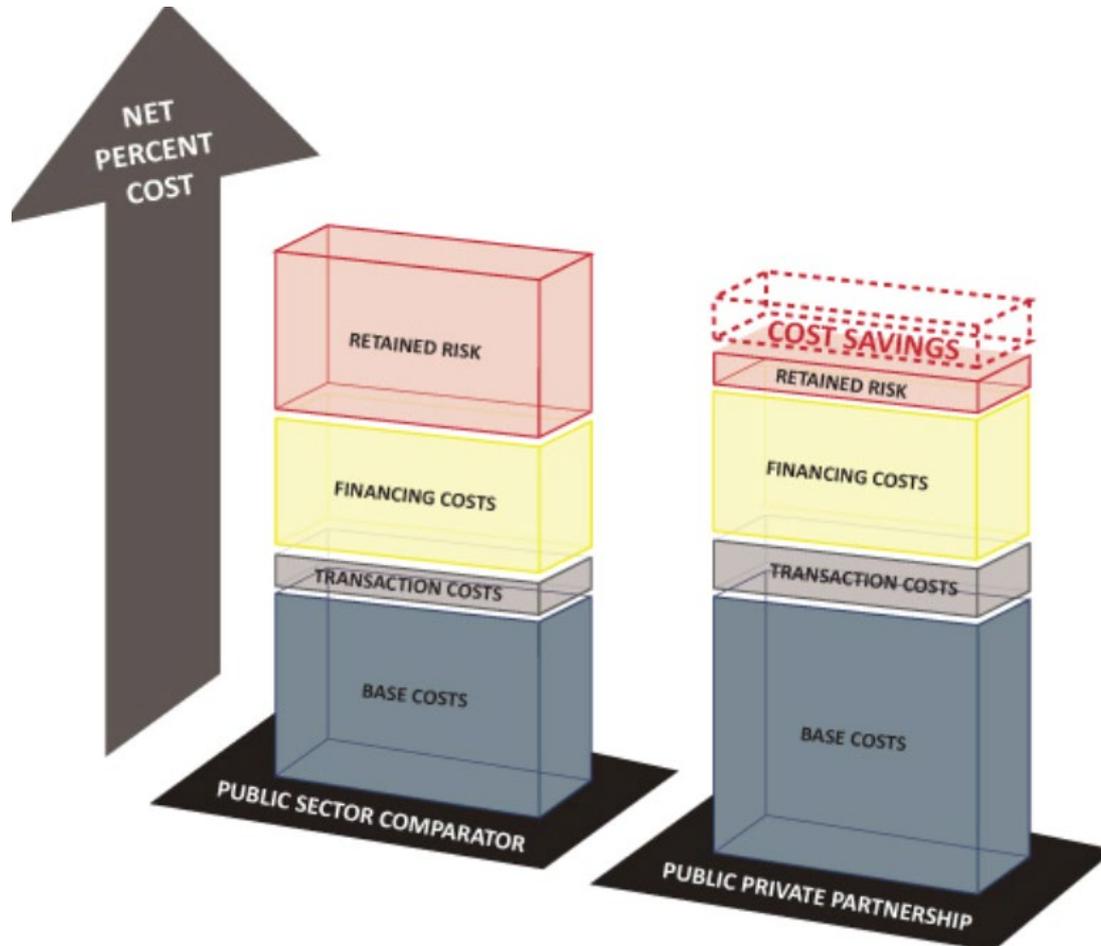
P3 Partnership Structures



P3 Motivations and Concerns

Motivations for PPP	Concerns with PPP
Raise private money to pay for capital costs of infrastructure	More costly than when delivered using traditional methods; windfall profits
Off balance sheet accounting enables cash strapped governments to 'buy now, pay later'	Contractual obligations reduce long-term policy flexibility and limit system wide integration. Costly and time consuming to make changes after contract signing.
Restructure the provision of public services	High transaction costs
Stimulate innovative project designs	High need for data confidentiality can limit meaningful public accountability and consultation
Transfer project risks from the public to the private sector	Incomplete contracts: Difficult to foresee and incorporate all future events into contract
Ring fence money for long-term facility operations and maintenance	Cost savings achieved by outsourcing that reduces worker wages and benefits?
Pay for performance	Government is the residual risk holder of last resort

Decision Making on P3s: Assessing Value for Money



**P3 IN CANADA:
EVIDENCE AND EXPERIENCE**

First Wave P3s: 1990s-Early 2000s

Key Features

- Planned and delivered directly by government departments
- Goal to deliver high quality public infrastructure without adding to public debt – user fees; balance sheet treatment
- Aimed to transfer as much risk and responsibility to the private sector partner
- Ideological perspective that private sector firms working in market conditions were more efficient at allocating resources than government
 - Highway 407
 - Brampton and Royal Ottawa Hospitals in Ontario
 - Confederation Bridge
 - Fredericton and Moncton Highway in New Brunswick
 - Nova Scotia Schools P3

Outcomes

- Lack of up-front assessment to support merits of P3s
- Limited government expertise to execute complex contracts
- Poor transparency and accountability
- High profit margins
- Public opposition to user fees
- Contract instability

Second Wave P3s: Mid 2000s-Late 2010s

Second wave PPPs a response to failures and lessons of first wave PPPs

- **PPP agencies formed across Canada:** Partnerships BC (2002); Infrastructure Ontario (2005); PPP Canada (2009)
 - Promote and support the delivery of P3s
- **PPP first policies:** federal and provincial P3 screens over a certain cost threshold; value for money tests for infrastructure
 - Infrastructure funding becomes more closely tied to using P3 delivery model
- **Industry Support:** trade associations such as Canadian Council of Public-Private Partnerships heavily promote expansion of P3s across sectors.
- **Rebrand PPPs:** in Ontario, shift from P3 to Alternative Finance and Procurement
- **Global Market:** Ontario becomes a highly globalized P3 market, with some of the largest firms from around the world participating in projects

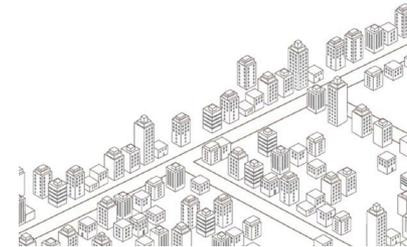
Second Wave PPP Motivations

- Presented as a procurement strategy rather than a more ideological undertaking to restructure or reduce role of government in society
- Driven by value for money
 - Innovation
 - Risk transfer – ‘transfer risk to the party best able to manage it’
 - Funding for long-term maintenance of physical infrastructure
 - Major focus on ‘on-time and on budget’
- Second wave P3s have typically achieved operational performance standards following ramp up period

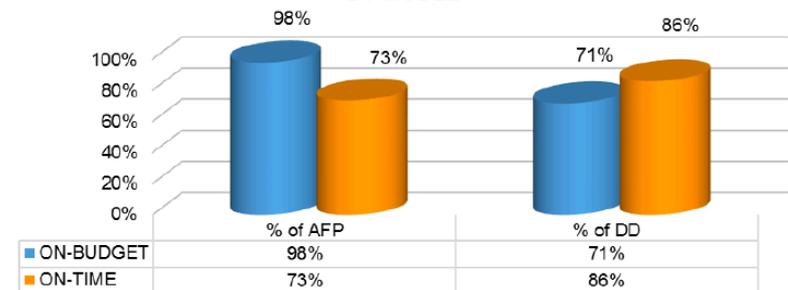
TR2015

Infrastructure Ontario
TRACK RECORD
2015 REPORT

Hanscomb
40 North Street, Suite 100
Toronto, ON M5S 1C3
T: 416-887-2811
www.hanscomb.com



% OF NUMBER OF PROJECTS DELIVERED ON-BUDGET & ON-TIME BY MODEL



Outstanding Issues with Second Wave P3s

- Value for money and high cost of risk transfer
- High bidding, transaction and litigation costs
- Are PPPs ‘Only game in town?’
- Sources and details of innovation
- Confidentiality: meaningful public consultation and public accountability
- Growing procurement challenges on a number of projects
- Loss of long-term policy control over asset and service integration;
- Expensive to make subsequent changes to facility

Figure 5: Combined Results of the Latest Value-for-money Assessments Conducted by Infrastructure (\$ billion)

Source of data: Infrastructure Ontario

Component of Project Cost	Public-sector Comparator (PSC)	Alternative Financing and Procurement (AFP)	Difference ¹
Base costs	26.0	26.0	
Premium	–	1.9	
Competitive neutrality	0.8	–	
Subtotal	26.8	27.9	(1.1)
Financing costs	0.5	7.0	(6.5) ²
Ancillary costs	0.7	1.1	(0.4)
Subtotal	28.0	36.0	(8.0)
Retained risks	18.6	4.0	14.6
Overall Total	46.6	40.0	6.6

While projects managed by the private sector for the most part were delivered on time and cost about the same as their contracts specified, according to Infrastructure Ontario’s estimates, **the tangible costs are still almost \$8 billion higher than if the public sector had been able to contract out the projects to the private sector and oversee their successful delivery.**

Transit P3s in Canada: A Mixed Record

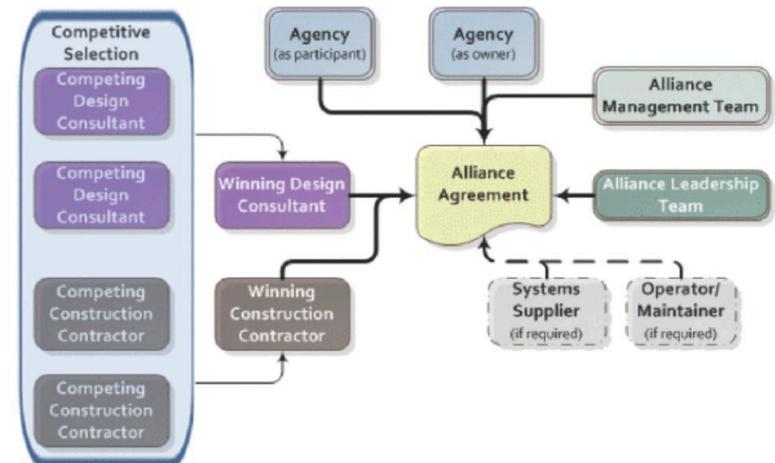
- First major transit P3 in Canada - Greater Vancouver Canada Line
 - generally seen as a success following turbulent planning phase
- Recent P3 transit projects have experienced significant delays and in some cases cost escalations, across a variety of P3 models
 - Eglinton Crosstown Toronto (DBFM) – LRT vehicles separate from P3
 - Edmonton Valley Line Southeast LRT (DBFOM) – LRT vehicles included in P3
 - REM Montreal; DBFOM/BOO – Rail vehicles included in P3
 - Waterloo Ion (DBFOM) – LRT vehicles separate from P3
 - Greater Vancouver Evergreen Line (DBF) – LRT vehicles separate from P3
 - Ottawa Confederation Line (DBFM) – LRT vehicles included in P3
- Procurement challenges have also plagued traditionally procured transit projects during same period
 - Toronto York Spadina Subway Extension
- Transit systems delivered through P3s tend to meet operational performance standards following initial ramp up period
- Long-term P3s can pose challenges for system upgrades and extensions

Third Wave: P3s and Beyond

- Third wave appears focused on greater diversity of delivery models
- P3 agencies being repositioned as general procurement agencies: Infrastructure BC
- Some companies leaving fixed price P3 sector in Canada or less willing to enter fixed price market
- Transit projects separating tunneling from P3 deal structure (eg. Ontario Line; Scarborough Subway extension); more DBF deal structures
- Removal of P3 screen at the federal level
- Renewed interest in tapping private investment to fund public infrastructure: Canada Infrastructure Bank; Province of Ontario Transit Oriented Community program; Quebec REM project
- Search for new procurement models that share rather than transfer major risks and rewards – Alliance model

Alliance Contract Model

- Create a true alliance to deliver the project – team typically works in the same office
- Procurement involves a 3-stage process to select key participants in the alliance
 - High focus on the collaborative behaviours of the key individuals involved
 - Proponents assessed for technical merits, overall target cost, and partnership behaviour of the key participants.
- Alliance contract is a multi-party contract – it does not permit legal actions against parties in the group
- Pain share/gain share terms creates performance incentives for parties in the contract
 - Risk sharing rather than risk transfer and risk shedding
 - Firms compensated through fee for service + gain sharing if project comes in under target cost
- Widely used in Australia, New Zealand and UK; largely unknown in North America
- Infrastructure BC running a pilot project on the Cowichan District Hospital Replacement Project



US. National Highway Cooperative Synthesis 466, 2015

Conclusions

1. Urban transit infrastructure projects work best when there is flexibility to make changes over time.
2. Optimizing use of private finance should be considered; this may not necessarily be maximizing private finance.
3. Regarding the transfer of risk, it is important to clearly assess which party is best able to manage the risk.
4. Procurement agencies should have a broad mandate to consider and support the delivery of projects through a range of procurement models.
5. Expertise of the contracting authorities is critical – governments must build up competency to structure, manage, monitor, and enforce contracts and relationships, regardless of the procurement model
6. Disputes between the project sponsor and contractor on major infrastructure projects are common regardless of the procurement model; the key question is how they are resolved through the contract and the relationships built up between the parties
7. Alliance contracting will represent a major shift in approach and culture from P3 framework. It should be piloted to explore trade-offs before widespread adoption for complex infrastructure projects.