

# Issue in Focus

January 2012

## Public-Private Partnerships for Infrastructure Investments

### The Importance of Infrastructure to Business

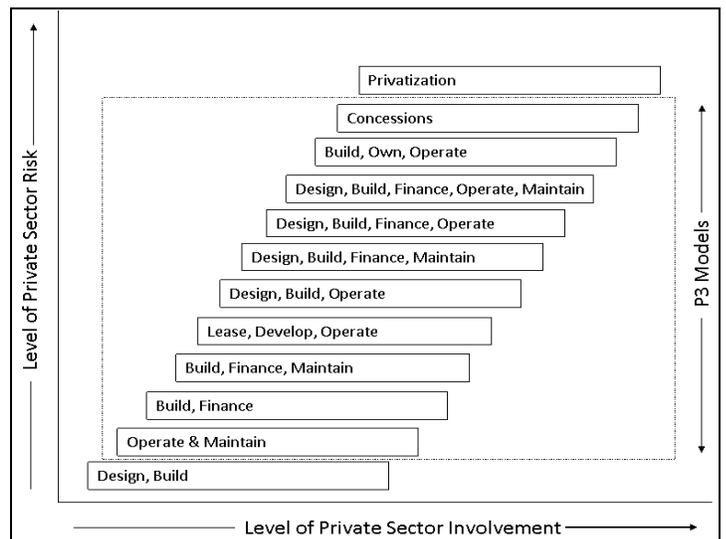
Saskatchewan and Canada are facing an infrastructure deficit and public-private partnerships (P3) offer an innovative infrastructure financing and operation model that can help governments better utilize their limited resources by accessing the efficiencies, innovations and expertise offered by the private sector. For the general business community this means more infrastructure could be available sooner to support the growth of existing enterprises.

The enhanced use of P3s would also mean that private sector businesses would have a new role to play. New or existing businesses would need to develop in order to provide the services required by the public under P3 arrangements. Using P3s would help grow the size and scope of the private sector in Saskatchewan.

### What are Public-Private Partnerships

Generally, a P3 is a venture which involves the public and private sectors working in co-operation to meet a clearly defined public need through the appropriate allocation of resources, risks and rewards.<sup>1</sup>

A P3 is not the privatization of public infrastructure. Under a P3 arrangement the ownership of infrastructure either remains with the public sector or is transferred back to the public sector at the end of the contract term.<sup>2</sup> P3s build on the expertise of each partner by incorporating three elements: "First, the risks of bringing infrastructure and services to the public is shared between the public and the private sector. Second, the



Source: Shaw, Mike. "A Discussion of Public Private Partnerships (P3s). P3 Sectariart

<sup>1</sup> KPMG. "Understanding Public Private Partnerships (P3 or PPP)." 27 January 2011. [National Infrastructure Summit](http://www.nisummit2011.ca/storage/KPMG_NIS_2011.pdf), 18 September 2011 <[http://www.nisummit2011.ca/storage/KPMG\\_NIS\\_2011.pdf](http://www.nisummit2011.ca/storage/KPMG_NIS_2011.pdf)>.

<sup>2</sup> Iacobacci, Mario. "Dispelling the Myths: A Pan-Canadian Assessment of Public-Private Partnerships for Infrastructure Investments." January 2010. [The Conference Board of Canada](http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt_WEB.pdf), 17 September 2011 <[http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt\\_WEB.pdf](http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt_WEB.pdf)>.

financial rewards of the endeavour are shared. For the public sector, this comes in the form of reduced costs; for the private sector it comes in the form of a return on investment. Third, the amount of reward expected is related to the amount of risk and responsibility taken on by the public and private sectors.”<sup>3</sup>

P3s can be very flexible and their scope can vary broadly depending on the needs of the specific situation. P3 opportunities can include service contracts (purchasing inputs), alternative service delivery (purchasing outputs), operations and maintenance contracts, or whole-life (design-build-finance-operate-maintain) contracts.<sup>4</sup> The distinction between P3s and conventional procurement is not always immediately clear. Conventional public infrastructure projects already rely almost exclusively on the private sector for construction services, and design services are also frequently outsourced. In addition, public facility management and operation, and the maintenance of public infrastructure such as roads and bridges, are increasingly being done by the private sector. If the private sector is already providing these services, the only differences in a P3 is the use of private financing, the establishment of detailed contractual provisions<sup>5</sup> and the transfer of some decision-making responsibilities.<sup>6</sup>

In any P3 arrangement, the final responsibility for service delivery remains firmly within the public sector. The role of the public sector is to regulate and monitor private provision to ensure the right quantity and quality of infrastructure and services are being provided at a pre-determined price. The aim of a P3 should be to get the best value for the money spent, and this does not necessarily equate to the lowest potential cost.<sup>7</sup> However, data shows that even after taking into consideration the extra cost of private financing, P3s tend to be around 10% cheaper over the long term.<sup>8</sup>

## **Current Situation**

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Canada’s significant infrastructure deficit has forced governments to undertake innovative approaches to infrastructure development, and Canadian governments are increasingly utilizing P3s. Since the early 1990’s there have been over 100 P3 projects in Canada.<sup>9</sup>

In Canada, “most P3 projects are managed, co-managed, or guided through the procurement process by a dedicated public sector P3 agency that has experience with multiple P3 transactions and the benefit of a relatively standardized procurement process, both within jurisdictions and

<sup>3</sup> Ploeg, Casey Vander. "New Tools for New Times: A Sourcebook for the Financing, Funding and Delivery of Urban Infrastructure." September 2006. Canada West Foundation. 23 August 2011 <<http://cwf.ca/pdf-docs/publications/New-Tools-for-New-Times-September-2006.pdf>>.

<sup>4</sup> Ploeg, Casey Vander. "Dollars and Sense II: Big City Finances Western Canada, 1990-2007." September 2008. Canada West Foundation. 19 2011 September <<http://cwf.ca/pdf-docs/publications/dollars-and-sense-II-2008.pdf>>.

<sup>5</sup> Iacobacci, Mario. "Dispelling the Myths: A Pan-Canadian Assessment of Public-Private Partnerships for Infrastructure Investments." January 2010. The Conference Board of Canada. 17 September 2011 <[http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt\\_WEB.pdf](http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt_WEB.pdf)>.

<sup>6</sup> Allan, Dr. John R. "Public-Private Partnerships: A Review of Literature and Practice ." June 2001. Saskatchewan Institute of Public Policy. 18 September 2011 <<http://www.uregina.ca/sipp/documents/pdf/cicreport.pdf>>.

<sup>7</sup> Ploeg, Casey Vander. "New Tools for New Times: A Sourcebook for the Financing, Funding and Delivery of Urban Infrastructure." September 2006. Canada West Foundation. 23 August 2011 <<http://cwf.ca/pdf-docs/publications/New-Tools-for-New-Times-September-2006.pdf>>.

<sup>8</sup> KPMG. "Understanding Public Private Partnerships (P3 or PPP)." 27 January 2011. National Infrastructure Summit. 18 September 2011 <[http://www.nisummit2011.ca/storage/KPMG\\_NIS\\_2011.pdf](http://www.nisummit2011.ca/storage/KPMG_NIS_2011.pdf)>.

<sup>9</sup> Iacobacci, Mario. "Dispelling the Myths: A Pan-Canadian Assessment of Public-Private Partnerships for Infrastructure Investments." January 2010. The Conference Board of Canada. 17 September 2011 <[http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt\\_WEB.pdf](http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt_WEB.pdf)>.

increasingly across jurisdictions as well.”<sup>10</sup> The provinces of British Columbia, Ontario, Alberta and Quebec, early adopters of P3s, have either set up specialized infrastructure agencies (as in the case of British Columbia, Ontario, and Quebec) or have established an equivalent office within their central government agencies (Alberta).<sup>11</sup> New Brunswick also has a growing number of P3s and recently established Partnerships New Brunswick, a branch of the Department of Transportation, to administer the province’s existing P3 projects and provide advice on major infrastructure projects.<sup>12</sup> The clear commitment to P3s displayed in these provinces has allowed them to undertake the majority of P3 projects in Canada to date.<sup>13</sup>

The facilitation of P3s within Canada is done by a federal crown corporation, PPP Canada.<sup>14</sup> PPP Canada was launched in 2009 with a budget of \$1.2 billion to support public infrastructure projects done through a P3 approach. According to PPP Canada, to be an eligible P3 project, meaningful private sector involvement must be evident in at least two of the following phases: designing, building, operating, maintenance or financing, one of which must include operating, maintenance or financing. Along with the establishment of PPP Canada, the federal government stipulates that any project requesting \$50 million or more from the Building Canada Fund must show that the P3 option has been fully considered. The federal government expects the \$1.2 billion PPP Canada Fund to directly leverage \$5 billion in P3 infrastructure investments in Canada.<sup>15</sup> This leverage potential exists because the PPP Canada Fund will only provide funding for up to 25% of eligible costs in any of the 16 eligible project categories.<sup>16</sup>

So far, the uptake on the PPP Canada Fund has been slow. Years 2009-10 and 2010-11 provided the Fund with \$407.9M to distribute, but to date, commitments of only \$103.8M have been publicly announced to fund four projects, none of which are located in Saskatchewan. Currently, PPP Canada has just finished accepting applications for its third round of funding and more funding announcements are expected.

**Projects Funded by the PPP Canada Fund:**

1. The Maritime Radio Communications Initiative in the Maritimes (\$50M);
2. The Chief Peguis Trail Extension in Winnipeg (\$25M);
3. The Agence métropolitaine de transport’s new commuter train Maintenance Centre (\$25M); and
4. The Lac La Biche Biological Nutrient Removal Wastewater Treatment Facility (\$3.8M)

(As of September 2011)

Partnerships BC, Infrastructure Ontario, the Alternative Capital Financing Office of the Alberta Treasury Board, Infrastructure Quebec, Partnerships New Brunswick and PPP Canada have developed rigorous ‘value for money’ (VfM) comparison processes to determine if a P3 arrangement is more beneficial than traditional

<sup>10</sup> Ibid.,

<sup>11</sup> Jacobacci, Mario. "Dispelling the Myths: A Pan-Canadian Assessment of Public-Private Partnerships for Infrastructure Investments." January 2010. [The Conference Board of Canada](http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt_WEB.pdf). 17 September 2011

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<sup>12</sup> News Feeds. "Co-operation: Province creates office to advise on public-private project alliances." 9 May 2011. [Bill131.ca](http://www.bill131.ca). 17 September 2011.

<<http://wordpress.bill131.ca/2011/05/09/nb-opens-its-doors-for-partners/>>.

<sup>13</sup> PPP Canada. [What does the Canadian P3 market look like?](http://www.p3canada.ca/p3-market.php) 15 September 2011 <<http://www.p3canada.ca/p3-market.php>>.

<sup>14</sup> Lidington, Stephen. "PPP Canada: Build Infrastructure Better ." 27 January 2011. [National Infrastructure Summit](http://www.nisummit2011.ca/storage/sliddington_PPP_NIS_2011.pdf), 2011 September 10

<[http://www.nisummit2011.ca/storage/sliddington\\_PPP\\_NIS\\_2011.pdf](http://www.nisummit2011.ca/storage/sliddington_PPP_NIS_2011.pdf)>.

<sup>15</sup> InfrastructureInvestor. "Canada: An Intelligence Report." December/January 2010/11. [PPP Canada](http://www.p3canada.ca/_files/file/Canada-Report.pdf). 10 September 2011

<[http://www.p3canada.ca/\\_files/file/Canada-Report.pdf](http://www.p3canada.ca/_files/file/Canada-Report.pdf)>.

<sup>16</sup> PPP Canada. [Overview](http://www.p3canada.ca/p3-canada-fund-faq.php). 10 September 2011 <<http://www.p3canada.ca/p3-canada-fund-faq.php>>.

procurements.<sup>17</sup> These VfM tests not only ensure that appropriate infrastructure projects are chosen as P3s (i.e. where there is value for money in using a P3) but also help determine how a project should be structured (risks retained/transferred/shared by the public sector).<sup>18</sup> For example, Infrastructure Ontario has developed a detailed set of risk valuation templates to identify up to 80 categories of material risks that could arise over the life cycle of a project.<sup>19</sup>

VfM studies comparing the projected costs of P3s versus conventional contracts show that the Canadian P3s initiated since 2004, also known as Canada's second-phase of P3s, have so far delivered important efficiency gains for the public sector, ranging from a few million dollars to over \$750 million per project.<sup>20</sup> When these savings are expressed as a proportion of what it would have cost the public sector to procure the projects through conventional contracting methods, the savings range from 0.8% to 61.2% per project.<sup>21</sup> Of the P3 projects completed since 2004 that were studied by the Conference Board of Canada, none had experienced construction cost overruns that were borne by the public sector (unless the cost overruns were related to items where the public sector retained the risks such as amendments to the proposals).<sup>22</sup>

Despite the growing importance of P3s in infrastructure, these partnerships account for only a fraction of total spending on public infrastructure. "In most of the provincial jurisdictions in Canada that are active in this type of procurement, public spending on P3s is usually between 10% and 20% of total spending on public infrastructure."<sup>23</sup>

To date, Saskatchewan has had little experience with P3s. In January 2009, the province established a P3 Secretariat with a mandate to explore the potential use of P3s as a means of

### **An Actual P3 Outlined:**

A portion of Anthony Henday Drive in Edmonton is currently being constructed as a P3. In this \$1.42 billion agreement, the private sector partner, NorthWestConnect General Partnership, is responsible for the construction of approximately 21 kilometres of new four- and six-lane divided freeway, additional basic and auxiliary lanes, 29 bridges, eight interchanges (entrances and exits to freeway), five flyovers (no access to freeway), two rail crossings and additional pre-grading for future interchanges.

The \$1.42 billion bid submitted by the private sector was significantly less than the \$1.66 billion that the government estimated the same project would cost through traditional delivery methods. The Government of Alberta provided NorthWestConnect with a \$500 million advance payment to help reduce the overall financing cost of the project. This amount was seen as sufficient to ensure enough private capital was involved to achieve an appropriate risk transfer while reducing financing costs. The NorthWestConnect's maintenance contract on the highway will last until 2041 with the Government of Alberta making payments to the company until then.

NorthWestConnect, a corporate entity owned by Bilfinger Berger, contracted with a Joint Venture between Flatiron, Graham, and Parsons, for the design/build portion of the project. Flatiron Graham Parsons, a joint venture, then subcontracted the design to Earth Tech.

Source: <http://www.northwestconnect.ca/index.html>

<sup>17</sup> Iacobacci, Mario. "Dispelling the Myths: A Pan-Canadian Assessment of Public-Private Partnerships for Infrastructure Investments." January 2010. The Conference Board of Canada. 17 September 2011

<[http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt\\_WEB.pdf](http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt_WEB.pdf)>.

<sup>18</sup> Ibid.,

<sup>19</sup> Ibid.,

<sup>20</sup> Ibid.,

<sup>21</sup> Ibid.,

<sup>22</sup> Ibid.,

<sup>23</sup> Ibid.,

delivering public sector infrastructure.<sup>24</sup> Any infrastructure project with a minimum total cost of \$25 million was to be screened by the Secretariat for consideration as a P3. The Secretariat was established as a division of the Ministry of Government Services and was allocated a \$650,000 budget.<sup>25</sup>

The P3 Secretariat was subject to significant criticism after its formation. Specifically Saskatchewan's large unions, SGEU and CUPE, launched public campaigns criticizing the P3 Secretariat as a form of backdoor privatization. The Secretariat was disbanded in September 2009 after nine months of analysis. The government indicated at the time that there was not a consistent number of projects in the province that would be a good match for the P3 criteria.<sup>26</sup> However, despite the government's concerns, smaller provinces like New Brunswick and Nova Scotia have successfully utilized P3s.

The landscape of Saskatchewan has changed significantly since the conclusion of the P3 Secretariat. Specifically, in 2010 Saskatchewan signed the New West Partnership, an agreement between the governments of British Columbia, Alberta and Saskatchewan that creates Canada's largest, barrier-free, interprovincial market. By partnering with two provinces that are experienced in the use of P3s, the number of potential project opportunities available to Saskatchewan businesses has dramatically increased and the Saskatchewan should evaluate its future projects accordingly.

The opportunities for enhanced P3s in Canada are numerous. Many large pension funds such as the Canada Pension Plan Investment Board and the Ontario Municipal Employees Retirement System have made significant investments in infrastructure projects overseas. As the market for such investments in Canada increases, the country can likely expect similar interest from pension and sovereign wealth funds.<sup>27</sup>

## **Impacts of P3s**

P3s are not inherently good or bad, they are a policy tool that fits some circumstances but not others. P3s are most successful when a clearly identified public need can be combined with a well-defined private interest. The most successful P3s occur when the service requirements are clear, precisely defined at the outset, and the services offered are not likely to change much over the lifetime of the asset. Successful P3s also require finding an optimal sharing of risk between public and private parties.

The benefits of P3 procurement do not always outweigh the costs, which is why almost all jurisdictions undertake an early screening of projects to determine if a project is suitable for the P3 procurement process. It is only after the initial suitability of a project is determined that a

<sup>24</sup> Government of Saskatchewan. "08-09 Annual Report." 2009. Ministry of Government Services. 12 September 2011.

<<http://www.finance.gov.sk.ca/annreport/200809GSAnnualReport.pdf>>.

<sup>25</sup> Government of Saskatchewan. "09-10 Annual Report." 2010. Ministry of Government Services. 12 September 2011. <<http://www.gs.gov.sk.ca/Default.aspx?DN=ef64821c-8cc0-4174-b73f-25b86e751d3b&l=English>>.

<sup>26</sup> Warren, Allen. "Saskatchewan no closer to public-private partnership framework." 12 September 2010. Journal of Commerce. 16 September 2011. <<http://www.journalofcommerce.com/article/id40462>>.

<sup>27</sup> InfrastructureInvestor. "Canada: An Intelligence Report." December/January 2010/11. PPP Canada. 10 September 2011. <[http://www.p3canada.ca/\\_files/file/Canada-Report.pdf](http://www.p3canada.ca/_files/file/Canada-Report.pdf)>.

VfM assessment is done to compare the total costs of procurement under the P3 approach with those of a conventional approach.<sup>28</sup>

### Benefits of P3s

The most pronounced benefit offered by P3s are the risk sharing attributes. Every government project carries an upside risk and a downside risk. “Upside risks are those which, for example, could see a project being completed ahead of schedule, below cost or exceeding revenue estimates. With downside risk, the opposite of each of these examples could occur – completion delays, cost overruns and revenue shortfalls.”<sup>29</sup> In a P3 arrangement, these risks are shared between the public and private sector, meaning each has the opportunity to be rewarded for upside risk outcomes while downside risk outcomes are absorbed by the responsible party.<sup>30</sup> Typically a shared risk is only realized when the private sector relies on some type of private financing because it means they will incur third-party financing penalties if they fail to fulfill the contract. This has an added benefit of allowing the public sector access to new sources of capital.

Sharing the risks of infrastructure development improves the chances for a successful project and lowers the total costs of service provision.<sup>31</sup> However, in a P3 arrangement it is vital that an optimal risk allocated is achieved. The optimal risk allocation ensures that a project is attractive to the private sector but prevents either party from receiving a disproportionate amount of revenue. The risks and responsibilities assumed by the private partner will vary depending on the role that it plays, but can typically include the “risks associated with design and construction, operation, revenue, financing and certain changes in law and some aspects of force majeure and other traditional ownership risks, like site conditions.”<sup>32</sup>

Compared to traditional procurement, P3s tend to be timelier. The majority of completed post-2004 P3 projects studied by the Conference Board of Canada have been delivered either early or according to schedule and no project was more than two months delayed. Using a P3 allows the private sector to have control of the overall schedule which provides the flexibility to innovate, takes advantage of economies of scale, and uses resources more efficiently; it is these abilities that lead to the improved timeliness. The case of the construction of the southeast and southwest segments of the Edmonton Ring Road showcases the enhanced timeliness offered by a P3 quite clearly. These two projects were broadly comparable, but the P3-procured project took two years less to deliver than the conventionally procured project.<sup>33</sup>

<sup>28</sup> Iacobacci, Mario. "Dispelling the Myths: A Pan-Canadian Assessment of Public-Private Partnerships for Infrastructure Investments." January 2010. The Conference Board of Canada. 17 September 2011 <[http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt\\_WEB.pdf](http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt_WEB.pdf)>.

<sup>29</sup> Government of British Columbia. "Public Private Partnerships." May 2009. Ministry of Finance. 10 September 2011. <<http://www.fin.gov.bc.ca/ocg/fras/capitalization/Downloads/P3%20Practice%20Guidelines%20May%202009.pdf>>.

<sup>30</sup> Ibid.,

<sup>31</sup> Murphy, Timothy J. "Structuring and Managing Construction Risks in Public Private Partnerships." November 2008. McMillan. 18 September 2011 <<http://www.mcmillan.ca/Files/StructuringandManagingConstructionRisks.pdf>>.

<sup>32</sup> Ibid.,

<sup>33</sup> Iacobacci, Mario. "Dispelling the Myths: A Pan-Canadian Assessment of Public-Private Partnerships for Infrastructure Investments." January 2010. The Conference Board of Canada. 17 September 2011 <[http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt\\_WEB.pdf](http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt_WEB.pdf)>.

P3s also allow the public sector to access new or better skills and practices. Encouraging competition by allowing private producers to compete with public producers helps push the development and implementation of new innovations. These innovations can help increase efficiency, improve services, and even lower costs.<sup>34</sup> Private partners are much more likely to bring new ideas to a project, particularly in situations where the P3 arrangement is for the whole-life cycle (design-build-finance-operate-maintain). Under these circumstances private partners are inclined to minimize the total capital and facility maintenance costs over the useful lifespan of the asset. In a conventional procurement process, the public sector seeks to minimize costs at each stage, meaning they are not incented to trade off higher costs in the design and/or construction stages for lower costs later on.<sup>35</sup>

In addition to enhanced innovation, P3s provide a higher degree of cost certainty when compared to conventional procurement. Cost certainty in an infrastructure project is important because it enables public decision makers to allocate public funds to the right projects. Poor costing means the public sector is compelled to allocate additional funds midway through a project, regardless of whether the additional funding would have been justified on a VfM basis.<sup>36</sup> The preliminary evidence indicates that P3 projects undertaken in Canada since 2004 provide a high degree of cost and time certainty for the period from financial close through to completion of construction.<sup>37</sup>

One of the reasons for this enhanced cost certainty is the private sector practices incorporated into the proposal development process. Private sector involvement ensures that all the project requirements and associated costs are considered upfront because of two key changes. First, private sector partners need to have a good understanding of all the financial implications prior to providing a bid. "It is very unlikely that a private partner would bid on or commit to a P3 project to deliver a facility at a grossly underestimated budget if the consortium [private partner] also bore the risk for the majority of project financing."<sup>38</sup> Second, the public sector needs to determine what type of risk transfer arrangement is desirable and therefore all risks need to be considered at the start.

Initial evidence shows that P3s are effective in maintaining or improving service levels.<sup>39</sup> Penalties for non-compliance, such as not meeting minimum service levels, motivate P3 partners to deliver quality maintenance services to the facility.<sup>40</sup> Traditionally, maintenance and rehabilitation budgets have fluctuated based on annual budgetary discretion within government. However, when incorporated in a P3 agreement, the public partner is essentially pre-committing future governments to provide the resources (through service payments to the P3 partner) for a

<sup>34</sup> Ploeg, Casey Vander. "Dollars and Sense II: Big City Finances Western Canada, 1990-2007." September 2008. [Canada West Foundation](http://www.cwf.ca/pdf-docs/publications/dollars-and-sense-II-2008.pdf). 19 2011 September <<http://www.cwf.ca/pdf-docs/publications/dollars-and-sense-II-2008.pdf>>.

<sup>35</sup> Jacobacci, Mario. "Dispelling the Myths: A Pan-Canadian Assessment of Public-Private Partnerships for Infrastructure Investments." January 2010. [The Conference Board of Canada](http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt_WEB.pdf). 17 September 2011 <[http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt\\_WEB.pdf](http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt_WEB.pdf)>.

<sup>36</sup> Ibid.,

<sup>37</sup> Ibid.,

<sup>38</sup> Ibid.,

<sup>39</sup> KPMG. "Understanding Public Private Partnerships (P3 or PPP)." 27 January 2011. [National Infrastructure Summit](http://www.nisummit2011.ca/storage/KPMG_NIS_2011.pdf). 18 September 2011 <[http://www.nisummit2011.ca/storage/KPMG\\_NIS\\_2011.pdf](http://www.nisummit2011.ca/storage/KPMG_NIS_2011.pdf)>.

<sup>40</sup> Jacobacci, Mario. "Dispelling the Myths: A Pan-Canadian Assessment of Public-Private Partnerships for Infrastructure Investments." January 2010. [The Conference Board of Canada](http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt_WEB.pdf). 17 September 2011 <[http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt\\_WEB.pdf](http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt_WEB.pdf)>.

specified level of maintenance and rehabilitation work on the facility over the term of the contract. In addition, with maintenance being conducted outside of the government, monitoring tends to increase. “This means that the department is better able to identify lapses in service quality and impose penalties on the P3 partner when service levels fall below the thresholds specified in the maintenance contracts. When the same department of government is responsible for undertaking the maintenance and upholding the maintenance guidelines, lapses in service standards can more easily go unnoticed.”<sup>41</sup>

P3s also help to strengthen the public sector. By requiring them to evaluate relevant commercial, technical and even political risks when determining if an asset is a good fit for a P3, the knowledge-base and ability to better develop and evaluate non-P3 proposals is strengthened. Transforming the roles, responsibilities and thinking within the affected parts of the public sector, to reflect the change from being owners and operators of assets to becoming astute purchasers of long-term services, is a key advantage of P3 participation that could improve government services and expenditures as a whole.

### **Disadvantages of P3s**

Significant improvements in the planning, selection and execution of P3s over the last decade has mitigated some of the more prominent disadvantages found in earlier arrangements. Nevertheless, P3s are not a suitable fit for every infrastructure project because they do come with drawbacks that must be carefully considered against the benefits prior to the commencement of the project.

Money borrowed by the private sector is more expensive than money borrowed by governments. As the P3 private sector partner receives payments from the government over the term of its contract, the additional financing costs are passed along to the public. Therefore, the VfM advantages found through the P3 arrangement must compensate for these costs. Also, as in the case of the Anthony Henday Drive (outlined above on page 3), the government may provide an initial base payment to the company to help reduce some of the financing costs.

However it is important that the private financing component be retained in the P3 because despite the additional costs, private sector financing is vital to the success of the project. Private financing provides an incentive for private firms to complete their contractual obligations should they encounter significant cost overruns that cannot be passed on to the public sector.<sup>42</sup> Furthermore, private sector financing is necessary to enable the optimal risk allocation and performance-based contract provisions.<sup>43</sup> Finally, private financing adds discipline and additional due diligence to the procurement process.

There are also significant legal, accounting and financial analysis costs associated with any P3 project because they tend to be complex and time-consuming to negotiate.<sup>44</sup> These transaction

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<sup>41</sup> Ibid.,

<sup>42</sup> Ibid.,

<sup>43</sup> Ibid.,

<sup>44</sup> Government of British Columbia. "Public Private Partnerships." May 2009. Ministry of Finance, 10 September 2011. <<http://www.fin.gov.bc.ca/ocg/fras/capitalization/Downloads/P3%20Practice%20Guidelines%20May%202009.pdf>>.

costs and the processes they require not only cost more money, but also slow things down and cause inefficiencies.<sup>45</sup> Fortunately, the standardization of practices and increasing knowledge of P3 requirements is reducing these costs overall. Recent Canadian data indicates that the incremental transaction costs, attributable to undertaking P3 transactions rather than conventional procurements, are now relatively modest.<sup>46</sup> “In the two projects for which the incremental transaction data were published—the Abbotsford Hospital project and the Kicking Horse Canyon Phase 2—the incremental transaction costs were 1.9 per cent and 3.5 per cent of the respective public sector P3 budgets.”<sup>47</sup>

In addition to cost considerations, P3s present significant issues regarding transparency and government oversight.<sup>48</sup> This is the case because to protect commercial confidentiality and ensure that conditions exist for a competitive process, P3 negotiations are often conducted in private.<sup>49</sup> The key challenge is achieving a balance between the provision of information to the public in a timely manner and ensuring that the negotiating position of the government and/or the commercial confidentiality of the private sector partner is not jeopardized.<sup>50</sup>

However, the procurement process for P3s since 2004 has become considerably more transparent, and is even greater than what is experienced with conventional infrastructure projects in many cases. This is because procurement documentation, such as a censored form of the partnership contract, is available to the public and a fairness commissioner assesses the fairness and transparency of the process for all bidders. Neither of these features is typical of conventional public infrastructure procurements.<sup>51</sup> In fact in many P3 procurement processes, the request for quotations, request for proposals, and a censored form of the partnership agreement are frequently posted on the relevant public agency websites.<sup>52</sup> Furthermore, in many cases, the VfM report is also made available to the public.

Despite their ability to provide access to new funding sources, it is important to recognize that P3s do not create additional fiscal space in government budgets.<sup>53</sup> If a P3 is based on payments over a long term, the government has a lower cash requirement during the construction phase than they would under a conventional procurement; however, this is simply deferring the cost by

<sup>45</sup> Ploeg, Casey Vander. "New Tools for New Times: A Sourcebook for the Financing, Funding and Delivery of Urban Infrastructure." September 2006. Canada West Foundation. 23 August 2011 <<http://cwf.ca/pdf-docs/publications/New-Tools-for-New-Times-September-2006.pdf>>.

<sup>46</sup> Iacobacci, Mario. "Dispelling the Myths: A Pan-Canadian Assessment of Public-Private Partnerships for Infrastructure Investments." January 2010. The Conference Board of Canada. 17 September 2011 <[http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt\\_WEB.pdf](http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt_WEB.pdf)>.

<sup>47</sup> Ibid.,

<sup>48</sup> Beresford, Charley and Heather Fussell. "Public Private Partnerships: Understanding the Challenge." June 2009. Centre for Civic Governance. 10 September 2011 <[http://www.civicgovernance.ca/files/uploads/columbiap3\\_eng\\_v8-webpdf.pdf](http://www.civicgovernance.ca/files/uploads/columbiap3_eng_v8-webpdf.pdf)>.

<sup>49</sup> Ploeg, Casey Vander. "New Tools for New Times: A Sourcebook for the Financing, Funding and Delivery of Urban Infrastructure." September 2006. Canada West Foundation. 23 August 2011 <<http://cwf.ca/pdf-docs/publications/New-Tools-for-New-Times-September-2006.pdf>>.

<sup>50</sup> Shaw, Mike. "A Discussion of Public Private Partnerships (P3s)." 25 March 2009. P3 Secretariat. 16 September 2011

<[http://www.ipac.ca/documents/Mike%20Shaw%20A%20Discussion%20of%20Public%20Private%20Partnerships%20\(P3s\).ppt](http://www.ipac.ca/documents/Mike%20Shaw%20A%20Discussion%20of%20Public%20Private%20Partnerships%20(P3s).ppt)>.

<sup>51</sup> Iacobacci, Mario. "Dispelling the Myths: A Pan-Canadian Assessment of Public-Private Partnerships for Infrastructure Investments." January 2010. The Conference Board of Canada. 17 September 2011

<[http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt\\_WEB.pdf](http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt_WEB.pdf)>.

<sup>52</sup> Ibid.,

<sup>53</sup> Ploeg, Casey Vander. "New Tools for New Times: A Sourcebook for the Financing, Funding and Delivery of Urban Infrastructure." September 2006. Canada West Foundation. 23 August 2011 <<http://cwf.ca/pdf-docs/publications/New-Tools-for-New-Times-September-2006.pdf>>.

effectively borrowing through the P3 partner.<sup>54</sup> It is important that governments do not treat P3 arrangements as new money that can be re-spent.

To ensure this does not occur, appropriate and consistent accounting practices need to be followed. Once again British Columbia has been a leader in this area. The province's 2009 *Practice Guideline on Public Private Partnerships (P3)* clearly outlines how the costs relating to capital assets, operations and maintenance, lifecycle or rehabilitation and financing in P3 arrangements should be accounted and budgeted for.<sup>55</sup> These types of best-practice are available around the world and have greatly improved public accounting of P3s over the last decade.

The final issue to consider when determining if a project is a good fit for a P3 or not, is the level of difficulty involved in changing the arrangement after it is finalized. P3s cannot effectively adapt to changes in future conditions, and therefore, governments are limited in their capacity to respond to changes in public opinion and demand.<sup>56</sup> Although this same concern can exist with conventional procurement, the situation can be aggravated by a P3.<sup>57</sup> Changes to long-term contracts can be expensive, so P3s should primarily be utilized where there is a very small risk of change. Alternatively, the public sector should design P3 transactions in such a way as to exclude any part of the asset that is subject to relatively high uncertainty regarding future requirements.<sup>58</sup>

### **Saskatchewan Chamber of Commerce Position**

P3s have been proven to provide access to private sector financing, expertise and innovation while diversifying the government's level of risk and spreading out costs. For provinces currently utilizing this innovative infrastructure investment opportunity, P3s have resulted in efficiency gains such as lower financial costs, faster delivery schedules, and higher-quality outcomes. The Saskatchewan Chamber of Commerce believes it is time for Saskatchewan to start seeking some of these benefits as well.

The Saskatchewan Chamber recognizes that P3s are not perfect for every situation, but believes the Province of Saskatchewan needs to start utilizing them in situations where they can save time and money. The Chamber understands that P3s can create long-term commitments for taxpayers and wants them to be used only after a rigorous evaluation. However, this evaluation framework has been developed and enhanced in many Canadian jurisdictions and Saskatchewan, as one of the last-adopters in Canada, will have the advantage of being able to institute a successful P3 procurement process without the initial learning-curve experienced in other jurisdictions.

<sup>54</sup> Iacobacci, Mario. "Dispelling the Myths: A Pan-Canadian Assessment of Public-Private Partnerships for Infrastructure Investments." January 2010. The Conference Board of Canada. 17 September 2011

<[http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt\\_WEB.pdf](http://www1.infrastructureontario.ca/en/links/files/DispellingTheMythsRpt_WEB.pdf)>.

<sup>55</sup> Government of British Columbia. "Public Private Partnerships." May 2009. Ministry of Finance. 10 September 2011.

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<sup>56</sup> Ploeg, Casey Vander. "New Tools for New Times: A Sourcebook for the Financing, Funding and Delivery of Urban Infrastructure." September 2006. Canada West Foundation. 23 August 2011 <<http://cwf.ca/pdf-docs/publications/New-Tools-for-New-Times-September-2006.pdf>>.

<sup>57</sup> Ibid.,

<sup>58</sup> Iacobacci, Mario. "Dispelling the Myths: A Pan-Canadian Assessment of Public-Private Partnerships for Infrastructure Investments." January 2010. The Conference Board of Canada. 17 September 2011

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The Provincial Chamber recommends that any future discussions regarding P3s in Saskatchewan not shaped as a private sector versus public sector debate, since the same private sector firms are usually involved in carrying out the work whether the project is a traditional one or a P3. Instead, P3s should be viewed as an opportunity to grow the private sector and add expertise to the public sector, while fulfilling a currently unmet need.

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# Background

January 2012

## Understanding Partnerships BC

**Importance to Saskatchewan Business:** With billions of public sector dollars about to go into new infrastructure in the province, the potential exists for greater participation by the private sector in many of these projects. The Partnership BC model can offer the province guidance on how Saskatchewan can facilitate these public-private partnerships.

Partnerships BC was created in May 2002. The company is incorporated and wholly owned by the Province of British Columbia (reporting to the Ministry of Finance). The aim of Partnerships BC is to support the Province's commitment to sound fiscal management in the delivery of affordable, performance-based infrastructure while protecting the public interest and maximizing the value of taxpayer dollars. Primarily, Partnerships BC is responsible for bringing together ministries, agencies and the private sector to develop projects through public-private partnerships (P3s), combining the best of the public and private sectors in the delivery of public services.<sup>59</sup> The company facilitates, and in some cases manages, partnerships on behalf of public sector agencies.<sup>60</sup>

Since being created, Partnerships BC has been involved in more than 35 partnership projects with an investment value of \$12.5 billion, of which \$5 billion is private finance. Partnerships are designed to deliver major capital projects that meet public needs at minimum life cycle cost with an optimum sharing of responsibilities among the partners. Furthermore, according to Partnerships BC, every project undertaken as a P3 in British Columbia has been completed on time and on budget.<sup>61</sup>

### Partnerships BC's core business is to:

- Provide specialized services identifying opportunities for leveraging infrastructure and developing public-private partnerships;
- Foster a business and policy environment for successful partnerships and related activities by offering a centralized source of knowledge, understanding, expertise and practical experience in these areas; and,
- Manage an efficient and leading edge organization that meets or exceeds performance expectations.

Source: Partnerships British Columbia. Overview of Partnerships BC. February 2007. 12 November 2011  
<<http://www.partnershipsbc.ca/pdf/Corporate%20Overview%20FINAL%20feb07.pdf>>.

<sup>59</sup> Partnerships British Columbia. About Us. 2006. 12 November 2011  
<<http://www.partnershipsbc.ca/files/about.html>>.

<sup>60</sup> Partnerships British Columbia. Frequently Asked Questions. 2006. 12 November 2011  
<<http://www.partnershipsbc.ca/files/faqs.html>>.

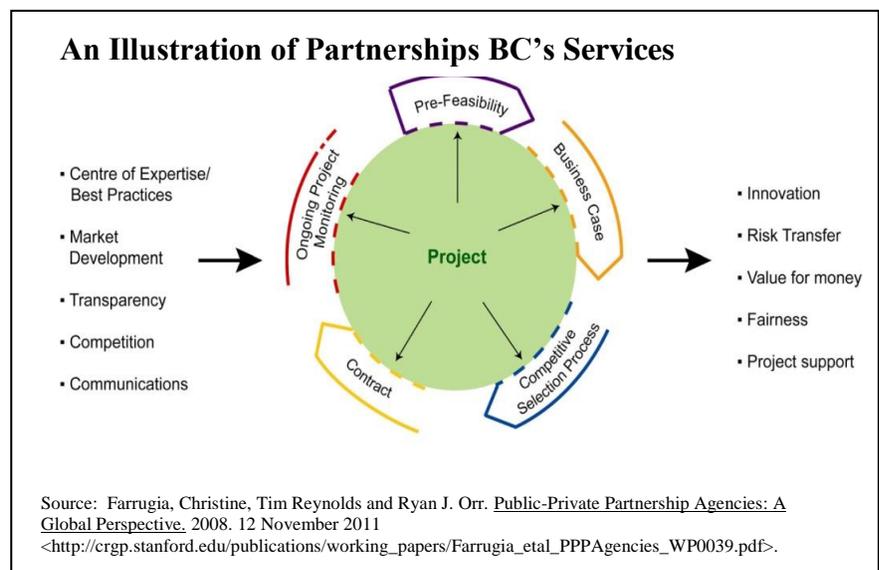
<sup>61</sup> Government of British Columbia. Province Raises Capital Standard Threshold for PPPs. 7 November 2009. 15 November 2011 <<http://www.partnershipsbc.ca/documents/IB-50m-cap-std-update-03nov09.pdf>>.

In 2010/11, Partnerships BC had 12 projects across six different sectors which reached final project agreements.<sup>62</sup> In addition, three projects in the transportation, health, and corrections sectors were in an active procurement stage and nine projects were in the business planning stage.

In British Columbia all capital projects with a provincial contribution of \$50 million or more have to be considered as a P3 by Partnerships BC unless there is a compelling reason not to. Prior to 2009, the threshold for consideration as a P3 was \$20 million, but the government revised the threshold because all but one of the projects recommended for a P3, since the start of the program, have been worth over \$100 million.<sup>63</sup>

With any P3 infrastructure project, Partnerships BC's involvement can include a variety of roles, including business case analysis to determine the best model for delivering a project,

management of the competitive selection process (including writing and issuing requests for qualifications and requests for proposals), facilitation of the fair evaluation of proposals the final negotiations to reach a contract), and project and contract management throughout the life of the project. To assist Partnerships BC in managing and transferring its knowledge of P3s, the company has developed a comprehensive library of guidance documents, templates, and project examples to support clients with new projects in new sectors.<sup>64</sup>



Partnerships BC is overseen and governed by a ten member Board of Directors, from a variety of industry sectors and technical areas. The Board has significant experience in developing and managing joint-venture projects and partnerships, as well as seasoned knowledge in areas such as finance, law, deal structuring, and real estate development.<sup>65</sup>

<sup>62</sup> Partnerships British Columbia. 2010/2011 Annual Report. June 2011. 12 November 2011  
<<http://www.partnershipsbcc.ca/files/documents/psc-annualreport-15jun2011.pdf>>.

<sup>63</sup> Government of British Columbia. Province Raises Capital Standard Threshold for PPPs. 7 November 2009. 15 November 2011 <<http://www.partnershipsbcc.ca/documents/IB-50m-cap-std-update-03nov09.pdf>>.

<sup>64</sup> Partnerships British Columbia. Service Plan 2011/12 - 2013/14. 2011. 12 November 2011  
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<sup>65</sup> Partnerships British Columbia. Overview of Partnerships BC. February 2007. 12 November 2011  
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Partnerships BC is seen as a leader nationally and internationally in regards to P3 infrastructure arrangements. The company is unique because it acts as both an advisor to government and as a gateway to partnership opportunities for the business sector. The company is a revenue generator earning the majority of its income using a fee-for-service platform.<sup>66</sup> Partnerships BC also sets its own budget and is responsible for managing its own operations and creating its own business plan. Approximately forty people are employed by Partnerships BC.<sup>67</sup>

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<sup>67</sup> Ibid.,