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Real Property Institute of Canada Breakfast Speaker Series

Public-Private Partnerships (P3s)
February 12, 2013



Public Works and
Government Services
Canada

Travaux publics et
Services gouvernementaux
Canada

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Overview

- Introductions
- What is a Public-Private Partnership?
- Budget 2011 and Federal Public-Private Partnerships
- PPP Canada
- Experience applying both the Guideline and in working with PPP Canada
- Questions



What is a Public-Private Partnership?

- Federal Definition
- How P3s Work
- Typical P3 Structure
- Benefits & Costs of P3s

Definition

P3s are a long-term performance-based approach for procuring public infrastructure where the private sector assumes a major share of the responsibility in terms of risk and financing for the delivery and the performance of the infrastructure, from design and structural planning, to long-term maintenance.

- Integration of roles (Design, Build, Finance, Operate, Maintain);
- The provision of capital assets and associated services to meet a defined output specification (i.e., define what is required rather than how it is to be done);
- A transfer of risk to the private sector anchored with private sector capital at risk;
- Entered into by a competitive process.

What is Not a P3

The following types of contractual arrangements ARE NOT examples of P3 arrangements:

- privatization
- joint ventures with the private sector
- co-ownership with another public sector body
- arrangements for the divestiture of federal assets where the private partner will become the new owner
- design-build contracts
- service-only contracts
- Sale/lease-back contracts; and
- lease-purchase contracts

Where do P3s Fit in the Public Policy Agenda?

- P3s are a delivery/execution option: decision on need and affordability are preconditions.



- Between traditional, public delivery and regulated private delivery

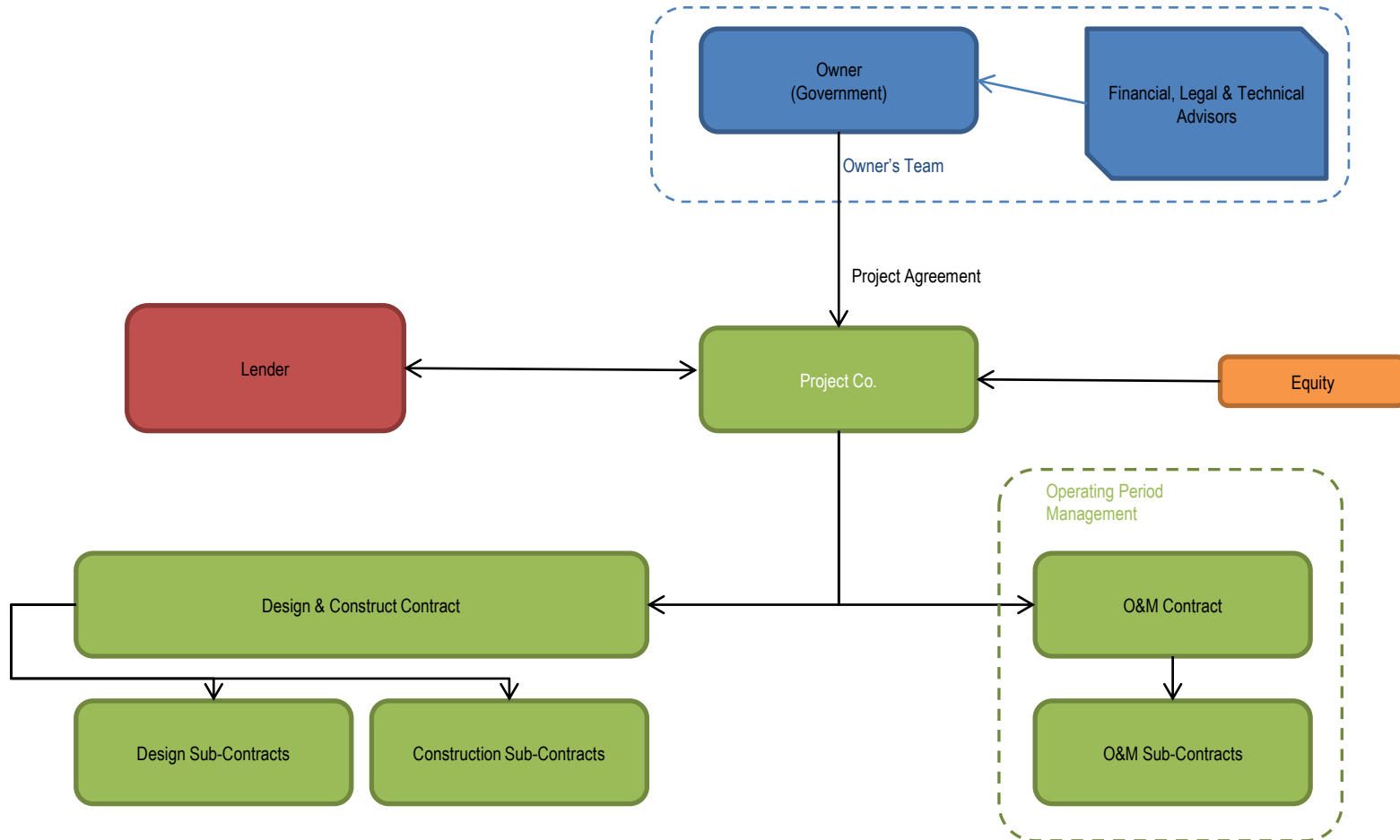
How do P3s Work?

Contractual relationship between public sector and private sector

Payments based on performance

Private sector puts money at risk

Typical DBFOM Structure



Benefits of P3s

On-Time & On-Budget Delivery

- Payment triggered by completion
- P3s have a proven track record

Accountability

- Performance standards
- One contractor to deal with

Risk transfer

- Transfer of key risks to the private sector
- Design, construction, lifecycle maintenance risks

Fiscal planning certainty

- Foreseeable payments over life of asset
- Cost certainty for up to 30 years

Benefits of P3s

Focus on Outcomes & Core Business

- Enables governments to focus on outcomes, instead of inputs;
- Core competencies of public and private sectors.

Investment in upfront planning

- Forces disciplined planning process.

Integration

- Encourages private sector to take a long-term approach.

Innovation

- Greater scope for creativity and innovation – design, construction, operations, and maintenance.

Value for Money

P3 Best Practice

- Evaluation of different procurement options;
- Examine quantitative and qualitative factors and choose best value;
- Consider whole-of-life costs: design, construction, operation and maintenance costs over the lifecycle of the asset;
- Consider retained and transferred risks.

P3 Value Drivers

- Allocating risks to the party best able to manage them (i.e. lower project risk);
- Innovations (i.e. lower capital and operating costs);
- Higher quality assets and better performance.



Budget 2011 and Federal Public-Private Partnerships

- Background: Budget 2011 screening requirements
- Policy Context
- Implementation of Budget 2011:
 - Development of guideline
 - Introduction of new PPP Canada screening tool



Budget 2011 – P3 Screen for Large Investments in Infrastructure

- Mandatory P3 screening requirement when capital costs of the asset are \$100M or more and the lifespan is at least 20 years.
- If the screen identifies a P3 as a viable option, the department is required to develop a P3 proposal in addition to other options.
- Departments to conduct screening in consultation with PPP Canada.



Government of Canada Real Property Portfolio

- Complex portfolio across vast geographical area.
- Assets include a very broad range of resources ranging from land, office buildings, special purpose buildings (eg. laboratories) and engineering works and infrastructure (eg. bridges, roads).
- Current issues :
 - Aging assets (particularly buildings and infrastructure, such as roads and bridges).
 - Need to optimize scarce capital dollars.
 - Need to leverage private sector innovation and financing.

Treasury Board Policy Instruments

- Relevant Treasury Board policies include:
 - *Policy Framework for the Management of Assets and Acquired Services*
 - *Policy on Management of Real Property*
 - *Policy on Management of Projects*
 - *Policy on Investment Planning*
- These policies govern the management of assets throughout their life cycle, i.e. planning, acquisition, operations, maintenance and disposal.



Key Policy Principles

- Assets are only held to support a department's delivery of program
- Value for money
- Stewardship
- Management strategies developed based on *life cycle management* principles
- Management decisions to encourage innovation



Treasury Board Policies and P3s

- P3s are a new tool for investing in and managing government infrastructure.
- TBS released a guideline and is working on policy amendments to implement Budget 2011 P3 requirements.
- References are made to PPP Canada's Screening Matrix.



TBS P3 Guideline

- TBS Guideline for Implementing Budget 2011 direction on P3s:
 - Clarifies on new P3 screening requirements and considerations; and,
 - Outlines considerations in conducting a value for money analysis.



Proposed P3 Policy Amendments

- Following implementation of the TBS Guideline, TBS is also proposing policy amendments to:
 - incorporate mandatory P3 screening requirements; and,
 - incorporate screening considerations in the investment planning process.
- Amendments proposed to the:
 - Policy on Management of Real Property
 - Policy on Investment Planning
 - Policy on Management of Projects
- Expected TB approval in first half of 2013.



P3 Screening Tool

- Developed by PPP Canada.
- Mandatory for departments to use for large infrastructure projects (> \$100M, 20yrs).
- To be used early in the investment planning process.
- Results to be included in investment plans.

Conclusion

- P3 Guideline is currently available on TBS website.*
- P3 Policy amendments expected to be completed in the first half of 2013.
- Contact TBS for further information on the proposed policy amendments.
- Contact PPP Canada for 'how-to' information on planning for and implementing P3s.

*<http://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=25576§ion=text>

PPP Canada: Mandate & Role

- Mandate
- Structure
- Business Lines

What is PPP Canada?

- A Federal Crown Corporation;
- Reports to Parliament through the Minister of Finance;
- Led by an accomplished private sector Board of Directors;
- Partial Agent of the Crown.

Mandate

- To assess public private partnership opportunities at the federal level in accordance with criteria established by the Treasury Board;
- To advise on the execution of public-private partnership projects at the federal level;
- To act as a source of expertise and advice on public-private partnership matters.

Business Priorities

P3 Knowledge Development and Sharing

Market development and research
Best practices
P3 Training and Awareness

Advancing Federal P3s

P3 Screening
P3 Business Case
P3 Procurement and Execution
P3 Guidance, Tools and Capacity Building

Advancing Provincial, Territorial, Municipal and First Nation P3s

P3 Canada Fund Project Investments
Capacity Building

Management Priorities

Corporate Excellence

Business Processes
Stewardship
Performance Management
Human Resources
Governance
Risk Management

Outcomes

Value for Canadians

Deliver public infrastructure
Canadians need

~

Deliver greater value for public infrastructure investments through P3s

P3 Leadership

Demonstrating success

~

Leading source of information on Canadian P3 best practices and market knowledge

PPP Canada Value Proposition

What and who we know

- Knowledge and networks to capital market participants and private and public sector P3 practitioners

Project experience

- Practical and technical project experience

Screening for P3 Suitability

- The Federal Screen
- Using the Screening Matrix
- Interacting with PPP Canada

The Federal Screen

The purpose of the P3 Screen is to raise the level of awareness and consideration of P3s in the federal investment planning process.

- It is a consistent and systematic approach for assessing the P3 suitability of capital investments.
- The screen supports the efficient use of analytical resources by ensuring that investments with limited P3 suitability do not needlessly consider the P3 option.

What Types of Projects?

Larger, more complex projects

Outcomes / outputs can be specified and are stable

Market interest / capacity

User fees not a driver or necessity for P3s but can broaden scope

PPP Canada's Screening Matrix

- The P3 Screening Matrix identifies whether an investment presents the right mix of traits to succeed as a P3.
- It asks the user to consider 14 questions on a scale of indicators from 1 to 5.
- The user considers the question in the context of their proposed investment and identifies the best indicator that best aligns with their assessment.
- The user also provides a complete rationale for their rating.
- The user's scores will be modified by a weighting factor that reflects the relative importance of that criterion in determining P3 suitability.

Interpreting Screening Results

- **Green** indicates that the P3 option should be included in the Procurement Option Analysis or Business Case to be developed for the investment.
- **YELLOW** indicates that the investment presents a mix of favorable and unfavorable indicators for P3 delivery.
- **RED** indicates the P3 option should not be retained for further analysis.

A Word on the Screening Result

The accuracy of these results is a function of the degree of definition and the current state of planning around the investment – clearer definition and greater understanding of the investment will provide better screening results.

There is no one overwhelming indicator of P3 suitability.

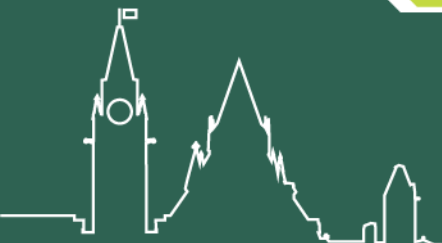
My Asset has P3 Potential: What Now?

Assessing P3 potential is only the first step in a larger analytical process that concludes with a recommendation on the optimal approach to procurement.

A positive screening outcome signals that the P3 option must be included the broader Options Analysis for the investment.

Life-cycle options analysis is a long-standing requirement of Treasury Board policy.

PPP Canada is developing tools and methodologies for supporting these subsequent phases of analysis as well as the procurement phase.



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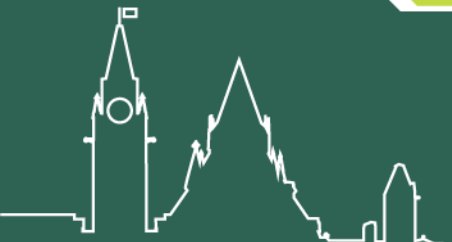
Experience applying the Guideline and in working with PPP Canada



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Questions



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