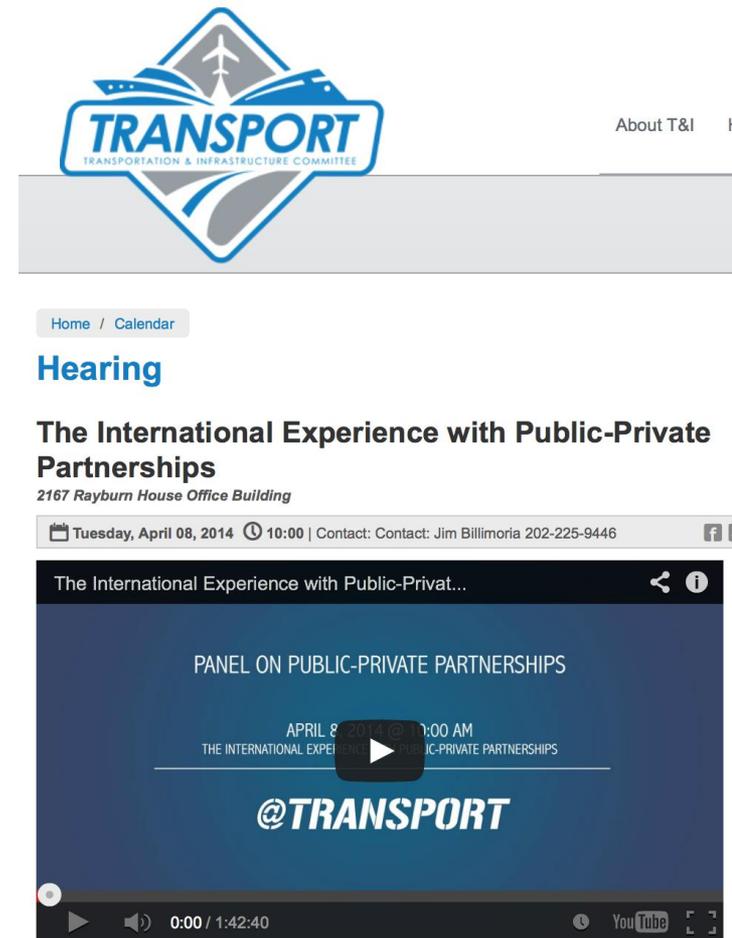




Public Private Partnerships (PPP): “Value for Money”

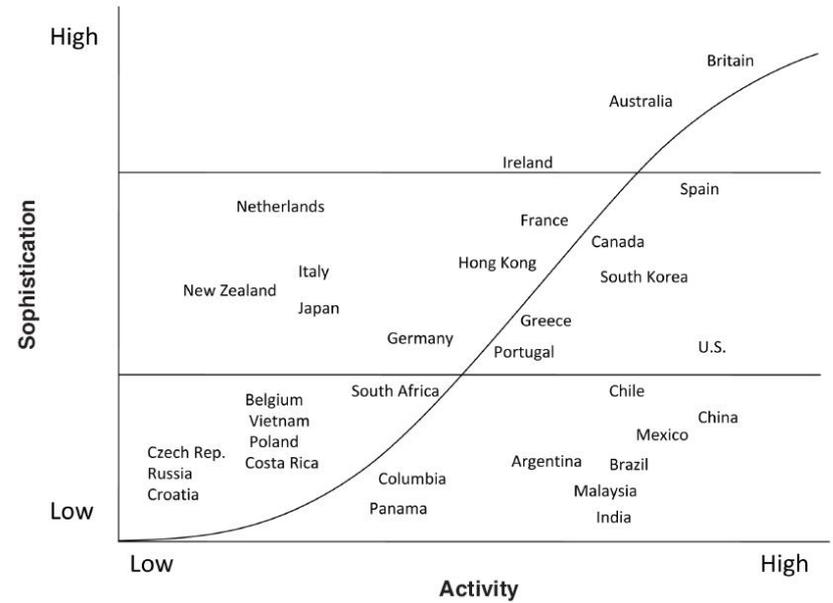
Presentation Overview

1. International Rationales for PPPs: *In search of value for money*
2. Canadian Experience with PPP
3. Outstanding Issues
4. Conclusions



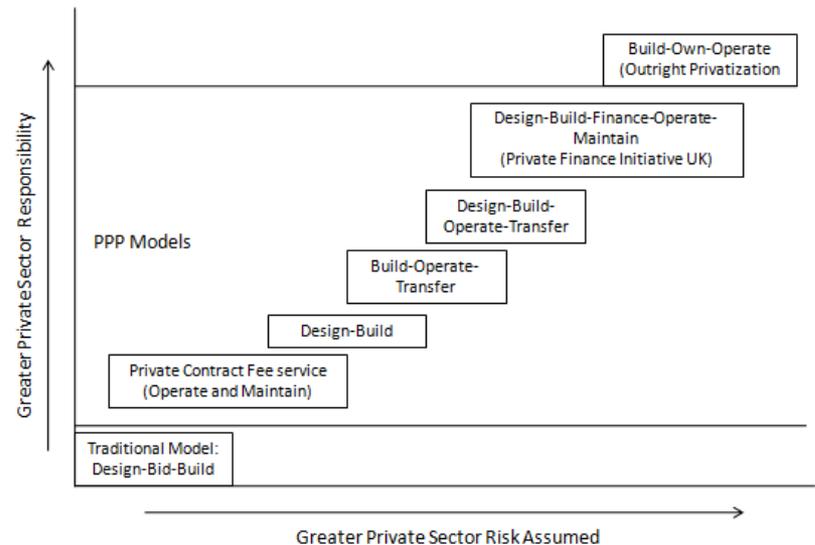
The screenshot shows a webpage for a hearing. At the top left is the logo for the Transportation & Infrastructure Committee, featuring a stylized airplane and the word "TRANSPORT" in a blue diamond shape. To the right of the logo is a link for "About T&I". Below the logo is a navigation bar with "Home / Calendar" and a "Hearing" link. The main heading is "The International Experience with Public-Private Partnerships" with the address "2167 Rayburn House Office Building". A date and time bar indicates "Tuesday, April 08, 2014 10:00" and provides contact information for Jim Billimoria. Below this is a video player for a panel on public-private partnerships, scheduled for April 8th at 10:00 AM. The video player includes a play button, a progress bar showing 0:00 / 1:42:40, and the YouTube logo.

PPPs: A Truly Global Phenomena



Defining Infrastructure PPPs

“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.”



CCPPP, 2012

Garvin and Bosso (2008, 163)

Four Global Motivations for Using PPPs

1. Raising New Money for Infrastructure

2. Off Balance Sheet Accounting



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Pension funds playing a big role in urban investing

Research finds this radical approach to urban development is reaping dividends for investors and communities

BY GORDON L. CLARK, TESSA HEBB AND LISA HAGERMAN | MAY 26, 2008

While a billion people watched the Academy Awards this year, few thought about the celebrity-filled Kodak Theatre and the strip of Hollywood real estate it sits on. This strip of real estate is part of an urban revitalization movement sweeping America. Savvy investors are putting money to work in inner cities, and the results are paying off. At the forefront of this trend are some of America's largest pension funds.



European PPP Expertise Centre - European PPP Expertise Centre

Eurostat Treatment of Public-Private Partnerships

Purposes, Methodology and Recent Trends



“[i]f pension allocations for infrastructure were to eventually reach 5-10% across the nation current stocks of pension capital would support 15% of America’s infrastructure investment needs for the next 25-50 years.”

(Clark et al., 2011, 1)

Four Global Motivations for Using PPPs

3. Restructuring Provision of Public Services



“a PPP programme can serve as a catalyst for public-sector reform in a number of different ways.” Yescombe, 2007, 24

“PPPs should help filter out wasteful projects” as Engles, Fischer and Galetovic (2011, 15)

4. Achieving Value for Money

- “The cost effectiveness of a PPP relative to traditional procurement is a result of **up-front engineering of the design solution and the financing structure combined with downstream management of project delivery and the revenue streams.** All of this is a consequence of the incentives built in to the services payment mechanism and the risk transfer in the PPP model.”

Grimsey and Lewis (2004: 6).

Canadian Experience With PPPs: First Wave (1990s and Early 2000s)

Motivations

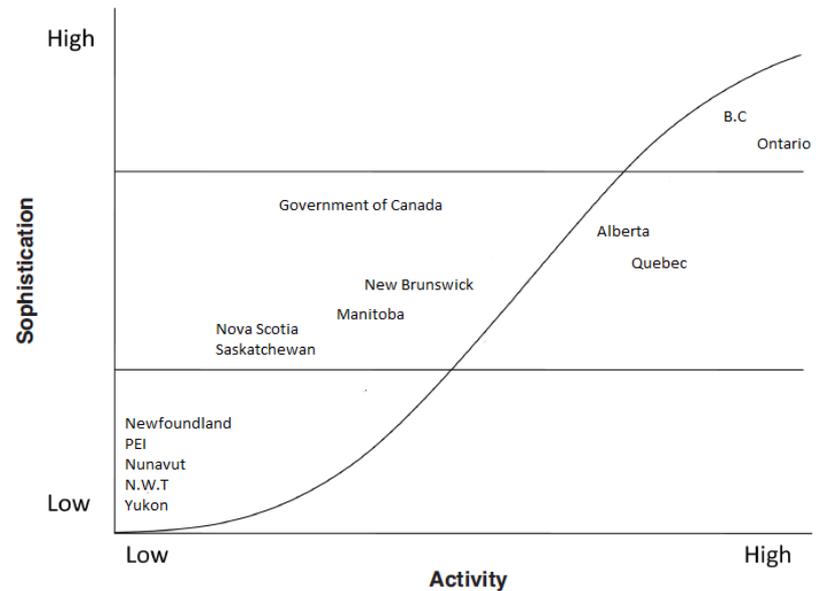
- Tried to raise new money for infrastructure
- Transfer construction and demand risk to the private sector partner
- Off-balance sheet financing in some cases
- Often included user fees

Contestation

- the use of the PPP model was politically motivated: Equated with privatization
- private financing costs were considerably higher than traditional public financing;
- rigorous assessments were not carried out to evaluate whether the PPP was the optimal procurement model;
- the procurement process lacked suitable transparency;
- the government lacked the expertise to manage such complex concessions and thus may not maximize the public benefit of the PPP approach
- the implementation of user fees on road facilities that are commonly free in Canada was seen as unfair
- the long-term concession agreements led to the loss of public control over important public facilities.

Second Wave of PPP Projects (2003-2013)

- 196 projects in operation or in procurement pipeline;
- Create more sophisticated institutions and procurement procedures:
 - PPP agencies have been formed by the federal government and 6 provinces



Canadian PPPs identified as being about delivering Value for Money:
A Technocratic and Political Response to First Wave PPPs

Technocratic Rationales

“P3s are an alternative method for procuring large and complex public infrastructure projects. **They offer three major benefits which are better costs and delay controls, optimization of risk and resources and innovation.** P3 contracts are typically long-term engagements which use specific financial structures to leverage performance and innovation from the private-sector and divest the taxpayer of risks associated with the design, construction, maintenance and operation of the infrastructure.”

Technical Measures

1. Develop up front procurement and assessment tools to demonstrate value
2. PPP agencies staffed with business and transaction personnel – enhance deal structuring and level playing field with experienced industry
3. Make government more reliable partner
4. Build web sites and put more project info on the web

Canadian PPPs are about delivering **Value for Money**: A Technocratic and Political Response to First Wave PPPs

Political Rationales

“People's perceptions were clouded and they equated this type of method (PPPs) to build and finance infrastructure with privatization and so we found that there was really no public appetite for privatization and **what we had to do was to change the lexicon - change the language and that is why we came up with and looked for the most boring term that we could possibly find - what we called AFP, alternative finance and procurement.** But we use the same principle basis - although a little bit different. We put up front that first and foremost public interest is paramount - things like that. Value for money must be demonstrated. Process must be fair. All of these kind of thing just as extras - safeguards - that this is being done from a particular way and a particular perspective and you know what you are getting involved in.”

A Former Minister of Infrastructure, Ontario,
Personal Interview, 2012

Political Influence on PPP Approach

“We knew that in particular, the ideological left would put significant and fundamental concerns and that we had to address them because many of them are legitimate. **And so we really wanted to prepare for what we knew was going to come our way and the very first step was the question of privatization.** So, it was important whenever we heard privatization we would say, public-ownership. We could counter-balance that and at least have a conversation with the public about that. **The industry, also, wanted us to be more aggressive to undertake a whole lot of projects and we told them that our approach, at first, was going to be more modest.** That we would want to use those as learning opportunities and we would want to grow as we became more comfortable with building in additional elements.”

A Former Minister of Infrastructure, Ontario,
Personal Interview, 2012

1. PPP As Procurement Strategy

- PPPs in Canada have not been officially seen as a way to radically reform the way that public services are planned or delivered
 - Government planners highly involved in facility design decisions/setting specifications
 - Maintain public ownership and a high level of public control over the asset
- Private operations of core building services are unusual; mainly non-core services and maintenance

“we don’t make the decision as to which projects need to be built. We do not make the decision as to where the project is to be built. That is part of the political decision making process. The politicians decide”
- However, there have been more subtle reforms that have taken place as part of the growth in PPPs, which vary by province:
 - PPPs set as preferred procurement model for large projects in some provinces
 - BC abolished central infrastructure planning department, while granting Partnerships BC important role in project decision making
 - In some cases, projects have been prioritized or specifically designed in order to make them feasible as PPPs
 - Infrastructure provision policy has begun shifting towards providing large scale regional facilities, which aligns with PPPs which are most feasible for big infrastructure projects because of their high financing and transaction costs
 - Changes relationships between firms involved in P3s

(Personal Interview, IO Senior Executive, 2012).

2. PPPs Do not Raise much New Money for Infrastructure

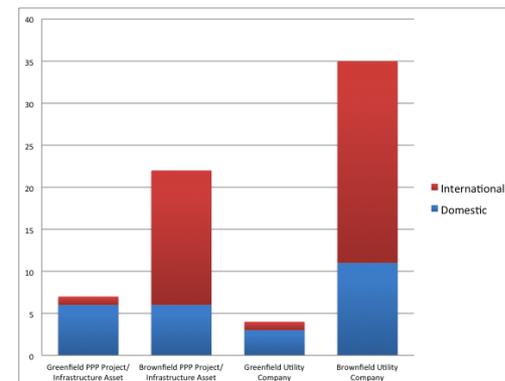
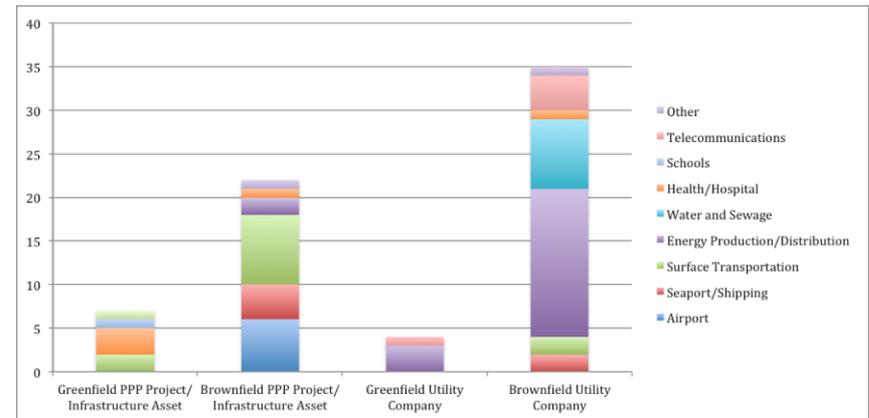
“The partial public funding provided by the City is intended to leverage the City’s lower borrowing rate, while still requiring the private sector to provide the majority of financing for the Project thereby maintaining the risk transfer benefits associated with private financing.”

(Deloitte & Touche, 2011: 20)

"In no uncertain terms we were told two-and-a-half years ago, the only source of funding, the only opportunity to make this happen is through P3 Canada"

Federal Member of Parliament for
St. John, New Brunswick

Large Canadian Pension Fund Investments in Infrastructure Globally



3. On Balance Sheet Financing

- “government officials and business people agree with accountants and auditors that accounting should not drive PPP transactions. Such transactions should be driven by the commercial merits of the deal”

(CCPPP, 2008: 2).

4. Limited Demand Risk Transfer

Cons

- Substantial financial risk retained by the government in case of revenue shortfalls
- Lose benefit of private sector scrutiny of project merits and investment decision when they have their own risk

Pros

“allocating all demand risk to private operators has a poor track record”

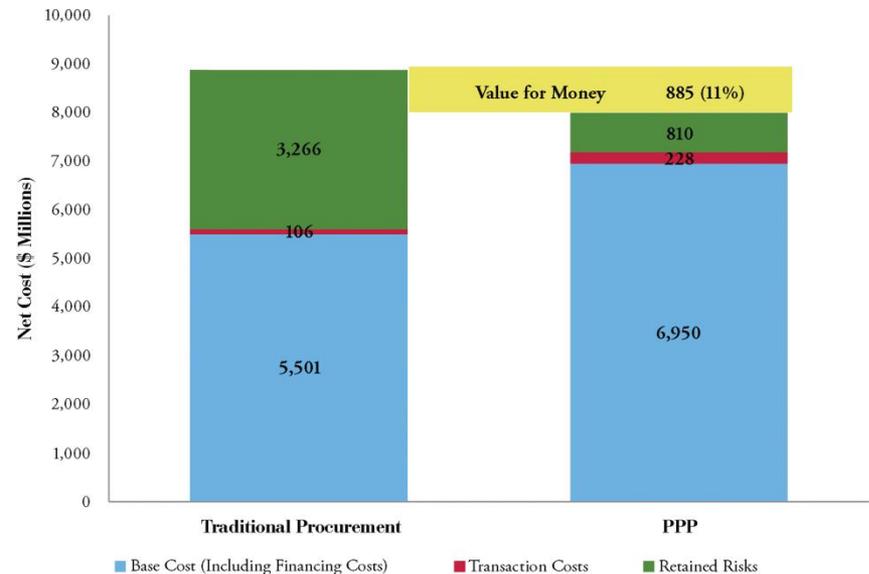
Menzies and Mandri-Perrott, 2010: 2.

By not commonly transferring demand risk, Canadian PPPs have avoided a key source of tension and project failure in PPPs globally

Outstanding Issues with Canadian PPPs

1. Are PPPs actually delivering value for money? High cost of risk transfer and project financing; more evidence needed on actual cost of project risks
2. Meaningful stakeholder engagement in decision making
3. Some projects have had contract management, procurement and probity issues
4. Do PPPs encourage innovation – what types, does it drive efficiencies or cost savings?
5. Is PPP procurement conducive to architectural and design excellence?
6. Despite PPPs remain politically contentious in Canada

Value for Money Equation for 28 PPP Projects in Ontario



Siemiatycki and Farooqi, 2012

Conclusions

- PPP models used in Canada have been fairly conservative, and maintained a high level of government oversight and control
- Canadian PPPs have sought to leverage the relative strength of each partner, rather than promoting more ideological objectives related to privatization
- Transferring project risks comes at a substantial cost
 - Look to lower cost alternatives to manage rather than transfer project risks
 - Look to reduce private finance over full life of the concession period - DBF
 - Could PPP agency expertise be applied to a wider range of projects
- Provocative Question: Are we actually practicing PPPs in Canada, or something different?
 - Limited private role in operations and maintenance
 - Limited demand/revenue risk
 - Limited user fees – mostly availability payments
 - Large amount of public finance
 - Public sector does extensive initial work to develop project
 - Maintains a high level of oversight and control over projects
- Yes, but.... A particular PPP practice has emerged that is a response to the history and learning from Canada and abroad