

P3S ARE HERE TO STAY | ROAD TO SUCCESS | IS THERE A PLACE IN P3S FOR SMALLER PLAYERS?

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Public-Private Partnerships:

What They Mean for Saskatchewan
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P3s Are Here To Stay

Public-private partnerships
sweeping the nation

By Heather Hudson

Imagine bidding on a job that requires you to secure capital, design, build and maintain a project throughout its entire lifespan. Milestone payments may be made when predetermined portions of the project are complete, but final payment doesn't come until the job is substantially complete.

That's a public-private partnership – or P3 – project. And the model is taking the country by storm.

From hospitals to bridges to detention centres to water/wastewater facilities, more than 200 P3 projects are under way in Canada right now with a value of more than \$70 billion.

If you're not involved in a P3 project yet, chances are you might be in the future, whether as a sub-contractor or a lead firm. We're breaking down exactly how P3s work so you can determine how you might be involved.

P3 101

Governments across the country have encountered problems with cost overruns,

delays and poorly maintained facilities with respect to public infrastructure projects.

The P3 model aims to avoid these costly frustrations by integrating accountability and longevity right into the procurement process. By transferring the risk from government to the private sector, they also aim to make exciting innovations possible.

"P3s work because they engage the expertise and innovation of the private sector and the discipline and incentives of capital markets to deliver public infrastructure projects," says PPP Canada's president and CEO, John McBride.

The late Finance Minister Jim Flaherty was one of the first government champions of the P3 model and in 2009 committed a \$1.2-billion, five-year fund to be administered through PPP Canada, a federal Crown corporation. Earlier this year, that funding was renewed with another \$1.2-billion commitment over five years.

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– John McBride, President and CEO, PPP Canada



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– Mark Romoff, President and CEO,
Canadian Council for Public-Private Partnerships

better develop that for taxpayers," explains McBride.

In addition to providing funding for P3 projects, PPP Canada works with all levels of government and Aboriginal communities to help identify potential P3 projects and helps companies through the procurement process right through to the financial close of a project. It also offers knowledge products and outreach sessions to help companies learn about the P3 model and how they might be involved in one.

"Not all publicly-funded projects make good P3s, only about 15-20 per cent do. The

skill is to know how to use P3s effectively," says McBride.

There are three practical differences between a P3 model and the more traditional one.

Payment

Governments typically do not pay for the asset until it is substantially complete though, in some cases, the consortia will be paid once predetermined milestones are reached.

"In the case of a \$300-million hospital, the private sector would commit to building,

designing, operating and maintaining the facility. The government doesn't pay a nickel until it's open for business," says McBride.

"The incentives for performing on time and on budget are enormous. Anything that goes over is to their account. There are penalties built into the contract if the building doesn't meet the performance specifications set out."

Complete life cycle

A substantial portion of the contract is paid out over the long-term and only if the asset

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is properly maintained and performs well. This is intended to ensure proper design that will remain in good repair for the infrastructure's whole lifespan.

"Too often, we were over-designing, over-building and under-maintaining things. There are too many public assets in a state of disrepair," notes McBride.

Transfer of risk

The lifetime cost of the asset is known upfront, which means that taxpayers aren't on the hook for costs that arise unexpectedly during the contract period.

In the performance specifications, the government will identify what it wants to achieve, not how it wants to achieve it. It's up to the private sector contractor to come up with the design.

"The emphasis is on the outcome, not the process," says McBride.

"This means specifying things like considering natural luminosity and minimizing the distance a nurse has to walk from her station to the medical care area rather

than insisting the corridors must be grey and the building has to be four stories high. This component unleashes incredible innovation."

Why are P3s important in Canada?

"While P3s aren't a panacea, what we've found is when you do it for the right reasons they really produce results," says Mark Romoff, president and CEO of the Canadian Council for Public-Private Partnerships, a not-for-profit, member-based organization that promotes and supports P3 projects.

"Generally, P3s come in on time and on budget and at less cost than in the traditional way of doing business."

In an economic impact assessment of P3s in Canada over the past 10 years, it was discovered that more than 290,000 direct jobs were created by P3 projects along with a direct contribution of \$25 billion to the Canadian GDP and \$9.9 billion in savings to government.

"These are very compelling outcomes and give all sectors strong confidence that going down this road will generate economic benefit for communities and taxpayers," says Romoff.

Where does Saskatchewan fit in?

When it comes to Saskatchewan and P3 projects, McBride says his tagline would be, "a recent arrival but coming on strong."

The municipalities of Regina and Saskatoon have both received funding for projects through PPP Canada. And with the creation of SaskBuilds, a Crown corporation that helps plan and manage large-scale infrastructure demands, the scene is set for more P3 projects.

"The speed to market with respect to P3s in Saskatchewan has been nothing short of remarkable," says Romoff. "Right now, there are eight P3 projects in progress and more on the horizon."

How do SHCA members get involved in

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