

# Public Private Partnerships—An Option to Consider



Bruce Hirst, Consultant BHH Consulting Services

- [bruce.hirst3@gmail.com](mailto:bruce.hirst3@gmail.com)
- 613-606-5947

Robert (Bob) Ryan, The Ryan Group

- [rciryan@rogers.com](mailto:rciryan@rogers.com)
- 613-233-2587

# Presentation Outline



- What is a P3
- Why a P3
- Business Case
- Procurement/Contracts
- Lessons Learned during Construction
- Operating Phase
- Summary
- Questions

# P3's - An Alternative Methodology



- **Private Sector Finance / Capital at risk drives:**
  - Cost Certainty – A true fixed price and known operating costs for entire concession period provides financially sustainable asset
  - Performance – Specifications define what is required rather than how it is done and payment mechanism allows for monetary deductions to the monthly service payment
  - Risk Transfer – Public sector transfers risk that the private sector is best able to manage – anchored by private capital at risk
- **Integration**
  - A P3 contract includes all of the phases of an asset
- **Ownership**
  - Public sector retains ownership of the asset
- **Well-suited to large and complex projects**
  - Large, complex projects have significant risk transfer potential

# Project Delivery Challenges



- Public sector has experienced challenges with project delivery, including:
  - ✦ cost overruns;
  - ✦ late delivery; and,
  - ✦ poor performance.
- Studies have demonstrated the magnitude of these challenges. A study examined 258 projects worth \$90 billion, finding:
  - ✦ 9 out of 10 projects experience cost overruns;
  - ✦ Average cost overrun is 28%;
  - ✦ All 20 countries and 5 continents considered experienced cost overruns.

# ISSUES and CHALLENGES



Federal Government - Departmental and central agencies:

Financial:

- Approval processes do not support PPP model
- Lack of long range financial planning skews process
- Risks profiles inadequate for PPP evaluation
- VFM versus budgetary funding
- PPP knowledge still limited

# The BUSINESS CASE



## Must Haves:

Deputy and Executive Committee ownership

Know the requirements or desired outcomes

Rigid scope management process

You can not have too much due diligence

Begin to build a delivery team – staff, consultants, PPP advisors, etc.

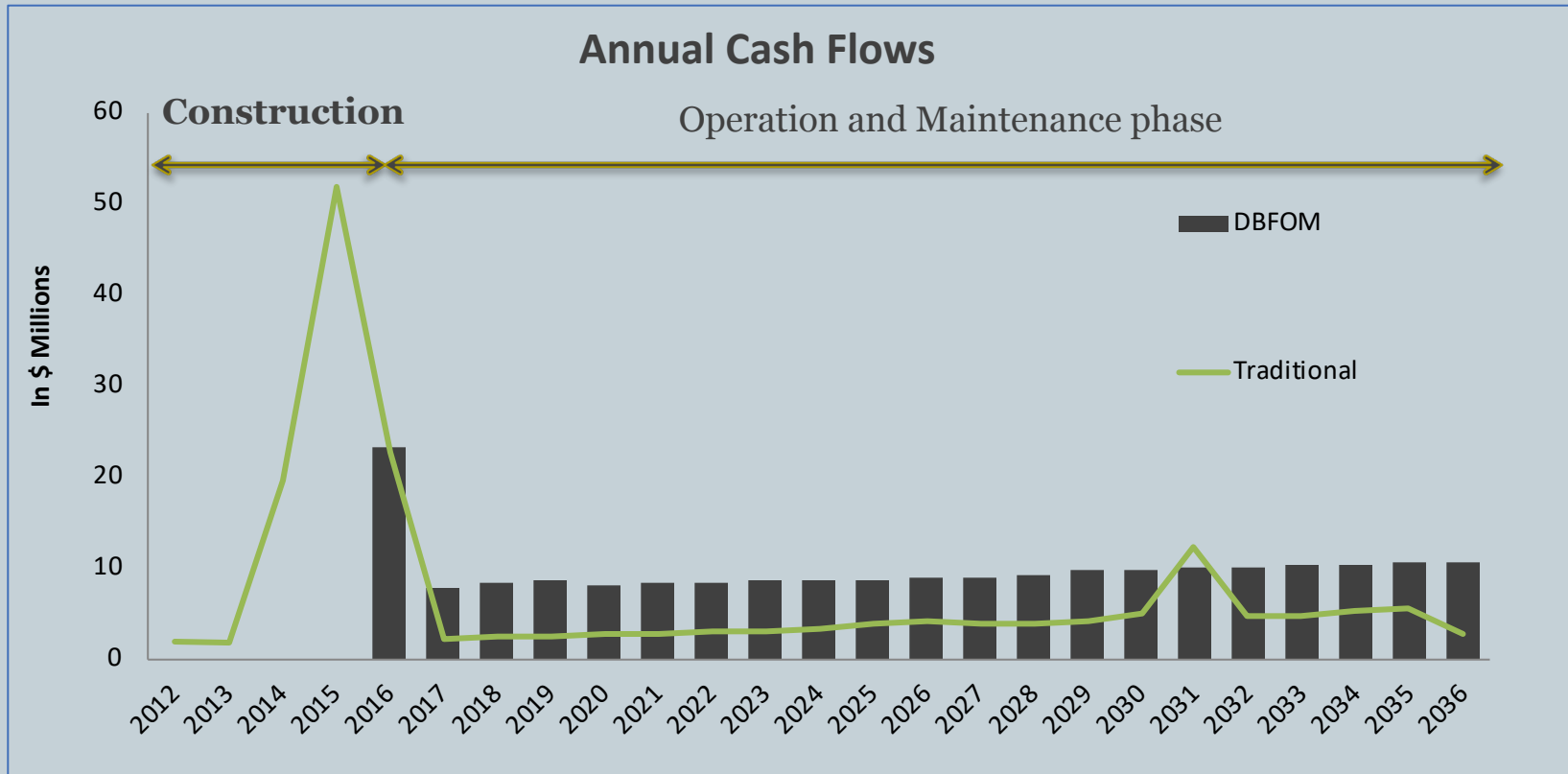
Set ambitious yet achievable timelines

# The BUSINESS CASE



- Comprehensive costing regardless of procurement strategy
- Departmental buy-in from the Deputy down to the financial organisations of the factors supporting the analysis
- Breadth of data to begin 'marketing' to outside stakeholders
- Necessary data to draft TB Sub for project definition approval
- Necessary data to begin to engage procurement authority
- Necessary data to begin to engage industry

# Traditional vs. P3 Funding Profile





# Funding and Financing Options



## Traditional

- Fully funded & financed by the public sector
- Contributions/Grants, Guaranteed revenue (anchor tenancy, rent, purchase of hours, etc.), Inputs (land, exemptions, etc.)

## P3

- Typically funded by Substantial Completion Payment (e.g. 50% of capital costs) & Annual Service Payments
- Project Co. provides construction financing and long-term debt & equity (Gearing – 90:10)
- Long-term debt predominantly sourced from bonds (public and private). Banks provide construction financing
- Equity provided by developers, equity investors and pension funds

## Concession

- Fully financed & funded ONLY by revenue generation: i.e. wind farm, toll road with revenue risk transferred to the private partner.
- User fees, Complementary activities, Sponsorship, Naming rights, Advertisement, Licensing

# Traditional Procurement vs. P3 Procurement



**Assets**

vs

**Assets and Services**

**Input terms**

vs

**Output terms**

**Components of delivery are separated**

vs

**Components of delivery are bundled**

**Paid during or in full upon construction completion**

vs

**Partially paid over asset life – linked to operational performance**

**Risks are mainly retained**

vs

**Risks are mainly transferred**

# PROCUREMENT



## Select the appropriate procurement authority partner

- PPP contracting experience is a must
- Senior commitment to the project

## Select a PPP advisor partner

- Choose a process and stick to it
- Follow the steps of the process precisely

## Select a legal advisor partner

- DOJ selection/procurement process is excellent

## Select a fully capable Owner's Advocate Team

- Include all possible sub-trades as issues will require very specific expertise ( acoustics, lighting, etc)

# PROCUREMENT



Procurement documentation contains 2 components

- Contractual Language and Output Specifications
- Contractual language needs to come from a known body of work
  - Infrastructure Ontario
  - Partnerships BC
- Output Specifications need to be tailored to the procurement strategy
  - Prescriptive for standard design builds
- Performance driven for PPP's
- Results in a Comprehensive statement of requirements
- Most complex and critical aspect of the procurement documentation
  - Engage outside experts even if departmental expertise exists
  - Internal departmental involvement focused on requirements

## TIP

Despite the need to be non-prescriptive, if you know specifically what will be required to address a certain need, then be specific

# CONTRACT AWARD



RFP submissions and evaluation have determined a preferred proponent based on technical submissions and initial financial proposals

Detailed negotiations begin with preferred proponent starting with the commercial details, finishing with financial details

Pressure to rush to the financial market is not the Crown's problem

Need take the time necessary to reconcile the Project Agreement with the proposal

Leverage relationships build up with preferred proponent team before they move on to their next pursuit

Tips:

Maximize clarity around fuzzy issues

Do not allow important details to linger until design development

The company pursuit team will move on but the contract is forever

# LESSONS LEARNED DURING DESIGN AND CONSTRUCTION



## Construction:

Unable to maintain traditional design-bid-build scrutiny

PPP long term commitment supports the use of quality products and workmanship but drives towards tried and true materials and looks

Expectations differ from final result

Often too late to affect change

Value engineering benefits are hard to identify and do not accrue to the Crown

# LESSONS LEARNED DURING DESIGN AND CONSTRUCTION

## PROJECT CO:

- Little or no knowledge to commitments made during the pursuit phase
- Crown needs to pay a lot of attention to Consortium contract structure when evaluating.
- In particular, the relationship with the constructor and the subs, if the subs are going to be part of the long term solution
- Effective Project Co role in partnership is critical
- Experienced PPP staffing on all teams is a benefit to partnership building
- Too much focus on 30 years vs. Design & Construction phase

# LESSONS LEARNED DURING DESIGN AND CONSTRUCTION



## Puts-and-Takes

- Definition: Process of managing the resulting funds from agreed to changes to either the spec or the proposal.
- Runs counter to most procurement authority approval processes
- Requires active engagement by Crown team from the beginning
- Can be used as an available fund to manage cost overruns on specific items while staying on budget and within authorities
- Challenge is to accept value of changes and apply the resulting money to new capabilities. Cost validation can sometimes be an unneeded requirement delaying decisions



# P3 Operational Phase



- Relationship
- Disputes
- Penalties
- Investment Fund/Share Savings
- Benchmarking
- Costs vs Authorities

# P3 Summary



- More suited to large projects
- Provides cost certainty
- Emphasis is on performance
- Transfers risk—but with higher costs (?)
- Relationship important