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On Public Private Partnerships in Canada

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I. Introduction

In Canada Public – Private Partnerships (P3s) are a long-term performance-based approach to procuring public infrastructure where the private sector assumes a major share of the risks in terms of financing and construction and ensuring effective performance of the infrastructure, from design and planning, to long-term maintenance.This paper gives the broad framework of P3s in Canada and describes some successful project examples.

II. Broad Framework

In practical terms, P3s in Canada meanthat:

- Governments do not pay for the asset until it is complete
- A substantial portion of the cost is paid over the life of the asset and only if it is properly maintained and performs according to specifications; and
- The costs are known upfront and span the life-cycle of the asset, meaning that taxpayers are not on the financial hook for cost overruns, delays or any performance issues over the asset's life.

P3s work by:

- Adopting a whole life-cycle approach: the private sector assumes responsibility for all or many of the phases of an asset's life-cycle. In doing so, the private sector assumes the interface risk between the phases, is fully accountable for whether the asset delivers, and is incented to produce the most effective result over the lifespan of the asset. The all-too-familiar problems of poor design, sub-standard construction or inadequate or deferred maintenance become the responsibility of the private sector
- Paying based on performance: the private sector is paid only on performance; in the majority of our projects no payment is made until substantial completion, and a significant portion is paid only over the life of the asset based on clear performance criteria. This aligns financial incentives for on-time, on-budget delivery and for the achievement of performance standards during the useful life of the asset. Moreover, since payments are made only on performance the private sector partner must raise significant financing for the construction of the asset. Lenders and equity participants provide a level of due diligence and oversight that brings enormous discipline to the process.
- Specifying the what, not the how: in a P3, the public sector specifies what it wants and leaves as much scope as possible to the private sector to develop the best solution to deliver results. This focus on the what -- rather than the how -- enables the private sector to develop the most innovative solutions.

III. Applicability of P3s

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Public- Private Partnerships (P3s) are a tool in the toolbox to deliver the public infrastructure investments Canadians need. They are not the right solution in every case, but when applied to the right projects, can provide many benefits. 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. In a nut shell it can be summarised that

- P3 projects consider the whole life cycle of the asset
- P3 projects engage the expertise of the private sector
- P3 projects ensure private sector capital is at risk, bringing capital market discipline and incentives

P3S are the right choice when:

- The benefits exceed the costs. This requires thorough Value for Money analysis. Our experience demonstrates that this upfront work produces better projects even if a P3 approach is not the preferred option, as it requires a more systematic consideration of costs, risks, and performance expectations.
- Successful P3s tend to be large, complex projects that transfer the risks of some, or all, of the components of the project (design, build, finance, operation and/or maintenance) to the private sector and deliver positive Value for Money.
- Value for Money is assessed by comparing the estimated total costs of delivering a public infrastructure project using a P3 delivery method to the costs of delivering the project using a traditional delivery method.

The P3 model is appropriate when the following conditions apply:

- There is a major project, requiring effective risk management throughout the lifecycle;
- There is an opportunity to leverage private sector expertise;
- The structure of the project could allow the public sector to define its performance needs as outputs/outcomes that can be contracted for in a way that ensures the delivery of the infrastructure in the long term;
- The risk allocation between the public and private sectors can be clearly identified and contractually assigned;
- The value of the project is sufficiently large to ensure that procurement costs are not disproportionate; The technology and other aspects of the project are proven and not susceptible to short-term obsolescence; and
- The planning horizons are long-term, with assets intended to be used over long periods and are capable of being financed on a lifecycle basis.

Risk Transfer in P3s:

Risks arise in all projects, regardless of the procurement approach. In a P3, project risks are transferred to the party best able to manage them. By making the private sector responsible for managing more risk, governments reduce their own financial burden. The private sector bids a fixed price for the bundled contract, and must pay out of pocket should any unforeseen expenses arise e.g.) cost escalation, construction defects, unexpected maintenance requirements, etc.

The private sector is interested in P3s because as compared to traditional procurement, P3 projects provide the private sector with a greater role in the design, building, financing, and/or operation of public infrastructure and offer a unique business opportunity, allowing private companies to deliver a broad range of services in different industrial sectors over a long term concession period (typically 20 to 30 years). The private sector is interested in P3s because they provide an opportunity to work with stable, bankable partners in governments, and they provide a long-term revenue stream, among other reasons.

Some examples of the Public Private Partnership in Canada:

1. The transition of AECL's nuclear laboratories to a government-owned, contractor-operated (GoCo) model is the second phase of the restructuring that has already seen the sale of AECL's former CANDU Reactor Division to SNC-Lavalin subsidiary Candu Energy.
   CNL was established as a wholly owned subsidiary of AECL in November 2014 in preparation for the transition to the GoCo management model. Contracts are now being finalized after which CNL's shares will be transferred to CNEA. The share transfer is expected to take place in the early autumn.
   CNL's activities are located across several sites, primarily the Chalk River laboratories in Ontario and the Whiteshell Laboratories in Manitoba, and include the 135 MWt NRU (National Research Universal) reactor. The facilities are used for isotope production; reactor component and fuel examination; nuclear instrumentation and dosimetry services; materials and reactor-chemistry research; and training of nuclear professionals. CNL's mandate covers three core

missions: federal waste and decommissioning responsibilities; providing nuclear expertise to support federal government needs; and the commercial provision of services to users of its facilities.
The GoCo model aims to create value and reduce risks and costs for taxpayers while continuing to fulfil the core mandate, and is similar to models in operation in the UK and the USA. CNEA president and CEO Mark Lesinski pointed to the consortium's extensive experience across CNL's three key missions and also the GoCo management model.
"CNEA brings a successful track record and extensive nuclear experience that will bring enormous benefits to the decommissioning and clean-up program and in ensuring that Canada's world-class nuclear science and technology capabilities continue to grow", he said.
CNL president and CEO Robert Walker welcomed the announcement of the preferred bidder as "good news for the future of the Canadian nuclear sector and Canadian nuclear science and technology", adding that CNEA would bring "private sector rigour and efficiency" to CNL's management and operation.
AECL remains responsible for the management of CNL until the share transfer takes place. AECL interim president Jon Lundy said the company would be looking to CNEA to leverage existing expertise and to create value at the laboratories.

2. The delivery of public safety services on behalf of government of Ontario by a private not for profit self funded organization.
Since 1997, the Technical Standards and Safety Authority (TSSA) have delivered public safety services on behalf of the government of Ontario in four key sectors:

• boilers and pressure vessels, and operating engineers;
• elevating devices, amusement devices and ski lifts;
• fuels; and,
• upholstered and stuffed articles.

TSSA is a not-for-profit, self-funded organization dedicated to enhancing public safety. With headquarters in Toronto, TSSA employs approximately 380 staff, 70 percent of whom work in operations. Governed by a 13-member board of directors, TSSA is accountable to the Ontario government, the residents of Ontario and its other stakeholders.
TSSA funds its operations by charging its industry customers a fee for the services it provides.

IV. Concluding Remarks

In this paper the procedures adopted in Canada to identify fit cases for planning and executing P3s have been outlined. The broad frame work discussed is applicable on all classes of P3s. Applicability of P3s mode has been pointed out. Paper ends with some successfully carried out projects.

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