Municipal P3s – Private Sector Perspective

Public-Private Partnerships

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Impetus for P3

A government investigates P3s when....

- It wants to introduce accountability for performance
- It wants to share the risks of a project
- It wants access to the private-sector’s ability to provide expertise and innovation.

Why use a P3?

- Improve efficiency in the delivery of an existing good or service:
  - Airport operating contracts, garbage collection (many jurisdictions)
- Deliver a new good or service:
  - Viva transit system – York Region, City of Sudbury bio-solids facility, Alberta schools
- Leverage existing assets for up-front value:
  - , Highway 407, airport concessions, Enwave (formerly Toronto District Heating Corp)
Contrasting P3 Business Models

Various forms of P3 business models exist – two key dimensions

- Delivery method – degree of service delivery segmentation
- Financing method – degree of public vs. private sector funding
P3s by Sector

Characteristics that suggest a P3 model might be appropriate:

- “Non-core” government service
- Definable business or cost centre
- Limited integration with other services
- Ability to charge user fees
- The project is “big enough”

Contraindications:

- Policy control not easily imbedded in a contract
- Difficulty specifying service standards
- Limited ability for a private-partner to innovate or add value.

Relative importance of each factor will vary by sector or jurisdiction

Sectors where P3s have been implemented:

- Highways, Bridges, and Rail
- Airport and Air Navigation
- Water Treatment, Transmission, and Distribution
- Power Generation, Transmission, and Distribution
- Gas Transmission and Distribution
- Marine and Ports
- Justice/Corrections
- Hospitals and healthcare
Opportunities

- In theory, municipalities are well placed to benefit from P3s, since they may not have the specialized expertise for many large, one-off projects.
- Municipalities have a large back-log of renewal and rehabilitation needs.
- There is significant appetite from private-sector investors.
- Active support from agencies such as P3 Canada:
  - Grant funding up to 25% of capital cost.
  - Senior level participation can encourage better procurement approaches, and may help standardize commercial arrangements.
P3’s in the municipal sector

Challenges

- Transaction sizes can be small, which can make it more difficult to offset costs of implementation
- Less familiarity with the P3 process, and hence a greater learning curve
- More direct exposure to political opposition
- Shorter political cycles
- Lack of contract standardization.
P3’s in the municipal sector

What have been the pitfalls?

- Conflating the P3 business arrangement with other elements of the project. Examples:
  - Increases in rates necessary to fund an investment, whether public or private
  - Project location (e.g. wastewater treatment plant).
- Insufficient ground-work in selling the project, and the delivery approach, to the public.
- Running a process that has not been properly structured. Examples:
  - Not being clear on the outcomes that are being sought
  - Relying on sole source negotiation.
- Expecting P3’s to solve an underlying funding challenge.
Innovative Approaches

Strategies for over-coming the challenges

- “Bundling” projects across municipal or community boundaries
- Providing a project completion payment, so that entire funding is not sourced from the private sector
- Standardizing business terms and conditions for projects in a sector
P3 Project Risk Profile

Risk falls at financial close

Risk falls as construction/refurb risk diminished

Risk falls relatively quickly in first few years of operation as operational and volume risk diminishes

Risk gradually declines as operational and volume risks are fully understood and managed before hand back

Time in years

Conception at bidding

Financial close

At service commencement

Mature operation

Handback

Bidding

Construction

Mature operation

Risk free

Regulatory/Unforeseeable risk

Volume risk premium

Operational risk premium

Construction/Refurb/Financing risk premium

Bid risk premium
Getting it Right: Some Industry Findings

It’s “cheaper.....

- Data show that, even after taking account of extra cost of private finance, PPP is around 10% cheaper over the long term

…and quicker and....

- Delivers infrastructure services faster
- No payment until services delivered to the required standard
- Around 85% on time or early with no cost overruns for the public sector

...delivers more consistent quality of services”

- A combination of the payment mechanism / contract and funders’ due diligence reinforce desired behaviour
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