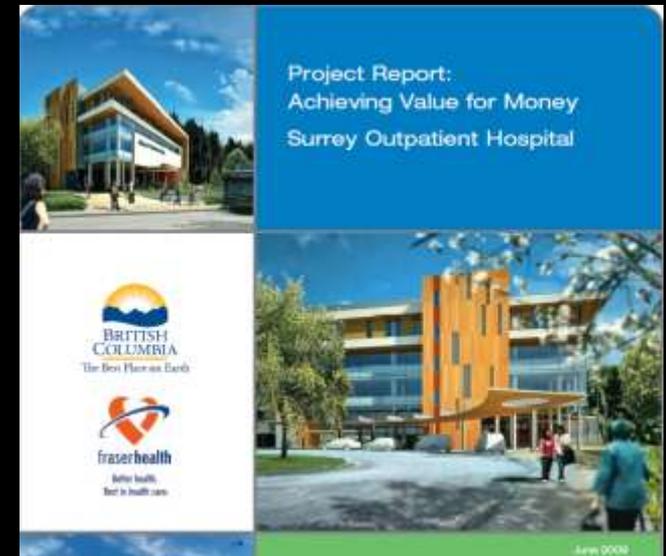
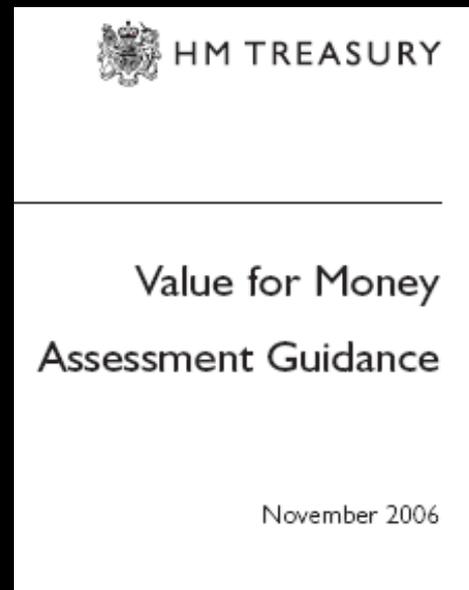
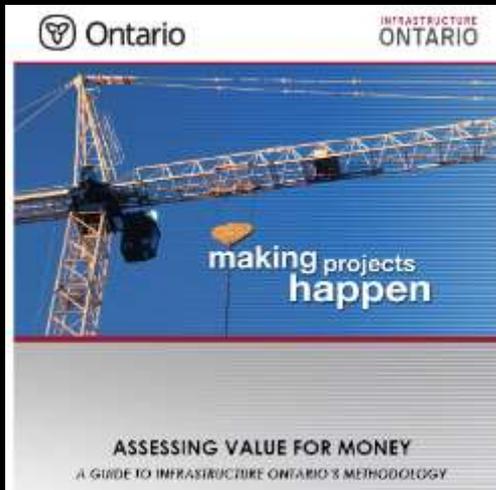


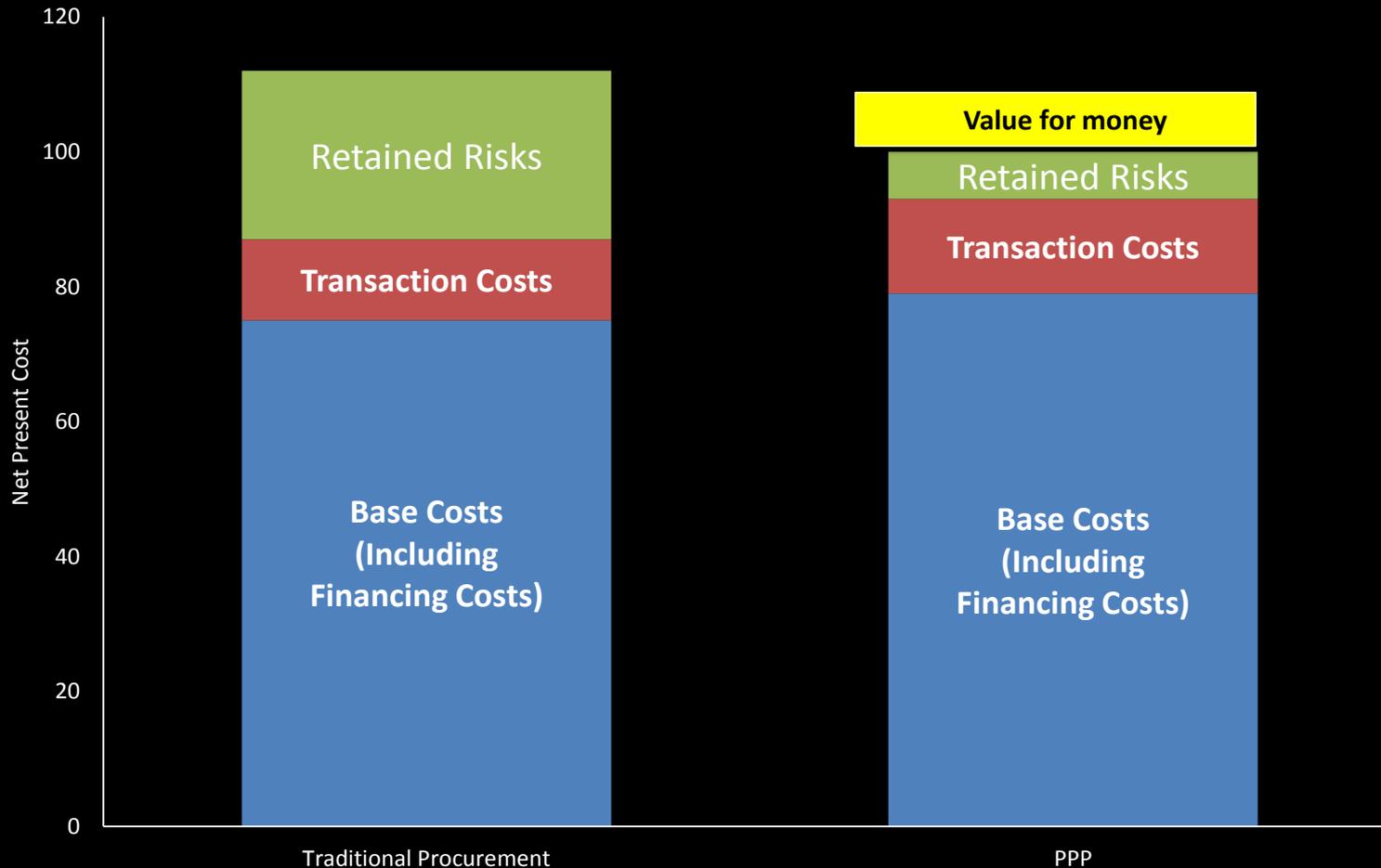


Understanding Value in Public-Private Partnerships?

The Global Proliferation of Value for Money (VfM) Evaluations



Components of Value for Money



Current Debates in VfM assessments

1. First Generation Matters: technical considerations

2. Second Generation Matters: Governance and political settings

- To what extent should non-monetary factors be considered in evaluation?
 - ‘wider socio economic costs may be excluded, on the grounds that they are not likely to differ greatly between the public and private provision’

Grimsey and Lewis, 2004
 - Planning literature shows PPP leads to
 - Greater confidentiality during planning process,
 - restricted planning flexibility over tolls,
 - service quality and future facility expansion,
 - costly renegotiations

Second Generation Matters: Impartiality of VfM Analysts?

- Contention that both the special purpose agencies and global consulting firms that produce VfM evaluations have an interest in seeing PPP projects approved

The screenshot shows the Deloitte website with a navigation bar at the top. The main content area features a research article titled "Partnering for value" with the subtitle "Structuring effective public-private partnerships for infrastructure". The article text discusses the challenges of infrastructure funding and the role of public-private partnerships. A sidebar on the left lists various research topics under "Public sector research".

The screenshot shows the Ontario Infrastructure Ontario website. The header features the Ontario logo and the text "Infrastructure Ontario". The main content area is titled "Vision, Mission and Values". Under "Vision", it states: "Infrastructure Ontario: To be recognized as world class in the modernization of public services." Under "Mission", it states: "We deliver valued infrastructure and partnership solutions through lending, project delivery, asset management and advisory services".

The screenshot shows the KPMG website with the KPMG logo and tagline "cutting through complexity". The navigation bar includes "Global" and "Press room". The main content area is titled "Public private partnerships" and features a sub-header "Global - What we do - Industries - Government & Public Sector". The text discusses the benefits of public-private partnerships and mentions a recent report by KPMG's Global Governments & Public Sector Practice.

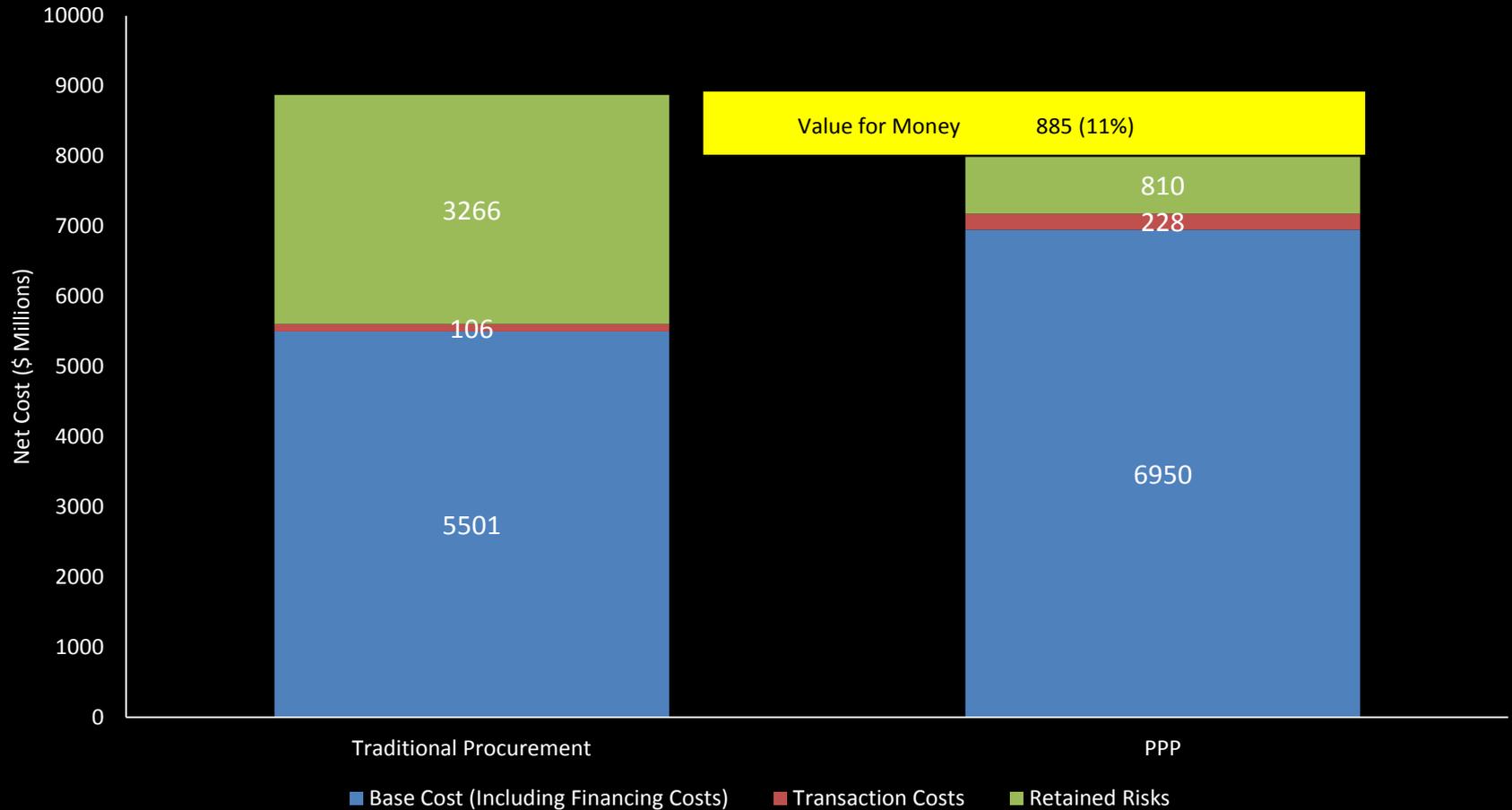
The Research: Focus on PPPs in Ontario, Canada

- Examined 28 VfM reports for projects worth \$8 billion:



- 23 hospitals
- 4 justice facilities
- 1 new data warehouse
- 12 Interviews with public and private sector stakeholders

Drivers of VfM on Ontario PPPs



The Subjective nature of risk transfer figure

- ‘We were concerned that the transferred risks for this project amounted to almost **13%** of the November 2004 government design-and-build estimate of \$525 million. In comparison, actual cost overruns (a major component of risk transfer) in the design and construction of the Peterborough Regional Health Centre—a hospital built under the traditional procurement approach during the same period—were about **5%** of the total contract value.’
(Auditor General, 2008, 112)
- In our sample, transferred risks accounted for on average **49%** of base cost of delivering the project through traditional procurement

Planning concerns in the VfM appraisal

Key planning concerns not mentioned in detail in the VfM reports

- Meaningful public consultation
- Potential lost long-term flexibility for facility planning and public policy

- ‘irrespective of whether and how much risk is actually transferred and to whom, it should not be forgotten that the main risks are those that arise from technical obsolescence and changing regulation, government policy and demand, as earlier studies have shown, and **the public sector will still hold these.**’

Shaoul, 2005, 453

Risk Category	Portion of Contract Impacted	Retained Risk by Province at Average Impact (as % of contract portion)	
		Design Build Finance Operate PPP Model	Traditional Government Procurement Model
Policy/Strategic	Total Contract	5.6%	20.4%
Design and Tender	Design and Construction	1.7%	19.4
Site Conditions/ Environmental	Design and Construction	1.1%	1.1%
Construction	Design and Construction	1.4%	16.6%
Equipment Risk	Construction and Operation	0.0%	0.8%
Permit and Approvals	Design and Construction	0.0%	0.2%
Completion and Commissioning	Design and Construction	0.1%	0.7%
Life Cycle and Residual Risk	Maintenance	46.1%	132.8%
Operational	Operations	0.3%	51.5%
Project Agreement	Total Contract	1.0%	0.0%
Total Risk Retained by Province	Total Contract	16.2%	76.5%

Infrastructure Ontario VfM Risk Allocation Matrix

Project Innovation

Rouge Valley Health System - Ajax and Pickering Hospital
Architect's Rendering



Stantec Architecture Limited

Phase I Expansion of Services at the
Rouge Valley Health System's Ajax and Pickering Hospital

Highlights

	Current	At completion	Increase
Emergency room capacity (patient visits)	42,000	60,000	43%
Mental health beds	20	29	45%
Complex continuing care beds	10	30	100%+
Hospital size (square feet)	252,620	327,620	30%

- What specific innovations did the private sector bring to this project?
- Could innovations have been achieved through traditional procurement?
- How are the benefits and costs of innovations traded off?
- Key innovative design features as those that encourage future flexibility may be **'stripped out of the building design through the PPP process'**

Typical rendering and project overview from an Infrastructure Ontario VfM report

A senior architect that has worked on PPP hospital projects

Perceived Conflict of Interest

Pro:

Infrastructure Ontario **'has a strong vested interest in seeing infrastructure projects proceed as PPPs'**

A senior public official

Appraisals all produced by Big Four accounting firms – Deloitte, PwC, KPMG, Ernst and Young. Each firm takes a pro PPP position in their public materials

VfM evaluation **'contracts are very expensive and are thus lucrative'**

A director on a public board who's organization carried out a PPP

Con:

- Methodology not deliberately biased
 - Publicly available for scrutiny and debate
 - Put measures in place to control potential biases
 - Separate appraisal and delivery group
 - Peer review VfM assessments
- 'A great deal of auditing firms follows GAAP [Generally Accepted Accounting Principles] guidelines for internal risk and due diligence purposes. No firm would give their signature to a document without conducting complete due diligence on the document at hand.'

A senior government official

PPPs 'only show in town'?

- Diverse views: some see provincial government pressuring boards and agencies to use PPPs to access money
 - Federal money from the P3 Canada Fund can only be accessed for PPP projects
- Others view PPPs as one tool amongst many, used when VfM makes sense
 - Just 21% of all infrastructure funds in Ontario allocated to PPP.
 - Projects that no longer make sense have been cancelled

All of the alternative models are estimated to provide VFM as compared to traditional DBB. DBFOM provides the greatest VFM assuming that PPP Canada makes a contribution of 25% of eligible costs

Regina Wastewater
Treatment VFM
Report, 2013, p. 9

"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"

St. John MP,
discussing water
treatment project
funding

Conclusions: Study Implications

1. VfM appraisal methodologies should explicitly consider planning related concerns – limitations on public engagement, policy lock ins – into the calculation of VfM
2. Size of risk premiums should be based on rigorous analysis of past experience, and account for planning as well as financial concerns
3. Given high transaction and risk transfer costs, could correctly structured traditional model provide better value
 - Empower Infrastructure Ontario to deliver traditionally procured projects
4. VfM appraisal should explicitly identify innovations
5. VfM documents should be viewed with a healthy dose of skepticism