Public Private Partnerships: Screening Criteria*

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Why do we need screening criteria?

- Public Private Partnerships (P3) have the potential to deliver higher quality and lower cost projects than traditional procurement.
- However, not all projects are good candidates for a P3 – incorrect use of P3 procurement can result in project delays, lower quality service, and expose taxpayers to cost over runs.
- It is important to ask fundamental questions about the project before deciding to use a P3.

2

Investment size

- What is the estimated capital cost of the proposed investment?
  – In general, larger investments are better suited to the P3 delivery model.
  – Is the use of resources with the expectation of a future return, such as an increase in output, income or assets, or the acquisition of knowledge, or capacity.

Private sector expertise

- How many private sector firms have the capacity to deliver and maintain this type of asset?
  – Ensuring a competitive bidding environment; and Ensuring that there is private sector capacity to perform the functions and manage the risks envisioned in the P3.

Market precedents

- Have investments with similar requirements and of similar size and scale been delivered through the P3 model?
  - The existence of P3s for similar assets is a key indicator regarding the viability of a P3.

5

Type of infrastructure site

- How much of this investment involves new construction on a previously undeveloped site?
  - In general, investments involving all new construction on sites not previously developed lend themselves to maximizing risk transfer to the private sector.

6

Scope for private sector innovation gains

- To what extent will the output-based performance contracts specify deliverables?
  - The scope for private sector innovation is inversely related to the public sector's need to be prescriptive.

7

Security requirements

- Are there considerable and complex security requirements associated with functioning of the asset?
  - Federal assets will typically have security requirements. In some cases, these may be limited to facility access. In others, these may relate to the security of highly sensitive information and systems.

8

Potential for contract integration

- Which elements of the potential P3 (i.e., design, build, finance, maintain, operate) can be integrated into one contract?
  - One of the mechanism by which P3s generate value is the integration of various elements of the potential P3 (i.e., design, build, finance, operate/maintain).
  - The greater the potential for integration, the more likely a P3 will be viable.

9

Asset life

- What is the anticipated useful life (i.e. service life) of this asset?
  - The duration of P3 contracts tends to be tied to the useful life of the asset and, in general, longer-lived assets tend to be better suited to a P3.

10

Number of asset classes

- Is there the potential to combine the delivery of different asset classes into one contract?
  - The complexity of a planned investment that combines different related asset classes, or assets of a unique nature, into a single contract is greater than a planned investment that involves only one type of asset.
  - A P3 approach is more suited to more complex investments.

11

Output and performance specifications

- What is the current status of the output specifications for the planned investment which includes the use of an asset?
  - P3s are characterized by the public sector setting their desired outcomes or outputs in the form of measurable technical output/service/performance specifications that provide the basis for performance based contracts.

12

Operational and maintenance requirements

- Are the long term operational and maintenance needs of the planned asset relatively stable and predictable?
  - Being able to forecast the maintenance and operational requirements for an asset over the long-term time is desirable in the context of long-term contracts.

13

Performance specifications and indicators

- Are operations- and maintenance-related performance specifications and indicators available?
  - Establishing and monitoring performance in relation to key performance indicators is an important element of performance based contracts, a foundational element of P3s.

14

Life-cycle costs

- Can most of the full life-cycle costs of the asset, mainly related to construction and long-term operations, including maintenance, be quantified upfront with reasonable assumptions and/or availability of historic data?
  - Life cycle costs are very important factor in success of a P3.
  - The public authority will pay for maintenance and/or operation through the P3 agreement and expects the asset to be well-maintained and efficiently operated at the lowest cost possible.

15

Revenue generation

- Does the planned investment have inherent scope to generate any revenue?
  - Revenue generation is not a requirement for a successful P3. However, where an asset could potentially generate revenue and reduce the burden on public funds, the P3 model is ideally suited to leveraging that potential.

16