Overview

- Most countries including Canada facing large infrastructure deficits – driven by obsolescence and growth but also have budgetary constraints
- Alternate financing (P3/AFP/PFI) for public infrastructure/property now accepted on a global basis
- Private sector has significant investment funds available for projects
- Real property attractive for alternate delivery processes
- P3s and other AFP’s about delivery not control or ownership
- Goal is more efficient and faster delivery
- Public sector process should be well defined and well planned
Global P3 Activity

- P3’s have now been used globally (particularly in UK and Australia) for almost 10 years
- Most countries now have some form of active P3 programs, including many provinces in Canada
- While certain publicized failures, 100’s of projects mean process has been subject to and passed much scrutiny by many opponents
- Conclusion must be that process is an efficient delivery mechanism

Private Sector Investment

- Equity investment in Infrastructure/Specialized Property is becoming a key asset class for most Investment Funds
- More investment capacity than project equity available
- Importantly Equity Investors are
  - Have long term investment horizons that match long term life of assets
  - Understanding and accepting of risk profile inherent in P3s
  - Seeking moderate appropriate risk/return hurdles
- Significant number of lenders to sector that are pricing long term debt aggressively
- Overall risk capital required for projects is available at good prices
What Attracts Private Sector?

- Investors are attracted by long term stable cash flows
- For private sector, these are relative low risk/low return investments
- Real property assets are easy to understand, increasing attractiveness and
- More limited field for specialized property such as hospitals
- To be effective for full P3 project cost (individual or pooled basis) > $20m
- Proper governance and evaluation process essential
- Payment of honorariums should be viewed as investment in better product

Traditional Procurement

- Public Sector manages design, construction and service delivery and funds all costs
- Concerns with historic performance under such contracts include:
  - Lack of separation between sponsor and stakeholders (e.g., user groups)
  - Construction cost blow-outs due mainly to scope changes
  - Public Sector effectively acts as a "bank" and takes risks as such
  - Traditional contractual structure more favorable to industry than sponsor
  - Requirement for budgetary funding allocation
  - No focus on long term lifecycle costs
- Traditional procurement still more appropriate for many projects
Benefits of P3 Model

- Drive innovation and cost competition, without sacrificing quality
- Decrease the level of changes, delays and increases to project cost
  - Greater consideration to scope given prior to commencement
  - Private sector act as the “circuit breaker” between the detailed design process (user groups) and source of funding (public sector)
  - Abbotsford Hospital finished detailed design without change order
- Bringing forward delivery of key infrastructure assists:
  - Affordability of infrastructure (construction costs > tax base)
  - Efficiency of service delivery (particularly healthcare)
  - Flow-on benefits of better services to community
- Ownership can remain in hands of public sector – residual value/strategic assets stay in public sector hands

Benefits of P3 Model

- Pass responsibility for the operations and maintenance of the buildings,
  - Performance standards would be agreed in advance with Public Sector
  - Private sector responsible for meeting performance standards.
  - Failure to do so will give rights to reduce lease payments
- Design, construction, maintenance and life cycle are highly integrated as important driver of efficiency
  - Life cycle focus in designing projects and upfront selection of materials
  - Performance-based payments and hand back tests ensure delivery
- Long term payment commitment ensures asset receives appropriate on-going capital budget and deferred maintenance does not become an issue
- For certain transactions private sector can add value by introducing associated developments that provide subsidies to public sector’s cost of key asset
P3 Process Cautions

- Process is time consuming and expensive to implement – both for private and public sector
- Public sector needs to be committed to process and have defined timelines and clear evaluation process
- Worlds Best Practice models exist (after many experiments)
  - No need to reinvent the wheel
  - Private sector accepting of process
- Value will not be achieved without a realistic approach to risk transfer
- Best results achieved when private sector allowed to innovate
- Process is about efficient delivery – will not deliver the impossible such as free assets

Case Study: MCC

- State of Victoria wanted to build new Melbourne Convention Centre with a budgeted cost of $413m
- Provided key downtown site, including last stretch of riverfront land
- Base public sector solution used whole site for MCC
- Market could bid on base case or alternate if met base specs
- Expectation was that would need a cheap building to get under public sector budget
Case Study: MCC

- Plenary solution was integrated precinct development of $1.1b
- Plan included:
  - a 5,000 seat, six-star energy rated Convention Centre
  - a five star Hilton Hotel
  - an office and residential tower
  - a riverfront retail promenade, including cafes, bookstores etc
  - a 300,000 sq ft premium brand homemaker retail complex
  - an investment in public spaces including a revitalised Maritime Museum.
Case Study: MCC

- Benefits provided were:
  - Additional economic activity and jobs
  - A living 24/7/365 precinct not dependent on conventions
  - Greater services for surrounding residents and tourists
  - Subsidy for increased quality of MCC (estimated $80m+)
Case Study: SA Police Centers

- P3’s not just applicable to large projects – particularly with benefit of pooling
- P3 involving delivery and operation of 9 regional police and court complexes with values of $2m to $5m each
- Complexes opening ahead of time and without cost overruns

Conclusion