Northwest Territories

Backgrounder

Public-Private Partnerships (P3)

What is a P3?

- A public-private partnership (P3) is a long-term performance-based contract between government and business to deliver infrastructure. In the case of the Stanton Renewal Project the term of the project agreement will be 30 years.

Why are P3s used?

- Governments around the globe have acknowledged the significant infrastructure gap, the costs associated with addressing that gap, and the need for finding more efficient and cost-effective approaches to providing services and infrastructure.
- P3s are often considered when projects are of a significant cost, scope, scale, risk, profile and complexity, whereby delivery through a long-term pay-for-performance contract may be best-suited.
- One of the major benefits of P3s is that the private partner assumes the upfront costs and risks of the project, while ownership remains with public partner. P3s can leverage the accountability and policy capacity of the public sector with the innovation, risk mitigation expertise and project management strengths of the private sector
- P3 transactions are strictly governed by the following five principles set out in the government's *Public-Private Partnership Policy* for planning, financing, and procuring public infrastructure:
    - Public interest is paramount;
    - Value for money must be demonstrable;
    - Appropriate public control and ownership must be preserved;
    - Accountability must be maintained; and
    - All processes must be fair, transparent and efficient.

Why was Stanton considered for a P3?

- The GNWT's *Public-Private Partnership Policy* allows the GNWT to enter into partnership agreements with the private sector to procure services and public infrastructure when:
    - The total projected threshold for procuring those services, including capital, operating, and service costs over the life of the agreement exceeds $50 million;
    - There is appropriate risk sharing between the GNWT and the private sector partners;
    - The agreement extends beyond the initial capital construction of the project;

  - The arrangement results in a clear net benefit, as opposed to being merely neutral in comparison with standard procurement processes.

Where's the evidence that P3 projects are a good option?

- Forty-six P3 hospital and healthcare projects in Canada have completed construction in recent years and are currently operational and Canadian P3s have provided a high degree of cost and time certainty
- monitoring process to ensure the performance commitments in the contract are met.
- This high level of transparency provides certainty and discloses significantly more than many other projects delivered through other means. There will be no impact on access to or payment for hospital services

Are Regular Members of the Legislative Assembly being regularly updated and consulted during the P3 Procurement Process?

- Yes. The Public Private Partnership Policy requires the Minister of Finance to update the Standing Committee at regular intervals during the P3 Procurement Process.

How does the taxpayer know P3s are delivered in a fair and competitive manner?

- RFP Solutions was hired as the external Fairness Adviser to monitor the competitive selection process from RFQ through financial close, and issues a report at the end of the process.
- The Fairness Adviser is provided access to all documents and information in the competitive selection process and is informed by the public sector owner of related documents and activities.
- Additionally, a Conflict of Interest Adjudicator, Relationship Review Committee, and Due Diligence Committee are engaged throughout the competitive selection process to provide opinions on conflicts of interest or unfair advantage issues. These committees were done in collaboration with an external legal firm and the Department of Justice.

Why consider private financing when governments can borrow money at a cheaper rate than private companies?

- To achieve best value for taxpayers, many partnership projects include both government funding and private financing.
- Most P3s include the maximum amount of public financing as possible at the lower borrowing rate, with just enough private finance included to ensure the offset of risks such as cost, schedule and ongoing maintenance.
- Sharing in the financial risk to a significant degree ensures the private partner designs and delivers the right project, at the right price that will meet specified standards throughout the life of the project.
- Given the long-term nature of the P3 contract, the private sector has significant incentive to deliver the very best product they can, knowing that they are responsible for any defects or deficiencies for the contract term.

Media requests for interviews with Members of the Executive Council may be directed to:

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Government of the Northwest Territories • PO Box 1320 • Yellowknife • NT • X1A 2L9
Tel: (867) 669-2308 • Fax: (867) 873-0111

How is a P3 different from privatization?

- A P3 is a long-term partnership, and requires significant involvement of both the public and the private sector partners. In a public-private partnership, the public sector retains ownership of the project, the land/asset, and the programs and services.
- In the case of a hospital P3 all clinical services continue to be provided by physicians and hospital staff under the public health care system. All facilities are run according to the principles of the Canada Health Act.

Will the P3 result in some services at Stanton being privatized?

- No. P3s do not involve privatization of essential services or the sale of public assets. Private sector partners may deliver non-clinical services, however they must meet performance-based standards that are detailed in the contractual agreement.
- The GNWT is able to exercise control over performance through penalties and hold-backs if the private partner does not meet its obligations under the agreement.
- The responsibility and delivery of health care services will remain with Stanton, and the type of clinical and medical services will not change as a result of the agreement.

Isn't it true that the quality of services suffer because private profits take precedence?

- In a P3, services are delivered on a pay-for-performance basis, meaning the private partner doesn't get paid if they do not perform according to the specified standards in the contract.
- The incentive is there to deliver high-quality services to the public sector owner; and the onus is on the public sector owner to ensure it is getting what it has contracted for through regular monitoring, above and beyond the self-reporting of the private partner.
- The public sector has legislative and policy control over the services.

What if the private partner gets into financial difficulties?

- The private partner's financing is guaranteed by lenders through rigorous mechanisms. During the competitive selection process, the private partner's financial viability is confirmed and the lending institutions are signatories to the contract.

Couldn't the money spent on what seems like a lengthy and expensive P3 process be used elsewhere?

- In fact, P3 costs can be lower over the life of the contract than traditional procurement methods. Once the contract is signed, the private partner guarantees the building will be completed for a fixed price and on a fixed timeline.
- If the project is not delivered on time, on budget, within scope, and maintained to specified standards, the private partner carries the risk and is subject to financial penalties.

Is there a focus on lower quality of equipment under a P3 model?

- No, the Canadian experience provides evidence that P3s provide improved facility and equipment maintenance. A P3 contractually binds a private sector provider to maintain the building, its systems, and equipment to an acceptable standard.
- If these requirements are not met monies will be held back or penalties assessed to pay for the necessary improvements.
- Therefore, it is in the private partner's interest to ensure the equipment installed is of high quality and that it is maintained to exacting standards.

What do you mean by Hard FM services?

- Hard facilities maintenance relates to the maintenance of the equipment that helps the physical building to operate, such as elevators, HVAC systems, and other functions related to the building's structure.
- The P3 model provides the public sector with a 30-year guarantee for these physical features. This provides significant incentive to the private partner to have control over maintenance so that it will be turned back to the owner at the end of the 30 year agreement in a condition that meets contractual obligations and ensure they are paid.

How will the GNWT ensure that the services are delivered as promised under the P3 agreement?

- Upon substantial completion of construction, the government will pay monthly, performance-based payments to the private partner over the term of the agreement.
- Detailed performance standards will be included in the contract with an agreed mechanism for measuring this performance. With P3 agreements, the owner has quality assurance throughout the 30 years for payments to be withheld if performance standards are not met.
- Transferring most construction-related cost and schedule risks and entering into maintenance arrangements with the winning project team will ultimately benefit the public by ensuring the new hospital is built on time, on budget, and well maintained over the 30-year period.

How will we be assured that we won't get the lowest cost solution with high maintenance and energy costs?

- The Stanton project will have all the same standards as the GNWT requires for the design, construction, and energy performance for all new building projects managed by the GNWT.
- All buildings designed to the GNWT's Good Building Practice for Northern Facilities over the past several years have consistently exceeded national guidelines for energy performance.

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