



*The City of Winnipeg*

**Strategic *Infrastructure*  
Reinvestment *Policy***

**Public/Private  
Partnerships**

ASD Sub-Committee Report

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September 30, 1999



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# 1.0 Preface

## 1.1 Executive Summary

The new politics calls for new skills--skills in building bridges and alliances, brokering interests, forging consensus, articulating shared values....(It) calls for the courage to take risks and to give up some degree of control--this is inevitable in citizen-based government, in the idea of partnership. The new politics calls for greater transparency, a serious commitment to accountability--for values and for results...(and) humility--a willingness to admit that our knowledge is imperfect, that we must continuously learn and improve, that we are all stronger together. The future will require governments centered on citizens. The future of governance is partnership and shared responsibility.

*Marcel Masse, "Governing for the future", 1997*

On July 22, 1998, Council for the City of Winnipeg adopted the Strategic Infrastructure Reinvestment Policy (SIRP) report. A SIRP Implementation Committee, headed by the Chair of the Standing Policy Committee on Public Works was struck. In addition, implementation mandates were provided to several sub-committees to support the SIRP policy options. The Alternative Service Delivery (ASD) sub-committee, comprised of City, industry and union representatives, has prepared this document in response to the ASD recommendations in the SIRP report. The SIRP ASD recommendations dealt primarily with the concept of public/private partnerships (PPPs) as applied to infrastructure, and thus form the basis for this report.

Public Private Partnerships have been rapidly gaining endorsement in various municipalities, provinces, and at the federal level. Successful partnerships are based on the premise of shared benefits and risks. PPPs are increasingly becoming a popular medium for infrastructure reinvestment. As we enter into more PPP arrangements, we must devote more time to study, and document what makes partnerships work well and what can be done to improve the process.

Utilizing recent, comprehensive literature, including: Michael Shaen's, The "3Ps" of Municipal Infrastructure, various publications from the Canadian Council for Public-Private Partnerships, and recent local experience, this report outlines principles and guidelines for the application of PPPs in the City of Winnipeg. In addition, a development process for PPPs is outlined. This process includes: initial planning; request for qualifications (RFQ); RFQ evaluation; request for proposals (RFP); RFP evaluation; bidder compensation; contract negotiations; implementation and monitoring; and project evaluation. In addition to political and senior administration commitment, the key to the successful development of PPPs is an effective, fair and open procurement methodology.

According to the Canadian Council for Public-Private Partnerships, “Public-Private partnerships are rapidly entering the mainstream of Canadian public administration. The growing pains are by no means over, but there is a degree of maturity and experience in discussion of the concept and process” (1998 C: 1). This report builds upon this understanding by recognizing emerging issues which will continually need to be addressed to ensure successful PPPs.

As a result of the work of the ASD sub-committee, the following recommendations are made for the consideration of the SIRP Implementation Committee:

1. That this report be accepted:
  - as a preliminary step for outlining principles and guidance on PPPs, and
  - as part of the group of reference documents supporting the larger ASD policy framework for the City of Winnipeg.
2. That this report be widely shared and feedback encouraged by users and stakeholders. This document should not to be viewed as static, but as a document that will continue to evolve as the organization’s PPP experience grows.

## 1.2 SIRP Implementation Committee Themes

The SIRP Implementation Committee is committed to focus on four major themes in their report back to Council:

- Analysis of Infrastructure
- Reinvestment in Infrastructure
- Sustainability, and
- Governance

This report addresses the second and third points as PPPs seek to improve reinvestment in infrastructure on a sustainable basis. In addition, PPPs support a governance model where City government leads and manages the process with private partners participating in various ways.

## 1.3 Public Sector Reform

In recent years, the public sector has undergone a myriad of reforms in an attempt to address fiscal restraints, debt, and deficits. These reforms are in line with the “reinvention movement”, and are congruent with the belief that governments must do more with less. In an attempt to promote cost effective government and improve service delivery, a variety of alternative organizational designs have been implemented. Alternative Service Delivery (ASD), has been discussed and / or implemented by all levels of government as a means to provide better services, at a lower cost, to tax payers. Examples of ASD mechanisms include:

- Public / Private Partnerships
- Special Operating Agencies (SOAs)
- Contracting Out
- Privatization / Private Not-for-Profit Organizations

ASD mechanisms are chosen based upon particular goals and objectives that need to be met. Choosing the appropriate ASD requires great effort to ensure that objectives are met in the most efficient and effective manner. The objective of this report is to provide information and some guidance on one form of ASD, PPP development and implementation at the City of Winnipeg.

## 2.0 Introduction

### 2.1 Background

In April 1995, the Committee on Works and Operations for the City of Winnipeg recognized the need to adopt a Strategic Infrastructure Reinvestment Policy (SIRP). It established a volunteer task force comprised of a cross-section of participants from government, business, labour and academic communities.

The SIRP Task Force was charged with the responsibility of drafting a plan with the following goals:

- document the current infrastructure condition
- identify investment needed for upgrade and strategic investment
- establish a plan to fund infrastructure investment
- identify such legislative and other amendment(s) required to facilitate implementation of the financial plan, and
- recommend a “Strategic Infrastructure Reinvestment Policy.”

The Task Force’s examination of this issue resulted in the development of 30 policy recommendations with respect to infrastructure reinvestment in the following categories:

- infrastructure maintenance
- new technology
- financing options
- alternative service delivery
- Winnipeg Transportation Utility
- National Infrastructure Policy
- sustainable infrastructure principles

On July 22, 1998, Council for the City of Winnipeg adopted the Strategic Infrastructure Reinvestment Policy report. A key recommendation was that a SIRP Implementation Committee be struck, headed by the Chair of the Standing Policy Committee on Public Works, to oversee the implementation of the SIRP strategic policy options. Various sub-committees were given mandates in support of the Implementation Committee, each consistent with a series of SIRP policy options. Four SIRP policy options dealt with Alternative Service Delivery (see *Appendix A*). A sub-committee (see *Appendix B*) comprised of City, industry and union representatives was given the mandate to address the stated policy options.

## 2.2 Purpose and Objectives

This report is prepared by the SIRP ASD Sub-Committee for the consideration of the SIRP Implementation Committee. (Refer to the ASD Sub-Committee's mandate - *Appendix A*). This report is written with the following objectives:

- To provide an environmental scan on PPPs locally and more broadly
- To identify and define the critical components of building successful PPPs
- To outline a general development process for PPPs
- To portray an accurate picture of the benefits and risks of such arrangements
- To promote PPPs as a viable option for infrastructure reinvestment.

## 2.3 Applicability

Once approved, this ASD Sub-Committee Report is intended to be a resource for department heads, senior management, and/or steering committees considering, planning, developing, and/or monitoring a PPP arrangement.

## 2.4 Contents

The concepts and practices outlined in this report have had considerable attention in both the private and public sectors. This report builds on successful initiatives undertaken by public sector jurisdictions including the municipal level. Refer to *Appendix C*, Canadian Project and Activity Inventory, for a comprehensive list of recent PPP initiatives undertaken.

This report describes an alternative way to reinvest in infrastructure. It presents general principles and guidelines for PPPs. A general development process is also outlined followed by a discussion of issues surrounding PPP arrangements.

## 3.0 Overview

### 3.1 Public / Private Partnerships

The term public / private partnership describes a project in which there is a mixture of private and public responsibilities. What those responsibilities entail is unique to each project and depends on the terms agreed upon by both parties. PPPs could include a wide range of different projects; everything from the restoration and maintenance of old buildings to building and operating new highways.

The recent interest in PPPs illustrates the evolving nature of government. PPPs enable governments to meet demands for public services using fewer of their own resources while maintaining or improving, service quality and efficiency. There is an array of partnership arrangements with varying degrees of public / private involvement (Refer to *Appendix D*).

Although the concept of public / private partnering is not new, a number of interrelated forces are reshaping relations between the two sectors, both by modifying existing arrangements and providing new rationales for collaboration. These forces include:

- Fiscal restraint
- Global competition
- Private sector capacity
- Information technology
- Changing perceptions of the role of government (“steer not row”).

### 3.2 Definition

One of the first tasks of the ASD Sub-Committee was to establish an understanding of what constitutes a PPP. The goal was to develop a definition and benchmark against which past, present, and future PPPs can be measured. The definition suggested by the ASD Sub-Committee is:

*“Public Private Partnerships are co-operative/contractual business ventures between the public and private sectors, built on the expertise of each partner, to develop or improve facilities / infrastructure and / or operating services on behalf of the public, through the appropriate and fair allocation of resources, risk, rewards and responsibilities. The essence of a truly beneficial PPP is the transfer or sharing of risk(s) between partners determined by their relative expertise and resources under their control.”*

## 4.0 Principles of Public / Private Partnerships

Outcomes or objectives for PPPs are consistent with the ideal outcomes in traditional public service delivery:

- Protection of the public interest within acceptable risk.
- Effective, efficient, economical and timely infrastructure renewal, maintenance and development.
- Ongoing value for money, including inter-generational matching of benefits and costs.
- Reduction of overall costs and improvement of service delivery.

Inherent in successful PPP are several broad principles; fairness, transparency and the sharing of benefits and risks.

### 4.1 Fairness

Fairness is extremely important in PPPs; every attempt should be undertaken to ensure the process is impartial and unprejudiced. Predetermined evaluation criteria should be used to rank and evaluate candidates objectively throughout the request for qualification (RFQ) and request for proposal (RFP) process. The evaluation criteria should be communicated to stakeholders early in the process. Great care should be taken when designating the evaluation team / review committee as no member of this team should be in a situation that could be considered a real, or perceived, conflict of interest. The City must ensure fairness, objectivity, impartiality, and probity. Fairness can be assessed and/or validated by an independent audit process.

### 4.2 Transparency

Transparency is important in a PPP process. By its democratic nature the City is responsible, and must be responsive, to citizens. Municipal activity and operations are open to the public via *The Freedom of Information and Protection of Privacy Act*. A defined, documented and clear process must be adhered to in keeping with the ideology of public governance.

All relevant information should be disclosed to suppliers and stakeholders, but there must also be recognition of certain private documents (e.g. financial disclosures). The release of such information could damage the private sector partner. In the final analysis, release of information should be consistent with the principles of *The Freedom of Information and Protection of Privacy Act*.

## 4.3 Mutual Benefits

PPP arrangements must be advantageous for both partners. Typical benefits of PPPs include:

- maintain or improve service levels
- access new sources of capital
- financial agreements which are advantageous to both parties
- efficiency / productivity gains
- quicker timelines (where urgency of results is important)
- innovation and flexibility is encouraged
- shared commitment
- beneficial risk sharing
- allow government to spend more time managing policy issues rather than being involved in managing resources that may be more efficiently controlled in the private sector.

## 4.4 Risks

Risk assessment is an integral part of competent project planning, coordination, management, and control. A risk assessment strategy should be set in the context of an overall project, with formal risk reviews linked to vital decision or completion dates. Risks should be transferred to the partner who is best able to manage them.

Since risks will differ between projects, the specific risks of a particular project must be determined within the context of the project itself. All risk assessments should include the following risks:

- financial (e.g. project financing, inaccuracy in estimating financial assumptions, unforeseen/uncontrollable project costs or project delays causing increased costs)
- political (e.g. risks associated with political priorities / direction, capital funding is not committed)
- technical (e.g. project design and construction, new technology)
- environmental (e.g. geotechnical problems, climatic occurrences, difficulty in obtaining required environmental permits, unacceptable visual aspects)
- community and social risks (e.g. risk that the community will protest the initiative, risk of declining public perception)
- project organization (e.g. inadequate contractor / consultant performance, operational problems, bankruptcies, obsolescence)
- legal and contractual (e.g. contract language resulting in losses or legal action, by-law enforcement risks, change in legislation risk)

## 5.0 The Key to Successful Partnerships

### 5.1 Environmental Scan

#### Local Experience

Although many large urban centres across North America and Europe have a wide diversity of PPP experience, the transition to this style of infrastructure reinvestment has been slower to develop in Canada. The City of Winnipeg has had limited experience with PPP agreements in the context of large infrastructure projects. The two most notable projects being the Charleswood Bridge (1994) project, and the Oxygen Generating Facility established at the North End Water Pollution Control Center (1982). Both projects offer a unique perspective to the formal establishment of partnership agreements involving the sharing of risk between the partners (Refer to *Appendices E and F*).

Although the primary focus is on partnership arrangements engaged in larger municipal infrastructure projects, the ASD Sub Committee realized that points of reference can also be drawn from other (non-infrastructure) partnership arrangements involving civic government with citizen groups, and not-for-profit enterprises.

#### Global Experience

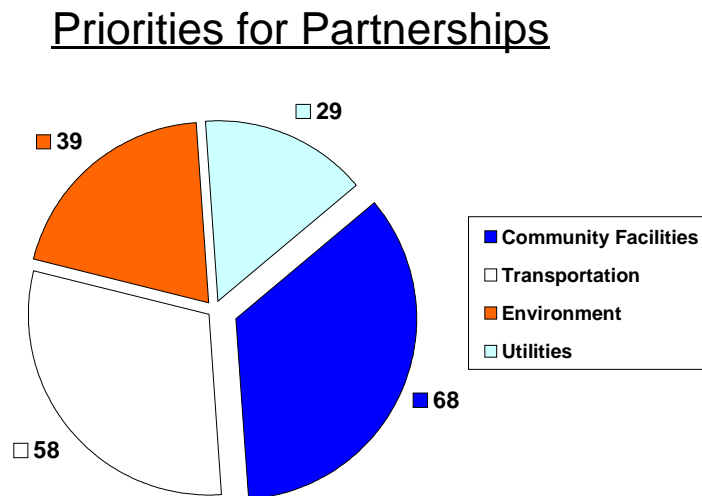
The research indicates PPPs are not a new phenomena. Partnering has been practiced in countries such as Sweden for hundreds of years. Britain and the United States have embraced PPPs as a means to the betterment of society. A wide array of partnering models have emerged from their experiences.

### 5.2 Priorities For New Partnerships

According to a survey conducted by the Canadian Council for Public – Private Partnerships (1998 C: 2), the following have been identified as priority applications for PPP initiatives in the next two years:

- Community facilities (e.g., community centres, arenas, schools, libraries, convention centres);
- Transportation (e.g., roads, bridges, public transit);
- Environment (e.g., waste treatment, lab tests);
- Utilities (e.g., parking, maintenance services)

The results of the survey are as follows:



*Note:* The chart adds up to more than 100 percent as survey respondents stated up to three priorities

## 5.3 Critical Factors For Success

Experience has shown the following are critical factors for successful PPP implementation:

- Political leadership
- Support of senior management
- Working effectively with employees whose jobs are affected
- An accounting baseline to compare internal estimates with bids
- Willingness to consider employee and union proposals
- Public support
- Support of unions and other employees
- Use of outside experts and advisors

Pursuing a PPP initiative requires significant resources and concentrated effort by all stakeholders. It is important that the following criteria are considered prior to a move down this path:

- Size and scale of project (appropriate financial thresholds may need to be established)
- Potential partners:
  - are identifiable/suitable
  - are interested
  - are well-informed regarding PPP options/models
  - have access to resources required (capital, equipment, skills)

- All other options have been explored (due diligence is necessary)
- Potential benefits are apparent

## 5.4 Role of Government

In order to ensure that these factors for success are met, the government must perform the following roles:

- Provide political leadership
- Demonstrate a willingness to share risks, responsibilities and rewards with private sector
- Document case studies which describe the success / failures of partnerships in terms of service quality, efficiency, and cost effectiveness
- Design RFP guidelines that encourage innovation
- Emphasize the importance of measurable outcomes
- Encourage and promote public - private partnerships which involve two or more levels of government
- Inform and educate the public
- Identify perspectives of employee associations and factors that contribute to effective workforce transition

## 5.5 Role of the Private Sector

In PPP, the private sector is a leader and advocate for the partnership. As such the partner must:

- Demonstrate a willingness to share risks, responsibilities and rewards with governments
- Appreciate the need for accountability, transparency and public disclosure in government bid processes
- Co-operate with governments on developing criteria for RFPs which encourage innovation and value-added expertise from the private sector
- Work with the government and unions to communicate successful HR management and impacts resulting from PPPs
- Support research and education initiatives directed at clients / citizens, government decision makers, business leaders and unions

## 5.6 Best Practice Models

The Canadian Council of Private Public Partnerships has developed a comprehensive list of “Best Practice Models” which is included as *Appendix D*.

## 6.0 The Development Process

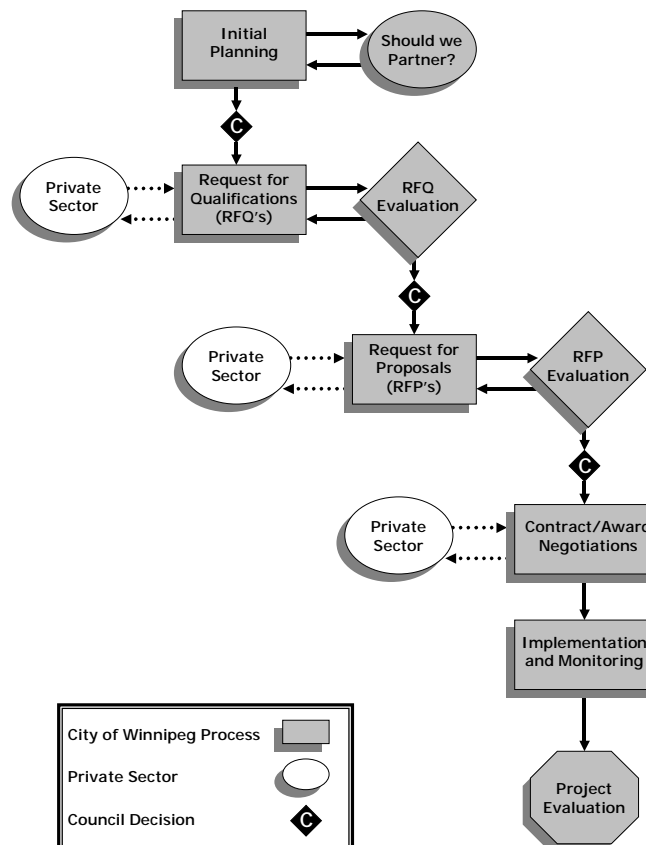
### 6.1 ASD Context in The City Organization

City Council on March 26, 1998, adopted a Policy and Framework for ASD. That policy document outlined Council's direction for ASD within the organization and the development and staged approval process for individual ASD initiatives. The formal ASD process is triggered by an administrative ASD Call Letter. Council formally adopts the development of ASD ideas through an ASD Agenda.

The section below provides an overview for the development of PPPs. PPPs are merely one option among several ASD methods. The formal City ASD process is applicable for PPPs in instances where the PPP is brought forward as part of the ASD Call Letter.

### 6.2 PPP Development Overview

The actual process steps for any PPP will likely have unique challenges. However, from an overall perspective, the following section provides some general process steps common to most projects. See *Exhibit A* below.



## 6.3 Initial Planning

- **The initial planning stage is the most important and perhaps most intensive stage of the PPP process. It sets the foundation for a successful project.**
- **Developing the business case**
  - Identify the need for the project within the context of corporate / department strategies
  - Is there political/administrative will to enter into a PPP for this type of project?
  - Is the project a priority given all other competing projects?
- **Conducting a preliminary benefit-cost analysis**
  - To determine whether the potential benefits outweigh the costs. Potential costs may include:
    - loss of control and/or accountability,
    - loss of in-house expertise
    - the costs associated with setting up / monitoring the partnering arrangement
  - To establish a benchmark cost for the project
- **Understand PPP Alternatives**
  - Identify and analyze various PPP arrangements, (Refer to *Appendix C & D*)
  - PPP working group and steering group established
  - Determine the potential contribution (expertise, resources, etc) of the private sector
  - Consult with professional community
  - Assess whether there is a competitive marketplace by identifying potential private sector participants
- **Identify which PPP will be pursued**
- **Identify stakeholders and involvement process**
- **Education seminars** (if required)
- **Public consultation**
  - Advertise and hold public meetings; elicit public opinion
  - Focus group meetings with interest groups
  - Gathering the needs, concerns and issues of the community
- **RFQ development by City**
  - RFQ document is established with assistance from legal services
  - Outlines the overall parameters and timelines
  - Establishes guidelines if an innovative “solution” is requested

## 6.4 Request For Qualifications (RFQ's)

- **Preliminary Process for establishing which private sector firms are interested and qualified to become potential partners**
- **Consider union involvement**
- **Outline City objectives**
  - Outline the proposed operation, the scope of the project, approximate obligations, and the evaluation criteria for RFQ's.
  - Bidders conference to share information, assists general clarity of process and expectations
- **Transparency**
  - Bidders should be advised of the application of *The Freedom of Information and Protection of Privacy Act*. Bidders should be encouraged to include a “confidentiality clause” for all non-public (i.e. financial) information.
- **Contents**

Each submission should include:

  - Full identification of the Proponent and all team members, consortium members
  - Proponent experience - individual and company (design, construction, and financing)
  - Financial capacity - providing a business plan describing how they plan to finance the project
  - General approach to project
  - Verification documentation allowing the City to verify all information set out in the submission

## 6.5 RFQ Evaluation

- **Selection Criteria**

RFQ's are generally evaluated on the basis of:

  - Engineering experience
  - Construction experience
  - Experience in financing major developments
  - Qualifications of key individuals
  - Operating experience (if the project includes a long term operating component)
  - Organizational and management approach
  - Viability of business plan
  - Financial capacity and strength

- Equity participation
- Demonstrated ability to work cooperatively with government departments and the Public

**\*\* Note:** Selection criteria may be weighted with consideration to the specific objectives of the PPP. The selection criteria should be used as a guide as there is no one “best approach” as the qualifying factors differ between each PPP.

- **Selection Process**

- Managed by a multi-functional review committee (should include representation from Legal Services)
- Evaluate RFQ’s on the basis of pre-established criteria to ensure fair and equal treatment
- Once the evaluation process is complete, short-list the best candidates for the RFP process (due to the fact that responding to RFP’s is expensive and time consuming, it is suggested that no more than 3 proponents are chosen).

- **Timing**

- The RFQ stage should span approximately 60-90 days, depending on the size and complexity of the project

- **Communication Strategy**

- Successful proponents could be communicated to political/stakeholder groups

## 6.6 Request For Proposals

- **Outline City objectives**

- The RFP solicitation document should contain sufficient information to permit bidders to thoroughly understand the city’s objectives in the partnership arrangement. Objectives will vary among partnership arrangements, but will usually include: financial objectives (i.e. financing terms, cost reduction), project completion time frames, transfer arrangements and the development of exportable expertise. The purpose of the RFP is to introduce and define:
  - the project
  - evaluation criteria for the RFP’s
  - management operations
  - business plan requirements
  - grounds for disqualification
  - development, design, and construction requirements

- **Legal Services should be involved in preparing and evaluating the RFP**

- **Briefing Session**

Shortly after the proponents have been provided with a RFP package, a briefing session

should normally be held to provide additional information on the project and to allow for questions about the project and about the process.

## 6.7 RFP Evaluation

### ▪ **Selection Criteria**

RFP's are generally evaluated on the basis of:

- Quality of the design, construction, delivery, maintenance and transfer elements of the proposal
- Maximum prices to design, construct, and maintain the project
- Quality and overall viability of the Proponent's business plan including the financing plan and timing
- Proponent's proposed terms of ownership
- Degree of risk
  - relative experience and expertise of the Proponent and members of the Proponent's team
  - financial viability of the Proponent and the members of the Proponent's team
  - construction-related risks
  - operational risks
  - life-cycle costing
  - security to be provided and the duration thereof
  - amount and form of guarantees to be provided in case commitments are not met (e.g. letter of credit, liquidated damages)
- Degree to technical innovation associated with the Proposal (e.g. provision of low or no-maintenance features)
- Degree and type of equity participation of the Proponent and members of the Proponents team
- Demonstrated skill, ability, and experience of the Proponents and members of the Proponent's team including:
  - satisfactory client references from past projects
  - financial stability of the Proponent and members of the Proponent's team
  - acceptable level of insurance and bonding to be provided
- absence of any existing or potential conflict of interest, actual or apparent

\*\* *Note:* Selection criteria may be weighted with consideration to the specific objectives of the PPP. The selection criteria should be used as a guide as there is no one "best approach" as the qualifying factors differ between each PPP.

### ▪ **Selection Process**

- Evaluate RFP's on the basis of pre-established criteria to ensure fair and equal treatment
- Once the evaluation process is complete, notify the Proponents of the decision
- Absolute security on non-public information
- Grounds for disqualification made clear (conflict of interest, etc.)

- **Communication Strategy**

- Successful partner communicated to political/stakeholder groups
- Confirm RFP impacts on organization (ie. any staffing impacts?)
- Ensure overall project communication strategy is reviewed and implemented on an ongoing basis

## 6.8 Bidder Compensation

It is common industry practice for some types of PPP to provide compensation to unsuccessful bidders. The dollar amount of the bidder compensation will vary between projects depending upon the scope of the project and the amount of time, resources, etc. to complete the proposal.

The Charleswood Bridge (design/build/finance partnership) RFP provided for costs and expenses of proponents as follows:

*“The unsuccessful Proponents are entitled to apply for a contribution of up to \$50,000 from the City toward its/their costs of preparation of the engineering and architectural designs for the Project providing its/their Proposal meets the requirements of the RFP, in the sole opinion of the Proposal Review Committee, and in consideration for delivering and providing the city with the copyright to all engineering and architectural designs and all other material and information prepared, conceived of or produced in the preparation of the Proposals by wither the Proponent or on behalf of the Proponent.”*

An analysis is provided in *Exhibit B* of industry bidding costs incurred on the Charleswood Bridge PPP. Although various assumptions are inherent, this model is thought to be a conservative estimate. The analysis suggests that consultants and contractors are incurring significant additional costs to bid this kind of PPP work.

In this circumstance, bidder’s compensation was recognition of the value of the ideas and innovation received from the potential partner(s). In some cases, the value obtained from adopting good ideas from proposals will offset the cost of the bidder’s compensation.

In short, there needs to be consideration of the cost to the construction community of bidding the PPP process and the level of compensation paid to unsuccessful bidders in order to maintain ongoing interest and support for PPP arrangements by stakeholders.

**Exhibit B: Cost of Bidding Charleswood Bridge PPP  
(as a percentage of \$15 Million construction costs)**

7 Responses to RFQ	3.5 %
3 Responses to RFP	5.5
City advocate costs - preliminary design	1.5
- assistance during RFQ, RFP and technical assistance during construction	1.5
<b>Total</b>	<b>12.0 %</b>
Normal bid costs for conventional design-bid-build and two honorariums @ \$50,000 each	(1.5) %
<b>Net extra cost for PPP project bid process for construction community</b>	<b>10.5 %</b>

## 6.9 Contract Negotiations

- PPP agreements are negotiated on a project-by-project basis. The contract should reflect the conclusions of the selection process, pricing commitments, the risks shared between the two parties, and the contractual limits imposed on municipalities under existing laws and legislation. Legal services will draft the contract once the parties reach consensus. The contract should be as detailed as possible to avoid potential misunderstandings / conflicts. The contract should include:
  - Legal requirements
  - Performance measurement
  - Dispute resolution processes
  - Completion targets
- Build Partner working relationship
  - Define areas of concern and collaboratively develop action plans
  - Define common goals/commitments
  - Partnering workshop

## 6.10 Implementation and Monitoring

- Implement the project/service
- The contract must be monitored throughout its term to ensure compliance with obligations
- Contract must contain penalty clauses for non-compliance and also have dispute settlement procedures

- Buy-outs and ‘off-ramps’ should be explicit in the contract and used when a partnership is no longer practical or beneficial to both parties
- Progress reports provided to Council on a timely basis
- Ensure partner accountability

## 6.11 Project Evaluation

- Evaluate success of project (once implemented) with reference to original objectives
- Perform a post-implementation review/audit
- What has been learned for next time?

## 7.0 Additional Issues

### 7.1 Labour Considerations

- The City will have to comply with all applicable provisions of any relevant collective agreement and/or obtain agreement on any alterations or changes which are needed for the PPP in question.
- Principles to apply:
  - Management discretion to implement an initiative
  - Open and early communication
  - Ensuring that unions have a meaningful input/role
  - Mechanisms for business confidentiality as appropriate
- In September 1998, Behind the Pretty Package: Exposing Public Private Partnerships was released by The Canadian Union of Public Employees (CUPE). Refer to this document for CUPE's perspective on PPPs.

### 7.2 Maintaining Control of Project/Service

Attention must be paid to ensure partnering occurs as appropriate. For example, service delivery can be broken down as noted below. Opportunities for partnering must be assessed for each element noted.

- **Planning.** Some elements of planning can be delegated to a partner, as long as the City of Winnipeg has final approval over the plans.
- **Design and development.** A partner (either public or private) may bring a fresh look to an old problem. It is important to specify the required outputs (e.g., performance specifications) when asking a partner to design a service rather than specifying the process that must be followed to allow for the most creativity.
- **System management and evaluation.** It is appropriate to delegate discrete tasks within this element, but the City must retain overall responsibility for system management and evaluation.
- **Procurement of fixed assets (if applicable).** Determining who is in the better position to purchase fixed assets will depend on:
  - The size of the asset to be acquired
  - The relative purchasing power of the City and its potential partner
  - Who must ultimately own the asset

- **Maintenance of fixed assets.** For buildings and equipment, the City may wish to retain the maintenance responsibilities because, at the end of the contract, the City will still own the asset. However, this responsibility can be partnered, as long as appropriate standards, inspections, and performance guarantees are incorporated into the contract.
- **Financing.** Private sector financing (both debt and equity) is generally more expensive than public sector financing. Therefore, private sector financing may only be appropriate to provide financing when an innovative repayment arrangement is required, or the economics of the project require more funds than the City can provide. In the second case, private sector equity is a possible solution, but may also be a costly solution.
- **Management.** In partnering the management of a facility, the Project Manager must balance the desire to transfer as much responsibility and authority as possible (to capture the most benefit from partnering) against the need for the City to maintain some control over services and pricing and to ensure accountability for service quality and costs. The specifications must clearly identify the roles and responsibilities of the City.
- **Marketing.** If marketing is a critical element of the project, the private sector may be in a better position to undertake this responsibility.
- **Operations.** If the operation of a service is being considered for partnering, the City may also wish to consider including the management and marketing of the service in the contract. These elements are interrelated, and by combining the elements greater benefits through partnering may be achieved.

If the specific project does not fit well into the above framework, or if the above elements need to be subdivided to a finer level of disaggregation, individual initiatives should not be constrained by the above categories. These categories are provided only as a framework for consideration.

## 7.3 Extent and Timing of Public Consultation

- How much public consultation is enough? How much is too little?
- At which stage(s) should the public be consulted?
- Should there be ongoing communications formally undertaken? (i.e. regular newsletter)
- A detailed communication strategy should be developed.

## 7.4 Other

- Ongoing maintenance issues.
- City will have to follow existing policies and procedures or have them modified or changed by the appropriate authority (e.g. provincial legislation, procurement procedures)
- Continuity of services

- The need for price guarantees
- Attitudes towards changes and claims
- Amount of negotiation acceptable
- Need for assurances (bonding, performance guarantees, etc.) and the duration thereof
- Public attitude towards private involvement in project delivery (outcomes)
- Ensuring partner accountability
- PPPs require intensive time commitment up front in the process, but if properly applied the overall timeframe of the project can be shortened

## 8.0 Conclusion

Determining the success of the various PPP projects must be viewed objectively within the context of individual projects. Success lives in the eye of the beholder. Each case study has its proponents and critics. Success must be gauged by actual outcome or accomplishments, which can only be determined through appropriate performance measures. Lines of accountability and responsibility must be clearly articulated and understood through the contract.

There is no “one best method” for PPP. The objective can be achieved by many different means. Experience has shown that the best results emerge when the method chosen is developed within the context of the environment -- political, economical, sociological, and technical -- of each project. This indicates that a thorough investigation of the objective and the means must be undertaken. All models have their advantages and disadvantages. What works in city A may not be applicable at all in city B.

PPPs are an option by which the public sector can re-invest in infrastructure in a cost-efficient, effectual manner. PPPs serve as an example of an innovative strategy used by governments to provide quality services to the public in a manner representative of fiscal realities. The evolution of PPPs is far from over. As PPPs continue to evolve, we will strive to develop “best guidelines” to assist in successful PPPs.

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# Appendix A

## Excerpt From Strategic Infrastructure Reinvestment Policy

POLICY OPTION	IMPLEMENTATION PLAN	PRESENT STATUS
<b>Alternative Service Delivery Policy Options</b>		
<p><b>Implement ASD Options</b></p> <p>20. That with regard to infrastructure, Council implement its adopted policy on Alternative Service Delivery, as follows:</p> <p><i>“The City of Winnipeg is committed to providing quality services at an affordable cost on a sustainable basis. To this end, the City will systematically review its programs, services, and delivery mechanisms, and will pursue the most appropriate methods and structures for providing services to achieve the best value for the municipal tax dollar and the optimal balance of overall benefits to the City and its Community.”</i></p>	<p>That the recommendation be implemented.</p>	<ul style="list-style-type: none"> <li>• Policy Implemented</li> <li>• On March 25th, 1998, Council adopted the <b>Policy and Framework for Alternative Service Delivery</b> for the City of Winnipeg.</li> <li>• The implementation of this policy has proceeded, with the issuance of the organization’s first <b>ASD Call Letter</b> on October 22, 1998 by the CAO. Departments have submitted responses to the ASD Call letter and those submissions were analyzed for inclusion in the <b>1999 ASD Review Agenda</b>. Council approved the ASD Review Agenda in February 1999 and established an ASD Committee of Council to oversee the ASD process.</li> <li>• It is also anticipated that the departmental <b>business planning process</b>, launched for all City departments in 1999, will be instrumental in generating discussion and identifying ASD ideas for inclusion in the formal ASD process.</li> </ul>
<p><b>Public-Private Partnership Research</b></p> <p>21. That Council ensure both internal and external research capacity be devoted to monitor and assess PPP trends throughout Canada, and to assist the City in considering local PPP proposals.</p>	<p>That the recommendation be implemented in the context of the Alternative Service Delivery framework.</p>	<ul style="list-style-type: none"> <li>• This report addresses the policy option noted.</li> </ul>
<p><b>Pursue Partnering Strategies</b></p> <p>22. That Council pursue partnering strategies for infrastructure works in accordance with the framework of all applicable Council adopted policies.</p>	<p>That the recommendation be implemented in the context of the Alternative Service Delivery framework.</p>	<ul style="list-style-type: none"> <li>• This report addresses the policy option noted.</li> </ul>
<p><b>PPP Policy Options</b></p> <p>23. That Council adopt as policy, consideration of the entire PPP spectrum as policy options in all large capital projects involving all aspects of infrastructure.</p>	<p>That the recommendation be referred to the CAO for implementation pursuant to the ASD policy.</p>	<ul style="list-style-type: none"> <li>• This report addresses the policy option noted.</li> </ul>

# Appendix B

## ASD Sub-Committee Membership

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### City Representatives

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Betty Holsten Boyer (Chair)  
Mgr. Financial & Business Initiatives  
Corporate Finance

Barry Evenson  
Manager of Building Services  
Public Works Department

Tom Pearson  
Mgr. Local Water & Sewer  
Water & Waste Department

Doug Buhr  
Solicitor  
Corporate Services Department

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CAO Secretariat

David Shepherdson  
Labour Relations Coordinator  
Human Resource Services Division  
Corporate Services Department

William Clark  
ASD Development Officer  
Corporate Finance

Bob Nicol  
Mgr. Cultural Amenities & Services  
Community Services

Bill Woroby  
Mgr. Equip. & Material Services  
Public Works Department

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### Industry Representatives

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Bo Gulay  
President  
Wardrop Engineering

Dave Harrison  
Vice President  
M.D. Steele Construction Ltd.

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### Union Representatives

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Greg Mandzuk  
Staff Representative  
CUPE Regional Office

# Appendix C

## Canadian Project and Activity Inventory

*Note:* This appendix is a comprehensive list of Canadian projects as prepared by the Canadian Council for Public Private Partnerships. Page references refer to the contents of the publication, Public-Private Partnerships - Canadian Project and Activity Inventory, September, 1998 B.

This information is provided as a reference source for managers wanting to do further research into specific projects.

Further information about the Canadian Council for Public-Private Partnerships is available by calling 416-601-8333 or visiting their website at <http://www.pppcouncil.ca>.

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# Appendix D

## Best Practice PPP Models for Infrastructure Reinvestment in Canada

### A. Traditional Approaches

#### 1. Design-Bid-Build (DBB)

Design-bid-build is a traditional (and the most familiar) process in the construction industry in Winnipeg, where the owner contracts separately with a designer and contractor. The owner normally contracts with a design company to deliver 100 percent design documents. The owner or owner's agent then solicits fixed price bids from contractors to perform the work. Contracts and scope for design and construction are thus distinctly separate.

The traditional (DBB) approach taken by the City of Winnipeg, after a need or decision to build new or redevelop, has been to create the design either in house or through tender for drawings and specs. After what may often be considerable dialogue the design is accepted by the City and is submitted for public bidding by general contractors.

DBB attempts to incur cost savings through; complete project analysis (including life-cycle costing), comprehensive engineering and design, competitive bidding, continual owner review and input, the final product is normally reflects what was designed as changes to design can create considerable delays and increase costs.

DBB provides the owner with the best opportunity to influence the overall product, however, control comes with having to assume the greatest portion of risk

#### **Critical owner responsibilities to achieve excellence in design-bid-build**

- Owner must have capability to administer design-bid-build process.
- Owner must have the ability to make timely decisions and adequately define scope.
- Select an architect/engineer experienced with similar facilities and delivery system.
- Select from a qualified contractor pool.
- Agree to lump-sum contracts for contractor terms.

#### **Interpreting owner responsibilities**

- Owner takes responsibility for design defects/omissions.
- Owner requires 100 percent design prior to soliciting bids.
- Contractor responsible for demonstrating "approved equal" if deviating from owner's specs vs. design-build, which is performance based.

**APPENDIX D: BEST PRACTICE PPP MODELS FOR INFRASTRUCTURE REDEVELOPMENT IN CANADA  
(CON'T)**

- Owner warrants design.
- Owner must assume or assign construction oversight and inspection.
- Owner responsible for all necessary integration and design reviews.
- Owner must acknowledge that contractors performing work in small size packages require more assistance in schedule monitoring and working with other contractors on site.
- Owner's overhead costs will increase under this method due to acting as contract administrator of multiple contracts.
- Complex projects may have significant coordination requirements in the field, which will be owner's responsibility.
- One hundred percent design followed by a bidding cycle and negotiations will impact the start date.

**Advantages**

- Due to the provisions articulated in the general conditions and the contract the scope and objectives are well understood.
- Frequent meetings provide assurance of project quality and completion.
- There is continual opportunity for the owner to have input into the project overall, which ultimately provides the owner with what they require, which often results in a custom built end product.
- There is access to the best engineering and technical advice available, which ensures ongoing quality control.
- Changes, including; design, construction, and cost are easily accommodated.
- Provides for independent cost estimating which has particular value for public infrastructure projects.

**Disadvantages**

- The overall process can be considerably longer and slower.
- Often the relationships between owner/designer/contractor can become adversarial.
- There is no vested interest on the part of designers/engineers/architects except that they have a professional responsibility to and for their design and for insurance purposes to cover their errors.
- The public interest is to reduce cost and risk. (conservatives)
- All private interests in the project are profit motivated.
- The total project price is unknown until completion.
- Contingency sums are required for unknowns or omissions, normally around 15%, but often can be as high as 25% on complex or technical projects.
- The contractor is provided an opportunity to exploit mistakes in design.
- Preference toward a low bid selection drives the contractor to use changes and errors to make up as much of the difference between theirs and the next bid, which place the owner and consultant at considerable variance with the contractor.
- A designers construction expertise is weak which can place the contractor in a position of opportunity, unless a very experienced construction manager is assigned.
- Designs are often conservative and lack innovation.

## **2. Construction Management at Risk (CM)**

In construction management at risk, the owner provides for the facility design either through in-house resources or through contract with a design firm. A separate contract is awarded, during the design process, for the construction management and actual construction work in accordance with plans and specifications for a fee. The construction manager/contractor will then usually have significant input to the design process and can generally guarantee the maximum construction price. The advantage of CM is that it brings the construction contractor into the process much sooner than in the traditional construction process. It offers the ability to overlap certain portions of work through phased construction and the early ordering of long lead times. A qualified construction manager provides planned and consistent leadership to the entire project team through constructability reviews, value engineering, market based estimating, project scheduling and can assist the client in maintaining a realistic design schedule.

### **Critical Owner Responsibilities**

- The owner must have the capability to: administer a CM project; make timely decisions; define the scope of the project; assume overall responsibility for the project; take responsibility for defects and omissions; identify qualified pool of contractors; and facilitate excellent communication.

### **Advantages**

- Final costs are maintained within the budget.
- The owner maintains control.
- Accelerated scheduling.
- Provides good coordination for multiple projects.

### **Disadvantages**

- The decision making process is driven by the bottom line.
- Management fees will be elevated.
- The owner maintains control which can result in significant conflict.
- There is a value range between individual contracts.
- Engineers/designers, may provide better cost estimations.

## **B. Partnership Models**

### **1. The Design Build Model (DB)**

Design-build is an agreement between an owner and a single entity to perform both design and construction under a single contract. Portions or all of the design and construction may be performed by the entity or subcontracted to other companies. This system is similar in many respects to that often referred to as an engineer-procure-construct (EPC) contract.

## APPENDIX D: BEST PRACTICE PPP MODELS FOR INFRASTRUCTURE REDEVELOPMENT IN CANADA (CON'T)

Recent research (Construction Industry Institute) indicates that a DB, a method of construction that puts the design and construction responsibilities within a single entity, is an arrangement that deserves serious consideration because of its success in enabling delivery of a facility on time and within budget. The study was based on 350 projects representing variable costs ranging from \$30 to \$2,000 per square foot. DB had the best cost growth performance with 2.17 percent compared with the average cost growth of DBB at 4.83 percent. Design and construction schedule growth were studied as well indicating DB and CM with zero percent increase and DBB indicating a 4.4% increase.

One perception prior to the survey was that quality suffered in the DB method of delivery. This was not the case. In fact, the survey and statistical analysis proved that DBB provided the least quality level. Responses were sought with the greatest degree of objectivity and only from the owners of the facilities.

### **Critical owner responsibilities to achieve excellence in design-build**

- Designate leader who has authority to make timely decisions.
- Owner must adequately define scope.
- Owner must have capability to administer design-build process.
- Facilitate excellent project team communication.
- Engage construction entity early in design process (less than 20 percent design complete).
- Restrain contractor pool to pre-defined pool of qualified contractors.
- Need to hire consultants to develop project concept and to prepare RFP.

### **Interpreting owner responsibilities**

- Owner needs to understand that execution of the project will be based on stated requirements not owner preference. This is a performance-based contract, not prescriptive specification-based.
- Opportunity for contractor selection by other than the lowest price is enhanced.
- Owner desires to be less involved in integrating the process.
- Owner seeks single point responsibility.
- Owner seeks transfer of project processes because of staff reductions.
- Owner has flexibility in selecting contracting entity based on best value.
- Because design-build has less owner involvement, facility performance, expectations, and definitions must be clearly stated up front or jointly developed between owner and contractor.
- Owner's internal customers must be educated regarding the fact that they are buying the engineering, not engineering the project themselves.

### **Advantages**

- The owner can clearly define the project requirements.
- Statistics indicate that the private sector is very interested.
- The price is fixed at the front end.
- Allows for innovation of process and technology which can lead to significant cost reductions.
- Can be applied to most projects, though more applicable for high cost projects however, the local context will determine the size where a minimum standard may apply.
- Risk is shared among the partners.

**APPENDIX D: BEST PRACTICE PPP MODELS FOR INFRASTRUCTURE REDEVELOPMENT IN CANADA  
(CON'T)**

- There is only one single point of responsibility.
- Statistics indicate that the quality, cost growth, and scheduling are much improved over traditional models.
- Projects are outcome focussed.

**Disadvantages**

- Disputes between the designer and builder can seriously affect the owner.
- Often incompatible with entrenched contract models or General Conditions (GC's) which need to be renovated to reflect the true nature and scope of a DB project. Therefore, much effort and expense may be required to establish scope, and terms and conditions, prior to any engagement with the private sector.
- Selection is much more time-consuming.
- The overall design can be compromised, given that the engineer/architect, to which the owner has no direct access, works for the general contractor. Owner has less control.
- There can be high costs for unsuccessful proponents.
- Owners will be required change their procurement process, and reduce staff in order to accommodate the shift of risk and responsibility.
- May require a great deal of support from a broad spectrum of stakeholders.
- Unless the scope of work and concept are clearly agreed upon, the final product will be as inexpensive as possible from the viewpoint of the design team, which may not reflect the value from the owner's or citizens' perspective.

**2. The Design Build Operate Model (DBO)**

The Design Build Operate Model (DBO) is very similar to DB but the proponent is also responsible for operations which may provide an added incentive for quality. This model depicts a single organization being responsible for design, building and operating a facility for what can be a lengthy period of time. The proponent guarantees to provide a product of specific quality for the period of time and relieve the owner of any obligations other than their responsibility to the public.

**Advantages (Same as for DB)**

- There are opportunities for economy of scale or scope.
- The proponent can anticipate and accept increased risk.
- The proponent has the responsibility or risk for selecting proven or approvable design, material, and technology that will not obsolesce, and meet performance guarantees.
- Standard of care provisions and contractual obligations can establish a preventative maintenance program.
- A service provider can be allocated risk for all capital improvements required to meet performance standards, except for certain major improvements where owner may be responsible for costs.
- A service provider can be required to hold a price until a specified calendar date. Thereafter, the price can be escalated at a percentage of a specified index such as the CPI or ENR.
- A service provider may not be required to pay prevailing wages and can be allocated risk for strike actions.

**APPENDIX D: BEST PRACTICE PPP MODELS FOR INFRASTRUCTURE REDEVELOPMENT IN CANADA  
(CON'T)**

- DBO pays in the long run for errors and inefficiencies in the DB component of the project, as the price to operate is usually fixed.

**Advantages - Post Contract Finalization**

- DB efficiencies are possible because of the incorporation of more economical design, the application of cost-saving construction techniques, efficient mediation of design issues during construction, fast tracking materials procurement, and a fixed total project cost.
- Design/Operate efficiencies are possible because highly automated facilities can reduce staffing costs.
- Competitive market savings may be realized on the first several major DBO water treatment facilities as competitors may trade short term profits for longer-term market goals.
- Scheduling can be accelerated to guarantee completion date.

**Risks and Opportunities**

- Technological innovation/Maintenance/Weather
- Politics/Economics/Environmental/Social

**Disadvantages (Same as for DB)**

- To achieve savings, the provider needs the flexibility (speed) for innovative solutions, which in turn reduce the owners control. An inverse relationship exists between savings and flexibility.
- Up front efforts and costs may be significant as the development and implementation of the procurement process is time and resource consuming.
- Calculation of “true cost savings” can be difficult unless a comparison is made to a relative benchmark. The owner may achieve a highly innovative, non-conservative facility, but yet may have to compare it to a “bare bones” model.
- Potential for under developed project, or non-compliance, which can have significant impact on the reputation of the owner and the project model choice.
- Front end research and testing may be wasted should the proponent choose an alternative method.

**3. Modified Design Build Model (MDB)**

This approach represents a “cherry picking” of the best qualities of the traditional DBB and the newer DB models in order to achieve; process selection control, and best quality in design and product for the least cost, for the owner.

The MDB approach was implemented successfully on recent projects such as Greenville Water Treatment Plant in North Carolina, the Summerland Wastewater Treatment Plant in British Columbia, and components of the Main/Norwood Bridge project in Winnipeg.

- The owner desires a higher degree of control due to insecurity with other models.
- The owner is responsible for predesign, Value Engineering and Cost/Benefit analysis.
- Design is contracted with substantial input from owner.
- RFQ/P and competitive tendering for construction.
- Contractors bid on partial design/ Contractor Selection.

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- Joint completion of design between owner, designer, contractor.
- Construction completed via the traditional approach.

**Critical owner responsibilities for implementation excellence in Modified Design-Build**

- Owner must complete pre-design and value engineering.
- Detailed design and construction supervision must be negotiated to a GMP.
- Design must be developed to between 30% and 70% complete.
- Establish a formula for sharing of savings which will induce contractors to save rather than increase costs to increase profit.
- Establish a formula for payment of costs incurred beyond the GMP.
- Establish a formula for assessing any changes.
- Maintain team environment for decision making, design, etc.
- Costs determined at project completion and shared accordingly.

**Advantages**

- Owner control of design, product, and societal issues.
- Constructability and expertise considered in the design phase.
- Cost effective procurement with competitive tendering to a GMP.
- Exposure to risk is minimized.
- Innovation, speed, and flexibility are maximized.
- Residual savings are shared providing an incentive to all parties to reduce costs.
- Parties jointly influence the project.

**Disadvantage**

- High front end costs required for input and evaluation of contractors, and in establishing and maintaining performance management/measurement.

## C. Public/Private Partnership Models

A key component motivating the initiatives for PPP approaches, which includes the concept of PPP, is the unavailability of public funds through the various strategies of public finance. Private sector funding may be considered when public authorities are unable or unwilling to fund the project. This is often due to the inability to engage in debt financing, notwithstanding, the need for a host of other public projects. The objective is to partner the resources of both sectors to create the ideal financial arrangement. There is a prevalent but unproven ideology among public sector owners, that the private sector operates with greater efficiency. The adopted definition of the SIRP-ASD Sub-Committee, indicates that the key objective of the various PPP approaches is the transfer of risk to the partner that is better equipped and experienced to deal with specific types of risk.

Quoting from the City of Winnipeg Annual Report (1994), on the Charleswood Bridge project, “It has been demonstrated that it is possible to design, build and finance a large capital project on a public/private partnership basis, providing benefits in terms of risk avoidance and ensuring long term maintenance of the bridge.” While there are significant advantages to combining the design and build components, it is less clear that private financing of capital projects offers economic advantages. The lease payments under the partnership will be similar to what debt interest and principal payments would have been, and will be considered along with other debt

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and finance charges when determining the City's borrowing capacity.

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PPP alternatives may involve some or all of the following features:

- Transfer of risks to the private partner, such as operating and construction cost escalation and technological obsolescence.
- Alternative sources of financing required.
- The proponent is responsible to provide the solution.

**1. Design Build Own Operate Transfer (BOOT)**

This model prescribes that an independent investor or consortium will finance, own, and operate a facility (find the best solution) for a predetermined structure fee, for a contracted time period, at the end of which the public entity may, under terms of the contract, exercise certain options, such as; purchase, extension of lease, etc. The essence here is the transfer of risk from the public to the private sector. The advantages and disadvantages are much the same as Design Build, however, these approaches tend to add an additional perspective of innovative financing strategies in order to relieve the public entity from the various risks over the long term, such as; major maintenance costs, design or construction faults, unknown natural/environmental factors which may complicate design and increase overall costs and reduce product life-cycle.

**2. Design Build Rent (Lease) Transfer (BLT)**

The proponent is responsible for selecting the solution, financing, design, and construction. The proponent leases the facility to the public sector for an annual fee. The public sector operates and manages the facility. After a contracted period, ownership is transferred to the public sector for a pre-arranged and contracted price.

**3. Design Build Operate (DBO)**

The same as BLT but ownership is **not** transferred to the public sector.

**4. Build Transfer (BT)**

The proponent finances, designs and constructs the facility and then transfers ownership to the public sector for an agreed upon price. Payment to the proponent could take many forms, including installments, percentage of user fees, etc.

**5. Full Concession**

The proponent is provided a complete mandate to provide the services of the facility to the public, including the collection of fees.

**Advantages of PPP Models**

- Public funds are not tied up in the project.
- Risk is transferred to the most capable partner.

**Disadvantages of PPP Models**

- Procurement is time consuming, complex, and radically different.
- Little public sector involvement once the ink has dried.
- The proponent will usually incur higher financing costs.
- The general public may not agree with a private sector approach or service delivery.

**6. Shared Risks/Shared Savings (SR/S)**

As the title indicates the risks and rewards are shared, however the depth of the arranged sharing of risks must be clearly articulated in the contractual agreement. The owner, designer and contractor will form a joint management team, which has the responsibility to deliver the project as articulated. As much as possible, all risks that may impact the successful completion of the project are identified in advance. The team reports to a partnership board, a quasi-regulatory entity, wherein disputes and or issues can be resolved. Rewards/Penalties and Risks are allocated fairly by the board.

This model could be an off-shoot of the Charleswood Bridge project, where after the contract was signed, a significant decrease in the interest rate occurred which resulted in significant savings for DBF. The reward of a windfall of capital was not shared with the City of Winnipeg, and was not articulated in the contractual arrangement. However, as DBF articulated, they were not so sure that the City would have provided the same relief to them had the interest rates risen substantially. Had interest rates risen, the deal surely would have been considered a good one.

**Characteristics**

- The team membership (partnership) is decided by the owner.
- Partners are selected on their: ability to anticipate, control and or offset risk; technical and financial expertise; compatibility.
- A partnership contract (agreement) is articulated in the context of the project.
- Risks and rewards are shared equally.

**Critical partner responsibilities for implementation excellence of the Shared Risk/Savings Model**

- Establish the team with one key member from each organization as early in the process as possible. Develop a team culture in which everyone is on the same page.
- Form the partnership board from members of key stakeholders.
- Set up contracts to enable contractors and others to get paid for work performed.
- Establish an ongoing independent audit process for all financial matters.
- Adopt a non-adversarial approach--establish “gain-share” and “pain-share”
- Establish key performance measures, milestones and benchmarks early in the process.

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- All partners are concerned with proactive prevention of loss.

**Advantages**

- Innovation leads to a high quality project, less defects.
- The project revolves around a customer focus.
- Consistent risk management, less claims.
- Early contractor selection.
- Speed.

## Appendix E

### Our Local Experience

#### The Oxygen Generating Facility

**Background:** In 1982, The City of Winnipeg implemented one of the first PPPs in Canada when it upgraded one of its wastewater treatment plants from activated sludge to a cryogenic oxygen system. This project established Winnipeg as a PPP pioneer. The original intention was for the City to own and operate the oxygen generating facility required to support the system.

**1982 07 15:** A contract was awarded to Air Products for supply of oxygen to the NEWPCC for a 15 year period. The completion date of the contract was December 31, 1999, however the contract would continue indefinitely thereafter, subject to 2 years notice of termination by either party. The contract also provided for negotiation of new terms for the continuance of the contract beyond the completion date. Funding is included annually in the Current Estimates.

**Project Description:** The generating plant is designed to provide up to 80 tonnes of oxygen per day to a 132 mgd wastewater treatment plant.

**Motivation:** The City sought an innovative form of service delivery in an effort to reduce costs and minimize staff and specialized training requirements. An interruption of supply would shut down the secondary plant with serious environmental consequences. Air Products have many other plants in Canada with consistency of method, equipment, maintenance, and spare parts inventory.

**Procurement Process:** When the City issued its tender documents for the plant in 1982, it included a clause which encouraged innovative service delivery alternatives from the private sector. Air Products Ltd. proposed a long-term Public/Private Partnership which met and exceeded the City's requirements. They were selected in 1982 with the plant on line in 1984.

**Role of Private Partner:** This is a design, build, finance, own and operate partnership. The City has the option to purchase the assets following the conclusion of the contract.

**Original Contract Details:** Under the 15-year agreement, the City paid Air Products a fixed fee for capital and maintenance and a variable fee for oxygen. The per tonne price increases incrementally after 75 tonnes per day. The City provides power in exchange for plant operations and routine maintenance.

**Obstacles:** Only public sector union resistance at the onset.

**Budget:** The capital cost of the generating plant in 1982 was roughly \$8 million. The City pays approximately \$125,000 per month for the entire service and was able to avoid a large capital

outlay as a result of the partnership.

**Current Status 1996 11 22:** Air Products submitted an unsolicited proposal which provides for substantially reduced costs to the City among other things, effective November 1st, 1996. The proposal would effectively terminate the existing arrangements earlier than provided for in the current contract, and the arrangements proposed would continue until December 31, 2009.

### **Renegotiated Agreement**

By letter of November 22, 1996, Air Products submitted an unsolicited proposal to the City to extend the contract with modified terms and conditions. By securing a long term commitment with the City, Air Products indicated they would invest in capital upgrading. Benefits to the City included reduced costs for the duration of the existing contract and a continuation of the lower rate structure throughout the extension.

The major features of the new agreement are:

1. The new partnership agreement terminated the existing arrangements earlier than provided for in the previous contract, and the arrangements will continue until December 31, 2009.
2. The new rate structure took effect retroactive to November 1, 1996, and remained in effect for the duration of the original contract and throughout the duration of the extension. The cost savings to the City over the 38 month (retroactive to November 1996) duration of the existing contract is estimated at \$377,000 per year, or approximately \$1.19 million in total. Annual costs under the extended contract continue at approximately \$377,000 less per year (uninflated) than typical current costs. These savings accrue directly to the department's current operating budget.
3. The new agreement also includes simplification of the rate structure and administrative procedures. The five cost categories in the original rate structure are reduced to two. One price index is used instead of three.
4. The new agreement includes the supply of liquid oxygen to the South End Water Pollution Control Centre (SEWPCC) at a cost of \$100 per tonne for hauling, with no charge for the product, and provision at no cost to the City, of a larger storage tank. The SEWPCC uses liquid oxygen as a backup to its oxygen production equipment, with current costs of \$234 per tonne for supply and delivery. Although annual savings will be moderate (several thousands per year), the increase in available on-site emergency liquid oxygen provides a needed increase in reliability in the event of a failure in the plant's oxygen generation facility. Air Products will also supply liquid oxygen from its NEWPCC plant, which is produced as a by-product of oxygen gas production.

The advantages of the partnership are obvious in the above discussion. Both the partners, the City of Winnipeg and Air Products, are comfortable with, and to this point cannot cite any disadvantages, to the agreement.

## Appendix F

### Our Local Experience

#### The Charleswood Bridge Project

**Background:** The City had been planning to construct a bridge over the Assiniboine River in West Winnipeg since 1946. In November 1993 a special working group tasked with identifying potential Public/Private Partnerships selected the Charleswood Bridge project as a good partnership demonstration project.

**Project Description:** The four-span, 152 metre bridge was constructed in two parts. Part I included the actual bridge and road work to the south and Part II involved extensive road work to the north. The long-term partnership is for Part I only. Part II was a design/build contract.

**Motivation:** The City began seeking potential Public/Private Partnerships in an effort to avoid increased debt load, accelerate project completion, capitalize on private sector expertise and identify innovative solutions.

**Procurement Process:** An RFQ was issued in February 1994 to which seven responses were received. Three consortia were short listed and asked to respond to a detailed RFP. The RFP encouraged proponents to submit design alternatives and this was a major factor in the selection of DBF Ltd. as the preferred partner in September 1994.

**Role of Private Partner:** For Part I, DBF designed, built, financed, owns and conducts major maintenance on the bridge. Ownership of the bridge will transfer to the City after 30 years. Part II was a design, build and transfer project.

**Contract Details:** Under the 30-year contract, the City will make annual ascending lease payments to DBF. The City is responsible for minor maintenance and any surpluses in funding for major maintenance works will be split after 30 years. All maintenance cost over-runs will be absorbed by DBF.

**Obstacles:** Due to the unusual and largely untested nature of this type of partnership, the securing of adequate financing took some time. The initial agreement had to be modified somewhat to overcome this.

**Current Status:** The bridge took one year to construct and was opened on October 24, 1995. Staff estimate that this is two years faster than the City could have done on its own. DBF's design alternative reduced the capital cost of the bridge by roughly \$600,000.

**Budget:** The capital cost for Part I was \$10 million with an additional \$5 million for Part II. The graduated annual lease payments began at \$800,000 and will finish at \$2 million in year 30.