

**Government of the
Northwest Territories
Evaluation of the P3 Pilot Initiative
Final Report**

February 26, 2001

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Executive Summary

A. Introduction

1. Background

This document is the Final Report of the evaluation of the Public-Private Partnerships (P3) Pilot Initiative. The evaluation was conducted by KPMG LLP (“KPMG”) for the Financial Management Board Secretariat (“FMBS”) of the Government of the Northwest Territories (“GNWT”). In the January 1998 Budget Address, the Minister of Finance stated the government’s intent to increase investment in public infrastructure through the use of public-private partnerships. In March, 1998, the Minister announced that the GNWT would proceed with 12 pilot projects.

The evaluation of the P3 Pilot Initiative was conducted in two phases. This report concludes the second phase.

2. Objectives of the Evaluation

The overall objective of the evaluation is to evaluate the P3 Pilot Initiative from a broad effectiveness perspective that has three dimensions:

- **Achievement of outcome objectives:** the extent to which the government achieved its outcome objectives for the Initiative.
- **Implementation:** how well the Initiative was undertaken, its timeliness, its adherence to policy, and possible improvements.
- **Private sector satisfaction:** the degree of satisfaction of the private sector with the process of the Initiative.

B. The Evaluation Approach

The evaluation approach was essentially determined in Phase I. The approach evolved in line with the evolution of the P3 Pilot Initiative. The two most important aspects of this evolution are:

- The Territorial Division on April 1, 1999 and the consequent transfer of a number of the P3 pilot projects to the government of Nunavut. Effectively, this reduced the number of pilot projects that we evaluated from 12 to 8 (the 7 projects in the current NWT, plus the Arviat Health Centre project in Nunavut, which had proceeded to the bid evaluation stage prior to Territorial Division).
- The small number of pilot projects that were ultimately implemented as P3s.

1. Methodologies

The key methodology in the evaluation was the conduct of case studies of each of the P3 pilot projects that remained within the scope of the evaluation. This was supplemented by interviews with stakeholders, most of whom had been interviewed in Phase I; a document/file review; and a follow-up to the Expert Review conducted in Phase I.

C. Findings

The findings of the evaluation are summarized in the following section, which essentially duplicates Chapter XV of the report. The findings are structured by chapter of the main report, which correspond to the various evaluation objectives. These evaluation objectives were translated into a large number of evaluation issues, which are described in Chapter IV.

1. Infrastructure Needs (Chapter VI)

The findings in this chapter deal with the extent to which the P3 Pilot Initiative met the outcome objective:

- **Meet infrastructure needs cost-effectively.**
 - **Accelerate provision of critical (social infrastructure) while maintaining prudent fiscal management.**

Our findings are as follows.

The P3 Pilot Initiative was designed to accelerate capital spending on infrastructure, and meet existing infrastructure needs cost-effectively. Because so few projects have proceeded as P3s, many of the evaluation questions dealing with this issue have become somewhat irrelevant.

Projects were selected primarily, but not exclusively, from the five-year capital plan. The relatively small percentage of successful P3s suggests that more thought could have gone into determining whether they would be appropriate P3 projects. Several of the identified projects have subsequently proceeded outside the P3 process, indicating that they were worthwhile projects designed to meet program needs.

The issue of determining the effect of the P3 Initiative on the timing of infrastructure investment is complex, and not fully resolved. We do not have a clear understanding of the impact of the P3 Pilot Initiative on the number and sequencing of projects in the traditional capital plan.

There is general consensus that the Fort Smith Student Housing P3 was moved forward significantly in capital planning; we have conflicting views on whether the Arviat Health Centre was accelerated. There is not a consensus as to whether other projects were delayed somewhat as a result of the P3 initiative, primarily because it introduced time lags while they were considered as P3s, before being re-inserted into the traditional capital procurement process. Apart from these possible delays, the consensus among our interviews and case studies is that projects did not “lose their place in line”, if they were rejected as P3 pilot projects. Although the views with respect to each individual project seem plausible, we are uncertain as to whether, when taken in aggregate, they yield an internally-consistent pattern.

The small number of implemented projects makes the impact of the P3 Initiative on budgetary targets essentially irrelevant. Since the Fort Smith project was funded as a P3, and was not already in the capital plan, it is clearly an incremental outcome of the Initiative.

2. Stimulation of Economic Development (Chapter VII)

The findings in this chapter deal with the achievement of the second outcome objective identified for the P3 Pilot Initiative, which is as follows:

- **Stimulate economic development.**
 - **Create incremental jobs for Northerners.**
 - **Enhance capability of Northern workers.**
 - **Enhance capability of Northern businesses.**

The findings are as follows.

The small number of implemented projects means that, for Northern workers, incremental job creation and capability enhancement was limited.

Northern businesses appear to have shown limited ability to participate in the P3 Pilot Initiative projects. Few projects received a sufficient number of competitive bids. The government and the private sector had considerable difficulty achieving a meeting of minds with respect to risk transfer. In our view, the government did not deal with this issue as well as it might have, but there was clearly little appetite in much of the private sector for taking on meaningful risks.

Skills have been acquired among private sector entrepreneurs, particularly with respect to consortium development and accessing longer-term financing. There have been some efforts to employ these skills in the South.

We comment at some length in Chapter XV on some possible means for encouraging a greater number of competitive bids from qualified bidders.

3. Mix of Public and Private Sector Involvement (Chapter VIII)

The findings in this chapter deal with the achievement of the third outcome objective, which is:

- **Draw on the best mix of public and private sector involvement.**
 - **Find an appropriate sharing of risk, reward and responsibility to minimize cost to government.**
 - **Increase innovation and creativity in public use infrastructure.**

Our findings are as follows.

There is a general view that the issue of risk transfer was contentious, and not well-handled by either the public or private sectors. Our own view is that, in addition to inexperience and the normal gulf between public and private perspectives with respect to risk and compensation for risk, this difficulty in dealing with the risk resulted, in part, from the government's desire to ensure that sufficient risk transfer was taking place to obtain the appropriate accounting treatment of operating leases. In our view, the issue of risk transfer would have been better dealt with had the government put more effort into considering the optimal allocation of risks, returns, and responsibilities. However, of course, these may not have been consistent with the requirements for the accounting treatment.

There is a general view within government that the Initiative has had a negative impact on the private sector's view of government, particularly among those who invested time and resources to prepare proposals for work that was not ultimately awarded as P3s. There is a broad consensus in the private sector that the P3 Pilot Initiative has not led to a significantly better understanding of private sector motivation by the public sector. There is a range of opinions on this issue in the public sector.

With the benefit of hindsight, it is clear to the respondents that a substantial number of the projects were probably not appropriate candidates for P3s. We would concur with this view.

There is also a consensus that the GNWT, through the P3 Pilot Initiative, tried to accomplish too much in too short a time, proceeding with too many P3 projects simultaneously, and not sequencing projects from the simpler to the more complex. We would also concur with that view.

We have not done a detailed assessment of risks of the individual pilot projects. With that proviso, there does not appear to have been sufficient thought given by government during the implementation process about which party was best able to bear specific types of risks, and accordingly, what is the best and lowest cost allocation of risks and rewards between the public and private sectors. On the other hand, it is clear that many of the private sector proponents had little experience bearing the types of risks that they were being asked to take on, and in many cases, had considerable reluctance to do so. These circumstances created an environment in which there was little consensus between the public and the private sectors on risk-sharing.

Our experience is that, in most jurisdictions, there is a significant difference in mindset between the public and private sector, particularly around the role of risks, financial incentives, and financial rewards. The best way to develop a common understanding of each others motivation is to work together on successful partnership projects. It is an unfortunate aspect of the P3 Pilot Initiative that few of the projects were successfully implemented as P3s. Thus there was little opportunity to benefit from this route to enhanced understanding.

Relatively little creativity and innovation were realized. Although respondents believe the government could have been more open to innovation, they note that the nature of the projects, and of the Northern environment in which they were to be implemented, significantly limits the scope for innovation in public-use facilities. We concur with this view.

4. Cost-effective Service Delivery (Chapter IX)

The findings in this chapter deal with the fourth outcome objective, which is:

- **Provide more cost-effective service delivery.**
 - **Enable government to provide services efficiently and effectively.**

Our findings are as follows.

The limited evidence available from the Fort Smith project suggests that it is operating successfully from the perspective of cost-effectiveness of service delivery.

5. Implementation Objectives (Chapter X)

The findings in this chapter deal with the extent to which the P3 Pilot Initiative has met the government's implementation objectives, which are:

- **Provide a fair, transparent, and competitive process.**
- **Provide a policy framework and P3 process that are effective and efficient in pursuing the government's P3 objectives.**

The findings are as follows.

There is broad consensus that the P3 process was fair and transparent, both in theory and in practice. The P3 process was designed and expected to be competitive. However, the inability to attract sufficient numbers of competitive bids is a source of concern.

The private sector is generally satisfied with the openness and adequacy of communication and consultation, and with the clarity and flexibility in the processes and requirements to be met in responding to RFPs and RFQs. The general view is that, once the initial learning curve had been dealt with, departmental staff had the necessary capability to plan and manage the projects. There are mixed views on whether departmental resources to implement P3s were adequate. There is general agreement that the policies and procedures were adhered to, although there is some concern that documentation became somewhat overwhelming and got somewhat out of control.

Extensive effort went into the development of the policy framework for P3s. The general view outside FMBS is that the policy framework was, if anything, too

thorough, and was certainly adequate in providing for the type of P3 that was envisaged. The framework was modified as experience was gained.

The issue of the levels of effort required to pursue the P3 objectives is complex. The government devoted significant resources to putting in place the framework and infrastructure for administering P3s. In our view, a good deal of this effort was “the price of admission”. P3s were a new form of procurement and financing in GNWT. They inherently raise concerns about fairness and transparency, and if pursued inappropriately, can easily lead to litigation and political embarrassment. In our view, much of the level of effort and procedural overhead put in place was necessary if the P3 Pilot Initiative was to be pursued. It is inevitable that a small territory such as NWT will suffer from diseconomies of scale in this regard. The GNWT, once it decided to pursue the P3 Initiative, was essentially committed to making investments not substantially different than those that would have been required by a province ten or even 100 times its size.

There is no question that significant learning and personal development occurred as a result of participation in the P3 Initiative.

There is a broad consensus that the government entered into the P3 Pilot Initiative with a high degree of commitment, but the government commitment to the process diminished over time. There is also a broad view that its apparent reduction of commitment did negatively affect the implementation of the Initiative.

The GNWT responded pragmatically to the recommendations of the Phase I Expert Review, and focused on those recommendations that could be applied to the ongoing pilot projects. We believe that this approach was appropriate.

6. Private Sector Satisfaction (Chapter XI)

The findings in this chapter deal with the extent to which the P3 Pilot Initiative met the government’s private sector satisfaction objective, which is to:

- **Achieve an adequate level of private sector satisfaction with the P3 process and outcomes.**

The findings are as follows.

From a private sector perspective, the relationship with the government with respect to Fort Smith is reasonable.

Generally speaking, the private sector is less happy with the government with respect to projects that were not implemented. Particularly in the architectural and engineering community, there are concerns that large investments have been made in pursuing P3 projects, without a commensurate prospect of success.

There is broad satisfaction with the process, i.e., that successful proponents were fairly selected, that adequate information was provided, and that confidential information has been kept confidential. Concerns include the long time lags required to get full RFP documents into the hands of respondents, and the widespread feeling that the government did not really act in the spirit of partnership, and does not understand the private sector's concerns and perspectives.

7. Other Issues (Chapter XII)

This chapter deals with two other issues examined during the evaluation:

- **To what extent is the public satisfied with the P3 arrangements and service delivery.**
- **What are the unintended effects of the P3 Pilot Initiative, either positive or negative.**

The findings are as follows.

In the view of elected government officials, the public is not particularly aware of, nor concerned about, P3 arrangements and service delivery.

A clear set of beneficial effects is a number of improvements in the procurement process at GNWT, and more effective interaction between user departments and Public Works and Services.

Negative effects include:

- A potentially greater interest in the North by larger Southern firms, to the detriment of Northern economic development.
- The fact that so much effort has produced so few successful P3 pilot projects has given public-private partnerships a bad name in many quarters.

8. Net Benefit of Proceeding with the Fort Smith P3 Project (Chapter XIII)

This chapter deals with the extension to the scope of our evaluation, to include a review of the Fort Smith project in more detail than originally envisaged, with the following objectives:

- Assess the methodology and approach used to develop the Comparator, to check the accuracy of the calculations, and to assess the use to which the Comparator was put in the Bid Evaluation process.
- In light of the above, and of our understanding of best practices, to develop an independent assessment of the net cost or benefit received by the GNWT as a result of proceeding with the P3 project in Fort Smith, i.e., what is the relationship between an appropriately constructed Reference Bid or Comparator, and the actual costs to the GNWT of proceeding with the P3 project in Fort Smith.

In developing our findings, we have reviewed the methodology and approach used to prepare the Comparator for the Fort Smith project. We have also checked those calculations that were accessible to us. Not all calculations have been documented. We have not done any additional research into the appropriateness of the actual unit costs and quantities employed, although we have discussed them with some of our interviewees.

The Comparator (the information provided to the bidders in the RFP) was constructed from two broad categories of information:

- The capital cost component, for which there was a considerable experience base for cost estimation.
- The O&M component, for which there was relatively little experience to draw on.

The O&M component of the Comparator went through a series of refinements, which both corrected errors and sought to improve the quality of estimates of certain O&M costs. The need to make these revisions was identified only after the bids had been received, so that the bidders were not provided with the updated Comparators.

At the same time as the Comparator was being corrected, it was also being revised for its subsequent use as a Reference Bid. In general, the methodology and approach used to move the Comparator towards a Reference Bid were appropriate. We have suggested certain adjustments that in our view would make the Reference Bid more

conceptually correct. These are not major items, and would tend to increase the amount of the Reference Bid.

It is clear that the Comparator (and its evolution towards a Reference Bid) for Fort Smith were a work in process. The changes that were made were, in our view, generally in the right direction.

The Final Comparator, which was used in the bid evaluation process, is reasonably close to our view of an appropriate Reference Bid. We have identified several adjustments, which on balance would serve to increase the Reference Bid, although the magnitude of the increase is not substantial. These sorts of adjustments are in our view typical; our experience is that Reference Bids tend to be too low, often because they do not reflect completely the value of risk transfers that are being incorporated into the P3 project.

The GNWT, when it considered the proponent's bid for Fort Smith, concluded that there were intangible advantages of proceeding with the Fort Smith P3, which justified what they perceived to be a premium of approximately 4% over the Reference Bid. Given the degree of uncertainty implicit in the Reference Bid, the relatively small size of the project, and the desirability of having some implemented P3 pilot projects to learn from and evaluate, the decision to proceed with the project seems reasonable to us.

Using our estimate of the Reference Bid, the proponent's bid was 5% cheaper than the Reference Bid (if GST is included in that Reference Bid), or was at a 1% premium to the Reference Bid (if the Reference Bid excludes GST). Given that our estimates for the Comparator are higher than those used by the GNWT in making this decision, this would strengthen our view that the decision to proceed with the project was reasonable.

These findings should be interpreted in the light of two additional comments:

- While we are comfortable with the methodology and approach used to prepare the Comparator, we have not done a detailed investigation into the appropriateness of all the cost estimates employed to build it up.
- The results of our analysis indicate that it was reasonable in our view for the GNWT to accept the proponent's bid for the Fort Smith project. This is not to say that implementing a P3 was necessarily the best or most cost-effective way to implement the Fort Smith Student Housing Project, but rather that, given the

decision to implement it as a P3, with the associated operating lease treatment, it was reasonable to accept the proponent's bid.

9. Some Lessons from Our Broader Experience (Chapter XIV)

Public-private partnerships can be viewed primarily as financing vehicles, or, alternatively, as mechanisms for sharing risks, rewards, and responsibility for success between the public and private sector. In our view, the former perspective was the primary driver in the P3 Pilot Initiative. Our view is that P3s work best when potential P3 projects are considered first from the perspective of determining whether there is a viable way of sharing risks, rewards, and responsibilities for success that can form the basis of a true partnership. Recent changes in the accounting treatment of operating leases are likely to encourage the consideration of this perspective by governments in the future.

In our experience, the following criteria provide the framework for defining the conditions upon which the success of a P3 depends:

- **Financial** – Is it likely that a partnership between government and the private sector will be able to carry out the project under financial terms which are acceptable?
- **Technical** – Is it reasonable to expect that a technical solution to the project can be found by a P3 procurement?
- **Operational** – Are there operational hurdles that prevent a P3 procurement from being used?
- **Acceptability** – Is there acceptance of P3 as a means to procure the project?
- **Implementation** – Are there implementation barriers that prevent the use of P3 procurement?
- **Timing** – Are there time constraints that would pre-empt consideration of P3 procurement?

One of the disappointing aspects of the P3 Pilot Initiative is the shortage of full responses to several of the RFPs that were issued. Our experience is that one of the best ways to ensure multiple, competitive bids is to find ways to highlight the attractiveness of the partnership opportunity to potential bidders. There are various ways to do so. Some of them are politically difficult to implement, and care must be taken to ensure that fairness and equity are maintained.

In our experience, it is rare to receive bids that are perfectly clear. Despite the effort that goes into preparing RFP documents, the projects and the documents are complex, and there may easily be misunderstandings. In this sense, P3 RFPs inherently require greater flexibility than tenders. Most bids require some form of clarification. In our view, the best approach is to test bids for compliance following a well-defined and equitably implemented clarification phase. A number of steps are suggested for creating the circumstances for compliant bids.

Several private sector-respondents expressed the concern that, although their projects were intended to be partnerships with the government, the procurement mechanism essentially gave them no practical way of working with users to optimize design and particularly, to explore acceptability of various forms of innovation. In our experience, various trade-offs can be made between the “purity” of the procurement process, and having some form of interaction with bidders on projects that involve substantial design elements, while still maintaining the integrity of the procurement process.

D. Conclusions

We draw the following conclusions:

- The P3 Pilot Initiative was viewed as a series of pilot projects, and we have evaluated it from that perspective. In the context of the size of the GNWT, the P3 Pilot Initiative was a full-scale, time-limited implementation. In retrospect, the GNWT tried to do too much, too soon. The limited number of “natural” P3 projects in the government’s capital plan exacerbated the difficulties of implementing the Initiative.
- Implementing P3s is a form of change management – it needs a high-powered champion at the political level, to convince the variety of stakeholders of the desirability of a new form of project procurement. The P3 Pilot Initiative began with a strong champion; when this was lost, it was difficult to maintain momentum.
- The entire implementation framework – the policies, implementation, draft documents, and administrative structure – did not work perfectly, but was generally well-conceived. Our own view is that P3s can generate significant benefits to governments, but they are difficult to implement. If a government is to begin to undertake P3s, it is important to do so well. In other words, the need to set up a well-conceived implementation framework is a “price of admission”

to getting into P3s, which can appear relatively expensive to a small jurisdiction such as NWT.

- The government's desire for operating lease treatment for its P3s sometimes conflicted with finding the optimal sharing of risk with the private sector. In some cases, the government tried to transfer more than optimal levels of risk, which made a number of the projects difficult to implement.
- The benefits of P3s come in part from competition among proponents. The difficulty in obtaining sufficient numbers of high-quality bids was a major disappointment. The objective of getting a sufficient number of high-quality P3 bids may well be in conflict with the economic development objectives that lead to preference for Northern bidders.
- The government has effectively put a moratorium on new P3 projects. In our view, a "breathing space" is probably appropriate. If P3s are to be considered again in the future, we would suggest that:
 - A broader range of potential arrangements be considered, rather than the narrow focus on operating leases, and
 - Individual potential projects be evaluated more thoroughly for their potential as successful P3s, before the government commits then to the P3 route.

I Introduction

A. Background

This document is the Final Report of the evaluation of the Public-Private Partnerships (“P3”) Pilot Initiative (“the P3 Pilot Initiative” or “the Initiative”). This evaluation was conducted by KPMG LLP (“KPMG”) for the Financial Management Board Secretariat (“FMBS”) of the Government of the Northwest Territories (“GNWT”). KPMG has reported to an interdepartmental Evaluation Working Group, chaired by FMBS staff.

The genesis of the Initiative was in the January 1998 Budget Address of the Minister of Finance. As stated in the Address, the government’s intent was to increase investment in public infrastructure by \$100 million during 1998-99 and 1999-2000, through the use of public/private partnerships. In March 1998, the Minister of Finance announced that the GNWT would proceed with 12 P3 pilot projects. These 12 projects are referred to as the P3 Pilot Initiative.

The evaluation of the P3 Pilot Initiative was conducted in two phases. Phase I was a formative evaluation, conducted primarily in 1999. Phase I sought to identify possible changes in policies and procedures to improve the delivery of the P3 Pilot Initiative, and also to develop an evaluation framework, which was to be used as the basis of the subsequent evaluation itself, during Phase II. Phase II commenced in the Spring of 2000, and is drawn to a close by the submission of this report.

B. Objectives

The overall objective of the evaluation is to evaluate the P3 Pilot Initiative from a broad effectiveness perspective that has three dimensions:

- **Achievement of outcome objectives:** the extent to which the government achieved its outcome objectives for the Initiative.
- **Implementation:** how well the Initiative was undertaken, its timeliness, its adherence to policy, and possible improvements.
- **Private sector satisfaction:** the degree of satisfaction of the private sector with the process of the Initiative.

C. Scope

The scope of the evaluation was determined primarily during Phase I, and is documented in the Evaluation Framework Report which represents the culmination of that phase. At the beginning of Phase II, the scope of the evaluation was re-visited by the GNWT's Evaluation Steering Committee, in the light of the evolution of the P3 Pilot Initiative in the intervening period. In addition, detailed evaluation planning took place at that time. This is documented in the Evaluation Planning Report (full report titles are provided below, in Section D).

The scope of the evaluation includes the following dimensions:

- The focus of the evaluation is on the P3 Pilot Initiative as a whole, rather than on individual P3 pilot projects. While it is appropriate to assess individual P3 projects as part of the evaluation, the purpose of such an assessment is to develop insights into the Initiative as a whole. There is no requirement that all individual projects be assessed. However, case studies have been performed to various degrees, depending on how far each of the projects advanced.
- Part of the initial Terms of Reference was to design a monitoring framework to follow the Initiative through to the ultimate evaluation. It was determined by the consultants and the Evaluation Steering Committee that monitoring activities already undertaken by the GNWT for P3 project management and project control were providing adequate data for the purposes of the evaluation, and no additional monitoring was put in place.
- The evaluation was complicated by the Territorial Division on April 1, 1999. A number of the pilot projects in the P3 Pilot Initiative are in the new Territory of Nunavut. It was decided that these projects would be within the scope of this evaluation only until the date of Territorial Division. The practical implications of this are discussed below.
- It was a primary requirement of the evaluation that it reflect and respond to concerns of all stakeholder groups. The evaluation framework was developed through a process that included significant stakeholder input. All the relevant stakeholders who participated in the development of the framework were given the opportunity to be interviewed in the Phase II evaluation itself.
- In the Fall of 2000 we were asked to expand the scope of the evaluation, essentially by expanding the scope of our case study of the Fort Smith Student

Housing P3 Project to include a more in-depth assessment of the benefits and costs of having proceeded with that project.

D. Prior Reports Produced

Four formal documents were produced during Phase I. These were widely distributed to stakeholders and posted to the FMBS web site for a period of one year. They are:

- Review of Government of Northwest Territories Public/Private Partnership Policy and Implementation Guidelines and Request for Qualifications and Request for Proposal Documents (May 17, 1999) – referred to as the “Expert Review”.
- Literature Review - The Monitoring and Evaluation of the GNWT Public Private Partnership Initiative (May 28, 1999) – referred to as the “Literature Review”.
- Evaluation of P3 Pilot Initiative Summary Report (July 8, 1999) – referred to as the “Summary Report”.
- The P3 Pilot Initiative Evaluation Framework (January 20, 2000) – referred to as the “Framework”.

One document has been produced in Phase II, prior to this Final Report. This is:

- The P3 Pilot Initiative Evaluation Planning (dated April 11, 2000) – referred to as the “Planning Report”.

E. Structure of this Document

The remainder of this document is structured as follows:

- Chapter II provides an overview of the P3 Pilot Initiative.
- Chapter III summarizes the evaluation approach that we have employed.
- Chapter IV translates the objectives of the evaluation into the specific evaluation issues – the questions that we sought to answer.
- Chapter V provides an overview of the methodologies that were employed to address these evaluation issues.

- Chapters VI through XII present the findings of our evaluation, organized according to the evaluation objectives and groupings of evaluation issues presented in Chapter IV. The structure of each of these chapters is similar. In each, we:
 - Outline the relevant evaluation objective with which it deals.
 - Summarize the issues that are being responded to.
 - Provide our findings, i.e., the results of our various research methodologies.
 - Summarize the findings, and in some cases add our own commentary where we judge it to be appropriate.
- Chapter XIII provides the results of our further research regarding the net benefit of proceeding with the Fort Smith P3 project.
- Chapter XIV provides some lessons from our broader experience.
- Chapter XV summarizes the findings of the evaluation.
- Chapter XVI presents our conclusions.

II An Overview of the P3 Pilot Initiative

In this chapter, we provide an overview of the GNWT's P3 Pilot Initiative. We provide an overview of:

- The Initiative as a whole; and
- Each of the 12 pilot projects that comprised the Initiative.

A. Overview of the Initiative

Following the Government statement of intent in January, 1998 to use P3s to increase investment in public infrastructure, two streams of activity took place:

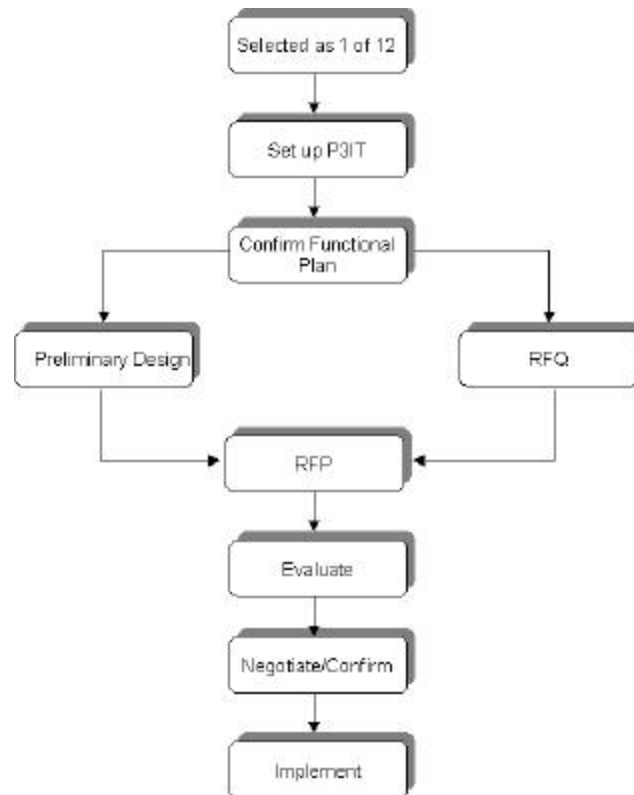
- A process was put in place to identify the 12 P3 pilot projects. This is discussed later in this chapter.
- An administrative structure for the Initiative was put in place, and work was begun on the Policies and Implementation Guidelines that would guide the P3 process, as well as on template Requests For Qualifications ("RFQ"), Requests For Proposals ("RFP"), development agreements, and operating lease documents. The development of these documents was undertaken primarily under the direction of FMBS, assisted by external consultants with expertise in the P3 field.

The following administrative structure was established for the Initiative.

- Financial Management Board ("FMB") had overall responsibility for the P3 Pilot Initiative. This included responsibility for approving policy and implementation guidelines, selecting projects to proceed under the P3 umbrella, approving P3 Implementation Team recommendations respecting successful proponents, and approving final lease and development agreements negotiated with proponents prior to signing by responsible ministers.
- The overall responsibility for managing the P3 Pilot Initiative rested with the **P3 Management Committee** ("P3MC"). This was composed of the Deputies of the departments with significant capital expenditure budgets, and was chaired by the Deputy of FMBS. P3MC provided initial approval and the FMB provided final approval on the Policies and Implementation Guidelines and template documents.

- The **P3 Advisory Committee** (“P3AC”), which was composed primarily of interested representatives of the private sector and other stakeholders, was established as a vehicle for communication and advice directly to the Minister of Finance with respect to the Initiative. Among other tasks, the P3AC reviewed and commented on drafts of the key components of the P3 Pilot Initiative, particularly, the draft templates for the RFP documents and operating leases.
- Each P3 Pilot Project was carried forward by a separate **P3 Implementation Team** (“P3IT”). A typical P3IT was made up of representatives of the relevant government departments (typically, the sponsoring department, Public Works and Services, FMBS, and Justice). In most cases, the P3IT was chaired by a representative of the sponsoring department. In broad terms, the role of the P3IT was to take their pilot project through the stages illustrated in Exhibit II-1.

Exhibit II-1 P3 Process Overview



As is discussed in detail below, many projects did not go through all these stages. A number of projects were withdrawn from the P3 stream when it became clear that

they would be more appropriately implemented within the traditional manner. As circumstances dictated and/or the environment changed, the implementation of projects changed. Accordingly, some projects that did move forward in the P3 process were fast-tracked; in some cases, no preliminary design was undertaken, while others proceeded directly to the RFP stage without an RFQ being issued. (The characteristics of the various projects are described in Chapter V.)

B. The 12 Pilot Projects

Following the announcement of the Initiative, FMB directed that departments identify projects in the current five-year capital plan that were potential candidates for the P3 Pilot Initiative. Selection criteria were applied by the FMBS regarding the P3 pilot projects and FMBS made recommendations to FMB. A considerable number of such projects were put forward, as well as a small number of projects that were not in the current five-year plan, but which were judged to be potential candidates. These were subjected to a screening and ranking process, the results of which are summarized below:

Exhibit II-2 Summary of Respondent Projects with P3 Potential

Degree of Fit	P3 Pilot		Total
	Yes	No	
High	10*	6	16
Moderate	2**	5	7
Low	0	5	5
Total	12	16	28

* Includes Weledeh School and two Young Offender projects combined as a single project.

** Arviat Health Centre and Fort McPherson Water.

Source: FMBS records.

Twelve projects were identified as a basis for the Initiative. Subsequent to this initial identification of the projects, it was determined that one of the original twelve projects (the Weledeh School in Yellowknife) could not be implemented as a P3 project. It was withdrawn from the Pilot Initiative and the Young Offenders Project, which had been put forward as a single project but actually comprised two separate facilities in two separate locations, was split into two projects. Thus, the number of pilot projects remained at twelve.

The twelve pilot projects comprising the P3 Pilot Initiative are as follows:

- The Arviat Health Centre (“Arviat” or “Arviat Health Centre”).
- Cambridge Bay Nunavut Arctic College Student Housing.
- Cambridge Bay Regional Health Complex.
- Fort Smith Aurora College Student Housing (“Fort Smith” or “Fort Smith Student Housing”).
- Fort McPherson Water Supply Improvements (“Fort McPherson” or “Fort McPherson Water”).
- Inuvik Female Young Offenders Facility (“Female Young Offenders”).
- Inuvik Regional Health Science and Social Services Centre (“Inuvik Hospital”).
- Inuvik Aurora College Campus (“Aurora College Campus”).
- Iqaluit Regional Hospital.
- NWT Housing Corporation Energy Conservation Measures in Public Housing (“Energy Measures”).
- Rankin Inlet Regional Health Complex.
- Yellowknife Male Young Offenders Facility (“Male Young Offenders”).

III The Evaluation Approach

A. The Development and Evolution of the Evaluation Approach

The evaluation approach was essentially determined in Phase I. Phase I was in a large measure a planning phase, during which the evaluation objectives were translated into specific evaluation issues, and the methodologies that would be used to explore these issues were determined. The Framework Report, the culmination of Phase I, documents the intended evaluation approach in some detail.

The approach to the evaluation evolved in line with the evolution of the P3 Pilot Initiative. The two most important aspects of this evolution are:

- The Territorial Division on April 1, 1999, and the consequent transfer of a number of the P3 pilot projects to the Government of Nunavut. At this point these projects moved outside the scope of this evaluation.
- The small number of pilot projects that were ultimately implemented as P3s.

These two sets of events led to a focusing of the resources of the evaluation on a smaller number of pilot projects than had originally been intended, and a consequent re-focusing of the various evaluation methodologies to address these pilot projects in more depth.

B. Methodologies

The Phase I Report focused the planned approach to the evaluation on four basic research methodologies:

- The conduct of case studies of some of the P3 pilot projects.
- Interviews with stakeholders, most of whom had been interviewed in Phase I.
- A documents/file review focused on the P3 Pilot Initiative as a whole.
- A follow-up to the Expert Review conducted during Phase I.

This research approach was designed so that case studies – a very robust methodology – represented the bulk of the research effort in the evaluation. To some extent, two other methodologies – the interviews and the document/file review – were intended to supplement or fill around the case studies. Accordingly, while the individual case studies were also based primarily on interviews and document/file review, those two methodologies, identified separately, would focus on broader issues related to the P3 Pilot Initiative as a whole.

During the early stages of Phase II, it became clear that even greater reliance on case studies was possible. The individual pilot projects were grouped in four tiers, for the purposes of structuring the case studies. (The structure of the case studies is discussed in more detail in Chapter V.) Accordingly, we were able to tailor the case study methodology to the various tiers, and to allocate an appropriate level of resources to the case studies of the eight projects that were being carried forward in the evaluation. This further increased the importance of the case studies as the core methodology in our approach.

C. Factors Influencing the Approach

Three key methodological issues influenced our approach, and also influenced the structure of this Report. These are described below.

1. Confidentiality

We have drawn heavily on personal interviews in the conduct of the evaluation. The core component of most of the case studies of individual pilot projects was a series of interviews with participants and stakeholders. In addition, we conducted an extensive interview program of stakeholders of the P3 Pilot Project Initiative as a whole.

We have indicated to all interviewees that the individual interview results will be kept confidential. We have not attributed comments to individual respondents, unless they specifically asked us to do so. Individual interview results have not been passed to the client. We have developed our findings and drawn our conclusions based on the weight of evidence and our own assessment as to its reliability.

This has had implications for the structure of this Report. We do not provide interview summaries in the Report, although all interviews were documented in writing. Likewise, we do not provide results of the individual case studies in our

Report, though we have organized our research and analysis around our case studies of eight individual pilot projects.

Because only the Fort Smith project was case studied as an implemented P3, it is difficult to address a number of the evaluation issues related to implemented P3s without providing information that is obviously based on that one project. We have provided such information, but have sought to maintain the confidentiality described above.

2. Dealing with the Future

We have conducted this evaluation early in the life of the projects that were selected as P3 pilot projects.

In order to address the evaluation issues, we have had to draw conclusions both about what has happened and what is expected to happen in the future. Accordingly, when we have asked respondents questions about, for example, the incremental impacts of the P3 Pilot Initiative, we have tried to get them to take both of these perspectives. However, we have sought to distinguish between evidence dealing with what has in fact already happened, and evidence supporting views as to what may be expected to happen in the future.

3. A Focus on Lessons Learned

As is discussed in more detail in Chapter IV, a significant focus of the planned evaluation was on outcomes, i.e., did the implementation of the 12 P3 pilot projects result in accelerated infrastructure provision, incremental economic development benefits, etc. In fact, only two of the pilot projects have actually proceeded as P3s (one in the NWT and one in the new Territory of Nunavut), and some have not proceeded at all. Accordingly, we have relatively little to say about some of these outcome questions.

Inevitably, the focus of the evaluation has shifted somewhat from the outcomes of implemented P3 projects towards a consideration of the implementation process for the P3 Pilot Initiative as a whole.

GNWT made a substantial investment of energy and resources in developing the tools for implementing the P3 Pilot Initiative. These included both the development of detailed Policies, Implementation Guidelines, and template documents; as well as the commitment of significant resources to an administrative structure and the effort

of implementation. A major focus of this evaluation is to create a record of lessons learned that will represent a resource for the future.

4. Territorial Division

During the course of the P3 Pilot Initiative, the new Territory of Nunavut was created effective April 1, 1999. Five of the twelve pilot projects are in Nunavut. One of these, the Arviat Health Centre, was well advanced at the time; the proponent responses to the RFP had been received and evaluated at the time of the Territorial Division. The other four projects were much less advanced.

It was agreed during Phase I of this evaluation that those components of the five Nunavut pilot projects that are the responsibility of the Nunavut government would be outside the scope of this evaluation. Accordingly, the evaluation deals with them as follows, in particular:

- The Arviat Health Centre is considered only up to the point of the evaluation of the proponent responses to the RFP; the selection and subsequent negotiation with the winning proponent, and the implementation of the project itself, were outside the scope of this evaluation.
- The remaining four Nunavut projects were essentially outside the scope of the work.

This decision had three practical implications:

- No case studies were conducted of the four excluded Nunavut projects.
- The case study of the Arviat Health Centre was relatively limited in scope, and dealt only with events up to March 31, 1999.
- Stakeholders who had been interviewed in Phase I, but who are now based in Nunavut, were not re-interviewed during Phase II (see Chapter V).

IV The Evaluation Issues

In this chapter, we outline the evaluation objectives and associated evaluation issues that formed the basis of our work. We:

- Summarize the evaluation objectives.
- Provide an overview of the evaluation issues.

A. Evaluation Objectives

As noted in Chapter I, the overall objective of the evaluation was to assess the Initiative from a broad effectiveness perspective, along three dimensions:

- Achievement of outcome objectives.
- Implementation.
- Private sector satisfaction.

A good deal of effort in Phase I was directed towards crystallizing and gaining consensus on these objectives. The results of that process are described below, under the headings of:

- Government Outcome Objectives.
- Implementation Objectives.
- Private Sector Satisfaction Objectives.

1. Government Outcome Objectives

a) *Meet Infrastructure Needs Cost-effectively*

- Accelerate provision of critical (social) infrastructure while maintaining prudent fiscal management.

b) *Stimulate Economic Development*

- Create incremental jobs for northerners.
- Enhance capability of northern workers.
- Enhance capability of northern businesses.

c) *Draw on the Best Mix of Public and Private Sector Involvement*

- Find an appropriate sharing of risk, reward and responsibility to minimize costs to government.
- Increase innovation and creativity in public-use infrastructure.

d) *Provide More Cost-effective Service Delivery*

- Enable government to provide services efficiently and effectively.

2. Implementation Objectives**a) *Provide a Fair, Transparent, and Competitive Process*****b) *Provide a Policy Framework and P3 Process that are Effective and Efficient in Pursuing the Government's P3 Objectives*****3. Private Sector Satisfaction Objectives****a) *Achieve an Adequate Level of Private Sector Satisfaction with the P3 Process and Outcomes*****B. Dealing with the Evolution of Objectives**

The objectives listed above are intended to represent the government's objectives for the outcomes of the P3 Pilot Initiative, at the time the Initiative was being developed and implemented. It was recognized during Phase I that the government's objectives for the P3 Pilot Initiative, and for P3 activities generally, might well evolve over time. It was agreed that these should be dealt with in the evaluation in the following way:

- The P3 Pilot Initiative itself should be evaluated on the basis of the government's objectives as those objectives were understood at the time the Initiative was implemented. (This is the summative evaluation of the Initiative.)
- The evaluation should seek to identify whether objectives for the P3 Pilot Initiative and/or for a broader P3 program have evolved. If so, the evaluation report should comment on the nature of this evolution, and its implications for a future P3 Initiative. (This represents part of the formative component of the Phase II evaluation.)

C. Evaluation Issues

The Framework Report translates the above objectives into a number of evaluation issues, i.e., the key topic areas the evaluation was intended to address, or, alternatively, the possible questions to be answered in the evaluation. The issues were organized according to the three categories of evaluation objectives, and are presented below in Sections D-F.

The evaluation objectives are summarized in the bold headings and sub-headings. The evaluation issues are numbered and provided in unbolded text. A more detailed elaboration of the evaluation issues, including additional comments and questions, is provided in Appendix A.

D. Outcome Objectives

1. Meet infrastructure needs cost-effectively

Accelerate provision of critical (social) infrastructure while maintaining prudent fiscal management.

- 1.1 Have the identified program needs been met by individual P3 projects?
In aggregate by the initiative?
- 1.2 To what extent has the building and completion of infrastructure been accelerated?
- 1.3 Have overall budgetary deficit and debt targets been met?
- 1.4 Have the projects met technical standards/specifications?

- 1.5 From the perspective of physical asset acquisition, has value for money been achieved?
- 1.6 What is the long term implication of the P3 Pilot Initiative on future capital projects outside the social sector?
- 1.7 Is there evidence of enhanced capability as a result of the P3 Pilot Initiative?

2. Stimulate economic development

Create incremental jobs for northerners.

- 2.1 How much and what kind of employment has been generated by the projects:
 - Planning and design?
 - Construction?
 - Operating?
- 2.2 Who has been hired to do these jobs?
- 2.3 What is the incremental employment component along the above dimensions?

Enhance capability of Northern workers.

- 2.4 Have the workers who participated on the projects achieved improved employability?

Enhance capability of Northern businesses and professionals.

- 2.5 What are the characteristics of participating businesses?
- 2.6 What levels of capability to participate successfully in P3 projects have northern businesses demonstrated?
- 2.7 Is there evidence of enhanced capability as a result of the P3 Pilot Initiative?

3. Draw on the best mix of public and private sector involvement

Find an appropriate sharing of risk, reward and responsibility to minimize costs to government.

- 3.1 What is the sharing of risk and reward between government and the private sector? Is it appropriate?
- 3.2 What has been the impact on their relationship with the private sector, as perceived by the government?
- 3.3 To what extent does government better understand private sector motivation?
- 3.4 Are projects selected appropriate for P3?

Increase innovation and creativity in public-use infrastructure.

- 3.5 To what extent have creativity and innovation been realized?

4. Provide more cost-effective service delivery

Enable government to provide services efficiently and effectively.

- 4.1 What are the program impacts, including impacts on the quality and level of services being offered?
- 4.2 What is the relationship between the service quality/level and lifecycle costs?
- 4.3 What would the relationship between service quality/level and lifecycle costs have been like using traditional methods?
- 4.4 What is the quality of the relationship between the operators/owners and boards/users of the facility? To what extent is there satisfactory communication, collaboration and cooperation?

E. Implementation Objectives

Provide a fair, transparent, and competitive process

- 5.1 Was the P3 process fair, transparent, and competitive? In theory? In practice?

Provide a policy framework and P3 process that are effective and efficient in pursuing the Government's P3 objectives.

- 5.2 To what extent is the policy framework thorough and adequate in providing for P3?
- 5.3 Are the levels of effort and procedures for pursuing the P3 objectives sensible and sufficient?
- 5.4 Do those in government involved in the P3 process understand their roles? Do they have the necessary skills and experience to play those roles?
- 5.5 Were there significant changes or surprise events that required GNWT response? How did the GNWT respond?
- 5.6 Does the GNWT have the information needed to support their decision-making and accountability, and do they use it appropriately?
- 5.7 Has the quality of implementation changed over the course of the P3 Pilot Initiative?
- 5.8 Was the apparent level of commitment by government to the P3 process appropriate?

F. Private Sector Satisfaction Objectives

Achieve an adequate level of private sector satisfaction with the P3 process and outcomes

- 6.1 What is the quality of the relationship, as seen by the private sector, between government and the private sector with respect to implemented projects? With respect to projects that were not implemented? In general?

- 6.2 Are there any specific problems or concerns being experienced by the private sector?
- 6.3 Does the private sector feel that the successful proponents have been fairly selected?
- 6.4 Does the private sector feel that it has been given adequate information on the basis of which to submit proposals?
- 6.5 Does the private sector feel that confidential information has been kept confidential?

G. Other Issues

- 7.1 To what extent is the public satisfied with the P3 arrangements and service delivery?
- 7.2 What are the unintended effects of the P3 Pilot Initiative, either positive or negative?

V Overview of Evaluation Methodologies Employed

In this chapter, we provide an overview of the methodologies employed in the evaluation. This material essentially summarizes more detailed descriptions in the Framework and Planning Reports, to which the reader is referred for greater detail.

In this chapter, we discuss:

- The case studies.
- The interviews.
- The document/file review.
- Updating the Expert Review.
- Analysis.

A. Case Studies

A case study is an in-depth review of an individual P3 project. Enough effort is devoted to a case study to permit the relatively detailed examination of records, and discussions with a range of those involved, both in implementing the project, and, where relevant, in delivering services through the implemented project. We used a case study as a means of obtaining answers to all of the relevant evaluation issues, as they apply to the individual pilot project that is the subject of the case study.

The primary focus of the case study methodology is to obtain sufficient understanding, primarily through interviews and document review, for the individual case studier to be able to develop and defend an informed position with respect to each of the relevant evaluation issues. In our view, case studies are the preferred methodology for examining individual projects.

1. Tiers

We conducted case studies of eight P3 pilot projects. Exhibit V-1 summarizes the status of these projects.

Exhibit V-1
Categorization of Eight Case Studied Pilot Projects

		RFQ Issued	Contracted for Preliminary Design	P3 RFP Issued	Proceed as P3	Proceed Not as P3	Not Proceeded With	Transfer to Nunavut
1)	Arviat Health Centre			✓	✓			✓
2)	Fort Smith Student Housing	✓		✓	✓			
3)	Fort McPherson Water					✓		
4)	Female Young Offenders		✓			✓		
5)	Inuvik Hospital	✓	✓	✓		✓		
6)	Aurora College Campus	✓	✓				✓	
7)	Energy Measures	✓				✓ ¹		✓ ¹
8)	Male Young Offenders					✓		

1. NWT portion has proceeded within existing programs.

We placed the pilot projects in four tiers, as follows. (Some case studies included discussion with proponents, as identified below.) The organization and basis of the tier structure is described in the next section.

a) Tier One

- Fort Smith Aurora College Student Housing (a completed P3 project). (We have sought to interview RFP respondents.)
- Arviat Health Centre (only up to the time of transfer to Nunavut). (We did not seek to interview RFP respondents.)
- Inuvik Regional Health and Social Services Centre. (RFP was issued and responded to, but no compliant responses were received. The project is proceeding, but not as a P3.) (We have sought to interview RFP respondents.)

b) Tier Two

- Inuvik Female Young Offenders Facility (went ahead outside of P3 process).
- Yellowknife Male Young Offenders Facility (went ahead outside of P3 process).
- Inuvik Aurora College Campus (did not proceed based on revised program needs). (We have sought to interview shortlisted RFQ respondents.)

c) Tier Three

- Fort McPherson Water Supply Improvement (went ahead outside of P3 process).
- NWT Housing Corporation Energy Conservation Measures in Public Housing (has proceeded in NWT, but not as a P3). (We sought to interview shortlisted respondents to the RFQ.)

c) Tier Four

We did not case study the remaining four Nunavut projects.

2. Focus of Case Studies

We allocated our budgetary resources to the individual case studies in part on the basis of their tier. Case study resources were focused on three Tier One projects. Of these, the only “complete” case study was of the Fort Smith Student Housing project.

Case study guidelines were developed for case studies in each tier. (These are provided in the Planning Report.) In summary:

- Tier One case studies focus on virtually all the evaluation questions of relevance.
- Tier Two case studies focus on answering two key questions:
 - Why did the project not proceed as a P3?; and
 - Was the outcome of the project different in any way as a result of the project being involved in the P3 Pilot Initiative?
- Tier One and Two case studies comprised interviews and file reviews. Tier Three case studies were restricted to interviews, and were relatively limited in scope.

3. Descriptions of Case Study Projects

A brief overview of each of the eight projects that were subject to case studies is provided in Appendix B.

Appendix C provides a list of those interviewed as part of the case study process. The Appendix also notes whether an interview was successfully completed, whether it was refused, or whether we abandoned the potential interview after repeated attempts to make contact.

B. Interviews

Interviews are a technique for gathering information, particularly of an opinion nature, from relevant stakeholders and others with useful input into the evaluation. In this evaluation, because every relevant pilot project was the subject of a case study, the interviews were focused on obtaining respondents' perspectives on the overall P3 Pilot Initiative.

The conduct of Phase I included a comprehensive set of interviews and focus groups with stakeholders. At the time, undertakings were made to the respondents that they would be asked for input during the subsequent evaluation. Accordingly, we used the list of interviewees and focus group participants from Phase I as a major basis for determining interviewees for Phase II. The following adjustments were made:

- Some interviewees were excluded because they represent communities, businesses, or the government in Nunavut.
- Some interviewees were interviewed as part of individual case studies, rather than from the perspective of the P3 Pilot Initiative as a whole. In other words, we judged it to be more productive to ask them to focus on a specific project, rather than on the Initiative as a whole. These interviewees were given the opportunity to provide comments on the overall Initiative, but the main focus of our interviews with them was one or more specific pilot projects.
- Some interviewees were excluded because of a change in their roles; they were usually replaced by their successors in those roles.
- A few new interviewees were added where this was judged appropriate.

The list of planned interviews is attached as Appendix D.

Information was collected in the interviews using a set of interview guidelines or protocols. Interviewees were grouped into four broad categories, and a separate interview guideline was developed for each category. The categories are:

- Elected government officials.
- Government departmental staff in central agencies.
- Program managers and staff working at facilities.
- Private sector.

The individual interview guidelines are provided in the Planning Report.

All interviews were documented in written memos to file.

C. Documentation/File Review

Documentation/file review is the gathering of information from existing documentation and GNWT files, using a structured protocol.

Much of the document review in this evaluation took place during the individual case studies. However, we also reviewed documents in a number of key central files, particularly the central files regarding files of:

- The P3AC.
- The P3MC.
- Private sector inquiries/correspondence on the position papers and policies.

The focus of this review was on the P3 Pilot Initiative as a whole.

The purpose of the document review was not to conduct an “audit”, i.e., we were not asking people to prove what they say is true. Instead, the perspective was to develop an alternative line of evidence, i.e., we sought to determine whether, on balance, the insights that we gained from reviewing key documents were similar to the insights gained from interviews and the case studies themselves. In fact, the document review was productive; the results were generally consistent with our interviews and case studies. We were also able to review material that provided additional insight into:

- the process whereby departments were solicited for candidate projects, and the projects were assessed and selected to become part of the Pilot Initiative; and
- some of the key issues dealt with by and concerns of the P3AC and the P3MC.

D. Updating the Expert Review

One of the Phase I tasks was the review of the GNWT’s P3 Policy and Implementation Guidelines, together with the RFQ and RFP documents for the Fort Smith project. That work was completed in Phase I, and documented in the Expert Review report.

That report culminated in a series of recommendations with respect to both the:

- Draft P3 Policy; and
- Draft Implementation Guidelines.

The Phase II component of the expert review assessed the GNWT’s response to these interim recommendations. It attempted to address two basic questions:

- Have the P3 Policy and/or Implementation Guidelines been revised?
- Even if the documents have not been formally revised, have there been changes in the practice and administrative structure for implementing the P3 Pilot Initiative and its individual projects.

If such changes took place in either case, do they respond to/are they consistent with the recommendations in the Expert Review?

The key activity in this task was a set of interviews with representatives of the FMBS and the Evaluation Working Group.

The results are documented in Chapter X.

E. Analysis

The approach to the integration of the results of the individual methodologies was essentially logical analysis and debate. In other words, the members of the KPMG evaluation team, after reviewing each other's written output with respect to specific interviews, case studies, and documents reviewed, met and debated the responses to the various evaluation issues. The findings documented in Chapters VI-XII represent the consensus of the KPMG evaluation team with respect to these issues.

VI Findings – Infrastructure Needs

A. Initial Comments

This chapter discusses our findings with respect to the achievement of the first of several outcome objectives identified in Chapter IV. It deals with the extent to which the P3 Pilot Initiative met the objective:

- **Meet infrastructure needs cost-effectively.**
 - **Accelerate provision of critical (social) infrastructure while maintaining prudent fiscal management.**

The assessment of this question presupposes the implementation of P3 Pilot Projects. Because only two projects have been implemented as P3s, our findings with respect to this outcome objective are limited.

B. Program Needs

1. The Issue

Have the identified program needs been met by individual P3 projects? In aggregate by the Initiative?

- *Were the evaluation criteria of the capital planning process consistently applied to select projects of high priority?*
- *Was the scale appropriate?*
- *Has the impact on the relevant delivery systems been positive?*

2. Findings

The selection of candidate projects for the P3 Pilot Initiative took place outside the normal capital planning process. Departments were directed to put forward urgent projects from the five-year capital plan that had been deferred due to unavailability of funding, and that would meet the criteria for the P3 Pilot Initiative.

A number of projects were put forward. Identified projects were assessed by FMBS staff, and grouped according to their priority as potential P3 pilot projects. The results of this analysis are well documented in the program files.

Most of the projects considered as possible P3 projects were in the initial list put forward by the individual departments in response to the FMB request. Some further candidates were added by FMB. The basis for their identification is not documented in the files that we reviewed, and our interviewees were not aware of the background and rationale for these additions.

The selection of projects matched closely with the results of this prioritization process. Most selected P3 projects were in the existing five-year capital plan; others, including the Fort Smith Student Housing project, had been put forward by the relevant departments although they were not in the existing GNWT five-year capital plan.

There is general agreement in our interviews that, by and large, the selected projects were worthwhile, and were directed at identified program needs. The GNWT was capital-constrained, with a backlog of worthwhile projects that it was not able to fund, so that there was no shortage of potential P3 projects.

There is no suggestion that the scale of individual projects was inappropriately influenced by the existence of the P3 Pilot Initiative.

The small number of implemented projects, and the relatively short time for which they have been operational, make it difficult to determine the impact of the projects on the relevant delivery systems. With that proviso, our interviews and case studies suggest that the impact of implemented projects on the relevant delivery systems has been positive.

The process of identifying and selecting projects was rushed. A high percentage of the identified projects did not go forward as P3 projects; this suggests that, although the projects were worthwhile, more thought could have gone into determining whether they would be appropriate as P3 projects. The fact that several of the identified projects did proceed outside of the P3 process does indicate that they were worthwhile projects meeting program needs.

C. Acceleration of Infrastructure

1. The Issue

To what extent has the building and completion of infrastructure been accelerated?

- *To what extent have the projects moved forward in the capital planning of government?*
- *Have the individual projects been completed on time?*
- *What would have happened without the P3?*
- *What has happened to projects that were identified as P3 candidates but did not proceed?*

2. Some Initial Comments

The issue of determining the effect of the P3 Pilot Initiative on the timing of infrastructure investment is complex.

It seems reasonable to take the point of view that, from a longer-term perspective, the Initiative would be expected to accelerate the building of infrastructure, rather than increasing the overall stock of infrastructure in place, i.e., on balance, bring infrastructure spending forward in time. This is because, although the operating lease treatment sought in the P3 projects overcomes a short-term financing constraint, in the longer term it is probably the ability to service debt and operating leases that limits the capital asset stock that can be built.

With this assumption, determining the impact of the P3 Pilot Initiative on timing of infrastructure projects requires one to think through the following sequence of events:

- In the absence of the P3 Pilot Initiative, a given, limited amount of capital funding was available, and a number of projects were identified in the capital plan that would exhaust that amount of funding.
- The P3 Pilot Initiative provided the prospect of additional funding, so that more dollars could be spent on capital projects within the short to medium term, and these additional more projects could be built.

- The process of selecting projects for the P3 Pilot Initiative resulted in some projects being moved from the traditional capital plan to the P3 list. This could have created financing room in the traditional capital plan to implement additional projects, that could otherwise not have been funded. We understand that, in fact, few if any new projects were added to the plan. Funds were reallocated to support the P3 process and to cover anticipated operating lease payments for implemented projects.
- Since many of the P3 pilot projects proceeded, but not as P3s, they were presumably reinserted into the traditional capital plan, perhaps with a short lag. Other projects may have been pushed back in time if they were judged to be of lower priority.
- Overlaying this sequence of reprioritization is the impact of lags caused by the P3 process itself. Generally speaking, it took some time for the P3 process to gear up, so that a project that ultimately proceeded as a P3, but had been close to the “front of the line” in the traditional capital planning process, may have been delayed.

Although we explored the issue in some of our interviews, we have not been able to develop a clear view of the impact of the P3 Pilot Initiative on the traditional capital plan, and on the mix and timing of projects funded within the traditional means.

Our findings of our interviews, as described below, tend to focus on projects on a case-by-case basis, based on the perspective of those with a particular interest in each of the projects.

3. Findings

As a general rule, we did not achieve a clear consensus on the impact of the P3 process on the timing of implementation of individual pilot projects. Broadly speaking, interviewees in line departments were more optimistic about how quickly projects would have proceeded, had the P3 process not been implemented, than were interviewees in central agencies.

There is general consensus that the completed Fort Smith Student Housing P3 project was moved forward significantly in the capital planning of government, i.e., that the facility was constructed sooner than would have been the case without the P3 process. In part, this reflects the fact that this project was not in the five-year capital plan prior to the P3 Pilot Initiative.

We have had conflicting views as to whether the other completed P3 project, the Arviat Health Centre, was accelerated or not.

The Fort Smith Student Housing Project was completed on time. (It was outside the scope of our evaluation to address this issue with respect to the Arviat Health Centre.)

During the planning of this evaluation, a number of concerns were expressed that being included in the P3 Pilot Initiative might delay the implementation of certain capital projects. It was anticipated that this could occur in one of two ways:

- Projects identified as P3 candidates may have been on the verge of proceeding as traditional capital projects. The P3 process itself introduced additional time lags that may have delayed the implementation of these projects, whether they proceeded as P3s or traditional projects.
- Projects selected as P3 pilot projects, but which subsequently did not proceed as P3s, might “lose their place in line” in the traditional capital planning process, and might be significantly delayed as a consequence.

Certain respondents believe that some projects were delayed somewhat as a result of being incorporated in the P3 Pilot Initiative. The Yellowknife Male Young Offenders Facility is reported by some respondents to have been delayed some months as a result of its consideration as a P3, although it subsequently was removed from the P3 process and combined with the development of the Yellowknife Correctional Centre for Adult Male Offenders. Similarly, the Inuvik Female Young Offenders Facility, which has also proceeded in the traditional mode in the view of some respondents, may also have been delayed some months as a result of its initial consideration as a P3 project. These respondents believe that the projects would have proceeded immediately in the absence of the Pilot Initiative.

Our case studies of these two Young Offenders Facilities indicated that the need to document and convey specific technical standards to private sector parties as part of the P3 process lengthened the implementation period.

We have had conflicting views as to whether the Inuvik Hospital project, which has not proceeded as a P3, but is going forward at the present time, has been accelerated or delayed as a result of its inclusion in the P3 process. The hospital was near the “front of the line” in the traditional capital plan, but, because of its magnitude, some respondents wonder whether it would actually have been funded and thus constructed on schedule. Such respondents believe that, although it has not proceeded as a P3,

the heightened public awareness of the Inuvik Hospital project has forced a government commitment to its construction, resulting in the acceleration of its ultimate construction. Those who believe the P3 process has delayed the Inuvik Hospital, believe that it was on the verge of being implemented as a traditional project, and that both the long time required to ultimately remove it from the P3 stream, and the additional time required to reinstate it as a traditional project, have led to a delay of approximately two years.

It is unclear whether or not the Energy Measures project was not undertaken before Territorial Division, solely because of its inclusion in the P3 process – certainly, inclusion in the P3 process slowed down the project until it was declared ineligible for an operating lease – but the impending April 1, 1999, creation of Nunavut was also a factor in the project’s failure to proceed more quickly. However, while the Energy Measures project is not proceeding as a P3 project, the NWT HC is instituting energy conservation measures of this type through existing programs.

The Fort McPherson Water project proceeded outside of the P3 process, and some respondents argue that the project would have been implemented with or without the P3 Pilot Initiative, because the project was in the capital plan of the sponsoring department. Other respondents note that, on the other hand, the process of project definition led to many delays unrelated to the P3 process. The P3 process did delay the Fort McPherson Water project once it became clear that the preferred source of drinking water would not be a feasible P3 project.

Although most of the P3 candidate projects were not implemented as P3s, the consensus from our interviews and case studies is that they have not “lost their place in line” in the capital planning process. There is a widespread view that their inclusion in the P3 process gave these projects a high profile in their communities, and that this has heightened the awareness of the projects and associated political pressures to implement them on a timely basis.

D. Budgetary Targets

1. The Issue

Have overall budgetary deficit and debt targets been met?

- *Has the Initiative led to an increase in debt levels?*

- *Has the Initiative created obligations that crowded out other capital/operating program needs in the short term?*
- *What costs has government incurred in the building of the infrastructure?*
- *What costs have been incurred by government in sharing risk? What savings have been generated?*
- *Have recent changes in GNWT accounting policy affected the answer to the above questions?*

2. Findings

The small number and scale of the implemented projects makes these questions relatively irrelevant.

We make the following observations:

- There were meaningful costs incurred in establishing the P3 process. This “investment” was not able to be recovered over the intended base of 12 pilot projects. (Although the process remains in place to be applied to possible future P3 projects.)
- The Fort Smith Student Housing Project has probably cost the government marginally more than the traditional approach would have. (This subject is discussed in some detail in Chapter XIII.)
- Government has not incurred significant costs in risk sharing.

At the time the P3 Pilot Initiative began, GNWT accounting policy effectively made operating lease obligations of the Territorial Government a form of off-balance sheet financing. Implemented P3 projects would increase the stock of necessary infrastructure, without adding to the budgetary deficit and associated debt, beyond the annual charge for operating lease payments. Subsequent changes to GNWT accounting policy have essentially made the issue of operating lease treatment irrelevant, i.e., the government shows the capitalized value of operating leases as a liability similar to other forms of debt on the government’s own books.

E. Technical Standards

1. The Issue

Have the projects met technical standards/specifications?

2. Findings

The Fort Smith Student Housing Project is generally agreed to meet the necessary technical standards and specifications.

F. Value for Money

1. The Issue

From the perspective of physical asset acquisition, has value for money been achieved?

2. Findings

This issue really only applies to the Fort Smith Student Housing project. We discuss this issue in depth in Chapter XIII.

G. Longer-term Implication

1. The Issue

What is the long-term implication of the P3 Pilot Initiative on future capital projects outside the social sector?

- *What is the impact of the lease costs on future capital and operating spending?*

2. Findings

This issue has become irrelevant because so little funds have been committed to future operating lease payments. Had a large percentage of the projects gone forward, however, this might have become a concern. The annual payments toward operating lease obligations that the government would have entered into would presumably have limited the funds available for future spending. Of course, any debt-financed projects built via traditional means would have a similar impact.

H. Enhanced Capability

1. The Issue

Is there evidence of enhanced capability as a result of the P3 Pilot Initiative?

2. Findings

Our interviews suggest that the GNWT built capacity within its own ranks to handle the intricacies inherent in implementing P3 projects. The Policy, Implementation Guidelines, and draft template documents are evidence of this.

In addition, some government departments have commented that the P3 Pilot Initiative accelerated their internal development of Technical Standards and Technical Manuals, as this information needed to be conveyed to the P3 proponents.

I. Summary of and Comments on Key Findings

The P3 Pilot Initiative was designed to accelerate capital spending on infrastructure, and meet existing infrastructure needs cost-effectively. Because so few projects have proceeded as P3s, many of the evaluation questions dealing with this issue have become somewhat irrelevant.

Projects were selected primarily, but not exclusively, from the five-year capital plan. The relatively small percentage of successful P3s suggests that more thought could have gone into determining whether they would be appropriate P3 projects. Several of the identified projects have subsequently proceeded outside the P3 process, indicating that they were worthwhile projects designed to meet program needs.

The issue of determining the effect of the P3 Initiative on the timing of infrastructure investment is complex, and not fully resolved. We do not have a clear understanding

of the impact of the P3 Pilot Initiative on the number and sequencing of projects in the traditional capital plan.

There is general consensus that the Fort Smith Student Housing P3 was moved forward significantly in capital planning; we have conflicting views on whether the Arviat Health Centre was accelerated. There is not a consensus as to whether other projects were delayed somewhat as a result of the P3 initiative, primarily because it introduced time lags while they were considered as P3s, before being re-inserted into the traditional capital procurement process. Apart from these possible delays, the consensus among our interviews and case studies is that projects did not “lose their place in line”, if they were rejected as P3 pilot projects. Although the views with respect to each individual project seem plausible, we are uncertain as to whether, when taken in aggregate, they yield an internally-consistent pattern.

The small number of implemented projects makes the impact of the P3 Initiative on budgetary targets essentially irrelevant. Since the Fort Smith project was funded as a P3, and was not already in the capital plan, it is clearly an incremental outcome of the Initiative.

VII Findings – Stimulation of Economic Development

A. Initial Comments

This chapter deals with the achievement of the second outcome objective identified in Chapter V, which is as follows:

- **Stimulate economic development.**
 - **Create incremental jobs for Northerners.**
 - **Enhance capability of Northern workers.**
 - **Enhance capability of Northern businesses.**

The small number of implemented projects limits the applicability of some of these issues.

Because a meaningful percentage of projects went to the RFP stage, and therefore required design work and consortium-building, there was greater potential for affecting the capability of Northern businesses and professionals than of Northern workers.

B. Create Incremental Jobs for Northerners

1. The Issue

How much and what kind of employment has been generated by the project, in planning and design, construction, and operations?

- *What is the geographic distribution of employment?*
- *What is the duration of employment?*
- *What types of jobs have been created? What skills and knowledge are being developed? Are these transferable to other jobs?*

Who has been hired to do these jobs?

- *Who has been employed? How many of the employees are Northern residents? To what extent are aboriginal people being employed?*

What is the incremental employment component along the above dimensions?

2. Findings

a) Fort Smith

The Fort Smith Student Housing project was the only project implemented in the Western Arctic, and it was of relatively small scale. The major shareholder of the successful proponent firm is Métis. The proponent reports that the distribution of employment was as follows:

- Planning and design employment - 100% Northwest Territories.
- Construction employment - 95% Northwest Territories; (approximately 90% from the South Slave area, and 5% from north of Great Slave Lake), and 5% Alberta.
- Operating employment - 100% Northwest Territories (local Fort Smith).

We understand that there was some public perception at the time that the local content was lower than these estimates suggest.

Employment took place between June, 1999 and February, 2000. It is clear that the Fort Smith project was accelerated, and therefore, this employment would not otherwise have taken place within this time period.

The Fort Smith project was a relatively straightforward housing project, and did not require particularly specialized skills; virtually all the workforce was available in the North.

The proponent was anxious to construct the project as quickly as possible. There was reportedly some reluctance among the local workforce to work the necessary overtime, particularly on weekends, and the contractor could not get the facility built as quickly as planned.

b) Other

As noted in the previous chapter, a number of the P3 pilot projects that have eventually been implemented are reported to have been delayed as a result of the P3 process. Presumably, the employment associated with these projects was also delayed. We do not have sufficient details on the overall sequencing and re-sequencing of projects as a result of the P3 Pilot Initiative to comment meaningfully on incremental impacts on employment of delayed projects.

C. Enhance Capability of Northern Workers

1. The Issue

Have the workers who participated on the projects achieved improved employability?

- *To what extent are people remaining in the labour force? What is the impact on long-term employability?*

2. Findings

There is general agreement that workers on the Fort Smith project were exposed to a larger-scale building project than would normally have been the case, and that they have gained some valuable experience in this regard. For example, the carpentry trade in the North is reportedly accustomed to building two to three homes at a time. In this case, 25 units were constructed at once.

D. Enhance Capability of Northern Businesses and Professionals

1. The Issues

What are the characteristics of participating businesses.

- *Nature and size of NWT businesses participating.*
- *Type of consortia created – to what extent have small businesses been given an opportunity to participate?*

What levels of capability to participate successfully in P3 projects have Northern businesses demonstrated?

- *Overall capacity of NWT private sector to respond competitively?*
- *To what extent is the private sector able to handle the relevant risk?*
- *To what extent does the private sector understand the financial implications of P3 as a potential for return on investment?*

Is there evidence of enhanced capability as a result of the P3 Pilot Initiative?

- *Has the ability to overcome barriers, e.g., access to finance, been improved?*
- *Capability to work in NWT and/or Nunavut; capability to work elsewhere?*

2. Preliminary Comments

Our findings with respect to this issue require us to develop an understanding of why, for those projects which did go to RFP, so few proposals were received. In summary:

- One proposal was received for the Inuvik Hospital, and was judged non-compliant.
- One proposal was received for the Fort Smith Student Housing Project.
- Two proposals were received for the Cambridge Bay Student Housing project, and both were judged non-compliant.
- Two proposals were received for the Arviat Health Centre, one of which was judged non-compliant.

In the first three cases, shortlisted respondents were invited to submit proposals based on their Statements of Qualifications provided in response to an RFQ. In the fourth case, P3MC directed that the Arviat Health Care project skip the RFQ stage and proceed immediately to the RFP stage. The facility was not complex from an architectural perspective, there were known firms in the North that could accommodate the project, and the P3MC wished to address the community's desire for an early start to the project.

In our interviews and case studies we explored the reasons for the small number of submitted proposals. The factors seem to include the following:

- The construction market in the North strengthened significantly from the time the P3 Pilot Initiative was announced, to the time that proposals for individual projects had to be submitted. The two major factors leading to this strengthening were:
 - the construction activity associated with the development of the diamond-mining industry in the Northwest Territories, and
 - a small construction boom in the new Territory of Nunavut.
- Bidding on a P3 project required Northern businesses to develop a new mode of operations, and to take on risks that they were relatively inexperienced in dealing with. It is clear that there was not much appetite in the private sector for some of this risk-taking. This may have been exacerbated by the apparent desire of the government to transfer significant risks to the private sector in order to meet the requirements for operating lease treatment of the projects.
- Several of the projects were subject to significant delays in the RFP process. Potential bidders in some cases pursued alternative projects with shorter turnaround times.
- At a certain point in the life of the P3 Pilot Initiative, a number of potential bidders became skeptical of the Government's commitment to the P3 process. This reduced their willingness to invest in proposal development for a project that might not ultimately proceed in P3 form. Indeed, some proponents balked at the "cost of pursuit" of proposal development.
- Some of the P3 pilot projects were considered "too large" for the capability of Northern businesses. Those inexperienced with or unwilling to form consortia with Southern partners did not bid on these projects.

3. Findings

Many shortlisted proponents were consortia; teams appear to have been put together for a number of reasons, including acquiring local participation, and, particularly in the case of the larger Inuvik Hospital project, ensuring that necessary specialized expertise was part of the team. The larger Yellowknife-based construction companies were well represented among the shortlisted proponents, often with the aboriginal development corporations either as competitors or partners. For the most part, very small businesses were not part of the shortlisted bidding teams.

It is noteworthy, however, that the winning bidder on the Fort Smith Student Housing Project was a local building supply company, which was not a traditional bidder for government construction projects in the North.

On balance, in their responses to the P3 Pilot Initiative, Northern businesses appear to have shown limited ability to participate successfully in P3 projects. For example:

- As noted above, few competitive bids were received.
- The government and the private sector had considerable difficulty achieving a meeting of minds as to what risks should appropriately be transferred to the private sector. To some extent this reflects the government's inadequate consideration of the types of risks best handled by the private sector. (This issue is discussed in more detail below.) However, it is clear that the private sector had neither the appetite, nor the mechanisms, for absorbing certain risks that might reasonably be absorbed in a traditional P3 project. In fact, there was considerable reluctance in the private sector to absorb even the risks of preparing bids. A number of our interviews, particularly with representatives of professional services firms, emphasized the difficulty that such firms have in investing significant resources in bid preparation for which they are not being compensated.

To a limited extent, there is evidence of enhanced business sector capability as a result of the P3 Pilot Initiative. Skills have been acquired, particularly among a small group of Yellowknife-based entrepreneurs, with respect to:

- Putting consortia together, and
- Accessing longer-term financing.

There have been some efforts to employ these skills in the South. However, there does not appear to be a significantly enhanced capability to work in the North, or elsewhere.

E. Summary of and Comment on Findings

The small number of implemented projects means that, for Northern workers, incremental job creation and capability enhancement was limited.

Northern businesses appear to have shown limited ability to participate in the P3 Pilot Initiative projects. Few projects received a sufficient number of competitive bids.

The government and the private sector had considerable difficulty in achieving a meeting of minds with respect to risk transfer. In our view, the government did not deal with this issue as well as it might have, but there was clearly little appetite in much of the private sector for taking on meaningful risks.

Skills have been acquired among private sector entrepreneurs, particularly with respect to consortium development and accessing of longer-term financing. There have been some efforts to employ these skills in the South.

We comment at some length in Chapter XIV on some possible means for encouraging a greater number of competitive bids from qualified bidders.

VIII Findings - Mix of Public and Private Sector Involvement

A. Initial Comments

This chapter deals with the achievement of the third outcome objective identified in Chapter V, which is:

- **Draw on the best mix of public and private sector involvement.**
 - **Find an appropriate sharing of risk, reward and responsibility to minimize cost to government.**
 - **Increase innovation and creativity in public-use infrastructure.**

1. Initial Comments on Factors Affecting the Appropriate Mix

One of the chief reasons for governments to enter into public-private partnerships is to find a way of apportioning the risk, reward and responsibilities associated with particular projects. This is expected to yield two types of benefits:

- Because of different skills, incentive structures, and constraints, there may be risks that the private sector can manage more cost-effectively than government.
- Because there is the incentive of receiving a financial return to successful innovation, private sector operators may be more innovative and creative in their design, construction, and operation of public-use infrastructure, and in exploiting additional sources of revenue, compared to the public sector.

From this perspective, each potential P3 project should be considered carefully by government, with an assessment made of the various risks involved in implementing the project, and a decision made as to which risks the private sector should be asked to bear. This can lead to a choice among a potentially wide range of options for the implementation of public-private partnerships.

The NWT P3 pilot projects, on the other hand, were conceived within a relatively restricted scope, focused on an arrangement to design, build, manage and operate facilities within an operating lease framework. For leases to be treated for

accounting purposes as operating leases, there must be significant risk transfer to the private sector owner/operator.

It may well be that the degree of risk transfer necessary to fit within the operating lease framework may be greater than the risk transfer embodied in the mix of risks and rewards leading to a lowest-cost solution for government, as described above.

We discuss this issue in greater depth in Chapters XIII and XV.

A number of aspects of the P3 pilot projects create risks that are difficult for the private sector to manage. These include:

- The issues with respect to land title, both regarding the ownership of specific parcels of land, and within the context of larger uncertainties regarding aboriginal land claims.
- The importance of the weather and its impact on operating cost.
- The relatively undeveloped nature of the real estate market in smaller Northern communities. To qualify as an operating lease, the lease must expire while there is still a meaningful proportion of the building's useful life remaining. Many in government feel that, because of the lack of a meaningful secondary real estate market, proponents can only afford to bid on P3 projects if they can expect to recover the entire capital cost of the facility over the lease period. While we do not have the information available to assess whether the bids received reflected this approach, it seems reasonable to assume that, unless they were prepared to speculate that they could extend the lease with government at the end of twenty years, proponents would be inclined to try to recover all of their capital costs through the existing lease term.
- The issue of scale. Risks often can be managed by incorporating them into pools of unrelated risks – this is essentially the principle of insurance. Governments rely on this approach when they self-insure a number of risks – they are comfortable that their operations are sufficiently large that they can absorb a small percentage of claims in a given year. However, many Northern businesses are not sufficiently large, and do not have a sufficient portfolio of assets, to feel comfortable absorbing risks of the sort required by the P3 projects. As well, there is not a developed market for laying off a number of these risks on third parties.

Financing risks, which initially appeared to be a barrier to many bidders, were generally addressed. Some interviewees indicated that it was initially difficult to

obtain long-term financing, (i.e., for 20 years), but that the banks eventually “came around”.

B. Appropriate Risk Sharing to Minimize Cost to Government

1. The Issue

The objective was to:

- **Find an appropriate sharing of risk, reward, and responsibility to minimize cost to government.**

The evaluation issues are as follows:

What is the sharing of risk and reward between government and the private sector? Is it appropriate?

- *Are the parties best able to bear the risk, bearing the risk? Is the right kind of risk being transferred?*
- *Is the government bearing an appropriate level of risk?*
- *Are long-term capital refurbishment issues dealt with appropriately and/or differently than they would have been through the traditional capital planning process?*

What has been the impact on their relationship with the private sector, as perceived by the government?

To what extent does government better understand private sector motivation?

Are projects selected appropriate for P3?

2. Findings

It is clear from our interviews and file reviews that many government personnel involved in the P3 Pilot Initiative believed that implemented P3 pilot projects should involve substantial transfer of risk to the private sector. In some cases, this view may reflect a desire to ensure operating lease treatment of the transactions for accounting purposes. It is clear in other cases, however, that some government personnel believe that the point of public-private partnerships is to transfer risk to the private sector,

and, effectively, “the more risk transfer the better”. Some who had this view recognized that this did not necessarily lead to the least cost for government, although there might have been other, not strictly financial, considerations that make it the best approach for government.

Many of the deliberations of the P3AC were related to the issue of risk sharing. The question of the appropriate allocation of risk with respect to energy costs (utilities and heating) was particularly contentious. The government had an understandable desire to create incentives for the proponent to minimize energy costs, through design, construction, and operating practices. Proponents felt that they had insufficient ability to manage weather costs, tenant behaviour, and energy prices to absorb these risks. (Proponents are probably unused to costing and pricing such risks; in any event, they may well have felt that the premiums they would wish to charge to protect themselves against fluctuations in utility costs would be regarded as excessive by the government.) In the end, the government compromised on its requirements for transferring utility risk; the upshot is that some government representatives question whether they have taken on too much risk.

There does not appear to be a consensus within government about the impact of the P3 Pilot Initiative on their relationship with the private sector. Our interview results suggest that views in this regard tend to be somewhat correlated with views on the appropriateness of the projects selected for the P3 Pilot Initiative. Within this spectrum, however, the consensus seems to be that, in part because proponents had to commit significant time and resources to bid, but few projects were actually implemented, the Initiative has had a negative impact on the private sector’s view of government.

One of the expected benefits from increased P3 is that governments may better understand private sector motivations, and thus be able to form more effective partnerships in the future. There appears to be a broad consensus within the private sector that the P3 Pilot Initiative has not led to a significantly better understanding of private sector motivation by the public sector. The views on this issue within the public sectors are decidedly mixed.

The larger issue is the extent to which the 12 pilot projects selected were appropriate candidates for P3s. With the benefit of hindsight, it is clear to the respondents that a substantial number of the projects were probably not appropriate candidates for P3. For example:

- In retrospect, some of the projects were not well-defined, and would have been difficult to implement either as P3s or otherwise. The Fort McPherson Water project is an example.
- Others were not able to be defined as P3 projects – the Auditor General gave an opinion that an operating lease was not feasible with the NWT Housing Corporation Energy Measures project.
- With others, substantial efforts in project design were required to permit private sector involvement as a P3 without commensurate benefits (the two Young Offender Facility projects are examples).
- For some projects, the scale was too large for most Northern businesses to accommodate. A recurring theme in our private sector interviews was that projects exceeding \$3 million were generally too large for most Northern firms' capability or desire.
- It is not clear whether the more complex health projects are appropriate P3 candidates. The Arviat Health Centre seems to have been successfully implemented, but the larger Inuvik Hospital project became very complex, and did ultimately not proceed as a P3.

On the other hand, certain of the projects are clearly good P3 candidates. There is unanimity that the Fort Smith Student Housing project is a good P3 project, and there is a general view that, had the underlying demand trends been appropriate, the Aurora College Campus project would have been a good P3 project.

We did not address the appropriateness of the four Nunavut projects.

A somewhat different question is whether the projects selected were appropriate for a P3 Pilot Initiative, both individually and in aggregate. The general view among our interview respondents, is that:

- The government tried to proceed with too many P3 projects simultaneously.
- There are substantial benefits to be gained by moving up the learning curve in a measured fashion, starting with the simpler projects and incorporating learning from them into the more complex projects.
- In retrospect, the Inuvik Hospital project was probably too complex to be included in an initial round of pilot projects.

C. Innovation and Creativity

1. The Issue

To what extent have creativity and innovation been realized?

- *Is there evidence that facility design and usage are different than they would have been under the normal government processes? If so, are those differences positive?*
- *To what extent has the potential for ancillary revenue and/or multiple use facilities been realized?*

2. Findings

The limited number of implemented P3 projects makes it difficult to assess the extent to which creativity and innovation have been realized.

The successful proponent on the Fort Smith project suggested a number of innovations, some of which were accepted and some of which were not. The proponent incorporated energy-use monitoring devices in each unit, and wired the facility for computer access to the college library. These were accepted. On the other hand, the proponent put forward revenue generation alternatives, which were ultimately judged by the user department to be inconsistent with their objectives.

There were widespread views among our interviewees, which were also found in some of our case studies, that the P3 process, by placing relatively strict limitations on interaction with the user departments, stifles the potential for innovation. In the view of some proponents, it is difficult to suggest design innovations without being able to interact with the user group. In this view, it was not possible to have “normal” client discussions, which stifles proponents’ ability to “vet” possible innovations with their clients. (We discuss this issue in Chapter XV.)

In the view of the successful proponent in Fort Smith, the difficulty in engaging in dialogue with respect to potential improvements continued after they were selected as the winning bidder. In their view, the government was not open to additional improvements identified by the proponents during the negotiations leading the finalization of the deal.

Within this context, two observations from our research are relevant:

- The population base in many Northern communities does not support a wide variety of possible alternative uses for facilities built for the government, particularly commercial uses. In addition, if a community is not large enough to support more than one provider of a particular type of service, there is the risk that the provision of that service as a commercial add-on to a P3 project will be perceived as “subsidized” competition driving an existing business under.
- The nature of the P3 projects that moved forward probably limited the scope for innovation. Several interview respondents noted that there is much more scope for innovation when:
 - there are significant possibilities for generating ancillary revenues,
 - the proponent is responsible for program delivery, not just for providing the physical setting in which the user department will deliver programs.

D. Summary of Findings and Our Comments

There is a general view that the issue of risk transfer was contentious, and not well-handled by either the public or private sectors. Our own view is that, in addition to inexperience and the normal gulf between public and private perspectives with respect to risk and compensation for risk, this difficulty in dealing with the risk resulted, in part, from the government’s desire to ensure that sufficient risk transfer was taking place to obtain the appropriate accounting treatment of operating leases. In our view, the issue of risk transfer would have been better dealt with had the government put more effort into considering the optimal allocation of risks, returns, and responsibilities. However, of course, these may not have been consistent with the requirements for the accounting treatment.

There is a general view within government that the Initiative has had a negative impact on the private sector’s view of government, particularly among those who invested time and resources to prepare proposals for work that was not ultimately awarded as P3s. There is a broad consensus in the private sector that the P3 Pilot Initiative has not led to a significantly better understanding of private sector motivation by the public sector. There is a range of opinions on this issue in the public sector.

With the benefit of hindsight, it is clear to the respondents that a substantial number of the projects were probably not appropriate candidates for P3s. We would concur with this view.

There is also a consensus that the GNWT, through the P3 Pilot Initiative, tried to accomplish too much in too short a time, proceeding with too many P3 projects simultaneously, and not sequencing projects from the simpler to the more complex. We would also concur with that view.

We have not done a detailed assessment of risks of the individual pilot projects. With that proviso, there does not appear to have been sufficient thought given by government during the implementation process about which party was best able to bear specific types of risks, and accordingly, what is the best and lowest cost allocation of risks and rewards between the public and private sectors. On the other hand, it is clear that many of the private sector proponents had little experience bearing the types of risks that they were being asked to take on, and in many cases, had considerable reluctance to do so. These circumstances created an environment in which there was little consensus between the public and the private sectors on risk-sharing.

Our experience is that, in most jurisdictions, there is a significant difference in mindset between the public and private sector, particularly around the role of risks, financial incentives, and financial rewards. The best way to develop a common understanding of each others motivation is to work together on successful partnership projects. It is an unfortunate aspect of the P3 Pilot Initiative that few of the projects were successfully implemented as P3s. Thus there was little opportunity to benefit from this route to enhanced understanding.

Relatively little creativity and innovation were realized. Although respondents believe the government could have been more open to innovation, they note that the nature of the projects, and of the Northern environment in which they were to be implemented, significantly limits the scope for innovation in public-use facilities. We concur with this view.

IX Findings – Cost-effective Service Delivery

A. Initial Comments

This chapter deals with our findings with respect to the fourth outcome objective identified in Chapter V, which is:

- **Provide more cost-effective service delivery.**
 - **Enable government to provide services efficiently and effectively.**

Although the list of issues is extensive, the fact that only one project was implemented in the West limits our ability to address these issues.

B. The Issues

The issues are:

What are the program impacts, including impacts on the quality and level of services being offered?

- *Adherence to establish service standards.*
- *Responsiveness to specialized equipment needs and their evolution.*
- *Responsiveness to facility functional changes when needs change.*
- *Satisfaction expressed by the Boards, staff, and public.*

What is the relationship between the service quality/level and lifecycle costs?

What would the relationship between service quality/level and lifecycle costs had been like using traditional methods?

What is the quality of the relationship between the operator/owners and Board/users of the facility? To what extent is there satisfactory communication, collaboration, and cooperation?

- *Day-to-day operation of the facility in meeting maintenance standards.*

- *Responding to maintenance needs.*
- *Providing facility and equipment improvements including furniture and fixtures.*
- *Regarding possible conflicts re shared use.*

C. Findings

Although the project is still in its early days, the Fort Smith Student Housing project appears to be operating successfully along these dimensions. The College reports that it is “quite happy” with the facility and their relationship with the proponent. An Operations Committee, including representatives of the developer and the campus, deals effectively with issues that come up. There have been some disagreements about the meaning of “normal wear and tear”, and proponent responsibility in this regard. (Other P3 pilot projects had difficulty defining “normal wear and tear”, particularly the Young Offenders Facility projects).

Effectively, there is no shared use, so that this issue is not a potential source of conflicts in Fort Smith.

D. Summary of Findings and Our Comments

The limited evidence available from the Fort Smith project suggests that it is operating successfully from the perspective of cost-effectiveness of service delivery.

X Findings - Implementation Objectives

This chapter deals with the extent to which the P3 Initiative has met the government's implementation objectives, which are:

- **Provide a fair, transparent, and competitive process.**
- **Provide a policy framework and P3 process that are effective and efficient in pursuing the government's P3 objectives.**

A. Provide a Fair, Transparent, and Competitive Process

The first objective is:

- **Provide a fair, transparent, and competitive process.**

1. The Issues

Was the P3 process fair, transparent, and competitive? In theory? In practice?

- *Openness and adequacy of communication to and consultation with the private sector? Public?*
- *Clarity and flexibility in the processes and requirements to be met in responding to RFQs and RFPs?*
- *Capability of department staff and planning, managing and monitoring projects with the private sector?*
- *Is there an adequate level of departmental resources to implement P3?*
- *Timeliness of selection, deal closure, and provision of infrastructure?*
- *Adherence to policies and procedures.*

2. Findings

There is broad consensus that the P3 process was fair and transparent, both in theory and in practice. There are some concerns that, in order to ensure fairness and

transparency, the process may have been too cumbersome. Some respondents (many of them in government) feel that the government went too far in its efforts to ensure transparency and fairness, and that the P3 process was unnecessarily bureaucratic.

The small size of business and political circles in the North makes frequent contact inevitable. Some respondents felt that there was some attempt at “end running”, i.e., direct contact between proponents and MLA’s, but that a good deal of effort was made to ensure that this did not affect the fairness and transparency of the process.

The P3 process was designed and expected to be competitive. However, no project that went to the RFP stage got more than one fully responsive bid, and two received no compliant bids. The possible reasons for this are discussed in Chapter VII.

With respect to some of the specific items noted under the issue:

- The private sector is generally satisfied with the openness and adequacy of communication and consultation, although with three provisos:
 - Sometimes the government was slow in response to queries (this point was also raised by governmental staff).
 - One issue that raised some concerns with respect to communication is the “Comparator” – the estimate provided in an RFP of the GNWT’s view of what it would cost them to implement the project using traditional methods. (We discuss the issue of comparator at some length in Chapters XIII and XV.)

The P3AC requested that a Comparator be provided to respondents. The P3 implementation teams had some difficulty providing accurate comparator information, particularly for components of the bid that are not typically costed in traditional procurements, such as operating costs. This led to some misunderstandings by the proponents, and also led to some errors in calculation (for Fort Smith) that had to be corrected after the bids had been received.

- The issue of energy costs – both their magnitude in the comparator, and the management and cost of the risk surrounding them – was a constant source of concern and dispute.
- There is a strong view among some segments of the civil service that internal government communication, although extensive, was not sufficient. The requirement for extensive internal communication flowed in part from a broader

issue – “We didn’t understand how much internal change management would be required to implement the P3 Initiative”.

- Generally, there was satisfaction with the clarity and flexibility in the processes and requirements to be met in responding to RFQs and RFPs, and there is general agreement that these dimensions improved as the government moved up the learning curve. There is a widespread view, however, that the issuance of the Inuvik Hospital RFP was too rushed, requiring too many clarifying addenda, and adding significant cost to the process of responding to the RFP.
- There is a widespread view that, once the initial learning curve had been dealt with, departmental staff had the necessary capability to plan and manage the projects. A concern that was expressed by several in government is that, while the mechanisms for implementing projects were good, little thought had been given to the ongoing managing and monitoring of implemented P3s. Some concerns were expressed that the government relied too much on their P3 consultants – “too many issues were referred to the consultants”.
- There are mixed views on whether departmental resources were adequate to implement P3s. The departments that had to provide resources to all the P3ITs found the workload extensive, and eventually, wearying. It is clear that the implementation exercise stretched FMBS staff considerably. FMBS staff themselves feel that the problem was not so much the level of resources provided, but the way in which they were organized. Others believe that FMBS was not able to provide enough staffing support to the Initiative. With the benefit of hindsight, FMBS staff say that they would construct dedicated teams, who would be excused from their other responsibilities, so that they could focus exclusively on P3s. Our own experience elsewhere would lead us to concur with that view.
- Once RFPs were received, selection and deal closure, where it was required, was relatively timely. The lack of timeliness, where it existed, tended to be in the long RFP response periods, exacerbated by RFPs having sometimes been issued too early.
- There is a general agreement that the policies and procedures were adhered to. There was some concern that the documentation of Policies and Implementation Guidelines became somewhat overwhelming and got a little out of control.

B. Effective and Efficient Policy Framework and P3 Process

The second objective is:

- **Provide a policy framework and P3 process that are effective and efficient in pursuing the government's P3 objectives.**

1. Preliminary Comments

A component of Phase I of the evaluation was an Expert Review by KPMG of the policy framework and P3 process that had been established at that point. KPMG made a number of comments regarding possible enhancements. One methodology of the Phase II evaluation was a review of the extent to which the GNWT had responded to these comments. This topic is dealt with in Section C.

2. The Issues

To what extent is the policy framework thorough and adequate in providing for P3?

Are the levels of effort and procedures for pursuing the P3 objectives sensible and sufficient?

Do those in government involved in the P3 process understand their roles? Do they have the necessary skills and experience to play these roles?

Were there significant changes or surprise events that required GNWT response? How did the GNWT respond?

Does the GNWT have the information needed to support their decision-making and accountability, and do they use it appropriately?

Has the quality of implementation changed over the course of the P3 Pilot Initiative?

Was the apparent level of commitment by government to the P3 process appropriate?

- *Did the apparent level of commitment affect implementation of the Initiative?*

3. Findings

Extensive effort went into the development of the policy framework for P3s. There is the general view that the policy framework was, if anything, too thorough, and was certainly adequate in providing for the type of P3 that was envisioned. Some have raised the question as to whether the policy framework was premised on too narrow a view of P3s, i.e., the view was essentially restricted to projects to design, build, operate, and maintain facilities in a manner that was eligible for operating lease accounting treatment. (This is part of a larger issue that we discuss in Chapter XV.)

The policy framework was modified as experience was gained. While these changes were not necessarily codified, there was a general understanding that policy was evolving. An example is the change in the policy with respect to unsolicited proposals.

The issue of the levels of effort required to pursue the P3 objectives is complex. The government devoted significant resources to putting in place the framework of both Policies, Implementation Guidelines, and draft documents; as well as the administrative infrastructure for administering P3s. It is clearly disappointing that this cost and effort did not yield a more significant volume of successful P3 activity.

It is generally agreed that those in government involved in the P3 process now understand their roles; there was some learning to be done in the initial stages. Similarly, in part because they have achieved considerable “learning by doing”, they feel they have the necessary skills and experience to play these roles. Several respondents noted that traditionally high turnover levels will make the retention of these skills and experience problematic.

There is no question that significant learning and personal development occurred as a result of participation in the P3 Initiative. Even those departmental staff who were exasperated with the process by the time the Initiative wound down have emphasized that they gained real learning and skill-building.

Perhaps the most significant surprise events that required GNWT’s response was the general shortage of bids. The view is that the GNWT dealt with this as well as could be expected. Generally speaking, policy evolved in response to changing circumstances.

The view that the GNWT does have the information needed to support its decision-making and accountability, with two provisos:

- The information required to support the front-end decision-making is good; however, several commented that there was no process in place for ongoing monitoring of the implemented projects.
- There is virtually unanimity that the quality of implementation improved over the course of the P3 Pilot Initiative. The most frequent comments were:
 - “We learned our roles.”
 - “We learned how to work in the P3IT context.” And
 - “We became more productive.”

There is also broad consensus that the government entered into the P3 Pilot Initiative with a high degree of commitment. The Initiative was sponsored by a strong Minister, and significant organizational clout, money and manpower was put into setting in the process in place. There is also a widespread view that government commitment to the process diminished over time, in two ways:

- While subsequent Ministers and the government continued to support the Initiative, it no longer had a champion.
- Perhaps as a consequence, the enthusiasm of some departments and some staff began to wane. This tendency was probably reinforced by the difficulty that was being experienced in getting P3 projects implemented successfully.

There is also a broad view that this apparent reduction in commitment did negatively affect the implementation of the Initiative. One reason is that proponents began to form the opinion that the government was no longer as committed to the Initiative as it had been, and that they were accordingly in a stronger position to resist those aspects of the P3 process that they were unhappy with.

C. Updating the Expert Review

1. Initial Comments

One of the Phase I tasks was a review of the GNWT’s P3 Policy and Implementation Guidelines, along with the RFQ and RFP documents for the Fort Smith project. That work was reported in the Expert Review Report, in May, 1999. That report culminated in a series of recommendations with respect to both the Draft P3 Policy and the Draft Implementation Guidelines.

One of the methodologies in Phase II was to assess the GNWT's response to these interim recommendations. We explored these issues through a series of interviews with FMBS staff, and members of the Evaluating Working Group. We sought to address two basic questions:

- Have the P3 Policy and/or Implementation Guidelines been revised?
- Even if documents have not been formally revised, have there been changes in practices and administrative structures for implementing the P3 Pilot Initiative and its individual projects.

If either of these changes have taken place, do they respond to/are they consistent with the recommendations in the Expert Review Report.

2. Findings

Our interviews indicate that the government's general philosophy for dealing with the Expert Review Report was as follows:

- Virtually no formal changes were made to the Draft Policy and Implementation Guidelines. The decision not to formally update policy documents and implementation guidelines was essentially a resource allocation decision. (There was one formal change – a change in the approach to the treatment of unsolicited proposals that reflected the recommendations of the Expert Review.)
- An effort was made to put recommendations into practice with respect to the remaining steps in the implementation of projects that were currently being dealt with. If a recommendation was not applicable to the remaining pilot projects, it was not dealt with. For example, following the submission of the Expert Review, no new projects were selected, and no further RFQs were issued. Thus, no recommendations were implemented with respect to these issues. On the other hand, changes in response to the Expert Review were made to the structure of RFPs, the evaluation methodology, and other items.

Some specific comments follow.

Some of the policy issues dealt with in the Expert Review were also addressed in a recent Audit of Procurement Practices in the GNWT, which was conducted by the government's Audit Bureau with participation from the Office of the Auditor General of Canada. For example, the Procurement Review Audit Report recommends debriefing of unsuccessful proponents as a best practice that should be adopted by the

GNWT in all tender and proposal calls. Thus, although no further public-private partnership initiatives are planned for the immediate future, some of the practices noted and recommended by the Expert Review will be adopted in the broader procurement context.

The Expert Review notes that there is no clearly identified set of objectives for the P3 Pilot Initiative. FMBS staff noted that the KPMG evaluation framework devoted significant resources to identifying and crystallizing these objectives. These have been generally agreed to and adopted in practice.

The Expert Review noted that the P3 Policy does not provide explicit direction with respect to the range of options available for implementing P3s. FMBS staff note that, in practice, the Pilot Initiative was very restricted in scope to design, build, own, and operate agreements within an operating lease framework. We understand that the government expects to deal with this issue of the range of options available for P3 following the completion of the evaluation.

The Expert Review noted that a number of policy issues are addressed in the Implementation Guidelines, rather than in the policy per se. One implication is that some policy matters may not have been formally approved by FMB. The original intention was to go back to FMB with a more comprehensive policy update for approval, on the basis of the completed pilots. It is not clear what the status of this activity is at the present time.

The Expert Review notes that the Fort Smith RFQ provides very little information on functional program requirements and other project-specific requirements. FMBS staff agree, but note that the Fort Smith project (and one Nunavut project) were the exception in this regard. All other projects, which were in the five-year capital plan, had functional programs in place, and this information was provided at the RFQ stage to potential bidders.

The Expert Review noted that the draft Implementation Guidelines provided that the government treat unsolicited bids differently than other P3 projects, and that this was inconsistent with some of the government's broader objectives for the process. The government decided it was important to implement this recommendation. The policy was amended before it was circulated and posted to the website, and the draft provisions that had previously existed with respect to unsolicited proposals have been withdrawn.

The Expert Review suggested that the GNWT should consider the need to specify in the Guidelines how the winning proponent will be chosen. In practice, the GNWT

acted on this recommendation and included the evaluation guidelines in subsequent RFPs. As well, the government developed internal “value for money” guidelines, but did not publish them.

The Expert Review suggested that additional practices with respect to maintaining confidentiality could be incorporated in the guidelines. Subsequent proposal evaluations were undertaken in a physically-secure facility and repository, and protocols were developed and implemented with respect to specification and roles of voting members for the P3ITs.

The Expert Review noted the need to customize evaluation criteria for each RFP (rather than use the standardized approach outlined in the Implementation Guidelines). The number of recommendations in this regard were implemented with respect to the Inuvik Hospital project.

The Expert Review noted that the proposal evaluation guide provides very rigid conditions with respect to the treatment of omitted or missing data. Prior to issuing subsequent RFPs, the GNWT reviewed RFP documents to determine a more restricted list of “true mandatory requirements”.

The Expert Review noted that additional care was required to ensure a consistent Comparator. The government responded by placing additional emphasis on this issue with respect to the Inuvik Hospital.

The Expert Review suggested the possibility of requiring deposits with submitted qualifications statements and proposals. The GNWT discussed this issue with the P3AC, who saw it as a “disincentive”, so that no action was taken.

The Expert Review suggested that, if economic and industrial benefits are a significant factor in decision-making, then some audit function is required to confirm the proposed benefits. The reporting requirements for industrial benefits for the Inuvik Hospital project were enhanced in response to this recommendation.

The Expert Review noted that it is not clear who has the responsibility for monitoring compliance with policies and guidelines, and suggests that a component of the due diligence role of the P3MC should include this monitoring. FMBS representatives responded that, in practice, the FMBS representative on the P3IT was expected to monitor compliance, and surface issues to the P3MC for interpretation. They believe that in practice this process worked effectively.

3. Our Comments

In our view, the GNWT has responded appropriately to the Expert Review within the context of the evolving P3 Pilot Initiative. In particular, an effort has been made to address recommendations in practice, in those circumstances in which they were applicable. It was clear by the time of the Expert Review Report that the P3 Policy and Implementation Guidelines were going to be applied to much smaller number of projects than had originally been anticipated and that it was not necessary in the short term to update written policies and other documents.

D. Summary of and Comments on Findings

There is broad consensus that the P3 process was fair and transparent, both in theory and in practice. The P3 process was designed and expected to be competitive. However, the inability to attract sufficient numbers of competitive bids is a source of concern.

The private sector is generally satisfied with the openness and adequacy of communication and consultation, and with the clarity and flexibility in the processes and requirements to be met in responding to RFPs and RFQs. The general view is that, once the initial learning curve had been dealt with, departmental staff had the necessary capability to plan and manage the projects. There are mixed views on whether departmental resources to implement P3s were adequate. There is general agreement that the policies and procedures were adhered to, although there is some concern that documentation became somewhat overwhelming and got somewhat out of control.

Extensive effort went into the development of the policy framework for P3s. The general view outside FMBS is that the policy framework was, if anything, too thorough, and was certainly adequate in providing for the type of P3 that was envisaged. The framework was modified as experience was gained.

The issue of the levels of effort required to pursue the P3 objectives is complex. The government devoted significant resources to putting in place the framework and infrastructure for administering P3s. In our view, a good deal of this effort was “the price of admission”. P3s were a new form of procurement and financing in GNWT. They inherently raise concerns about fairness and transparency, and if pursued inappropriately, can easily lead to litigation and political embarrassment. In our view, much of the level of effort and procedural overhead put in place was necessary if the P3 Pilot Initiative was to be pursued. It is inevitable that a small territory such as NWT will suffer from diseconomies of scale in this regard. The GNWT, once it

decided to pursue the P3 Initiative, was essentially committed to making investments not substantially different than those that would have been required by a province ten or even 100 times its size.

There is no question that significant learning and personal development occurred as a result of participation in the P3 Initiative.

There is a broad consensus that the government entered into the P3 Pilot Initiative with a high degree of commitment, but the government commitment to the process diminished over time. There is also a broad view that its apparent reduction of commitment did negatively affect the implementation of the Initiative.

The GNWT responded pragmatically to the recommendations of the Phase I Expert Review, and focused on those recommendations that could be applied to the ongoing pilot projects. We believe that this approach was appropriate.

XI Findings – Private Sector Satisfaction

A. Preliminary Comments

The findings in this chapter deal with the government’s objective to:

- **Achieve an adequate level of private sector satisfaction with the P3 process and outcomes.**

1. Issues

What is the quality of the relationship, as seen by the private sector, between government and the private sector with respect to implemented projects? With respect to projects that were not implemented? In general?

- *Responsiveness?*
- *Ability and willingness to solve unanticipated problems?*
- *Trust?*
- *Understanding and respecting each other’s needs?*
- *Effective dispute resolution?*

Are there any specific problems or concerns being experienced by the private sector?

- *If plans did not work out as expected, what is the private sector explanation? Does the private sector feel that this was due to a government deficiency?*
- *Does the private sector feel that the government has been responsive to its concerns?*

Does the private sector feel that the successful proponents have been fairly selected?

Does the private sector feel that it has been given adequate information on the basis of which to submit proposals?

Does the private sector feel that confidential information has been kept confidential?

B. Findings

In the private sector's view, the relationship between government and the private sector with respect to the only implemented project in the West (Fort Smith) is reasonable.

Generally speaking, the private sector is less happy with the government with respect to projects that were not implemented. In part, this is due to having to bear the cost of responding to RFQs and RFPs that have not led to implemented projects. These concerns were voiced most strongly by the architectural and engineering communities, who feel they have had to make a larger than normal investment in pursuing P3 projects, without a commensurate prospect of success.

Based on our interviews, it appears that there was a range of opinion within the private sector as to the government's "staying power" with respect to the P3 Pilot Initiative. Some saw it as a passing phase to be waited out. Others, who took a more positive view, may be more disappointed that the Initiative did not yield more P3 projects.

Several private sector representatives stated that the government did not really act in the spirit of partnership and, in particular, did not seem to be able to show the flexibility required to work with proponents to refine and improve the projects that it wished undertaken.

The private sector voiced concerns that the government does not appreciate the costs of pursuit, and that the government is not experienced in quantifying and valuing risks.

With respect to the process itself:

- There is broad private sector consensus that the successful proponents were fairly selected.
- There is general agreement that the private sector was given adequate information on the basis of which to submit proposals. There were instances of semantic difficulties regarding the interpretation of some early RFP documents, but these improved over time.

- The long time lags required to get the full RFP document in the hands of respondents raised concerns, i.e., certain RFPs were amended several times through addenda.
- There is broad private sector consensus that confidential information has been kept confidential. (More than one respondent noted that they expect that some such information will eventually become public knowledge. “Nothing remains confidential forever”.)

C. Summary of and Comments on Findings

From a private sector perspective, the relationship with the government with respect to Fort Smith is reasonable.

Generally speaking, the private sector is less happy with the government with respect to projects that were not implemented. Particularly in the architectural and engineering community, there are concerns that large investments have been made in pursuing P3 projects, without a commensurate prospect of success.

There is broad satisfaction with the process, i.e., that successful proponents were fairly selected, that adequate information was provided, and that confidential information has been kept confidential. Concerns include the long time lags required to get full RFP documents into the hands of respondents, and the widespread feeling that the government did not really act in the spirit of partnership, and does not understand the private sector’s concerns and perspectives.

XII Findings – Other Issues

A. The Issues

To what extent is the public satisfied with the P3 arrangements and service delivery?

What are the unintended effects of the P3 Pilot Initiative, either positive or negative?

B. Findings

None of the evaluation methodologies employed directly solicited information on the public's perception of the P3 Pilot Initiative. Elected government officials were generally of the view that the public's primary concern is that necessary infrastructure be built. Their view is that the public is not particularly aware of, or concerned about, the particular mechanism used to finance it.

The P3 Pilot Initiative had a range of unintended effects.

Several unintended effects were beneficial:

- We heard widespread views from government staff that a by-product of the P3 Pilot Initiative is an improved procurement process. Examples cited included:
 - Formalized de-briefing of losing bidders.
 - The use of comparators, and their dissemination to bidders.
- Some procurement improvements come about from a better understanding by stakeholder departments who participated in the P3 process. In the view of several respondents, user departments have learned the benefits of applying increased rigour to get to the RFP stage in a capital procurement. As better-informed client departments, they expect more of Public Works and Services, who appear to be responding positively to this higher level of expectation. Several respondents cited the two Young Offender Facility projects, which were removed from the P3 stream, as having benefited from this tendency.

- Several private sector respondents noted that one of the unintended beneficial effects of the P3 Pilot Initiative is a better understanding of the capability of Northern business, both within government, and within the business community itself.

Apparent negative effects were identified as well:

- Some local private sector respondents noted that the larger, more complex P3s required Southern partners for their implementation. This has encouraged larger Southern firms to be more proactive competitors in the North, to the detriment of Northern economic development.
- On balance, the relatively low success rate of the P3 Pilot Initiative, in terms of both the small number of implemented projects, and particularly the complexity and level of effort in implementing and pursuing the Inuvik Hospital project, which did not ultimately proceed as a P3, have given public-private partnerships a bad name in many quarters. Typical comments include the following:
 - “If the government does this in the future, they will have to find another name; ‘P3’ is the kiss of death”; and
 - “Fort Smith was a public-private partnership; therefore people think there must be something wrong with it”.

C. Summary of and Comments on Findings

In the view of elected government officials, the public is not particularly aware of, nor concerned about, P3 arrangements and service delivery.

A clear set of beneficial effects is a number of improvements in the procurement process at GNWT, and more effective interaction between user departments and Public Works and Services.

Negative effects include:

- A potentially greater interest in the North by larger Southern firms, to the detriment of Northern economic development.
- The fact that so much effort has produced so few successful P3 pilot projects has given public-private partnerships a bad name in many quarters.

XIII Net Benefit of Proceeding with the Fort Smith P3 Project

A. Introduction

The GNWT extended the scope of our evaluation to include a review of the Fort Smith project in more detail than originally envisaged, with the following objectives:

- Assess the methodology and approach used to develop the Comparator, to check the accuracy of the calculations, and to assess the use to which the Comparator was put in the bid evaluation process.
- In light of the above, and of our understanding of best practices, to develop an independent assessment of the net cost or benefit received by the GNWT as a result of proceeding with the P3 project in Fort Smith, i.e., what is the relationship between an appropriately constructed Reference Bid or Comparator, and the actual costs to the GNWT of proceeding with the P3 project in Fort Smith.

This chapter has the following broad structure:

- We define and discuss the concept of a Comparator, and the related concept of a Reference Bid.
- In the light of this discussion, we then consider the application of these concepts to the Fort Smith project, and address the objectives outlined above.

B. The Comparator and the Reference Bid

The GNWT incorporated the concept of a “Comparator” in the P3 Pilot Initiative. The GNWT’s understanding of the definition of a Comparator, and the role to which it would and could be put, evolved during the course of the Initiative. The two main aspects of this role were as follows:

- To provide information to bidders on the GNWT’s view of the price that it would need to pay to procure the project using traditional methods.

- To provide guidance to bid evaluators as to the reasonableness of their preferred response to a P3 Request for Proposal, by comparing it to a view as to what it would cost the GNWT to proceed with the project itself.

These are not necessarily identical concepts, so that it is useful to distinguish between them. Accordingly, we define two terms for the purposes of the subsequent discussion:

- **The Comparator.** The Comparator is an estimate, provided in the RFP document to potential bidders, of the price that the GNWT would pay for the project, if the project were completed using traditional methods. The concept evolved during the early part of the P3 Pilot Initiative. The GNWT's definition of the Comparator was clarified in May, 1999 as follows:

“The primary objective in providing estimates of the GNWT Comparator costs is to establish an order of magnitude of the cost to the GNWT of constructing, financing, operating and maintaining these facilities through the traditional means of design, construction, operation and maintenance with borrowed funds. It is not the Government’s expectation that proponents are to use the Comparator as a benchmark.

The GNWT does not warrant that these costs are all-inclusive or fully representative of the costs involved. These values are presented in the best spirit of partnership to provide to the proponents what the GNWT believes it costs the Government to provide similar facilities through traditional means with borrowed funds.”¹

The Comparator was intended to provide the private sector with helpful information, and accordingly to facilitate the partnership between public and private sector.

- **The Reference Bid.** As a tool to be used by the GNWT, the Reference Bid is part of the bid evaluation process. Essentially, it is part of a final check on the reasonableness of the bid that has been selected. Ideally, the Reference Bid should incorporate two considerations, that do not always pull in exactly the same direction:

¹ Charles Dent, Chairman of P3 Advisory Committee, in a memo addressed to the other members of the P3 Advisory Committee, dated May 28, 1999. Note that the Fort Smith proposals were evaluated on March 10, 1999. Therefore, this clarification was intended to be applied to future RFPs.

- It should represent a real choice, i.e., it should represent the cost to the GNWT of rejecting the selected bid and “going it alone” at the time the decision about whether to accept the winning bid has to be made.
- To the extent possible, it should be responsive to the requirements of the RFP, and should include the costs of complying with the RFP’s requirements. Typically, a P3 is intended to shift risks, accelerate timeframes, and achieve other benefits for the government. Meeting these requirements will impose costs on the proponents that they will seek to recover through their bid. It is necessary to reflect these considerations when preparing a Reference Bid to be compared to the proponent’s bid.

We discuss each of these perspectives in more detail below.

1. The Reference Bid as a Real Choice

The Reference Bid should represent a real choice. The nature of the choice open to governments changes as the project matures. For example, a Reference Bid that is to be used to determine whether it is worthwhile to consider a project as a P3 candidate differs from a Reference Bid that is to be used to cross-check a preferred proposal received in response to an RFP. In the latter case, certain costs are now sunk and should not be considered (e.g., the costs of the P3 process), and certain options may no longer be open to government (e.g., it may now be necessary to spend more in order to fast-track the development of a project in the Reference Bid, because time flexibility has been lost). For the purposes of this chapter, our focus is on the Reference Bid appropriate for considering whether the winning proposal should be accepted, i.e., as part of a final check on the reasonableness of the winning bid.

If the Reference Bid is to represent a real choice, it must reflect the alternatives available to the government in the particular circumstances that it faces. For example, the P3 Pilot Initiative was intended to create access to additional financing. This would result in new, incremental projects being built or accelerated in their development. At least in principle, these projects could not otherwise be financed. From this perspective, the government did not, in fact, have the option of doing the projects themselves, using traditional methods. If the financing constraint was binding, the project could not be built as a P3, at least until funding became available, or unless an other project was sacrificed.

From one perspective, then, the Reference Bid should respond to the nature of this funding constraint.

Perhaps a government feels that its credit rating would weaken, and its costs of debt would increase, if it were to borrow further using traditional means. The cost of breaking through this constraint, and paying the higher financing costs, can be calculated and incorporated into the Reference Bid, i.e., if doing the project the traditional way will incur a higher overall borrowing cost, then this cost can be reflected in the Reference Bid.

Other constraints may be more absolute. In some jurisdictions, legislation limits the amount of debt that can be incurred. In some circumstances, this is a constraint that cannot be broached, and the alternative to accepting the P3 project is not building the project at all. This probably leads not to a financial analysis, but to a broader social benefit cost analysis, e.g., what will happen to mortality and morbidity if a health care facility is not built?

Attempting to develop estimates of these broad costs of not proceeding with a P3 was probably not a practical approach for the GNWT to have undertaken, nor is it within the scope of this evaluation to try to develop such estimates. In the context of the P3 Pilot Initiative, the most useful role of a Reference Bid may be to help the evaluator answer the question, “Is my preferred bid, in fact, a competitive bid?” The focus in this case may be, therefore, on determining an estimate of a “reasonable” private-sector response. This is intended to protect against possible collusion among bidders, the risk that errors had been made in the RFP, etc.

In summary, although a Comparator may focus on the project-specific costs to government of doing the project the traditional way, the most appropriate Reference Bid may have a significantly different focus.

2. Responding to the RFP

The Reference Bid should be responsive to the requirements of the RFP, and should reflect the costs of responding to those requirements. For example, the RFP may require that a building be constructed by a certain date. The Reference Bid should consider the cost to government of constructing the building, without accepting the respondent’s bid, by the same date. In some circumstances, this can result in significant costs. For example, at the time that the bids are being evaluated, the proponents may have their designs in place and be ready to commence. Government may not have a design, and would have to incur various costs associated with fast-tracking the design and construction of the project in order to meet the deadline.

As well, the Reference Bid should reflect the types of costs that will be borne by the proponents in responding to the RFP’s requirements. For example, the P3 process

typically transfers some risks that are normally borne by government to the private sector. The private sector must assess the cost of bearing these risks, and will presumably include these costs in their bid process. Traditionally, governments do not consider explicitly the costs of risks that they bear during the course of their normal activities. However, it is necessary to make these costs explicit in the Reference Bid, since these risks will be shifted to the proponent and will not be borne by government in the P3. One approach might be to reduce the proponent's bid by the value to the government of the risk transfer implicit in the RFP. It is more typical, and more straightforward, to instead adjust the Reference Bid to reflect the costs of those risks. Insurance might be an example. Some governments self-insure, and do not consider the cost of insurance in many of their business decisions. (The GNWT does carry commercial insurance, but does not typically allocate the costs of its overall insurance coverage to individual projects.) However, if a P3 is transferring insurable risks to the private sector proponent, the value of those risks, or at least the insurance costs foregone, should be considered.

Other factors that governments typically do not consider include staff costs of administering projects, and the overhead costs associated with various government functions, including management, space, and central agencies.

The amount of these costs borne by government may be different in magnitude than the costs required by the private sector proponent to carry out its business, but the categories of costs need to be identified, and the costs then will be quantified and incorporated in the Reference Bid.

3. An Illustration of this Concept - The Treatment of Residual Value

Although the above discussion is somewhat theoretical, it has practical application in issues such as the appropriate treatment of the residual value of the project in the Reference Bids that were used by the GNWT.

A typical P3 pilot involved a 20-year operating lease for a facility with a design life of 35 years. Thus, at the end of the lease, the facility was expected to still be useful and to have a value (the "residual value"). It is reasonable to speculate, however, that, because there is little alternative use for many of the facilities proposed under the P3 Pilot Initiative, the proponent would seek to recover the entire cost of the facility over the 20-year lease (and lenders may demand this). Nonetheless, there may be a reasonable expectation that the facility will continue to be used, perhaps through government's entering into a subsequent lease at the appropriate time. This would require additional lease payments by government in years 21-35, for a facility for which the government had already effectively paid the full capital costs. If the

government were to build the building themselves, they would, in effect, be able to amortize the cost over the building life cycle of 35 years. From one perspective, therefore, the analysis of the “do it ourselves” approach might take a twenty-year time horizon and include a residual value of the building after 20 years.

In our view, the appropriate response to this issue depends on the nature of the constraint that made P3s attractive as a source of additional financing in the first place, and the consequent degree of emphasis that is placed on the need for operating lease treatment. Effectively, the requirement for an operating lease treatment restricted the lease term to 20 years. If operating lease treatment were absolutely necessary because the facility would not be built at all without it, there is little practical value in including the residual value in the Reference Bid. Instead, the focus shifts to the question “what would we, the government, have bid in order to recover building costs in a way that is consistent with operating lease treatment”. This would result in no residual value. Even if operating lease treatment is not absolutely necessary to the government, but has been made mandatory in the RFP, the Reference Bid should respond to these requirements. Although these requirements generate costs (e.g., the requirement to amortize the life of the building over 20 years, not 35), these costs are being incurred in order to obtain a financing treatment that has value. Accordingly, in our view, the Reference Bid should assume the required operating lease treatment, and amortize the cost of the building over 20 years. (This is what was done by the GNWT for the Fort Smith Corporation.)

Of course, this is a different question than might have been asked at the time the P3 Initiative was being contemplated. At that time, the question might have been “Will the additional costs that we will have to incur in order to ensure operating lease treatment be more than offset by the value to us of having that accounting treatment, considered in the context of the other benefits to be expected from introducing P3 into the GNWT?”.

4. Should the Comparator be Different from the Reference Bid?

As noted earlier in this chapter, the Comparator and the Reference Bid are used in somewhat different ways. Nonetheless, it is worthwhile to ask the question “Should the Comparator and the Reference Bid be Identical?”.

From one perspective, it would be ideal if the Comparator were equivalent to the Reference Bid. This would provide bidders with a maximum understanding of the basis on which a decision would be made, and accordingly, would treat the bidders fairly in this regard.

As a practical matter, bidders are rarely provided with full Reference Bids, for a number of reasons:

- Generally speaking, the Reference Bid is not fully developed at the time the RFP is sent out (of course, the Reference Bid could be provided later in the RFP process, if it were ready).
- It is necessary to be very confident that a number of bidders will be competing aggressively, to have complete comfort in “showing all your cards” to potential bidders. Governments often have concerns about the competitiveness of the bidding process, which makes them reluctant to signal with complete precision the basis on which they will make a decision.
- It is possible that governments may need to revise the Reference Bid, in response to information which is gained during the review of bids.

In summary, while the publication of a complete Reference Bid to all bidders may be fairest to the bidders, it may not represent the best solution for the taxpayer, i.e., may not lead to the lowest price for the project. In other words, there may be good reasons for not providing the Reference Bid to bidders as the Comparator during the RFP process.

5. Should There be a Published Comparator at All?

There is some disagreement within the GNWT as to whether it was appropriate to publish a Comparator – an indication to bidders of the cost to government of procuring the project using traditional means. One rationale for publishing the Comparator is that it gives potential bidders an opportunity to decide whether they can be competitive in their bids. Potential proponents who believe they can bid competitively may therefore have confidence in their ability to be successful, and provide a better quality proposal as a consequence. In fact, the P3AC recommended that a Comparator be included with the RFPs for P3 pilot projects.

The argument against publishing the Comparator is essentially that it “shows the government’s hand”.

We have three comments:

- We believe publishing a Comparator is appropriate, as long as the Comparator is clearly defined and properly established. If there is not a high degree of comfort with the quality of the Comparator, it may be better to keep it under wraps. In

other words, it is perhaps better not to publish a Comparator, than to publish an erroneous Comparator.

- Providing the Comparator is not the same as providing the Reference Bid. It can be made clear in the RFP that the Comparator is not in itself a decision-making hurdle for the GNWT, but rather is available data that the government is sharing with the respondent.
- The strength of the rationale for publishing the Comparator depends in part on the presupposition that the bidding process is competitive; in fact, the purpose of publishing the Comparator is to increase the probability of receiving competitive, high quality bids. If it is difficult to obtain a sufficient number of bids on a particular project, this may lead to some re-thinking of the appropriateness of publishing the Comparator.

In our experience, in practice relatively few Comparators, and fewer Reference Bids, are well done. It is clear that the development of Comparators in the context of P3 RFPs was a new experience for many in the GNWT, and it took several iterations until the final version of, for example, the Fort Smith Comparator was prepared. In fact, part of this refinement was really a change in concept; the Comparator (a form of information for bidders) was being converted into a Reference Bid (a basis for government decision-making).

C. The Fort Smith Project

In the remainder of this chapter, we provide our findings with respect to the net benefit of proceeding with the Fort Smith P3 project. The findings are drawn in part from a more detailed analysis, which is provided in Appendix E.

1. The Comparator

We first deal with the first objective of this work, which is to:

- Assess the methodology and approach used to develop the Comparator, check the accuracy of the calculations, and assess the use to which the Comparator was put in the bid evaluation process.

In addressing these issues, we have reviewed the existing information available. This primarily falls in the following categories:

- The Fort Smith Comparator comparison model, which was used to organize the Comparator information.
- The information provided by Helyar & Associates, with respect to both capital and O&M costs.
- The Fort Smith RFP document.
- The P3IT files for the Fort Smith project.
- Interviews with P3IT chair, and representatives of FMBS who worked on the Fort Smith evaluation.

i) Preliminary Comments

When considering the findings, the following should be kept in mind:

- The Fort Smith P3 project was the first Comparator developed under the P3 Pilot Initiative. It is clear that the development of the Comparator raised a number of issues that were new to the GNWT. A number of improvements were made to the Comparator over the period from the issuance of the RFP to the ultimate evaluation of the bids.
- In the terminology we have developed earlier in this chapter, there was also a conceptual evolution occurring, from a Comparator – the information provided to the proponent – towards a Reference Bid – information used to assist in the evaluation of proposals. The P3IT may well not have clearly distinguished between these two concepts, but it is clear that the Comparator was being revised and enhanced in the direction of a Reference Bid.
- The original Comparator was calculated and provided in the RFP. After bids were received, some substantial errors were identified in the O&M component of the Comparator. These were corrected, but not in time to provide the information to the bidders as part of their bid preparation process.
- While GNWT and its consultants had considerable experience developing capital cost estimates for new facilities, there was very little experience costing O&M, and particularly utilities. This issue created a good deal of concern among bidders, who communicated it through the P3AC. It also led to several attempts by the P3IT to improve their understanding of utility costs, and reflect them in the Comparator.

- In developing our findings, we have reviewed the methodology and approach used by the P3IT. We have also checked those calculations that were accessible to us. It was outside the scope of our work to do any independent research into the appropriateness of the actual unit costs and quantities employed. Accordingly, we have relied on the estimates of these amounts developed by the P3IT.

In the light of these comments, we believe that the objective noted above is best addressed by the following steps:

- Comment on the methodology, approach, and calculations used to provide what we define as the Comparator – i.e., the information provided to the bidders in the RFP.
- Comment on the methodology and approach used to develop the Reference Bid, i.e., the information used in the evaluation of bids and assess the use to which the Reference Bid was put in the bid evaluation process.

ii) Findings

The Comparator (the information provided to the bidders in the RFP) was constructed from two broad categories of information, of very different degrees of reliability and familiarity to the GNWT.

The capital cost component of the Comparator was developed through the use of an external quantity surveyor, who was experienced in capital cost estimating. The information addressed issues and was presented in a format that was familiar to GNWT staff.

Both the quantity surveyor and the GNWT itself had relatively little experience estimating operating costs. There were some errors in the original operating cost component of the Comparator, and, in addition, a good deal of work went into seeking to improve the quality of the estimates of certain O&M costs, particularly utility use and pricing. As a consequence, the Comparator was revised subsequent to the receipt of the proposals. These revisions were in our view appropriate. However, because of the timing of the revisions, they could not be provided to the bidders while they were still preparing their bids.

At the same time as the Comparator was being corrected, it was also being revised for its subsequent use as a Reference Bid. The P3IT was not able to develop a clear view as to the appropriate treatment of GST in the Reference Bid. This is not

unusual; the specific GST treatment of P3 projects which are being undertaken for provincial governments is often not straightforward. It was beyond the scope of this study to confirm the most appropriate GST treatment. In our analysis in Appendix E, we have provided two estimates of the appropriate Reference Bid – with and without the incorporation of GST. The proponent included GST in its bid for the Fort Smith project.

In general, the methodology and approach used to move it towards a Reference Bid were appropriate. We have identified in Appendix E, certain adjustments that in our view would make the Reference Bid more conceptually correct, but these are not major items. They would tend to increase the amount of the Reference Bid and thus reduce or eliminate the premium associated with accepting the proponent's bid.

Exhibit XIII-1, below, which is extracted from Appendix E, summarizes the evolution of the Comparator, our estimate of the appropriate Reference Bid (both with and without GST), and the proponent's bid.

Exhibit XIII-1 Comparator, Reference Bid, and Proponent's Bid

	Capital Costs	Annual O&M	Resulting Present Value¹	Proponent's Bid as % of Comparator
Comparator—Sept 98 (Original H&A estimate)	\$4,807,839	\$298,875	\$8,716,082	98%
Comparator—Apr 99 (Updated H&A estimate)	\$4,807,839	\$215,050	\$7,619,943	112%
Comparator—Final (Final figures used by Fort Smith P3 evaluation committee)	\$4,807,839	\$259,708	\$8,203,912	104%
KPMG estimate of Reference Bid (GST included in both capital and O&M components)	\$5,295,876	\$284,372	\$9,014,466	95%
KPMG estimate of Reference Bid (no GST)	\$4,949,416	\$271,621	\$8,501,279	101%
Proponent's bid	\$4,730,000	\$297,512	\$8,548,124	100%

¹ Present value calculated from the Fort Smith Comparator comparison model, provided by Keith Garratt/Coles Associates Ltd. The main assumption is a 6.45% discount rate.

It is clear that the Comparator (and its evolution towards a Reference Bid) for Fort Smith was a work in process. The changes that were made, were, in our view, generally in the right direction.

2. Net Benefit

We now turn to the second objective for the review of the Fort Smith Project, which was:

- In light of the above, and our understanding of best practices, to develop an independent assessment of the net cost or benefit received by the GNWT as a result of proceeding with the P3 project in Fort Smith, i.e., what is the relationship between an appropriately constructed Reference Bid or Comparator, and the actual cost to the GNWT of proceeding with the P3 project.

In light of the above comments, we believe that this objective is best addressed by answering the following questions:

- What is KPMG's view as to an appropriate Reference Bid, given the information available to us and the scope of our enquiries?
- What is the relationship between actual costs of proceeding with the P3 project, and this Reference Bid?
- How should this difference be interpreted within the context of other factors relevant to the decision-making process for Fort Smith?

i) Preliminary Comments

The GNWT anticipated that there would be a number of potential benefits or costs of accepting the winning proponent's bid for the Fort Smith P3 project. They had a process in place, known as "Value for Money Analysis", that was intended to consider various intangible costs and benefits associated with accepting the project, in the context of differential between the proponent's bid and the Reference Bid (which was referred to as the "premium").

ii) Findings

The Final Comparator, which was used in the bid evaluation process, is reasonably close to our view of an appropriate Reference Bid. In Appendix E, we have discussed this subject, and have suggested several adjustments, which on balance

would serve to increase the Reference Bid, although the magnitude of the increase is not substantial. These sorts of adjustments are in our view typical; our experience is that Reference Bids tend to be too low, often because they do not reflect completely the value of the risk transfers that are being incorporated into the P3 project.

The GNWT believe that there were intangible advantages in proceeding with the Fort Smith P3, which justified what they perceived to be a premium of approximately 4% over the Reference Bid. Given the degree of uncertainty implicit in the Reference Bid, and given the fact that the project was a relatively small pilot project, implementation would add to the stock of implemented P3 projects in NWT, the decision that was made to proceed with the project seems reasonable to us.

Using our estimate of the Reference Bid, the proponent's bid was 5% cheaper than the Reference Bid (if GST is included in that Reference Bid), or was at a 1% premium to the Reference Bid (if the Reference Bid excludes GST).

Given that our estimates for the Comparator are higher than those used by the GNWT in making its decision, this would strengthen our view that the decision to proceed with the project was reasonable.

D. Summary of and Comments on Findings

In developing our findings, we have reviewed the methodology and approach used to prepare the Comparator for the Fort Smith project. We have also checked those calculations that were accessible to us. Not all calculations have been documented. We have not done any additional research into the appropriateness of the actual unit costs and quantities employed, although we have discussed them with some of our interviewees.

The Comparator (the information provided to the bidders in the RFP) was constructed from two broad categories of information:

- The capital cost component, for which there was a considerable experience base for cost estimation.
- The O&M component, for which there was relatively little experience to draw on.

The O&M component of the Comparator went through a series of refinements, which both corrected errors and sought to improve the quality of estimates of certain O&M

costs. The need to make these revisions was identified only after the bids had been received, so that the bidders were not provided with the updated Comparators.

At the same time as the Comparator was being corrected, it was also being revised for its subsequent use as a Reference Bid. In general, the methodology and approach used to move the Comparator towards a Reference Bid were appropriate. We have suggested certain adjustments that in our view would make the Reference Bid more conceptually correct. These are not major items, and would tend to increase the amount of the Reference Bid.

It is clear that the Comparator (and its evolution towards a Reference Bid) for Fort Smith were a work in process. The changes that were made were, in our view, generally in the right direction.

The Final Comparator, which was used in the bid evaluation process, is reasonably close to our view of an appropriate Reference Bid. We have identified several adjustments, which on balance would serve to increase the Reference Bid, although the magnitude of the increase is not substantial. These sorts of adjustments are in our view typical; our experience is that Reference Bids tend to be too low, often because they do not reflect completely the value of risk transfers that are being incorporated into the P3 project.

The GNWT, when it considered the proponent's bid for Fort Smith, concluded that there were intangible advantages of proceeding with the Fort Smith P3, which justified what they perceived to be a premium of approximately 4% over the Reference Bid. Given the degree of uncertainty implicit in the Reference Bid, the relatively small size of the project, and the desirability of having some implemented P3 pilot projects to learn from and evaluate, the decision to proceed with the project seems reasonable to us.

Using our estimate of the Reference Bid, the proponent's bid was 5% cheaper than the Reference Bid (if GST is included in that Reference Bid), or was at a 1% premium to the Reference Bid (if the Reference Bid excludes GST). Given that our estimates for the Comparator are higher than those used by the GNWT in making this decision, this would strengthen our view that the decision to proceed with the project was reasonable.

These findings should be interpreted in the light of two additional comments:

- While we are comfortable with the methodology and approach used to prepare the Comparator, we have not done a detailed investigation into the appropriateness of all the cost estimates employed to build it up.
- The results of our analysis indicate that it was reasonable in our view for the GNWT to accept the proponent's bid for the Fort Smith project. This is not to say that implementing a P3 was necessarily the best or most cost-effective way to implement the Fort Smith Student Housing Project, but rather that, given the decision to implement it as a P3, with the associated operating lease treatment, it was reasonable to accept the proponent's bid.

XIV Some Lessons from Our Broader Experience

A. Introduction

In this chapter, we discuss five additional topics. Each elaborates on an issue that has arisen during the course of the evaluation. In each case, we address the issue with insights that we have gained from working in the field of public-private partnerships in other jurisdictions. The issues are:

- Are public-private partnerships financing vehicles or risk/reward-sharing mechanisms?
- What are the conditions for a successful P3?
- Maximizing the number of bids.
- Maximizing the likelihood that bids are compliant.
- How to achieve collaboration in design in P3s.

B. Are Public-Private Partnerships Financing Vehicles or Mechanisms for Sharing Risks and Rewards?

In recent years, governments have begun working more closely with the private sector in the delivery of services. A typical name for such a collaboration is a “public-private partnership”.

There are a range of definitions of public-private partnerships. In broad terms, they tend to fall into one of two groups, depending on the circumstances:

- One perspective on public-private partnerships is that they are a means of sharing risks, rewards, and responsibility for success between the public and private sector, in relation to the strengths that each brings to the partnership to the specific circumstances of the project. From this perspective, a P3 is a route to optimum procurement. The public sector, by harnessing the private sector’s ability to manage certain risks, to innovate in response to incentives for innovation, and to find ancillary revenue sources, can deliver its services with greater effectiveness and/or lower cost than if it proceeded alone.

- The second major perspective on P3's is that they are financing vehicles. From this perspective, P3s are an alternative way to finance assets, often through an operating lease, that, under some circumstances (and until recent changes in accounting policy), did not always have to be recognized as a liability on the balance sheets of government, and for which only the annual payments were recognized as an expenditure.

The GNWT's P3 Pilot Initiative reflected aspects of both of these perspectives. On balance, however, it is clear that the financing objective was a primary driver – the P3 Pilot Initiative was promoted as a way of obtaining additional funding for needed capital projects, for a government that was constrained in its ability or willingness to raise funds to finance traditional capital procurement. The GNWT clearly also hoped to achieve some of the benefits of finding an optimal allocation of risk, reward, and responsibility with the private sector, however, it clearly sought to find this balance within the constraint that the overall transactions be structured to receive operating lease treatment from an accounting perspective.

GNWT is not unique in this regard; many other jurisdictions have been motivated to pursue P3s as a way to obtaining access to additional sources of financing. It must be recognized, however, that this is a relatively narrow view of public-private partnerships, and, in some ways, puts the cart before the horse.

Our view is that P3s work best when potential P3 projects are considered first from the perspective of determining whether there is a viable way of sharing risks, rewards, and responsibilities for success that can form the basis of a true partnership. The choice of financing mechanism should be the one that best fits with that perspective. If the accounting treatment for an operating lease falls out of this structure, that is an added bonus, not necessarily the primary motivation. (Recent changes in the accounting treatment of operating leases are likely to encourage the consideration of this point of view by governments in the future.)

C. Conditions for a Successful P3

Based on our experience both implementing and evaluating a wide range of P3 projects, we believe that the following criteria provide the framework for defining conditions for a successful P3. These criteria are drawn from work that we have done in other jurisdictions (see particularly "Review of Public Private Partnership Processes", a report prepared for the Province of Nova Scotia by KPMG LLP in February, 2000.

1. Financial

The key financial question is: “Is it likely that a partnership between government and the private sector will be able to carry out the project under financial terms that are acceptable?”.

The key issues are:

- Can the private section option compete with the public sector Reference Bid?
- Is the project financially viable to the private sector, or can it be made so?
- Is it possible to define an equitable and appropriate pricing/rate-setting mechanism?

2. Technical

The key technical question is: “Is it reasonable to expect that a technical solution to the project can be found by a P3 procurement?”.

The key issues are:

- Is the project free of any technical constraints that are beyond the control of the private partner?
- Can government develop appropriate technical specifications for the project?
- Can an appropriate mechanism be established to monitor and control a private partner?

3. Operational

The key operational question is: “Are there operational hurdles that prevent a P3 procurement from being used?”.

The key issues are:

- Is the project free of any operational constraints that are beyond the control of the private partner?
- Can government develop appropriate operating standards for the project?
- Can the private partner be held accountable for appropriate performance?

4. Acceptability

The key acceptability question is “Is there acceptance of P3 as a means to procure the project?”.

The key issues are:

- Are elected officials willing to accept P3 procurement?
- Is the public at large willing to accept P3 procurement and the involvement of the private sector in the project?
- Are other stakeholders willing to accept P3 procurement and the involvement of the private sector in the project?
- Is government staff willing to accept P3 procurement and the involvement of the private sector in the project?

5. Implementation

The key implementation question is: “Are there implementation barriers that prevent the use of P3 procurement?”.

The key issues are:

- Is it possible to generate meaningful competition through P3 procurement?
- Is the project free of jurisdictional or liability issues that prevent a public body from using a P3 approach?
- Can an internal project champion be found?
- Can the project champion access the resources necessary to administer a thorough P3 procurement?
- Can a successful transition plan be developed (if relevant)?

6. Timing

The key timing question is: “Are there time constraints that would pre-empt consideration of P3 procurement?”.

The key issues are:

- Are the timelines adequate to develop technical specifications?
- Are the timelines adequate to develop operating specifications?
- Are the timelines adequate to develop acceptance of P3 procurement and the involvement of the private sector in the project?

We have not assessed each of the GNWT's P3 pilot projects against these criteria. However, it is clear that a number of the difficulties experienced during the P3 Pilot Initiative are closely related to the issues outlined above.

D. Maximizing the Number of Bids

One of the disappointing aspects of the P3 Pilot Initiative is the shortage of full responses to several of the RFPs that were issued. The P3 RFP process is intended to be competitive. As a procurement exercise, if multiple bids are received, it clearly yields much greater comfort that competitive bids are being received and value for money will be achieved.

We have discussed some of the apparent reasons for this small number of competitive bids in other chapters of this Report.

Our experience with privatization is that one of the best ways to ensure multiple, competitive bids is to find ways to highlight the attractiveness of the partnership opportunity to potential bidders. Most bidders have alternatives, and they need to be attracted to the opportunity that is being presented.

There are various ways to increase the attractiveness of opportunities:

- Use the RFQ and RFP, in part, as “selling documents”, i.e., highlight the nature of the opportunity, and particularly, its attractive features (without being misleading).
- Reduce pursuit costs, by designing streamlined processes, particularly for smaller projects.
- Pay honoraria to shortlisted bidders who are unsuccessful. These are typically intended to recover some proportion of total costs. A key benefit of this practice is increased commitment of bidders to the process. Other benefits of this approach include acquiring ownership of the proposals and the ideas in them, as well as indemnities or waivers with respect to possible future legal actions.

- In some cases, contact potential bidders before RFQs or RFPs are issued to alert them to the attractiveness of the opportunity.
- Relax economic development provisions that act as a disincentive for non-local bidders to submit bids.

Clearly, some of these approaches are politically difficult to implement, and care must be taken to ensure that fairness and equity are maintained. On balance, however, the P3 procurement process is intended to find a potential partner in a mutually-rewarding relationship that will inevitably have its challenges. It is important to make bidders and potential bidders feel that they and government will be good partners, and that government do not view the bidders as “the enemy”.

E. Maximizing the Likelihood that Bids are Compliant

In the Inuvik Hospital P3 project, the only response to the RFP was judged to be non-compliant. This judgement was made with few attempts to seek any clarification from the proponent about the basis for non-compliance.

We did not comment on the appropriateness of the decision in that case. We do note that, as a practical matter, P3 RFPs inherently require greater flexibility than tenders. Despite the effort that goes into preparing RFP documents, the projects and the documents are complex, and there may easily be misunderstandings – it is hard to get it perfect. Accordingly, our experience is that it is rare to receive perfectly clear bids. Most bids required some form of clarification.

In our view, the best approach is to test bids for compliance following a well-defined and equitably-implemented clarification phase. In other words, where bids are unclear, or where there is some uncertainty about whether non-compliance is intended, a structured system of written questions and answers may result in clarifications that ensure compliance of individual bids.

More broadly, high-quality and compliant bids are most likely, under circumstances such as the following:

- RFPs are written with some flexibility for response.
- Requirements are both achievable, and are absolute necessities from the perspective of the government.
- A thorough clarification process is conducted (as described above).

- Bidders are given enough time to prepare quality bids.
- Governments do not develop a reputation that they do not follow their own process.

F. How to Achieve Collaboration in Design on P3s

Several private-sector respondents expressed the concern that, although their projects were intended to be partnerships with the government, the procurement mechanism essentially gave them no practical way of working with users to optimize design, and particularly, to explore the acceptability of various forms of innovation.

This issue represents a typical conundrum in P3 procurement.

In our experience, different trade-offs can be made between the “purity” of the procurement process, and having some form of interaction with bidders on projects that involve substantial design elements.

A solution that is sometimes used is to view the procurement imperative to provide equal opportunity and equal access to information, rather than to ensure that all proponents receive identical information. For example, we are aware of P3 procurements that have been designed to give each bidder one-half day to sit and work with user department staff. This requires a process for ensuring that users do not inadvertently provide information that would compromise the position of other bidders; bidders must be aware that this is entirely at their risk, etc.

Our experience is that, if done properly, providing some form of interaction between bidder and user department does not expose the government to excessive legal risk. (This is an empirical observation, not a legal opinion.)

G. Summary of and Comments on Findings

Public-private partnerships can be viewed primarily as financing vehicles, or, alternatively, as mechanisms for sharing risks, rewards, and responsibility for success between the public and private sector. In our view, the former perspective was the primary driver in the P3 Pilot Initiative. Our view is that P3s work best when potential P3 projects are considered first from the perspective of determining whether there is a viable way of sharing risks, rewards, and responsibilities for success that can form the basis of a true partnership. Recent changes in the accounting treatment

of operating leases are likely to encourage the consideration of this perspective by governments in the future.

In our experience, the following criteria provide the framework for defining the conditions upon which the success of a P3 depends:

- **Financial** – Is it likely that a partnership between government and the private sector will be able to carry out the project under financial terms which are acceptable?
- **Technical** – Is it reasonable to expect that a technical solution to the project can be found by a P3 procurement?
- **Operational** – Are there operational hurdles that prevent a P3 procurement from being used?
- **Acceptability** – Is there acceptance of P3 as a means to procure the project?
- **Implementation** – Are there implementation barriers that prevent the use of P3 procurement?
- **Timing** – Are there time constraints that would pre-empt consideration of P3 procurement?

One of the disappointing aspects of the P3 Pilot Initiative is the shortage of full responses to several of the RFPs that were issued. Our experience is that one of the best ways to ensure multiple, competitive bids is to find ways to highlight the attractiveness of the partnership opportunity to potential bidders. There are various ways to do so. Some of them are politically difficult to implement, and care must be taken to ensure that fairness and equity are maintained.

In our experience, it is rare to receive bids that are perfectly clear. Despite the effort that goes into preparing RFP documents, the projects and the documents are complex, and there may easily be misunderstandings. In this sense, P3 RFPs inherently require greater flexibility than tenders. Most bids require some form of clarification. In our view, the best approach is to test bids for compliance following a well-defined and equitably implemented clarification phase. A number of steps are suggested for creating the circumstances for compliant bids.

Several private sector-respondents expressed the concern that, although their projects were intended to be partnerships with the government, the procurement mechanism essentially gave them no practical way of working with users to optimize design and

particularly, to explore acceptability of various forms of innovation. In our experience, various trade-offs can be made between the “purity” of the procurement process, and having some form of interaction with bidders on projects that involve substantial design elements, while still maintaining the integrity of the procurement process.

XV Summary of Findings

A. Introduction

In this chapter, we summarize the findings from the evaluation, which were found in Chapters VI through XIV.

B. Infrastructure Needs (Chapter VI)

The findings in this chapter deal with the extent to which the P3 Pilot Initiative met the outcome objective:

- **Meet infrastructure needs cost-effectively.**
 - **Accelerate provision of critical (social infrastructure) while maintaining prudent fiscal management.**

Our findings are as follows.

The P3 Pilot Initiative was designed to accelerate capital spending on infrastructure, and meet existing infrastructure needs cost-effectively. Because so few projects have proceeded as P3s, many of the evaluation questions dealing with this issue have become somewhat irrelevant.

Projects were selected primarily, but not exclusively, from the five-year capital plan. The relatively small percentage of successful P3s suggests that more thought could have gone into determining whether they would be appropriate P3 projects. Several of the identified projects have subsequently proceeded outside the P3 process, indicating that they were worthwhile projects designed to meet program needs.

The issue of determining the effect of the P3 Initiative on the timing of infrastructure investment is complex, and not fully resolved. We do not have a clear understanding of the impact of the P3 Pilot Initiative on the number and sequencing of projects in the traditional capital plan.

There is general consensus that the Fort Smith Student Housing P3 was moved forward significantly in capital planning; we have conflicting views on whether the Arviat Health Centre was accelerated. There is not a consensus as to whether other

projects were delayed somewhat as a result of the P3 initiative, primarily because it introduced time lags while they were considered as P3s, before being re-inserted into the traditional capital procurement process. Apart from these possible delays, the consensus among our interviews and case studies is that projects did not “lose their place in line”, if they were rejected as P3 pilot projects. Although the views with respect to each individual project seem plausible, we are uncertain as to whether, when taken in aggregate, they yield an internally-consistent pattern.

The small number of implemented projects makes the impact of the P3 Initiative on budgetary targets essentially irrelevant. Since the Fort Smith project was funded as a P3, and was not already in the capital plan, it is clearly an incremental outcome of the Initiative.

C. Stimulation of Economic Development (Chapter VII)

The findings in this chapter deal with the achievement of the second outcome objective identified for the P3 Pilot Initiative, which is as follows:

- **Stimulate economic development.**
 - **Create incremental jobs for Northerners.**
 - **Enhance capability of Northern workers.**
 - **Enhance capability of Northern businesses.**

The findings are as follows.

The small number of implemented projects means that, for Northern workers, incremental job creation and capability enhancement was limited.

Northern businesses appear to have shown limited ability to participate in the P3 Pilot Initiative projects. Few projects received a sufficient number of competitive bids. The government and the private sector had considerable difficulty achieving a meeting of minds with respect to risk transfer. In our view, the government did not deal with this issue as well as it might have, but there was clearly little appetite in much of the private sector for taking on meaningful risks.

Skills have been acquired among private sector entrepreneurs, particularly with respect to consortium development and accessing longer-term financing. There have been some efforts to employ these skills in the South.

We comment at some length in Chapter XV on some possible means for encouraging a greater number of competitive bids from qualified bidders.

D. Mix of Public and Private Sector Involvement (Chapter VIII)

The findings in this chapter deal with the achievement of the third outcome objective, which is:

- **Draw on the best mix of public and private sector involvement.**
 - **Find an appropriate sharing of risk, reward and responsibility to minimize cost to government.**
 - **Increase innovation and creativity in public use infrastructure.**

Our findings are as follows.

There is a general view that the issue of risk transfer was contentious, and not well-handled by either the public or private sectors. Our own view is that, in addition to inexperience and the normal gulf between public and private perspectives with respect to risk and compensation for risk, this difficulty in dealing with the risk resulted, in part, from the government's desire to ensure that sufficient risk transfer was taking place to obtain the appropriate accounting treatment of operating leases. In our view, the issue of risk transfer would have been better dealt with had the government put more effort into considering the optimal allocation of risks, returns, and responsibilities. However, of course, these may not have been consistent with the requirements for the accounting treatment.

There is a general view within government that the Initiative has had a negative impact on the private sector's view of government, particularly among those who invested time and resources to prepare proposals for work that was not ultimately awarded as P3s. There is a broad consensus in the private sector that the P3 Pilot Initiative has not led to a significantly better understanding of private sector motivation by the public sector. There is a range of opinions on this issue in the public sector.

With the benefit of hindsight, it is clear to the respondents that a substantial number of the projects were probably not appropriate candidates for P3s. We would concur with this view.

There is also a consensus that the GNWT, through the P3 Pilot Initiative, tried to accomplish too much in too short a time, proceeding with too many P3 projects simultaneously, and not sequencing projects from the simpler to the more complex. We would also concur with that view.

We have not done a detailed assessment of risks of the individual pilot projects. With that proviso, it does not appear to have been sufficient thought given by government during the implementation process about which party was best able to bear specific types of risks, and accordingly, what is the best and lowest cost allocation of risks and rewards between the public and private sectors. On the other hand, it is clear that many of the private sector proponents had little experience bearing the types of risks that they were being asked to take on, and in many cases, had considerable reluctance to do so. These circumstances created an environment in which there was little consensus between the public and the private sectors on risk-sharing.

Our experience is that, in most jurisdictions, there is a significant difference in mindset between the public and private sector, particularly around the role of risks, financial incentives, and financial rewards. The best way to develop a common understanding of each others motivation is to work together on successful partnership projects. It is an unfortunate aspect of the P3 Pilot Initiative that few of the projects were successfully implemented as P3s. Thus there was little opportunity to benefit from this route to enhanced understanding.

Relatively little creativity and innovation were realized. Although respondents believe the government could have been more open to innovation, they note that the nature of the projects, and of the Northern environment in which they were to be implemented, significantly limits the scope for innovation in public-use facilities. We concur with this view.

E. Cost-effective Service Delivery (Chapter IX)

The findings in this chapter deal with the fourth outcome objective, which is:

- **Provide more cost-effective service delivery.**
 - **Enable government to provide services efficiently and effectively.**

Our findings are as follows.

The limited evidence available from the Fort Smith project suggests that it is operating successfully from the perspective of cost-effectiveness of service delivery.

F. Implementation Objectives (Chapter X)

The findings in this chapter deal with the extent to which the P3 Pilot Initiative has met the government's implementation objectives, which are:

- **Provide a fair, transparent, and competitive process.**
- **Provide a policy framework and P3 process that are effective and efficient in pursuing the government's P3 objectives.**

The findings are as follows.

There is broad consensus that the P3 process was fair and transparent, both in theory and in practice. The P3 process was designed and expected to be competitive. However, the inability to attract sufficient numbers of competitive bids is a source of concern.

The private sector is generally satisfied with the openness and adequacy of communication and consultation, and with the clarity and flexibility in the processes and requirements to be met in responding to RFPs and RFQs. The general view is that, once the initial learning curve had been dealt with, departmental staff had the necessary capability to plan and manage the projects. There are mixed views on whether departmental resources to implement P3s were adequate. There is general agreement that the policies and procedures were adhered to, although there is some concern that documentation became somewhat overwhelming and got somewhat out of control.

Extensive effort went into the development of the policy framework for P3s. The general view outside FMBS is that the policy framework was, if anything, too thorough, and was certainly adequate in providing for the type of P3 that was envisaged. The framework was modified as experience was gained.

The issue of the levels of effort required to pursue the P3 objectives is complex. The government devoted significant resources to putting in place the framework and infrastructure for administering P3s. In our view, a good deal of this effort was "the price of admission". P3s were a new form of procurement and financing in GNWT. They inherently raise concerns about fairness and transparency, and if pursued inappropriately, can easily lead to litigation and political embarrassment. In our

view, much of the level of effort and procedural overhead put in place was necessary if the P3 Pilot Initiative was to be pursued. It is inevitable that a small territory such as NWT will suffer from diseconomies of scale in this regard. The GNWT, once it decided to pursue the P3 Initiative, was essentially committed to making investments not substantially different than those that would have been required by a province ten or even 100 times its size.

There is no question that significant learning and personal development occurred as a result of participation in the P3 Initiative.

There is a broad consensus that the government entered into the P3 Pilot Initiative with a high degree of commitment, but the government commitment to the process diminished over time. There is also a broad view that its apparent reduction of commitment did negatively affect the implementation of the Initiative.

The GNWT responded pragmatically to the recommendations of the Phase I Expert Review, and focused on those recommendations that could be applied to the ongoing pilot projects. We believe that this approach was appropriate.

G. Private Sector Satisfaction (Chapter XI)

The findings in this chapter deal with the extent to which the P3 Pilot Initiative met the government's private sector satisfaction, which is an objective to:

- **Achieve an adequate level of private sector satisfaction with the P3 process and outcomes.**

The findings are as follows.

From a private sector perspective, the relationship with the government with respect to Fort Smith is reasonable.

Generally speaking, the private sector is less happy with the government with respect to projects that were not implemented. Particularly in the architectural and engineering community, there are concerns that large investments have been made in pursuing P3 projects, without a commensurate prospect of success.

There is broad satisfaction with the process, i.e., that successful proponents were fairly selected, that adequate information was provided, and that confidential information has been kept confidential. Concerns include the long time lags required to get full RFP documents into the hands of respondents, and the widespread feeling

that the government did not really act in the spirit of partnership, and does not understand the private sector's concerns and perspectives.

H. Other Issues (Chapter XII)

This chapter deals with two other issues examined during the evaluation:

- **To what extent is the public satisfied with the P3 arrangements and service delivery.**
- **What are the unintended effects of the P3 Pilot Initiative, either positive or negative.**

The findings are as follows.

In the view of elected government officials, the public is not particularly aware of, nor concerned about, P3 arrangements and service delivery.

A clear set of beneficial effects is a number of improvements in the procurement process at GNWT, and more effective interaction between user departments and Public Works and Services.

Negative effects include:

- A potentially greater interest in the North by larger Southern firms, to the detriment of Northern economic development.
- The fact that so much effort has produced so few successful P3 pilot projects has given public-private partnerships a bad name in many quarters.

I. Net Benefit of Proceeding with the Fort Smith P3 Project (Chapter XIII)

In developing our findings, we have reviewed the methodology and approach used to prepare the Comparator for the Fort Smith project. We have also checked those calculations that were accessible to us. Not all calculations have been documented. We have not done any additional research into the appropriateness of the actual unit costs and quantities employed, although we have discussed them with some of our interviewees.

The Comparator (the information provided to the bidders in the RFP) was constructed from two broad categories of information:

- The capital cost component, for which there was a considerable experience base for cost estimation.
- The O&M component, for which there was relatively little experience to draw on.

The O&M component of the Comparator went through a series of refinements, which both corrected errors and sought to improve the quality of estimates of certain O&M costs. The need to make these revisions was identified only after the bids had been received, so that the bidders were not provided with the updated Comparators.

At the same time as the Comparator was being corrected, it was also being revised for its subsequent use as a Reference Bid. In general, the methodology and approach used to move the Comparator towards a Reference Bid were appropriate. We have suggested certain adjustments that in our view would make the Reference Bid more conceptually correct. These are not major items, and would tend to increase the amount of the Reference Bid.

It is clear that the Comparator (and its evolution towards a Reference Bid) for Fort Smith were a work in process. The changes that were made were, in our view, generally in the right direction.

The Final Comparator, which was used in the bid evaluation process, is reasonably close to our view of an appropriate Reference Bid. We have identified several adjustments, which on balance would serve to increase the Reference Bid, although the magnitude of the increase is not substantial. These sorts of adjustments are in our view typical; our experience is that Reference Bids tend to be too low, often because they do not reflect completely the value of risk transfers that are being incorporated into the P3 project.

The GNWT, when it considered the proponent's bid for Fort Smith, concluded that there were intangible advantages of proceeding with the Fort Smith P3, which justified what they perceived to be a premium of approximately 4% over the Reference Bid. Given the degree of uncertainty implicit in the Reference Bid, the relatively small size of the project, and the desirability of having some implemented P3 pilot projects to learn from and evaluate, the decision to proceed with the project seems reasonable to us.

Using our estimate of the Reference Bid, the proponent's bid was 5% cheaper than the Reference Bid (if GST is included in that Reference Bid), or was at a 1% premium to the Reference Bid (if the Reference Bid excludes GST). Given that our estimates for the Comparator are higher than those used by the GNWT in making this decision, this would strengthen our view that the decision to proceed with the project was reasonable.

These findings should be interpreted in the light of two additional comments:

- While we are comfortable with the methodology and approach used to prepare the Comparator, we have not done a detailed investigation into the appropriateness of all the cost estimates employed to build it up.
- The results of our analysis indicate that it was reasonable in our view for the GNWT to accept the proponent's bid for the Fort Smith project. This is not to say that implementing a P3 was necessarily the best or most cost-effective way to implement the Fort Smith Student Housing Project, but rather that, given the decision to implement it as a P3, with the associated operating lease treatment, it was reasonable to accept the proponent's bid.

J. Some Lessons from Our Broader Experience (Chapter XIV)

Public-private partnerships can be viewed primarily as financing vehicles, or, alternatively, as mechanisms for sharing risks, rewards, and responsibility for success between the public and private sector. In our view, the former perspective was the primary driver in the P3 Pilot Initiative. Our view is that P3s work best when potential P3 projects are considered first from the perspective of determining whether there is a viable way of sharing risks, rewards, and responsibilities for success that can form the basis of a true partnership. Recent changes in the accounting treatment of operating leases are likely to encourage the consideration of this perspective by governments in the future.

In our experience, the following criteria provide the framework for defining the conditions upon which the success of a P3 depends:

- **Financial** – Is it likely that a partnership between government and the private sector will be able to carry out the project under financial terms which are acceptable?
- **Technical** – Is it reasonable to expect that a technical solution to the project can be found by a P3 procurement?

- **Operational** – Are there operational hurdles that prevent a P3 procurement from being used?
- **Acceptability** – Is there acceptance of P3 as a means to procure the project?
- **Implementation** – Are there implementation barriers that prevent the use of P3 procurement?
- **Timing** – Are there time constraints that would pre-empt consideration of P3 procurement?

One of the disappointing aspects of the P3 Pilot Initiative is the shortage of full responses to several of the RFPs that were issued. Our experience is that one of the best ways to ensure multiple, competitive bids is to find ways to highlight the attractiveness of the partnership opportunity to potential bidders. There are various ways to do so. Some of them are politically difficult to implement, and care must be taken to ensure that fairness and equity are maintained.

In our experience, it is rare to receive bids that are perfectly clear. Despite the effort that goes into preparing RFP documents, the projects and the documents are complex, and there may easily be misunderstandings. In this sense, P3 RFPs inherently require greater flexibility than tenders. Most bids require some form of clarification. In our view, the best approach is to test bids for compliance following a well-defined and equitably implemented clarification phase. A number of steps are suggested for creating the circumstances for compliant bids.

Several private sector-respondents expressed the concern that, although their projects were intended to be partnerships with the government, the procurement mechanism essentially gave them no practical way of working with users to optimize design and particularly, to explore acceptability of various forms of innovation. In our experience, various trade-offs can be made between the “purity” of the procurement process, and having some form of interaction with bidders on projects that involve substantial design elements, while still maintaining the integrity of the procurement process.

XVI Conclusions

We draw the following conclusions:

- The P3 Pilot Initiative was viewed as a series of pilot projects, and we have evaluated it from that perspective. In the context of the size of the GNWT, the P3 Pilot Initiative was a full-scale, time-limited implementation. In retrospect, the GNWT tried to do too much, too soon. The limited number of “natural” P3 projects in the government’s capital plan exacerbated the difficulties of implementing the Initiative.
- Implementing P3s is a form of change management – it needs a high-powered champion at the political level, to convince the variety of stakeholders of the desirability of a new form of project procurement. The P3 Pilot Initiative began with a strong champion; when this was lost, it was difficult to maintain momentum.
- The entire implementation framework – the policies, implementation, draft documents, and administrative structure – did not work perfectly, but was generally well-conceived. Our own view is that P3s can generate significant benefits to governments, but they are difficult to implement. If a government is to begin to undertake P3s, it is important to do so well. In other words, the need to set up a well-conceived implementation framework is a “price of admission” to getting into P3s, which can appear relatively expensive to a small jurisdiction such as NWT.
- The government’s desire for operating lease treatment for its P3s sometimes conflicted with finding the optimal sharing of risk with the private sector. In some cases, the government tried to transfer more than optimal levels of risk, which made a number of the projects difficult to implement.
- The benefits of P3s come in part from competition among proponents. The difficulty in obtaining sufficient numbers of high-quality bids was a major disappointment. The objective of getting a sufficient number of high-quality P3 bids may well be in conflict with the economic development objectives that lead to preference for Northern bidders.
- The government has effectively put a moratorium on new P3 projects. In our view, a “breathing space” is probably appropriate. If P3s are to be considered again in the future, we would suggest that:

- A broader range of potential arrangements be considered, rather than the narrow focus on operating leases, and
- Individual potential projects be evaluated more thoroughly for their potential as successful P3s, before the government commits then to the P3 route.

Appendix A

Evaluation Issues

Appendix A – Evaluation Issues

A. Outcome Objectives

1. Meet Infrastructure Needs Cost-effectively

Accelerate provision of critical (social) infrastructure while maintaining prudent fiscal management.

1.1 Have the identified program needs been met by individual P3 projects?
In aggregate by the initiative?

- *Were the evaluation criteria of the capital planning process consistently applied to select projects of high priority?*
- *Was the scale appropriate?*
- *Has the impact on the relevant delivery systems been positive?*

1.2 To what extent has the building and completion of infrastructure been accelerated?

- *To what extent have the projects moved forward in the capital planning of government? (This question applies both to projects built as P3 projects and those selected for the P3 Pilot Initiative but ultimately not built as P3 projects.)*
- *Have the individual projects been completed on time?*
- *What would have happened without the P3?*
- *What has happened to projects that were identified as P3 candidates but did not proceed?*

1.3 Have overall budgetary deficit and debt targets been met?

- *Has the initiative led to an increase in debt levels?*
- *Has the initiative created obligations that crowded out other capital/operating program needs in the short term?*

- *What costs has government incurred in the building of the infrastructure?*
- *What costs have been incurred by government in sharing risk? What savings have been generated?*
- *Have recent changes to GNWT accounting policy affected the answer to the above questions?*

1.4 Have the projects met technical standards/specifications?

1.5 From the perspective of physical asset acquisition, has value for money been achieved?

1.6 What is the long term implication of the P3 Pilot Initiative on future capital projects outside the social sector?

- *What is the impact of the lease costs on future capital and operating spending?*

1.7 Is there evidence of enhanced capability as a result of the P3 Pilot Initiative?

2. Stimulate Economic Development

Create incremental jobs for northerners.

2.1 How much and what kind of employment has been generated by the projects:

- Planning and design?
- Construction?
- Operating?
- *What is the geographic distribution of employment?*
- *What is the duration of employment?*
- *What types of jobs are being created? What skills and knowledge are being developed? Are these transferable to other jobs?*

2.2 Who has been hired to do these jobs?

- *Who is being employed? How many of the employees are northern residents? To what extent are Aboriginal people being employed?*

2.3 What is the incremental employment component along the above dimensions?

Enhance capability of northern workers.

2.4 Have the workers who participated on the projects achieved improved employability?

- *To what extent are people remaining in the labour force? What is the impact on long term employability?*

Enhance capability of northern businesses and professionals.

2.5 What are the characteristics of participating businesses?

- *Nature and size of NWT businesses participating?*
- *Type of consortia created—to what extent have small businesses been given an opportunity to participate?*

2.6 What levels of capability to participate successfully in P3 projects have northern businesses demonstrated?

- *Overall capacity of the NWT private sector to respond competitively?*
- *To what extent is the private sector able to handle the relevant risk?*
- *To what extent does the private sector understand the financial implications of P3 and the potential for return on investment?*

2.7 Is there evidence of enhanced capability as a result of the P3 Pilot Initiative?

- *Has the ability to overcome barriers, e.g., access to finance, been improved?*

- *Capability to work in NWT and/or Nunavut; capability to work elsewhere.*

3. Draw on the Best Mix of Public and Private Sector Involvement

Find an appropriate sharing of risk, reward and responsibility to minimize costs to government.

3.1 What is the sharing of risk and reward between government and the private sector? Is it appropriate?

- *Are the parties best able to bear the risk, bearing the risk? Is the right kind of risk being transferred?*
- *Is the government bearing an appropriate level of risk?*
- *Are long term capital refurbishment issues dealt with appropriately and/or differently than they would have been through the traditional capital planning process?*

3.2 What has been the impact on their relationship with the private sector, as perceived by the government?

3.3 To what extent does government better understand private sector motivation?

3.4 Are projects selected appropriate for P3?

Increase innovation and creativity in public-use infrastructure.

3.5 To what extent have creativity and innovation been realized?

- *Is there evidence that facility design and usage are different than they would have been under the normal government processes? If so, are those differences positive?*
- *To what extent has the potential for ancillary revenue and/or multiple use facilities been realized?*

4. Provide More Cost-effective Service Delivery

Enable government to provide services efficiently and effectively.

4.1 What are the program impacts, including impacts on the quality and level of services being offered?

- *Adherence to established service standards.*
- *Responsiveness to specialized equipment needs and their evolution.*
- *Responsiveness to facility functional changes when needs change.*
- *Satisfaction expressed by the boards, staff, public.*

4.2 What is the relationship between the service quality/level and lifecycle costs?

4.3 What would the relationship between service quality/level and lifecycle costs have been like using traditional methods?

4.4 What is the quality of the relationship between the operators/owners and boards/users of the facility? To what extent is there satisfactory communication, collaboration and cooperation?

- *Day-to-day operation of the facility in meeting maintenance standards.*
- *Responding to maintenance needs.*
- *Providing facility and equipment improvements including furniture and fixtures.*
- *Regarding possible conflicts re shared use.*

B. Implementation Objectives

Provide a fair, transparent, and competitive process.

- 5.1 Was the P3 process fair, transparent, and competitive? In theory? In practice?
- *Openness and adequacy of communication to and consultation with the private sector? Public?*
 - *Clarity and flexibility in the processes and requirements to be met in responding to RFQs and RFPs?*
 - *Capability of department staff in planning, managing and monitoring projects with the private sector?*
 - *Is there an adequate level of departmental resources to implement P3?*
 - *Timeliness of selection, deal closure and provision of infrastructure?*
 - *Adherence to policies and procedures?*

Provide a policy framework and P3 process that are effective and efficient in pursuing the Government's P3 objectives.

- 5.2 To what extent is the policy framework thorough and adequate in providing for P3?
- 5.3 Are the levels of effort and procedures for pursuing the P3 objectives sensible and sufficient?
- 5.4 Do those in government involved in the P3 process understand their roles? Do they have the necessary skills and experience to play those roles?
- 5.5 Were there significant changes or surprise events that required GNWT response? How did the GNWT respond?
- 5.6 Does the GNWT have the information needed to support their decision-making and accountability, and do they use it appropriately?
- 5.7 Has the quality of implementation changed over the course of the P3 Pilot Initiative?

5.8 Was the apparent level of commitment by government to the P3 process appropriate?

- *Did the apparent level of commitment affect implementation of the initiative?*

C. Private Sector Satisfaction Objectives

Achieve an adequate level of private sector satisfaction with the P3 process and outcomes.

6.1 What is the quality of the relationship, as seen by the private sector, between government and the private sector with respect to implemented projects? With respect to projects that were not implemented? In general?

- *Responsiveness?*
- *Ability and willingness to solve unanticipated problems?*
- *Trust?*
- *Understanding and respecting each other's needs?*
- *Effective dispute resolution?*

6.2 Are there any specific problems or concerns being experienced by the private sector?

- *If plans did not work out as expected, what is the private sector explanation? Does the private sector feel that this was due to a government deficiency?*
- *Does the private sector feel that government has been responsive to its concerns?*

6.3 Does the private sector feel that the successful proponents have been fairly selected?

6.4 Does the private sector feel that it has been given adequate information on the basis of which to submit proposals?

6.5 Does the private sector feel that confidential information has been kept confidential?

D. Other Issues

- 7.1 To what extent is the public satisfied with the P3 arrangements and service delivery?
- 7.2 What are the unintended effects of the P3 Pilot Initiative, either positive or negative?

Appendix B

Pilot Project Descriptions

Appendix B - Pilot Project Descriptions

In the following sections, we describe each project in the P3 Pilot Initiative.

A. Inuvik Regional Health and Social Services Centre

1. Introduction

The GNWT planned to construct a Regional Health and Social Services Centre to be located in Inuvik, NWT. An existing hospital was to be replaced. The original specifications for the hospital were a 8,440 m² facility with 17 acute care beds, 25 continuing care beds, and 18 transient beds, and the cost of the facility was estimated at \$35 million including furniture, fixtures, and equipment.

The stakeholders are the Department of Health and Social Services (“HSS”), the Department of Public Works and Services (“PWS”), and the Inuvik Regional Health and Social Services Board (“IRHSSB”). The Inuvik Regional Health and Social Services Centre did not proceed under the P3 Pilot Initiative but is currently under way under traditional capital means.

2. History of Project in the P3 Selection Process

The Inuvik Regional Health and Social Services Centre has been “in the making” for a number of years and a functional plan exists. In addition, the IRHSSB had done a programming study (i.e., a tentative design with costs) that was approved by the HSS. Later, a Preliminary Design was completed for bidders’ use. This preliminary design was more detailed than the 18% preliminary design typically used for projects in the P3 Pilot Initiative.

A Request for Qualifications (“RFQ”) was issued in September, 1998 for which three qualified responses were received, and all three respondents were selected to advance to the Request for Proposals (“RFP”) stage.

The RFP document, along with all of its detailed appendices was under development for quite a while. The RFP was released in August, 1999 and various updates were provided to developers as they became available. The RFP documentation included the Topographical Survey of the site, the Geotechnical Report on the site, the

completed Preliminary Design, the Cost Comparator, and a detailed listing of the Furniture, Fixtures, and Equipment required for the facility.

The RFP was originally expected to close on January 7, 2000, but developers asked for and were granted an extension to April 28, 2000. Ultimately, only one bid was submitted and was later declared non-compliant.

The Inuvik Regional Health and Social Services Centre has now become a “traditional” capital project and estimated construction costs are under negotiation. HSS expects that the new facility will open during the Summer of 2003.

B. Fort Smith Aurora College Student Housing

1. Introduction

The GNWT sought a qualified partner to design, build, own, and maintain college campus housing in Fort Smith, NWT. This \$4.7 million project consisted of 20 three-bedroom and five four-bedroom accommodations for students (and their families) attending Thebacha campus. Student housing was in the College’s five-year capital plan but not yet in the GNWT’s five-year capital plan.

2. History of Project in the P3 Selection Process

The Fort Smith Aurora College Student Housing project proceeded as a P3 project.

A RFQ was issued in July, 1998, for which three submission responses were selected to advance to the second stage of the selection process, the RFP phase. The RFP was issued on October 23, 1998 and responses were received on February 15, 1999. Of the responses, only one was deemed responsive to the requirements set out in the RFP document.

On June 17, 1999, after an intense period of negotiations, the GNWT signed a development agreement and 20-year lease with the successful proponent for the construction, financing, operation, maintenance, and leaseback of the 25-unit student family housing complex.

The facility is complete and is occupied. This project was recently honoured with a national award of merit from the Canadian Council for Public/Private Partnerships.

C. Arviat Health Centre

1. Introduction

The replacement of the Arviat Health Centre has been a priority of the Hamlet of Arviat since at least 1990. The new Arviat Health Centre will include public health promotion and prevention services, outpatient treatment services, temporary inpatient services, mental health services, and social services. The area of this building will be approximately 897 gross m².

The sponsoring department was the Department of Health and Social Services (“HSS”). Original construction costs were estimated at \$2.7 million for design and construction only (not including furniture, fixtures, and equipment). Costs later rose to \$4.2 million with the addition of sufficient examination and emergency rooms, a tele-medicine room, and a birthing suite.

The sponsoring GNWT department/board expectations regarding the project completion schedule originally were for Winter, 2000.

2. History of Project in the P3 Selection Process

The Arviat project was not in the five-year capital plan, but was “sped up” in the grand scheme because it was selected as a P3 project. Performance standards were issued in lieu of a preliminary design. No RFQ was issued: the P3MC directed that the project proceed immediately to the RFP stage because the facility was not complex from an architectural perspective, there were known firms in the North that could accommodate the project, and the P3MC wished to address the community’s desire for an early start to the project.

The RFP (including development agreement and lease arrangement) was issued on October 9, 1998. The proposals were to be submitted by December 7, 1998, but the deadline was extended because of several addenda that were made. Two proponents responded to the RFP.

One proposal was rejected on March 3, 1999 by the P3MC because the proposal did not meet with several mandatory requirements.

On March 22, 1999, FMB recommended that the Government of Nunavut negotiate with the successful proponent to develop a contract that exhibited “value for money”. In addition, FMB suggested issues to be pursued in negotiations with the successful

proponent. FMB's stance was that these issues had to be resolved before a mutually-advantageous agreement could be negotiated.

In a May 19, 1999 News Release, the Government of Nunavut announced that an agreement had been signed with the successful proponent and that the construction of the Arviat Health Centre would commence in the Fall of 1999. The agreement called for the successful proponent to design, construct, and manage the health centre. The value of the project was estimated at \$10 million and design work was expected to be completed by the end of May, 1999.

D. Inuvik Female Young Offender Facility

1. Introduction

In the Spring of 1997, the Fire Marshall ordered that the replacement for the existing Dene K'onia Young Offender Facility (both Male and Female Young Offenders were housed in the same facility) in Hay River had to be operational by July 1, 2001. The facility was not in the five-year capital plan of the Department of Justice.

In June, 1998, the FMB approved a 12-bed female facility to be built in Inuvik as a P3 project. The facility was based on a Needs Assessment completed during the 1997/98 fiscal year.

2. History of Project in the P3 Selection Process

The functional program for this facility was approved by the Department of Justice in May, 1999. At the end of the first functional plan, the cost of construction was estimated at \$4.8 million. Functional plans were completed for the facility based on triple designation (i.e., housing secure custody, open custody, and remanded youths in a common facility). After completion of the functional plan, it was noted that due to the nature of the Public Private Partnership, a set of Technical Standards was required to convey those aspects of the facility where there existed specific technical needs.

The Department of Public Works and Services ("PWS") estimated that the time required to complete technical standards and criteria (along with other delays that had been encountered along the way regarding the choice of an optimum site) would delay the project schedule to a completion date of August, 2002, one year past the date set by the Fire Marshall. In addition, PWS estimated that six months of time could be saved if the project was changed to a traditional capital project (the six

months of time savings is attributed to “front-end” time that would have to be allocated to the use of a RFQ stage to pre-qualify developers for the RFP stage, the time required to analyze complex proposals for a P3 proponent, and the development of the P3 agreement).

In October, 1999, the FMB approved the Department of Justice’s request to enter into a preliminary design contract immediately for the Inuvik Female Young Offenders Facility. A contract for the development of design/construction standards and criteria for the Inuvik Female Young Offenders Facility was awarded to a Northern firm in November, 1999 after the culmination of the requisite competition process.

On December 13, 1999, the FMB, at the request of the Department of Justice, directed that this particular project be removed from the P3 process and be completed using traditional capital planning methods. As a consequence, no RFQ or RFP was ever issued. The prime motivation behind the decision to change the delivery method of this project were the anticipated delays attributable to the P3 process and how this would affect deadlines imposed by the Fire Marshall on the use of existing facilities.

The construction design is expected to be complete by early 2001, at which point the project will be ready to be tendered.

E. Yellowknife Male Young Offender Facility

1. Introduction

In the Spring of 1997, the Fire Marshall ordered that the replacement for the existing Dene K’onia Young Offender Facility (both Male and Female Young Offenders were housed in the same facility) in Hay River had to be operational by July 1, 2001. In June, 1998, the FMBS approved a 24-bed male facility to be built in Yellowknife as a P3 project. The facility was approved based on the Fire Marshall’s order to have the replacement facilities operational by July 1, 2001.

Cabinet approved the Young Offender Facility to be located in Yellowknife on a Needs Assessment prepared by the PWS and a feasibility study prepared by a private firm.

The estimated capital cost of the facility was \$6.4 million.

2. History of Project in the P3 Selection Process

In late 1998/early 1999 the Department of Justice decided that it needed to replace its existing Yellowknife Correctional Centre (“YCC”) for adult male offenders in Yellowknife. The difference between building an entirely new YCC and renovating the old YCC was a savings of approximately \$5 million and the Department of Justice decided to go ahead with a new YCC facility. Considering the fact that a new Yellowknife Male Young Offenders Facility was also required, the Department of Justice, on the advice of its architects and consultants, decided it would be appropriate to put the two facilities together (the YCC for male adults and the Male Young Offenders Facility). Because the two male populations are not allowed to mix, the Male Young Offenders Facility (“YOF”) and the adult male YCC would be joined by a connecting corridor which would provide services to both ends of the facilities but would not allow the inmates to mix. This “central corridor” would permit shared services for food preparation; central stores and delivery; gymnasium; administration and staff facilities; security system; heating plan; emergency generator; and plant. The new combined YCC/YOF was estimated to cost approximately \$30 million.

In May, 1999, the Department of Justice submitted a formal submission to the FMB to share services and plant between a new \$30 million Yellowknife Correctional Centre and a new Male Young Offenders Facility.

In June, 1999 the FMB opted to switch the Male Young Offenders Project off the P3 process and to be completed under traditional capital planning means. The prime emphasis for this decision was a desire to have the project completed quicker and at a reduced cost by combining the project with the replacement of the YCC.

Currently, the YCC is expected to be ready by the end of 2001. The male YOF will be built concurrently as an addition to the YCC and the male YOF is expected to be completed no later than January, 2002.

F. Inuvik Aurora Campus of Aurora College

1. Introduction

The GNWT sought a qualified partner to design, build, own, and maintain a college campus facility at Aurora campus in Inuvik, NWT. This facility would house a mix of programs, administration, and single student accommodations.

Recent construction estimates have come in significantly above the \$9.5 million that was originally projected for the new campus.

2. History of Project in the P3 Selection Process

A RFQ was issued in August, 1998. Three RFQ submissions were selected to advance to the second stage of the selection process, the RFP phase.

As the RFP document was under development, a number of concerns arose respecting the affordability of the facility. The most recent construction estimates came in significantly above what was originally budgeted for the new campus.

The Department of Education, Culture and Employment (“ECE”) reviewed the project in compliance with FMB direction to determine whether the project should proceed and, if so, whether it should be completed under traditional means or via a P3 arrangement.

The project is currently proceeding. FMB has re-inserted the project into the GNWT’s capital plan for fiscal year 2003/2004.

G. Fort McPherson Water Supply Improvements

1. Introduction

The Fort McPherson Water Supply Improvements project is a water distribution system priced at \$1.1 million.

The Fort McPherson Water Supply Improvements project has experienced numerous delays for a number of reasons since its inception in early 1998. First, the community of Fort McPherson and the Department of Municipal and Community Affairs (“MACA”) could not agree on the most optimal source of drinking water. Later, a mutually acceptable source was found. It became clear, however, that the preferred source would not be feasible in a P3 process.

Currently, the preferred option involves trucking water from 24 kilometres outside of the Hamlet to a storage tank in the centre of town. Local representatives are pursuing options to ensure that the trucks entering the community are able to do so in a safe and efficient manner with little or no disruption to the normal activities of the municipality. A determination is also being made whether or not to include the additional amount of storage capacity required to facilitate fire safety needs.

2. History of Project in the P3 Selection Process

In Fall/Winter of 1999, Fort McPherson was cancelled as a P3 arrangement and the project has proceeded under traditional means. The design plan has been started and the operation of the storage tanks is out for tender. The expected completion is Spring 2001.

H. NWT Housing Corporation Energy Conservation Measures in Public Housing

1. Introduction

In 1998, the Northwest Territories Housing Corporation (“NWT HC”), solely and jointly with CMHC, owned approximately 5,800 public housing units in 52 communities in the NWT. The housing units were managed through an agreement between the NWT HC and a Local Housing Organization (“LHO”) in each community. LHOs were funded for administrative and operations and maintenance costs by the NWT HC which, in turn, received funding based on a cost-sharing formula, jointly from the GNWT and CMHC. Utility costs for the public housing inventory were approximately \$46 million per year.

Since February 1998, the NWT HC has been working on an initiative to implement energy efficiency measures in public housing units across the NWT.

As part of a P3 arrangement, the NWT HC proposed to enter into a contract with an Energy Services Company (“ESCO”) to purchase, transport, install, finance, own, and maintain/manage electricity savings equipment, fixtures, and appliances for NWT HC housing in numerous communities across the NWT.

The NWT Housing Corporation Energy Conservation Measures project was originally estimated to be \$5 million to \$6 million. Of this \$5 to \$6 million, \$1.1 million is in the West (the “West” is the portion of the NWT that remains following the Nunavut Division).

2. History of Project in the P3 Selection Process

A RFQ was issued on July 6, 1998 with responses required by August 6, 1998. There were eight respondents, two of whom were short-listed to continue on to the RFP stage.

A number of options for structuring the RFP agreement were discussed and analyzed and a draft RFP document was prepared with the intent of pursuing an ESCO-type arrangement.

The project became derailed as the upcoming creation/division of the Nunavut Territory, effective April 1, 1999, meant that up to 85% of these public housing projects would now be located in the new Territory of Nunavut. This meant that there were really now no longer any economies of scale involved in these housing projects for the NWT. As well, the majority of the project was now in a different jurisdiction.

The project is not proceeding as a P3 project. However, the NWT HC is instituting energy conservation measures of this type through existing programs.

Appendix C

Case Study Interviews

Appendix C Case Study Interviews

Person	Case Study (CS)	Status
Bill Aho NWT Construction Association	Multiple CS's	Completed
Robert Alexie Representative Gwich'in Development Corporation	Inuvik Hospital CS	Abandoned
Jeff Anderson, Controller, NWTHC	NWTHC CS	Abandoned
Joe Auge Director Public Works	Inuvik Hospital CS	Completed
Chief Nora Beaver Salt River First Nation #195	Fort Smith CS	Abandoned
David Bethune Representative Inuvialuit Development Corporation	Inuvik Hospital CS and Aurora Campus CS	Declined
Jim Britton President Urbco Inc.	Inuvik Hospital CS and Fort Smith CS	Abandoned
Pawan Chugh Chair Health and Social Services	Arviat CS	Completed
Mark Cleveland Deputy Minister Education, Culture and Employment	Fort Smith CS	Abandoned
Rick Coles Coles & Associates Ltd.	Multiple CS's	Completed
Bob Cook, Coordinator, Young Offenders, Department of Corrections	Male & Female Young Offenders CS	Completed
Nellie Cournoyei, Chair of the IRHSSB	Inuvik Hospital CS	Abandoned
Charles Dent MLA	Fort Smith CS and Inuvik Hospital CS	Completed
Maurice Evans President Aurora College	Fort Smith CS and Aurora Campus CS	Completed
Bruce Evelyn Chair Education, Culture and Employment	Fort Smith CS and Aurora Campus CS	Completed

Bill Fandrick Synergies Solutions	NWTHC CS	Completed
Kelly Hayden Bellanca Developments Ltd.	Aurora Campus and Inuvik Hospital CS	Completed
Karen Henry, Project Officer, Public Works and Services	Female Young Offenders CS	Completed
Ed Hoeve Representative NAPEGG	Fort Smith CS and Men Young Offenders Facility	Completed
Ron Holtorf Campus Director	Fort Smith and Aurora Campus CS	Completed
Clarence Hudson Legal Counsel Department of Justice	Multiple CS's	Completed
David Krutko Member	Fort McPherson CS	Completed
Diane Magnusson, Facility Planner, Public Works and Services	Male Young Offenders CS	Completed
Frieda Martselos Martselos Services Ltd.	Fort Smith CS	Declined
Evelyn McLeod Chair Justice	Male/Female Young Offenders CS	Completed
Michael Miltenberger Member	Fort Smith CS	Completed
Keith Morrison Chair Health and Social Services	Inuvik Hospital CS	Completed
Mike Mrdjenovich Nova Construction.	Fort Smith CS	Abandoned
Dave Murray Chair NWT Housing Corporation	NWTHC CS	Completed
Jack op der Heijde President Ninety North Partners	Fort Smith CS and Aurora Campus CS	Declined
Spenser Philippo Chair Municipal and Community Affairs	Fort McPherson CS	Completed
Ken Rankin Representative Public Works	Multiple CS's	Completed
Paul Reddy Government of Nunavut	Fort Smith CS and Aurora Campus CS	Completed
Jack Rowe Rowe's Construction	Fort Smith CS	Completed

Warren St. Germaine Director, Finance and Management Services Health and Social Services	Multiple CS's	Completed
Ken Szarkowicz PCL Construction Management Inc.	Aurora College CS	Completed
Kelsey Scott Analyst Financial Management Board	Multiple CS's	Completed
Ray Scott CEO Inuvik Regional Health and Social Services Board	Inuvik Hospital CS	Completed
Geoff Stock Freund Building Supplies Ltd.	Fort Smith CS	Completed
Alan Vaughan Financier Vaughan & Associates	Arviat CS and Inuvik Hospital CS	Completed
Rob Watt, DEL Management Solutions	NWTHC CS	Abandoned
Ivan Wawryk, Frontec	NWTHC CS	Completed

Appendix D

Interviews

Appendix D - Interviews

1. Individual Interviewees

Person Contacted	Type of Interview	Status
Mr. Joe Auge Director Public Works	GDS	Completed
Mr. Jim Britton Representative Ninety North Partners	PS	Abandoned
Mr. Bill Aho NWT Construction Association	PS	Completed
Mr. Mark Cleveland Deputy Minister Education, Culture and Employment	PMS	Abandoned
Ms. Debbie DeLancey Director, Budgeting and Evaluation Financial Management Board	GDS	Completed
Mr. Clarence Hudson Legal Counsel Department of Justice	GDS	Completed
Mr. Rick Coles Coles & Associates Ltd.	GDS	Completed
Mr. Dave Murray (former Deputy Minister of the NWTHC, now Deputy Minister for Municipal and Community Affairs)	PMS	Completed
Mr. Maurice Evans President Aurora College	PMS (Replaces Chuck Parker)	Completed
Mr. Ken Rankin Representative Public Works	GDS	Completed
Mr. Bruce Rattray Deputy Minister Public Works	GDS	Completed
Mr. Jack Rowe Mayor Hay River	EGO	Completed
Mr. Ken Szarkowicz Manager of Yellowknife District PCL Construction Management Inc.	PS	Completed
Mr. Alan Vaughan Financier Vaughan & Associates	PS – in P3AC role	Completed
Mr. Lew Voytilla Secretary of the Financial Management Board	GDS	Completed

2. Standing Committee on Government Operations Focus Group

Person Contacted	Type of Interview	Status
Ms. Shirley Johnson Director of Research Legislative Assembly	GDS (Replaces Darlene Jonsson)	Declined
Mr. David Krutko Member	EGO	Completed
Mr. Michael Miltenberger Member	EGO	Completed

3. P3 Advisory Committee (P3AC) Focus Group

Person Contacted	Type of Interview	Status
Mr. Darrel Beaulieu Representative Aboriginal Summit	PS	Declined
Mr. Jack Rowe NWT Association of Municipalities	EGO and PS	Completed
Mr. Ed Hoeve Representative NAPEGG	PS	Completed
Mr. Keith Sanders Representative NWT Architectural Society	PS	Completed
Mr. Alan Vaughan Representative NWT Chamber of Commerce	PS (See earlier comments)	Completed

4. P3 Implementation Team (P3IT) Focus Group

Person Contacted	Type of Interview	Status
Mr. Pawan Chugh Chair Health and Social Services	PMS (Was chair for Eastern projects)	Completed
Mr. Dan Daniels Chair Education, Culture and Employment	PMS	Abandoned

Legend:

- EGO* = Elected Government Official
GDS = Government Departmental Staff in Central Agencies
PS = Private Sector
PMS = Program Managers and Staff working in Facilities

Appendix E

Net Benefit of
Proceeding with the Fort Smith
Project - Analysis

Appendix E – Net Benefit of Proceeding with the Fort Smith Project - Analysis

A. The Evolution of the Fort Smith Comparator

The Fort Smith Comparator was originally prepared in September, 1998, and included in Addendum #2 to the RFP document to bidders. It was subsequently revised in April 1999, to correct some errors, and subsequently adjusted further for use by the P3IT in the evaluation of the bids (i.e., for use as a Reference Bid).

The original Comparator was developed with the assistance of an external quantity surveyor and construction consulting firm (Helyar & Associates), who defined it as “a development price which would be obtained by competitive bidding”¹. This price, which had both a construction and an O&M component, was labelled “the Comparator”, and was provided to bidders.

There were two concerns raised by the private sector with respect to the original Comparator:

- The Comparator figure understated or omitted cost elements.
- The Comparator did not properly reflect the cost of risk transferred to the Proponent.

After the bids were received, a number of adjustments were made to the operating and maintenance cost schedule in the Comparator. (Capital costs were not adjusted.) This reflected a number of factors:

- The correction of some errors in the annual reserve component that had not been identified earlier. This had the effect of reducing the annual O&M costs and the net present value of the project over 20 years. The result was the “Updated Comparator” of April 1999.
- Subsequently, the Comparator was adjusted further. The effect was to increase annual O&M costs. Some of these adjustments reflected an improved understanding of certain cost issues, in part due to changing circumstances. For

¹ Jim Cuthbert of Helyar and Associates, in a memo to David Waite on November 2, 1998 which defined the scope of their work and setting for use of their figures in the Comparator.

example, the original and updated Comparators had been based on specifications that included tenant support for some heating and electricity costs. In the final Comparator, the heating and electricity costs were supported entirely by the landlord. In addition, adjustments were made to the Comparator, primarily with respect to risk, effectively to put it on a basis to be used as a Reference Bid. The result was the "Final Comparator".

The full sets of annual operating and maintenance costs are presented in Schedule 5G from the model used to compare the Comparator with the proponent's bid. This schedule has been duplicated as Exhibit E-1, and demonstrates the evolution of O&M costs over the period in the various versions of the Comparator.

Exhibit E-2 Evolution of O&M Costs

RFP - Comparator
Public Private Partnership

New Family Housing, Thebacha Campus
Fort Smith - NWT

SCHEDULE "5G"

OPERATING AND MAINTENANCE COSTS

	Historical comparators		Final comparison	
	Sep-98	Apr-99	Comparator	Proponent
	Year 1	Year 1	Year 1	Year 1
Electricity	14,500	14,500	30,000	47,264
Water Supply/Sewage Disposal	7,750	7,750	12,000	15,754
Heating Fuel	16,875	16,875	30,000	40,000
Garbage	1,000	1,000	1,000	1,010
Insurance	6,250	6,250	0	15,148
Caretaker Fees	33,750	33,750	33,750	40,396
Building Cyclical Renewal/Repairs & Maintenance	69,075	69,075	69,075	58,079
Annual Reserve for Repairs, Maintenance and Replacement of Equipment	105,675	30,225	30,225	25,000
Subtotal	254,875	179,425	206,050	242,651
Management Fees	25,488	17,943	20,605	24,265
Property Taxes	15,550	15,550	9,443	13,633
Subtotal	295,913	212,917	236,098	280,549
Risk	2,959	2,129	23,610	2,805
GST on Applicable Items				14,158
TOTAL O & M COSTS (Note #10)	\$298,872	\$215,050	\$259,708	\$297,512

The Comparator was presented as a net present value, encompassing both capital costs and twenty years of annual O&M expenditures. Exhibit E-2 summarizes the evolution of the overall Comparator. For comparison, the proponent's bid is also included in Exhibits E-2 and F-2. (The rows in Exhibit E-2 correspond to the columns in Exhibit E-1.)

Exhibit E-2 Evolution of Comparator

	Capital Costs	Annual O&M ¹		Resulting Present Value ²
		Annual Amount	Amount as a % of Proponent's Bid	
Original Comparator - Sept 98 (Original H&A estimate)	\$4,807,839	\$298,872	100%	\$8,716,082
Updated Comparator - Apr 99 (Updated H&A estimate)	\$4,807,839	\$215,050	72%	\$7,619,943
Final Comparator - (Final figures used by Fort Smith P3 evaluation committee)	\$4,807,839	\$259,708	87%	\$8,203,912
Proponent's bid	\$4,730,000	\$297,512	100%	\$8,548,124

1. *This chart focuses on the O&M component, because that is the component that changes with the different versions of the comparator. See Exhibit E-1.*
2. *Present value calculated from the Fort Smith Comparator comparison model, provided by Keith Garratt/Coles Associates Ltd. The main assumption is a 6.45% discount rate.*

We make the following observations:

- It is clear, both from our interviews and from a review of the evolution of the Fort Smith Comparator, that both the GNWT and the quantity surveyors had much more experience estimating capital costs than annual O&M costs. The capital costs in the Comparator remained unchanged, while substantial revisions were made to the O&M costs. Some of the changes reflected the correction of errors, but others reflected a lack of any track record for estimating what O&M costs might be. Some of the O&M cost components in the Final Comparator essentially reflect the consensus judgement of the P3IT, rather than the results of a documented series of research and analytical steps.
- Some of the adjustments to the Comparator were effectively bringing it from the concept of a “development price”, i.e., a Comparator in the sense that we have defined it in Chapter XIII, to a Reference Bid, in the sense that we have used that term in Chapter XIII. In particular, there were efforts to understand and price the risk that was being shifted from the government to the private sector through the P3 process.

B. The Treatment of Risk in the Comparator

In the following paragraphs, we discuss the treatment of risk in the GNWT Comparator. Before discussing those risk items that were ultimately included in the Comparator, we first describe:

- The risks that were identified as part of the project.
- The approaches of the private sector and government to managing and accounting for risk.

1. Identified Risks

A number of risks associated with the Fort Smith project were identified by the Government and the private sector, such as:

- Cost overruns during development, design and construction.
- Unexpected operation and maintenance costs (the potential increases to the cost of electricity, water, sewage, unexpected equipment or building repair, inflationary pressure on wages or other supplies).
- Demand/occupancy risk.
- Regulatory changes.
- Technology and the risk obsolescence.
- Environmental risks due to the Northern climate.
- Financing risks (including lessee default).
- Property taxes.

2. Approaches to Managing and Accounting for Risk

Broadly speaking, projects incur similar risks regardless of who manages them – the risks are inherent in the project. However, the private and the public sector have quite different approaches to managing risk, which we summarize below.

i) Private Sector Approach to Managing Risk

A private sector bidder could use three methods to mitigate risk:

- Design to avoid or reduce risk.
- Insure against it directly.
- Build in a premium in the costing.

The private sector bidder would need to recover the cost of any of these approaches in its bid; as insurance, an explicit cost for a hedge, additional capital or operating items, or buried in the cost estimates of the individual components.

ii) Public Sector Approach to Managing Risk

Governments often do not explicitly account for the risks that they bear. Many governments self-insure (although GNWT purchases commercial insurance). In any event, the public sector tends not to allocate a number of overhead costs and central costs, including both insurance and other risk management activities, against its individual projects and activities.

One consequence is that government staff, preparing Comparators and Reference Bids, often are unfamiliar with the concept of costing and pricing risk, and must make a concerted effort to explicitly account for them. This is important because part of the benefit of a P3 to government is that it shifts risks from government to the private sector, which will seek to recover the costs of the risk they are assuming. If governments are not explicit about the value to them of no longer bearing the risks that are being shifted, they will bias the comparison between the two approaches. This issue becomes increasingly relevant as the focus shifts from a pure Comparator, as we have defined the term, to a Reference Bid.

3. Comparator's Inclusion of Risk

The cost of some risks were built into the Comparator in its original form, and more were incorporated as the Comparator evolved towards a Reference Bid. Below, we describe the contingencies that were included directly in the Final Comparator, and comment on the appropriateness of some of these risk adjustments:

- Operating and maintenance cost risks. The calculations used in the model that compares the Final Comparator with the bids allocated an automatic 10% (of the annual operating and maintenance) amount to the Comparator. This value of

10% was provided by KPMG in its role as a provider of specialized advice to the GNWT, and was based on our general experience. Note that previous versions of the Comparator (not used), and the proponent's entry (used), have an explicit figure of 1% rather than 10%.

- Capital cost contingency (at a rate of 5% of the land, building, FF&E and soft costs). This contingency was also implemented explicitly in the model, at the recommendation of Helyar & Associates, to reflect their observation of the increase between original cost estimates and after-the-fact actual costs.
- Similarly, Helyar & Associates included explicit figures for construction contingencies:
 - Design development contingency (at a rate of 5%, allowing for increased detail in the design).
 - Escalation allowance (of 7%, to allow for a 1 year delay in the construction).
 - Construction contingency (of 5%, to allow for change orders).
 - A final contingency on all soft costs (additional 5%).

By comparison, the private sector bid explicitly included the cost of one additional risk:

- Insurance premiums of approximately \$15,148 per year. Earlier versions of the Comparator had included an amount for insurance, but this was removed from the Final Comparator. After discussions with the insurance carrier to the effect that the insurance premiums of the GNWT would be unchanged whether or not the Fort Smith project proceeded in the traditional manner or as a P3.

We have the following comments:

- In our view, the various contingencies added to capital cost appear to be reasonable. We note, however, that these contingencies are effectively adjustments made to preliminary cost estimates to convert them to an estimate of the actual cost that would be borne by the government if they undertook the project through the traditional means. In our view, an additional premium is also required. This is the premium for assuming the burden of quoting a fixed cost for the P3 project, which is much less likely to be revised due to change orders, etc., than is the case in the traditional approach. We would suggest adding an

additional 2% premium to construction costs, to reflect the risk being borne by the proponent of bidding a true “fixed price contract” on the construction.

- We would take a long-run marginal cost approach to the issue of insurance. While a single Fort Smith project may be “below the radar screen” as far as overall insurance premiums is concerned, there is no doubt that sufficient project development would have an effect on aggregate GNWT insurance programs. We would suggest that the Comparator cost figures should be set at about two-thirds of the proponent’s insurance premium. This is intended to reflect the view that the GNWT can presumably purchase insurance more efficiently than the proponent, but would still bear the “loss cost” component of insurance costs.

4. GST

The proponent’s bid includes provision for GST. The Comparator, as prepared by the GNWT, does not.

The appropriate GST treatment of P3 projects is often complex. After discussions with those involved in the project, as well as preliminary discussions with our own tax experts, we do not have a clear view as to the appropriate tax treatment of GST with respect to this specific project. It is reasonable to anticipate that the government would not pay GST in procuring the project in the traditional means; the question is really how GST should be treated in the Reference Bid, i.e., whether the requirement to prepare the Reference Bid so that it is compatible with the requirements in the RFP would result in the inclusion of GST. If it were included, this still leaves unanswered the question of the magnitude and the treatment by the proponent of possible input tax credits.

Since we do not have a clear view on the appropriate treatment in this case, we have considered both perspectives. The impact is discussed in the following section.

5. Residual Value

The Comparator does not include a residual value. As we discuss in some detail in Chapter XIII, we believe that this is the appropriate treatment.

C. Our View as to the Appropriate Reference Bid

The prices quoted in the private sector bid may be broken down into the following general categories:

- 1) basic costs;
- 2) an allowance for things not yet in the plan;
- 3) an allowance for construction cost overruns;
- 4) a buffer against risk;
- 5) compensation for taking on additional risk;
- 6) insurance;
- 7) an allowance for profit;
- 8) compensation for the additional costs of preparing the qualifications and the proposal (response to RFQ and RFP);
- 9) GST; and
- 10) Residual value.

Within this framework, we discuss the changes that need to be made to the Final Comparator to turn it into a Reference Bid (as we use the term). We comment on each of these items, from three perspectives:

- Is the concept incorporated in the Comparator?
- Should it be incorporated into the Reference Bid?
- Do any adjustments have to be made to the quantification in the Final GNWT Comparator to turn it into a Reference Bid? In making this latter assessment, we have essentially taken the data in the Comparator at face value. In other words, we have done no external research to validate any of the cost estimates incorporated in the Comparator.

Exhibit E-3 summarizes this framework and our assessment.

Exhibit E-3 Developing the Reference Bid

Bid Elements	Incorporated into the Comparator?	To be Incorporated in the Reference Bid?
1 Costs	Yes; construction, operation and maintenance [Source: Helyar and Associates]	Yes
2 Allowance for things not yet in the capital cost plan	Yes; +5% (of the capital cost) for design and development contingency, +7% escalation allowance, +5% construction contingency [H&A]	Yes
3 Allowance for construction or design cost overruns	Yes; +5% (of the capital cost) [Comparator]	Yes
4 Risk contingency: a buffer to allow for uncertain future	Yes; +10% of O&M [Comparator], but was originally +1% [H&A]	Yes
5 Risk premium: compensation for taking on that risk	Not for construction. (A premium is built into the 10% O&M figure.)	+2% on Capital costs
6 Insurance	No	Yes
7 Profit allowance	Yes; taken as a portion of the management fee: +2.5% of the capital cost and +10% per year of operations and maintenance. [Comparator]	Yes
8 Compensation for preparing the proposal	No	Yes (\$50K)
9 GST	No	Unknown
10 Residual value	No	No

1. Costs and Adjustments (Elements 1 and 2)

These cost items are represented exactly in the Comparator, as estimated by Helyar & Associates and adjusted by the Fort Smith P3 evaluation committee.

After reviewing these costs with the parties involved, we believe that they form a fair basis for the costs in the Reference Bid.

2. Construction Cost Overruns (Element 3)

It is difficult to conceptually differentiate this additional 5% buffer from the construction contingencies reflected in element 2, however no additional verification was performed.

This buffer represents \$216,868 in the Comparator and \$169,908 in the Proponent's bid. We include the amount of \$216,868 in the Reference Bid.

3. O&M Risk Contingency (Element 4)

The allowance for future price risk, element (4), has been incorporated with an explicit 10% addition to the O&M costs. This 10% was added near the end of the evaluation process; the proponents used an earlier 1% figure. The 10% figure was provided in an earlier KPMG analysis, based on experience with other similar engagements.

This risk contingency has been contentious, in part because of the extreme vulnerability of projects in the GNWT to climate risk, and associated risk with respect to energy prices. We have done some simple calculations that suggest that a value of 10% is relatively conservative. We have used this 10% estimate.

4. Fixed Price Bid Risk Premium (Element 5)

This represents compensation for assuming the risk of bidding a fixed price contract on construction. While there is no fixed rule for this, we feel that a one-time amount of 2% of the capital costs is a reasonable figure, given the other layers of contingencies. A premium already exists in the 10% O&M costs.

We add a one-time amount of \$86,747 (2% of the construction costs) to the Reference Bid.

5. Insurance (Element 6)

We include an amount of \$9,846 per year, or 65% of the insurance premium in the private sector's bid.

6. Profit Allowance (Element 7)

It is expected that the private sector must budget for some profit allowance. This is represented in the Comparator by the Management Fees offered in both the capital cost and operating and maintenance schedules.

We include these figures in the Reference Bid.

7. Compensation for the Proposal (Element 8)

Our experience is that it is generally more costly for bidders to prepare a P3 proposal than a standard proposal for an equivalent project, procured in the normal government fashion. Certainly, one of the concerns that was raised by the private

sector in this evaluation was the extent to which they were being required to absorb additional cost. Accordingly, we have added a provision of \$50,000 to the Reference Bid, to reflect the incremental proposal costs associated with a P3 project.

We do not include this in the Reference Bid.

8. GST (Element 9)

As mentioned earlier, the appropriate GST treatment is unclear. Therefore two options are presented:

1. The Reference Bid does not include GST.

The Final Comparator does not include GST in either the capital costs or the O&M costs section, so no adjustment is made to convert it to the no-GST Reference Bid.

2. The Reference Bid does include GST.

To convert the Final Comparator to a GST Reference Bid, we add \$342,959 (the GST on the capital costs), add \$3,500 (GST on the cost of preparing the proposal), and add an annual \$12,750 for GST on O&M costs.

9. Residual Value (Element 10)

No adjustment is made for residual value.

10. Reference Bid

Exhibit E-4 summarizes the three versions of the Comparator, our two options for estimates of the Reference Bid, and the proponent's bid.

The final Fort Smith Comparator, prepared by the P3 Evaluation Committee was approximately \$8.20 million. The proponent's bid, at \$8.55 million, was approximately 4% higher than the Comparator.

There are two KPMG estimates of the Reference Bid (with and without GST). If GST is included in the Reference Bid, our estimate of the Reference Bid is \$9.01 million, approximately 5% higher than the proponent's bid. If GST is not included, the Reference Bid is estimated at \$8.50 million, less than 1% lower than the proponent's bid.

Exhibit E-4
Comparator, Reference Bid, and Proponent's Bid

	Capital Costs	Annual O&M	Resulting Present Value¹	Proponent's Bid as % of Comparator
Comparator—Sept 98 (Original H&A estimate)	\$4,807,839	\$298,875	\$8,716,082	98%
Comparator—Apr 99 (Updated H&A estimate)	\$4,807,839	\$215,050	\$7,619,943	112%
Comparator—Final (Final figures used by Fort Smith P3 evaluation committee)	\$4,807,839	\$259,708	\$8,203,912	104%
KPMG estimate of Reference Bid (GST included)	\$5,295,876	\$284,372	\$9,014,466	95%
KPMG estimate of Reference Bid (no GST)	\$4,949,416	\$271,621	\$8,501,279	101%
Proponent's bid	\$4,730,000	\$297,512	\$8,548,124	100%

¹ Present value calculated from the Fort Smith Comparator comparison model, provided by Keith Garratt/Coles Associates Ltd. The main assumption is a 6.45% discount rate.