



CITY POLICY

POLICY NUMBER: C555

REFERENCE:

ADOPTED BY:

City Council
26 May 2010

SUPERSEDES:

New

PREPARED BY: Finance and Treasury Department

DATE: 7 May 2010

TITLE: **Public Private Partnership (P3)**

Policy Statement:

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The City of Edmonton is committed to achieving value for money in public infrastructure and service delivery while ensuring the public interest is protected and Council's priorities are met. Public Private Partnerships (P3s) will be considered where the P3s will serve to:

- a. deliver improved services and better value for money through appropriate allocation of resources, risks, rewards and responsibilities between the City and private sector partners
- b. enhance public benefits through clearly articulated and managed outcomes
- c. leverage private sector expertise and innovation opportunities through a competitive and transparent process
- d. create certainty around costs, schedule, quality and service delivery; and
- e. optimize use of the asset and included services over the life of the P3

The Public Private Partnership (P3) Policy will apply to large scale (2010 benchmark –\$30 million), complex public infrastructure projects.

The purpose of this policy is to:

Guide the City's approach to evaluating and pursuing potential P3s. The Policy provides process certainty and clarity for all stakeholders throughout a P3's life cycle by ensuring a consistent framework for selection, evaluation, approval, delivery and monitoring of P3s.



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1. DEFINITIONS

- 1.01 Private Entity** is any non government organization from which the City may procure infrastructure and/or services. Not-for-profit partnerships are not considered Private Entities in this policy.
- 1.02 Private Financing** is cash flow advanced in the form of debt or equity investment in the project by the Private Entity to fund any portion of the capital costs and operating or associated carrying expenditures of the P3 project.
- 1.03 Public Private Partnership (P3)** is a long term contractual arrangement between the City of Edmonton and a Private Entity to deliver priority infrastructure and some or all related services by proper allocation of resources, risks, rewards and responsibilities. The Private Entity partner will be responsible to design, build, operate and/or maintain the infrastructure and provide a component of Private Financing.
- A long term design build operate and/or maintain project without Private Financing is not considered a P3. However, the development and management of this project may follow this policy as Administration deems necessary.
- 1.04 Public Sector Comparator (PSC)** is a risk adjusted estimate of a project's costs and benefits as if it were delivered under the most efficient form of traditional delivery model by the City. It includes the best estimate of full life cycle costs, benefits and risks over the contract term.
- 1.05 Shadow Bid** is a risk adjusted estimate of a project's costs and benefits to be developed as if the project were delivered as a P3. It includes the best estimate of full life cycle costs, benefits and risks over the contract term.

2. P3 GUIDELINES

2.1 Guiding Principles

P3s will only be considered when the following conditions are met:

2.1.a) Alignment with City priorities is achieved

- The project is aligned with the City's corporate plans and emerging priorities and strategies.

2.1.b) Public Interest is protected

- Delivery of public infrastructure and services by a Private Entity including the appropriate engagement of stakeholders is considered only when the public interest can be protected.
- Public interest must be thoroughly examined and discussed. The assessment of public interest includes the impact of the P3 on service objectives and quality,



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affordability, public access, health and safety, user rights, security, privacy and public input.

- Public interest will be ensured by securing private sector commitment to deliver specified outcomes through clear and enforceable performance arrangements over the P3 contract term.
- The community will be well informed about the obligations of the City and the private sector.
- Public interest will be protected through establishment of mechanisms to respond to changing needs of the City and users over the P3 contract term.

2.1.c) Value for money is demonstrated

- The P3 will be pursued if it is likely to deliver better value for money for the City and the users than traditional delivery methods.
- Value for money is a balanced assessment of quantitative and qualitative factors (e.g. economic environment, private sector expertise, risk profile, administrative considerations). The quantitative assessment of value for money is the difference between the risk-adjusted net costs to the City of traditional delivery (Public Sector Comparator) and the P3 method (Shadow Bid) using the net present value technique.
- A P3 has potential to deliver value for money where:
 - risks and rewards can be designed to create incentives for cost-effective, high quality services
 - there is scope for the private sector to demonstrate particular expertise and/or innovative capacity
 - there is adequate market interest and capacity to ensure benefits of competition are met
 - there are significant ongoing long term efficiencies to be gained from integration of design, construction, operation and/or maintenance
 - infrastructure and service needs can be defined by measurable outputs
 - payments can be performance based and linked to specified P3 outcomes
 - Private Financing can be designed to encourage the Private Entity to meet its contractual obligations
 - the project size justifies the transaction and ongoing management costs
 - mechanisms can be designed to ensure value for money is maintained over the life of the P3

2.1.d) Risks are identified, effectively shared and managed

- All project risks (e.g. construction, financing, schedule) are identified and assessed to ensure effective risk management.



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- Risks can be allocated to the party best able to manage the risk at the least cost (while protecting the public interest) and the party has discretion on how to address the risk.
- Risk allocation between the parties is clear and enforceable with consequential financial outcomes.

2.1.e) Private sector is appropriately engaged

- Private sector confidence will be maintained through efficient and timely assessment, project authorizations and competitive procurement processes.
- P3 processes and outcomes will be transparent, protect commercial confidentiality and meet legislated privacy requirements.
- Transparency must not harm the competitive process or the City's negotiation position and must not discourage Private Entity participation.
- Procurement plans and evaluation guidelines will be developed to effectively assess the proposals and select the successful Private Entity.
- Unsolicited proposals may be considered as input in P3 project plan development only.
- Administration will not sole source any P3 contract.

2.1.f) Appropriate governance and accountabilities are established.

- The P3 governance (i.e. processes and structures) will:
 - perform policy conformity review and oversight to ensure transparency, due diligence and the protection of the public interest
 - ensure thorough assessments are completed and efficient approval processes are in place
 - fit the project scope, scale, complexity and the differing needs of each stage of the P3 to permit effective and efficient project management, issue resolution and timely decision making
 - support appropriate delegation to deliver P3 specified outcomes
 - establish project management and reporting accountabilities
 - consider requirements of key stakeholders and external and internal resources
 - support access to best practices and independent advice
 - support formal and ongoing communications between stakeholders to facilitate delivery of their roles
 - require an audit trail through the maintenance of records
 - ensure open and transparent financial accounting and reporting
 - include a structure with the following elements:
 - Council review of P3 assessments, approval and monitoring
 - Steering Committee
 - provides oversight throughout the P3 process
 - provides strategic direction and decides on issues brought forward by the Project Chair



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- ensures the project team has adequate resources and direction for project delivery
- receives progress reports at key decision points from the Project Chair
- Project Team (multidisciplinary)
 - is tailored to the differing needs of each phase of the P3 process
 - lead by Project Chair
 - assesses, procures and delivers (i.e. design, construction, maintenance or operation), monitors and reports on the P3 performance
- Independent Fairness Advisor
 - observes and provides written reports on the P3 procurement process to the City Manager
- Corporate P3 Function
 - independent of the project team
 - provides process advice
 - performs P3 oversight

2.2 Process

P3s will follow a three phase process, as illustrated in Appendix 1, including:

- Phase 1 - Assessment and Approval (identify possible projects; critically assess high potential projects; obtain Council approval)
- Phase 2 - Procurement (undertake rigorous competitive process; award contract)
- Phase 3 - Contract Management (delivery, ongoing performance management and end of contract strategy)

Administration will proceed through procurement and award a contract only upon receipt of all required Council approvals.



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Appendix I – P3 Project Process Lifecycle & Approval

