



Why Wait in Line?

Opportunities to Improve Government Services and Infrastructure in Newfoundland and Labrador

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NEWFOUNDLAND & LABRADOR
employers'
COUNCIL

MESSAGE FROM THE NL EMPLOYERS' COUNCIL

The NL government is currently faced with two extremely difficult problems.

The first problem is financial. Our province is faced with a \$2 billion deficit and \$12 billion in net debt. If nothing is done we will continue to run large deficits every year for the next five years – driving our net debt to an unthinkable \$23 Billion dollars by 2020. The second problem we face is demographics. We have the oldest and most rapidly ageing population in the country. Because of this the demands placed upon our public services, like health care, will **increase** not decrease.

It's the perfect storm – shrinking revenue and increasing demand. Both Premier Dwight Ball and Finance Minister Cathy Bennett have said that “The status quo is unsustainable.”

So what is government to do?

The NL government can achieve cost savings in many areas, while maintaining public services and even **improving** service quality, by partnering with the private and not-for-profit sectors in the delivery of government services and infrastructure.

The private and not-for-profit sectors are already involved in the delivery of many government programs, services and in building all of the infrastructure in our province. But we need to look for new opportunities, to expand those relationships and to strengthen partnerships between government and the private and not-for-profit sectors to maximize their value to the public.

The benefit of partnerships is that they can take advantage of each party's strengths in order to provide better outcomes for citizens, greater value for taxpayer's dollars and allow government to focus its limited capacity on regulation and core government functions. By introducing more competition and diversity into public services, government can help spur economic growth while increasing its capacity to meet the growing demands of the population.

The NL Employers' Council is concerned that the conversation in this province about partnership with the private sector has not been a balanced one. We commissioned this study to help better understand what opportunities are out there, and to ensure that the benefits, barriers and responsible guidelines for implementation of such partnerships are made available to government and the public so that we can have a balanced dialogue.

Given the perfect storm we are facing as a province, we can't afford NOT to consider partnerships as a part of the solution. Not considering partnerships would be irresponsible.

Change is going to happen. Government can change the old fashioned way and make cuts across the board and increase taxes. Or they can be creative.

While partnership with the private sector may not be the entire solution, it could easily be a key part of that overall solution. We encourage everyone in the province to seriously consider the benefits partnerships can bring.

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EXECUTIVE SUMMARY

Flexibility in how the province of Newfoundland and Labrador develops and delivers its public sector infrastructure and services both now and in the future is essential for the province's long-term success.

In 2016, the Newfoundland and Labrador economy is expected to decline in the short to medium term. In the past year, the province's finances and overall economy have been drastically impacted by decreased oil revenues. Real gross domestic product (GDP) is forecast to decline by 2.6 per cent due to lower oil prices and lower production. As of December 2015, the projected deficit billion for 2015-16 is estimated at \$1.96 billion. Newfoundland and Labrador is not only facing short term challenges. Net debt is expected to increase to more than \$12 billion in 2015-16 and is projected to increase to nearly \$23 billion as of 2020-21. In 2017 and 2018, economic growth is expected to be constrained by declines in capital investment and lower employment from completion of large scale projects.

The new Liberal government has committed to fiscal responsibility and long-term stability. Premier Dwight Ball, during the 2015 midyear fiscal update stated, "This province is facing an extremely difficult fiscal reality. Understanding this new reality, correcting the course and moving forward with stronger fiscal management is my government's top priority." He also stated that "Status quo is not an option."

To meet these challenges, the private and public sector as well as the population as a whole, must re-evaluate the fundamental role of the public sector in service delivery and seek new business models. The focus must be shifted away from traditional processes and instead consider how to best achieve

desired outcomes. In Newfoundland and Labrador, the need to engage in a debate as to how best to deliver public sector infrastructure and services is clear.

The Newfoundland and Labrador government can achieve cost savings in many areas, without sacrificing service quality, by partnering with the private and not-for-profit sectors. This will involve examining and exploring non-traditional delivery models such as Alternative Service Delivery (ASD) and Public Private Partnerships (PPP) for the provision of government infrastructure, programs and services. In some cases the public sector will continue to deliver the services, while in other cases there will be partnerships with the private or not-for-profit sector. The purpose of this report, commissioned by the Newfoundland and Labrador Employer's Council, is to identify the good practices and the case for engaging in these public and private sector partnerships. We hope this report will start the debate, while at the same time serve as a roadmap for the identification and evaluation of PPP and ASD models associated with the more effective provision of government infrastructure, programs and services.

Newfoundland and Labrador is not alone in considering the need for ASD and PPP models. There is a global trend of increased usage of these models, visible at the municipal, regional and national levels and across government functions (front, back and middle office).¹ The appropriateness of ASD and PPP models is also context specific; some areas of public service delivery are not suitable for private sector involvement. However, for many public services, the introduction of a new delivery model can confer numerous benefits. In this report, we explore both the benefits and barriers to using

¹ Hjartason, J., McGuinty, L. & Schwenger, A. (2014). *Unlocking the Public Service Economy in Ontario: A New Approach to Public-Private Partnerships in Services*. Ontario Chamber of Commerce.

these models in Newfoundland and Labrador. Specifically we address the question - *What is the best approach to develop and deliver public sector infrastructure and services through ASD and PPP models in Newfoundland & Labrador?* We explore how to improve efficiencies, outcomes and reduce costs through the provision of ASD and PPP models. There was also an identification of opportunities in Newfoundland and Labrador for similar delivery models. We reviewed close to 60 studies from economies similar to Newfoundland and Labrador, with comparable challenges, focusing on identifying common themes and issues. We also consulted and interviewed a number of individuals in the private and public sector about the benefits and barriers to developing and delivering ASD and PPP models.

Overall, we found that championing ASD and PPP models allows governments to focus on policy design and define desired outcomes. At the same time, ASD and PPP models can foster competition between service providers and harness the private sector's capacity to innovate and find efficiencies. Other provinces are clearly ahead of Newfoundland and Labrador in the provision of ASDs and PPPs. As a result, there are many lessons that can be learnt by Newfoundland and Labrador from other jurisdictions and good practices that can be followed.

The key finding is that encouraging different models for the provision of infrastructure and service delivery in the public sector allows for flexibility in responding to changing circumstances. Moreover, ASD and PPP models are not a divestment of government responsibility for the delivery of public goods; instead it is a partnership with the private and other sectors. Partnership is essential for success. ASD and PPP models do not mean the elimination of public sector and/or unionized jobs. Instead, ASD and PPP models allows for both the public and private sector to focus on what they do

best; be it policy development or management of processes and deliverables.

Within Canada, provinces such as Ontario, British Columbia and New Brunswick already have specific parts of government dedicated to examining and evaluating ASD and PPP models. In Newfoundland and Labrador, there has been limited specific examination of the role of these models in implementing government policy and objectives. As a result, we found a number of challenges to the provision of ASD and PPP models with attitudinal issues and negative perceptions being the main barriers. Negative perceptions of ASD and PPP models can be traced to:

- Confusion between ASD/PPP models and privatization;
- Resistance to the private sector profiting in the provision of public goods;
- High profile failures of ASD and PPPs elsewhere, in concert with minimal promotion of the successful examples in Newfoundland and Labrador; and
- High levels of policy and demand uncertainty also cause issues around the use of non-public service delivery models

Attitudinal and negative perceptions of ASD and PPPs can be overcome with the knowledge that there are numerous examples of where these delivery mechanisms have worked in provinces such as Ontario, British Columbia and Nova Scotia. There is much that Newfoundland and Labrador can do to develop its own specific models partnerships with the private sector in the delivery of services and infrastructure. One of the methods to overcome these attitudinal barriers is to promote the use of ASD and PPP models that serve to encourage innovation, entrepreneurship and productivity improvements such as the use of technology, performance metrics and risk-sharing.

Based on research and good practice, the need to focus on the benefits of ASDs and PPPs for Newfoundland and Labrador was clear. We found that there are numerous potential benefits to the further adoption of ASD and PPP models in Newfoundland and Labrador including:

- Fostering innovation and improving productivity and service levels;
- Strengthening accountability and provide the public/users with a greater voice;
- Sharing/Transferring risk to the private sector;
- Reducing the costs of public service delivery;
- Enabling government to focus its capacity and resources; and
- Driving commercial activity including exports.

Moreover, there have been success stories. Traditional areas where ASD and PPP models have had success based on our review of the research and good practice include:

- Social housing
- Waste management
- Transit
- All types of accommodation
- Water and wastewater facilities
- Street lighting
- Road construction
- Food services
- Liquor/Beverage sales
- Back office and mid office support
- Accounts payable and receivable
- Administration
- Laboratory testing
- Some elements of healthcare

We were encouraged by the evolution of policies, procedures and good practice models in jurisdictions such as British Columbia with the development of the ASD Secretariat in British Columbia and in Ontario with Infrastructure Ontario. There is much good practice that

Newfoundland and Labrador can look to in order to develop more robust ASD and PPP models within the province.

At the same time, it is also important to recognize that developing good practice around ASD and PPP models is very context specific; what works in Ontario and British Columbia with their larger populations and, for the most part, more favourable demographics may not work here. As a result, a targeted, step-by-step approach may be needed for long-term success. Initial opportunities for ASD and PPP models in the province of Newfoundland and Labrador include:

- Motor vehicle registration
- Low risk transactional health services such as blood collection & laboratory testing
- Diagnostic imaging services
- Construction & facility maintenance of public buildings
- The importation & sale of beverage alcohol
- Land registration, and other similar licenses and registries
- Food services, laundry services, janitorial and other support functions within government run facilities
- Back office technical support functions like information technology (IT) support and email hosting
- Long term care facilities

As these opportunities are further qualified and explored, steps to successful implementation of ASD and PPP models in the province of Newfoundland and Labrador include:

1. Educate, inform, make the public knowledgeable about the benefits and barriers to ASD and PPP models
2. Publicize the successful examples of ASD and PPP models in order to generate greater public support

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3. Champion ASD and PPP models. Senior government officials in Newfoundland and Labrador must show sustained leadership, particularly through the transition phase of any ASD and PPP models
 4. Make procurement for ASD and PPP models solutions-focused and collaborative
 5. Ensure bureaucratic incentives and processes are aligned to support the implementation of ASD and PPP models
 6. Start with small, quantifiable projects and services that both the private and public sector can see improvements and value for money
 7. Contracts should be of an appropriate length – longer in cases where high up-front capital costs must be taken on by the service provider. Contracts should have performance contingent escape clauses on both sides
 8. Include pay-for-performance provisions in ASD and PPP agreements
 9. Governance and risk - there is a need to have an independent entity within the government, akin to a function such as the Auditor General, responsible for developing and implementing ASD and PPP models
 10. Conduct an audit - Newfoundland and Labrador, in the partnership with the private sector, should conduct an audit as a means of identifying areas where the public would benefit from the introduction of ASD and PPP models. Government should make the results of the audit public
 11. Phased implementation - Implementation should be done in phases – tackle less complex service transformation to start, recognize the political sensitivities associated with adopting new service delivery models and the need to build up capacities to design and procure them.

Implementation of ASD and PPPs can create incredible scope for innovation, entrepreneurship and productivity improvements in a large portion of the economy over which there is direct control from government. At the same time, if these potential innovation, entrepreneurship and productivity improvements are not harnessed, significant barriers to future prosperity in Newfoundland and Labrador may emerge including:

- Fiscal – debt, a rising debt to GDP ratio %;
- Rising expectations and demand for services as the public ages, workforce shrinks and the economy, overall, restructures; and
- The need to change public spending or face limited future financial stability.

Newfoundland and Labrador must develop its own approach to the provision of ASD and PPP models building upon the good practice and success stories that have been seen elsewhere. The province must learn from other jurisdiction's failures. Focusing on both the benefits and barriers to the development of ASD and PPPs can encourage much innovation and ensure long-term financial sustainability within Newfoundland and Labrador. At the same time, ASD and PPPs can encourage better risk transfer and value for money.

There are many benefits to both the public and private sectors in Newfoundland and Labrador through the encouragement of more ASD and PPP models. Both the private and public sector should have the courage and strategic foresight to examine and explore the benefits and barriers in their implementation for the future success of the province of Newfoundland and Labrador.

INTRODUCTION

Why Wait in Line? Opportunities to Improve Government Services and Infrastructure in Newfoundland and Labrador

The Newfoundland and Labrador government faces fiscal, demographic and capacity challenges in its delivery of services in the near to medium term future.

With lower demands and prices for oil and gas in 2016 and beyond, the Newfoundland and Labrador economy is expected to decline.² Real gross domestic product (GDP) is forecast to decline by 2.6 per cent due to lower oil prices and lower production. The provinces oil revenues for 2015-16 are less than half of what was estimated in budget 2015-16, at \$551.8 million versus \$1.2 billion as budgeted. Other tax revenues have also declined by a net of \$227.0 million. As of December 2015, the projected deficit for 2015-16 is estimated at \$1.96 billion.³

The new Liberal government has publicly committed to fiscal responsibility and long-term stability. Premier Dwight Ball, during the 2015 midyear fiscal update stated, "This province is facing an extremely difficult fiscal reality. Understanding this new reality, correcting the course and moving forward with stronger fiscal management is my government's top priority."⁴ He also stated that "Status quo is not an option."⁵

The 2015 provincial budget announced the removal of 1,420 positions in the public service in a five-year attrition plan, the job reductions saving government \$300 million by 2020. The current government included this attrition plan in their mid-year fiscal update projections in December 2015.

Although there will be attrition, the Newfoundland and Labrador provincial government, like all governments, wants to ensure the services provided by the public service are still good quality

for the people, while keeping well-trained and capable staff. The provincial government's attrition plan will include providing departments with new work plans to ensure services remain at the same standard.

At the same time, Newfoundland and Labrador is confronting an aging population as well as skills shortages that require public investment. There has also been an increased demand for social programs designed to help citizens adjust to the structural shifts in the labour market. While revenues decreased in 2015, program expenses were \$47.8 million more than budgeted – largely due to an increase in public sector pension and post retirement liabilities. The result is a dilemma – how do we, as a province, meet new and growing demand on public services while addressing the deficit and debt?

Spending reductions alone will not solve the province's woes. Attrition is a difficult model to ensure that the province meets its demand for service delivery and infrastructure. Moreover, the province risks a credit rating downgrade if further action is not taken to address Newfoundland and Labrador's debt and deficit. Further downgrades would drive up the cost of borrowing and erode confidence in the overall economy.

Along with dealing with a deficit, the provincial government faces longer term pressure on its debt. The last two years have seen significant increases in net provincial debts. Put very simply, net debt is the money you owe minus the money you have - liabilities minus financial assets. For example, if you have \$1000 on your credit card, and \$500 in your savings account, your net debt is \$500. While Net Debt declined - from a high of \$11.9 billion in

² http://www.conferenceboard.ca/press/newsrelease/15-02-23/economic_growth_in_newfoundland_and_labrador_to_decline_for_second_consecutive_year_in_2015.aspx

³ http://www.fin.gov.nl.ca/fin/publications/2015_mid_year_update.pdf

⁴ <http://www.releases.gov.nl.ca/releases/2015/exec/1222n02.aspx>

⁵ <http://www.cbc.ca/news/canada/newfoundland-labrador/fiscal-update-newfoundland-labrador-1.3376486>

2004-05 to \$7.8 billion in 2011-12 (a decline of 34 per cent), since then net debt has increased to more than \$12 billion for 2015-16. If nothing is done, net debt is projected to increase to nearly \$23 billion as of 2020-21. Expenses are forecast to be about \$2.1 billion higher during that period, for the most part due to increases in debt servicing costs. In 2017 and 2018, economic growth is expected to be constrained by declines in capital investment and lower employment from completion of large scale projects. With these economic pressures will also come the pressure to control the net provincial debt and public sector spending.

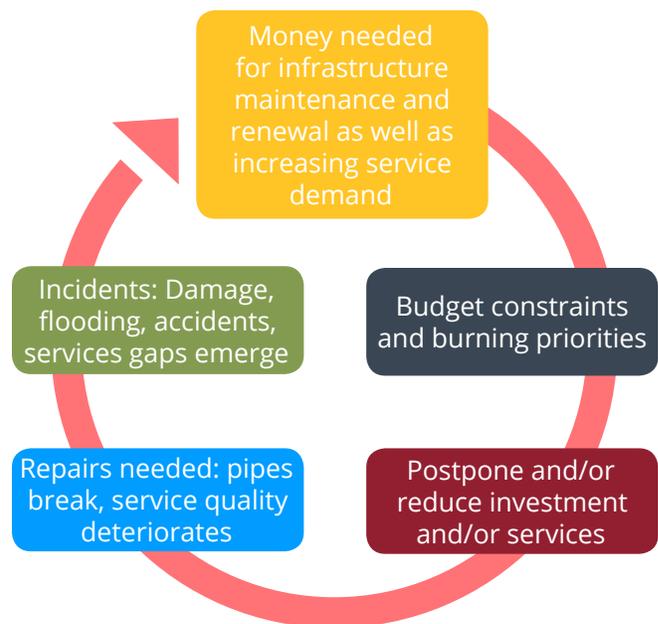
Controlling the debt also means ensuring that the public sector is the optimal size to deliver services and infrastructure. Governments, such as the province of Newfoundland and Labrador, are under increasing pressure to improve public sector performance and, at the same time, contain expenditure growth. While factors such as ageing populations and increasing health care and pension costs add to budgetary pressures, citizens are demanding that governments be made more accountable for what they achieve with taxpayers' money. The public sector faces challenges with innovation, service quality and risk as well as value for money. As a result, a high percentage of public sector activity puts pressure on the long-term sustainability of provincial public financing and spending

The province of Newfoundland and Labrador also faces significant fiscal and operational challenges associated with the delivery of many government services. As a province, it is not alone in this challenge. Newfoundland and Labrador, like many governments, can be seen as "caught in an unsustainable position between the desire to deliver better public service outcomes and the unaffordability – and often the ineffectiveness – of

doing so using today's ways of working" (Accenture, 2012). This can be further classified as the 'vicious circle of public sector delivery.

In this 'vicious' circle, money is needed for infrastructure, maintenance and renewal as well as increasingly for the satisfaction of higher service demands from the general public. However, budget constraints and other burning priorities (some political) means that government is forced to postpone and/or reduce investment in infrastructure and/or the quality and scope of service delivery. As a result of this postponement and reduction, repairs are needed, for example, pipes break and buildings deteriorate. Moreover, service quality is compromised and the scope of services that can be offered by the public sector is lessened. As service delivery and infrastructure investment is compromised, incidents occur, including damage to buildings such as flooding, accidents and gaps in the level of services are more apparent. Finally, as a result of these incidents, further money is needed to address these issues, and the cycle continues.

Figure 1: The Vicious Circle of Public Infrastructure and Services



To meet these challenges, the private and public sector as well as the population as a whole, must re-evaluate the fundamental role of the public sector in service delivery and seek new business models. The focus must be shifted away from traditional processes and instead on how best to achieve desired outcomes. In Newfoundland and Labrador, the need to engage in a debate as to how best to deliver public sector infrastructure and services is clear.

The Newfoundland and Labrador government can achieve cost savings in many areas, without sacrificing service quality, by partnering with the private and not-for-profit sectors to deliver public services. This will involve examining and exploring new delivery models such as Alternative Service Delivery (ASD) and Public Private Partnerships (PPP) for the provision of government infrastructure, programs and services. In some cases the public sector will continue to deliver the services, while in other cases there will be partnerships with the private sector.

Public sector infrastructure and services have been delivered by the private and other sectors for at least the last forty years. Traditionally, the prioritization of activities that could benefit from the provision of alternate delivery mechanisms is usually based on the need for innovation, cost efficiency, risk management and sustainability. Options for service delivery range from not delivering the service at all to letting the market deliver it. Third parties (e.g. private sector, social enterprises and municipalities) have been involved in the delivery of public services. Where the decision is to involve a third party, the underlying commercial reality of the service (e.g. value,

governance, operations, and risk transfer, staffing and service quality) will drive the use of different commercial delivery models.⁶

There are many examples of where traditionally public sector services are now being offered by the private and not-for-profit sectors. Examples in Newfoundland and Labrador include garbage collection, housing and some elements of the health care system including retirement homes. Still, public sector spending continues to increase; making up approximately 20 percent of Canada's GDP, with the public sector comprising 25 percent of employment (OECD 2014). The need to evaluate where there can be opportunities to engage in increased private sector involvement in the delivery of services is important for not only cost control but also for innovation, risk transfer as well as productivity and service improvement (Hjartason et al. 2014).

Newfoundland and Labrador is not alone in considering the need for ASD and PPP models. There is a global trend of increased usage of these models, visible at the municipal, regional and national levels and across government functions (front, back and middle office) (Hjartason et al. 2014). The appropriateness of ASD and PPP models is also context specific. Some areas of public service delivery are not suitable for private sector involvement. However, for many public services, the introduction of a new service delivery model can confer numerous benefits. In this report, we explore both the benefits and barriers to using ASD and PPP models. Specifically we address the question - *How do we, as the province of Newfoundland and Labrador, consider what is the best method to develop and deliver public sector infrastructure and services?*"

⁶ PwC (2013) *Alternative Service Delivery Models: Impact on Internal Audit*

APPROACH TO THE STUDY

In this report, there is an exploration, identification and explanation of the options for and good practices associated with involvement of the private and not-for-profit sector in the provision of public infrastructure and services including:

- Publicly funded – privately delivered services such as ASD;
- Outsourcing; and
- Public private partnerships

The aim of the report is to evaluate the advantages of ASD and PPP models. Ultimately the goal is to improve efficiencies, outcomes and reduce costs to tax payers in the province of Newfoundland and Labrador. Specifically, we identify opportunities in Newfoundland and Labrador for utilization of these models.

We conducted an analysis of ASD and PPP models throughout Canada and the rest of the world with similar economies. This included a review of empirical, academic studies as well as identification of good practices. In total over 60 studies were reviewed including a number of meta-analyses. We also conducted a number of interviews with current private sector providers of what was initially considered public sector services, to understand the barriers as well as critical success factors in the development of ASD and PPP models for the provision of government infrastructure, programs and services. Finally, we consulted with a number of public sector officials as to the barriers to engaging in ASD and PPPs in the province of Newfoundland and Labrador.

Indicative studies from around the world that were consulted as part of this report include:

Table 1: Indicative Studies

Study	Sample	Results
UK – Controller and Auditor General	37 Capital Projects	Traditionally procured: 73% had cost overruns, 70% had delays
UK – HM Treasury	61 Operational PPP projects	12% had delays, none incurred construction cost overruns that were borne by the public partner
Australia – The Allen Consulting Group report to Infrastructure Partnerships Australia	33 traditional capital projects and 21 PPPs	Traditional: from original approval of the project to final actual cost, cost overruns of 35.3% PPP: during the same period, cost overruns of 11.6%
Canada – Conference Board of Canada	19 PPP projects	Cost savings measured between 1% and 61% relative to traditional procurement 17 projects delivered early or on time. 2 projects delivered up to 2 months late
The Serco Institute	Conducted the largest ASD study ever performed to determine whether the private delivery of public services resulted in cost-savings - in a review of over 200 reports on ASD from 12 different countries	Average cost savings totaled nearly 20%

We were specifically led by detailed analysis that emerged from Ontario in the form of *Unlocking the Public Service Economy in Ontario: A New Approach to Public-Private Partnership in Services* as well as *Public Sector Problems, Private Sector Solutions* both from the Ontario Chamber of Commerce. These reports, which compiled both good practice and a detailed evaluation of what could work in Ontario, inspired much of our thinking.

SETTING THE CONTEXT FOR ASD AND PPP MODELS

There has been much research on the types as well as the advantages and disadvantages of ASD and PPP models for the provision of government infrastructure, programs and services. Governments around the world have experimented with a number of innovative forms of private and not-for-profit sector involvement in public service delivery. Research shows that there is a wide spectrum of types of non-public sector delivery models ranging from privatization to service consolidation. ASD and PPPs are just two approaches to a wide range of approaches to better deliver services and provide infrastructure.

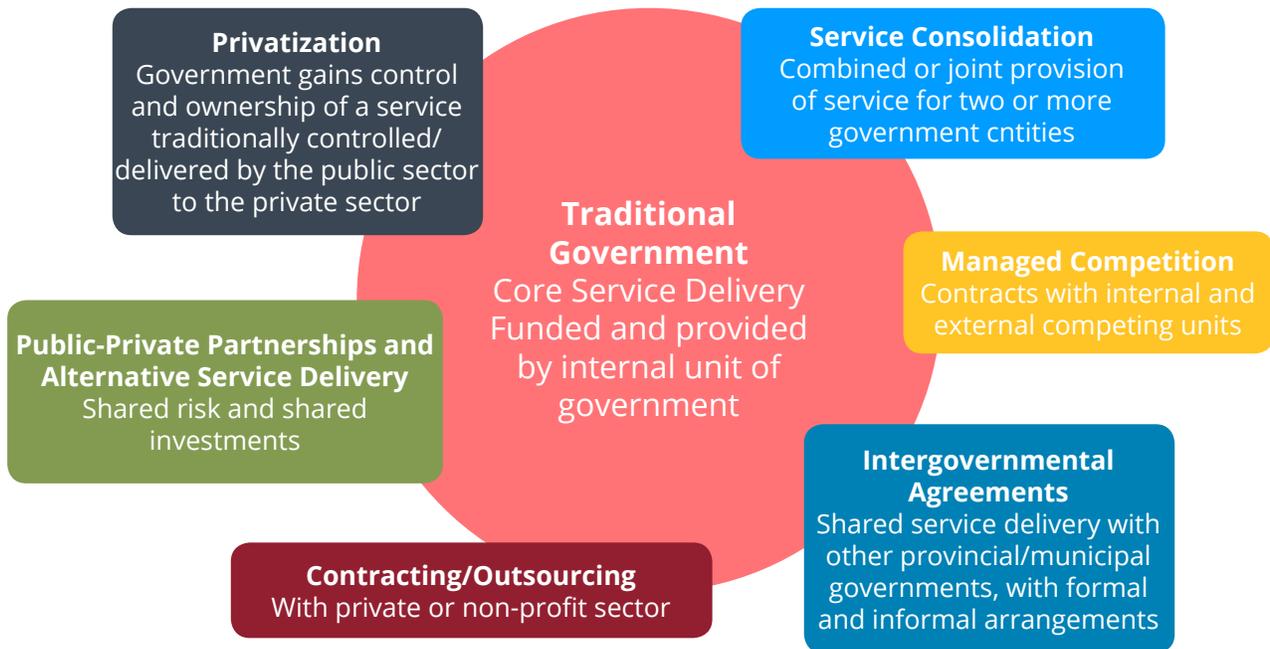
In Australia, a country that has generally been recognized as being at the forefront of the development and implementation of ASD and PPP models, a total of 10 percent of government infrastructure procurement is now in this form, whereas in the United Kingdom this figure is slightly higher, at 15 percent. Over time and with experience, the Australian Government has learned that the real benefit of such an approach comes not only from the obvious ability to control costs, but from the ability to deliver superior value for the funds expended. In addition, the higher levels of due diligence associated with the private sector equity financing has had a positive effect on many project outcomes. While the private sector financing costs associated with some projects can be higher, advocates suggest these costs are partially offset by other project efficiencies.

In the United Kingdom, the first PPP projects were started in the early 1990s and, even with the change in governing party, there was a steady increase

in their use and application. In the U.K. most associated activities were being branded under the Private Finance Initiative (PFI). In addition to PFI, the UK also makes significant use of other types of PPP, such as joint ventures, concessions and information and communication technology (ICT) PPPs. As a result, the number and value of closed PPP projects in the UK remains high - by international standards. After 1997 much of UK government policy in this area was shifted, by varying degrees, to Scotland, Wales and Northern Ireland. As a result, while HM Treasury continues to retain overall control over tax and spending levels, the choice over how most of the money is spent within the aforementioned areas, and the procurement route chosen, is a matter for the each separate administration. This, of course, has resulted in differences in approach within the UK and has subsequently affected how PPPs have been executed.

In Canada, governments from across the political spectrum have developed ASD and PPP models with the private sector to drive innovation. Nova Scotia's NDP government entered into a 10-year deal with IBM to provide SAP application management services for the province's Core Competency Centre and Health Administrative Services programs. A Liberal government in British Columbia contracted its health care claims processing to the private sector. Progressive Conservative and Liberal governments in Ontario have negotiated partnership agreements with the private sector to outsource Ontario's electronic land registration system known as Teranet. Research has shown that these efforts have all proven highly successful (Hjartason et al. 2014).

Figure 2: Different Types of Non-Public Sector Delivery Models



The Government of Ontario's Teranet project is a good example of a Canadian province that is the first jurisdiction in the world to provide electronic registration of land related documents. In 1991, the government partnered with the private sector to convert and automate Ontario's land registration system.

Under the terms of their contract with Teranet, the private operator of the land registration system, the government received an initial payment of \$1 billion and a 50-year stream of royalty payments in exchange for exclusive electronic land registration and writ services. The government maintains control over fee increases.

Today the company provides electronic solutions to 80,000 end users, 38 real estate boards, and over 250 municipalities and institutions in the legal, real estate, government, and financial markets. In 2012, Teranet announced a plan to grow their business,

after reaching an agreement in principle with the Province of Manitoba for a long-term license to operate Manitoba's Property Registry. There may be no truer validation of system effectiveness than the adoption of one's service offering by others.

In light of the recent challenges associated with the general use of the Government of Newfoundland's registry of Deeds Office (CBC April 2015), and the overall dissatisfaction which frequent users of this system face, the well-established system currently in place in Ontario stands as an excellent example of an area where other provincial governments could take action to improve service delivery via the implementation of a proven system.

Elsewhere, governments have been collaborating with external providers to achieve specific public policy objectives. Increasingly, good practice sees government less focused on driving down input costs and more on delivery modernization as well

as improving outcomes and service levels. ASD and PPP models seem to work best when the following elements are in place:

- Quantifiable output specifications;
- Private sector capacity to deliver;
- Project term is 20 or 30 years;
- New works better than refurbishment; and
- Appropriate risk transfers.

ASD and PPP models work when government devolves transactional processes to third parties that possess the technology, know-how, and expertise best suited to deliver the desired outcomes. In such cases, the role of government is then to steer policy development, strategy implementation and the monitoring outcomes against stated objectives. In comparison with the historical approach to public sector outsourcing, the relationship between the service provider and government is much more collaborative and partnership-driven in ASD and PPP models.

Based on our analysis, there are numerous benefits to ASD and PPP models including:

- Fostering innovation and improving both productivity and service levels;
- Strengthening accountability and providing customers/users with a greater voice;

- Transferring some risk to the private sector;
- Reducing the costs of public service delivery;
- Enabling government to focus its capacity and resources; and
- Driving commercial activity including exports.

Barriers to ASD and PPP models include attitudinal, high levels of policy, oversight and demand uncertainty. While both make it difficult to attract private sector providers, they can be addressed through contract design (Hjartason et al. 2014).

Too often, both the proponents and opponents of ASD and PPP models contribute to a polarized discourse based on hyperbolized stereotypes, not evidence or best practice. All ASD and PPP models are characterized as 'privatization' or characterized as a way to drive down wages or bust unions (Friedman 2014; Hjartason et al. 2014); our analysis is that this is simply not the case. Instead there is a wide variety of different ASD and PPP models focused on a number of different strategies and objectives. Characterizing them all in the same way, without examining what they can or cannot do, to assist in the provision of services and infrastructure, may result in lost opportunities and potential long-term harm.

DELIVERING PUBLIC SERVICES THROUGH ASD AND PPP MODELS

There are many types of models to delivering services ranging from simple outsourcing to more complex ASD and PPP models. It is important to articulate the differences in approach when describing the models.

Outsourcing

While the terms 'outsourcing' and 'ASD and PPP models' are commonly used interchangeably, they are not the same. Outsourcing is one type of non-public sector delivery model arrangement on a continuum of complexity and transformation that covers a range from outsourcing to joint ventures, alliance contracting, social impact bonds and so on.⁷

Governments, both provincial and municipal in Newfoundland and Labrador are familiar with simple outsourcing arrangements. These types of models are considered 'low-hanging fruit' and include examples such as garbage collection. Many (not all) are focused on lowering input costs, such as the cost of labour. Successful outsourcing requires much less skill and capacity on the government side of the equation than its more complex counterparts (Hjartason et al. 2014).

In more complex models such as ASD and PPPs, government is typically focused less on driving down input costs and more on service delivery modernization as well as improving outcomes and service levels for the client. Government devolves transactional processes to third parties that possess the technology, know-how, and expertise best suited to deliver the desired outcomes. The role of government is to steer policy development and strategy and to monitor outcomes against stated objectives. Relative to simple outsourcing, the relationship between the service provider and government is much more collaborative and partnership-driven (Hjartason et al. 2014).

Part of the issue in confusing simple outsourcing and ASD/PPP models is the focus on lowest

cost provider in government procurement. In Newfoundland and Labrador, as in most Western governments, the entire governance umbrella for the procurement process is focused on securing the lowest-cost inputs rather than generating solutions to achieve desired outcomes. Focusing on the lowest cost provider, in the short term, usually results in a bias towards status quo solutions, inside the box thinking and, in the long run, higher costs to the taxpayer (Hjartason et al. 2014).

ASD and PPP models require longer term, strategic thinking by both the public and private sector

Alternative Service Delivery Models

At its highest level, an ASD model is the process of public sector restructuring whereby governments partner with the private and/or not-for-profit sectors in the delivery of public services. In ASD arrangements, governments collaborate with external providers to achieve specific public policy objectives. The range of options also varies with the level of governance. Governments typically retain responsibility for strategy, policy, and compliance while leveraging third-party know-how, processes, capital, and technology. ASD models enable the collaborating parties to 'play from their strengths' and focus on areas where they are best positioned to provide value (Hjartason et al. 2014).

There are many examples of ASD arrangements that have been successful. In the United Kingdom, the Department of Health (DoH) entered into a joint venture with a private sector provider for the provision (via a shared-services infrastructure) of back-office finance and accounting services to the National Health Service Trust (NHS). Effective April 2005, this Joint Venture (JV) assumed responsibility for a customer base which included the numerous NHS trust organizations operating in the UK and the DoH agencies. The deal, which sets five-year market share and revenue targets for the JV,

⁷ More information on Outsourcing can be found in Appendix A – Outsourcing and Its Explanation

constituted a key component of the DoH's response to a efficiency review, which highlighted areas of UK government practice which could be accomplished more efficiently by non-government parties.

Research shows that ASD arrangements can strengthen accountability and provide clients with a greater voice. ASD models can also enable citizens and government managers to contrast government departments with their private sector peers across a range of indicators including cost, outcomes and overall service quality. Furthermore, greater diversity and competition in the public sector economy affords citizens a greater say in the variety and quality of the services they receive (Sturgess 2012). By providing a greater basis of comparison, ASD models also improve overall accountability across the public sector economy (Hjartason et al. 2014). The challenge in many cases is the establishment of acceptable and manageable service levels under conditions of varying complexity. ASD models provide the greatest opportunity for change and innovation. However, the management of ASD models needs to be robust for both the private and public sectors.

There have been both successes and failures. Ontario's diabetes registry contract is an example of where there has been a failure in a non-public sector delivery model. Ultimately, the vendor was unable to deliver the completed diabetes registry, so no payment was remitted. While the circumstances leading to the cancellation of the contract were unfortunate, it is a reminder that the risk transfer is real. However, while the government incurred some internal costs related to the project, the fact that the private partner did not receive any payment for the delivery of the registry and absorbed the development costs, is evidence that the procurement contract mechanisms functioned as they should.

Public Private Partnerships Models

Public private partnerships (PPPs) are usually framed as a way of introducing competition and market incentives into the project delivery process to drive efficiencies, bring down project costs, and improve project results. The creation of value in PPP models is rooted in both the way that collaboration is structured and incentivized between the public and private partners, as well as the level of competition between firms to win the project.⁸

At a high level, a public private partnership (PPP) is any transaction structure involving both private and public parties working together towards a common goal.

Defn – “A cooperative venture between the public and private sectors, built on the expertise of each partner that best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards” – Canadian Council for Public-Private Partnerships

In broad terms, the value of a PPP model is guided by the belief that governments and firms working in meaningful collaboration will deliver major infrastructure and service delivery projects that have better outcomes than any one party could deliver on their own. PPP models represent a shift in approach to infrastructure procurement, by bundling multiple service delivery functions into a single concession, thereby transforming the role of government from a provider to a purchaser of public services.⁹

Unlike ASD models, public private partnerships are usually based around infrastructure. According to a study by lossa and Martimort (2009), PPP models are more beneficial when a better quality of the infrastructure can significantly reduce cost at the operational stage (including maintenance

⁸ Matti Siemiatycki & Naeem Farooqi (2012) *Value for Money and Risk in Public*, *Journal of the American Planning Association*, 78:3, 286-299
⁹ Chris Skelcher, *Public-Private Partnerships and Hybridity*

cost); when infrastructure has a great impact on the quality of the service; and when demand for the service is stable and easy to forecast. This is manifested in the large number of PPPs in the transport and water sectors, where infrastructure quality is paramount and demand is relatively stable.

In Canada, PPP models have been implemented to develop roads, bridges, airports, seaports and harbours, energy, hospital facilities, wastewater facilities, social housing and schools. PPP models have been implemented in a number of provinces in Canada. For example, British Columbia has recently established Partnerships BC and is developing a public sector comparator (PSC) approach.¹⁰ The public sector comparator approach is a tool used by governments in determining the proper service provider for a public sector project. It consists of an estimate of the cost that the government would pay were it to deliver a service by itself.

An example of a successful PPP in Canada would be the Canada Line project which was the first light rapid transit rail line project realized as a PPP in North America that facilitated the connection of an airport with two cities (Vancouver and Richmond). With approximately 19 km of train system and 18 stations this system, it was originally projected to carry 100,000 passengers by 2013 and now carries in excess of 135,000 daily, with peak volumes exceeding 230,000 daily during the recent winter Olympics in the region. With daily ridership being exceeding early projections by 35 percent the economic value of the project continues to improve, contributing to both the economic and social welfare of the region.

In 2010, the Canada Line was named as one of the 100 most innovative and socially significant

infrastructure projects in the world by KPMG. One of the key elements of this project was the level of coordination between the involved authorities; the notion of a partnership. The project required the participation of 8 agencies or government institutions which contributed with its financing: the Government of Canada, the Provincial Government of British Columbia, Translink, the International Airport of Vancouver, the cities of Vancouver and Richmond, the Vancouver Port Authority, and the Regional District of Vancouver.

The Chief Peguis Trail Extension project is perhaps the most successful municipal PPP to date based on procurement efficiency and early completion of the project. It is a \$127.9-million extension of an existing roadway procured using the DBFM model. This project was funded by the P3 Canada Fund, the Province of Manitoba, and the City of Winnipeg. The RFQ was issued on February 27, 2009, and the project opened to traffic on December 2, 2011—a total project time of just 33 months with fewer than 15 months between financial close and beginning of operations. The extension was completed and opened to traffic one year ahead of schedule. The private partner for the project is DBF2 Limited Partnership, a consortium of seven companies. The procurement process identified the three most qualified bidders through an RFQ, and then a competitive RFP identified the winning consortium.

The capital cost of the Chief Peguis project was \$108 million. The fact that that government capital is not tied up and not productive during the construction process and may be deployed elsewhere, is also a benefit. By being in place nine months ahead of schedule, about \$5.7 million in service value was unlocked. This is a win-win situation for both the road users and the private partner - which has the incentive to finish earlier due, in part to the potential to accrue savings associated with project

¹⁰ Darrin Grimsey & Mervyn K. Lewis (2005) *Are Public Private Partnerships value for money? Evaluating alternative approaches and comparing academic and practitioner views*, *Accounting Forum* 29, Pg 345–378

financing costs. This helps reinforce the point that innovative solutions can occur not just during the design phase, but during the operating phase as well.¹¹

Financing both PPP and ASD models can be quite varied and context specific. Typical approaches to financing, particularly for PPPs but can also be applied to ASD models include:

Build Finance (BF): Typically considered for smaller projects that involve renovations or significant addition or expansion of existing infrastructure. The private sector is responsible for construction and financing during the construction period, and the project is paid for by the public sector at the completion of construction.

Design Build Finance (DBF): The private sector is generally responsible for design, construction and financing during the construction period. The project is paid for by the public sector at the completion of construction.

Build Finance Maintain (BFM): The private sector is generally responsible for the construction and maintenance of the project and provides long-term financing. The project is paid for by the public sector in installments over a fixed period, usually 30 years. The public-sector sponsor is responsible for developing the detailed design of the project.

Design Build Finance Maintain (DBFM): Typically considered for large projects involving new construction on a vacant site. The private sector is generally responsible for design, construction, long-term financing and maintenance. The project is paid for in installments over a fixed period, usually 30 years.

Design Build Finance Maintain Operate

(DBFMO): In addition to being responsible for design, construction, long-term financing and maintenance, the private sector also operates the facility.

The type of alternative financing and procurement delivery method will be quite context specific and depend on the type of project as well as the role of the private sector partner.

In Ontario, as in other jurisdictions, three PPP repayment approaches have been commonly employed, with varying results. These include: recovery through user fees, availability payments, and construction completion payments. Overall, the contemporary PPP models employed in Ontario focus primarily on controlling a very specific set of risks: notably, those associated with construction cost overruns and completion delays. Conversely, the provincial government in Ontario has not widely sought to transfer revenue and operating risks, thereby avoiding many of the planning-related concerns that arise around loss of government flexibility that have plagued some PPPs internationally, while also being seen as a key source of tension between the partners.¹²

¹¹ Vijay Gill and Sarah Dimick (2013), *Canada as a Global Leader: Delivering Value through Public-Private Partnerships at Home and Abroad*

¹² Matti Siemiatycki & Naem Farooqi (2012) *Value for Money and Risk in Public*, *Journal of the American Planning Association*, 78:3, 286-299

ASD AND PPPs ARE NOT PRIVATIZATION

As indicated above, one of the greatest barriers to ASD and PPP model's implementation is attitudinal – the fear that it is privatization. Negative public perceptions of ASD and PPP models are rooted in some high profile privatization failures. Attitudinal barriers are perhaps the highest in health care (Hjartason et al. 2014).

ASD and PPP model's failures in the past are usually as a result of improperly structured contracts between governments and service providers. Instead of focusing on the failure as a result of these contracts, instead, opponents point to the overall failure of these models. Good practice sees structuring contracts between government and private as well as not-for-profit service providers that will enable governments to harness the benefits of ASD and PPP models. At the same time, the need for government to maintain adequate oversight, accountability and the capacity to define public policy objectives is essential to success. Labelling ASD or PPP models as wrong, rather than looking at the root cause of failures, diminishes their use as a tool to encourage innovation, enhance value for money as well as ensure the long-term sustainability of public sector spending.

Another myth is the notion that the primary objective of ASD and PPP models is to cut up

the public sector wage bill and tear up collective agreements. In fact, the primary objective of ASD and PPP models is more typically the transformation of service delivery models, infrastructure development and innovation (Hjartason et al. 2014).

It is important to note that ASD and PPP models are not privatization.¹³ Privatization is the transfer of ownership of a public sector enterprise to the private sector. ASD and PPP models, on the other hand, separates policy direction from service delivery. In ASD and PPP arrangements, government makes the policy decisions and regulates while the service provider operates the program. It is a win-win situation for both the private and public sectors.

Overall there are numerous benefits of separation of policy and delivery:

- It allows governments to focus on policy design and define desired outcomes
- It can foster competition between service providers and harness the private sector's capacity to innovate and find efficiencies
- Encourages flexible service delivery capable of responding to changing circumstances (Osborne and Gaebler, 1992)

¹³ McGunity 2013

WHEN SHOULD ASD AND PPP MODELS BE CONSIDERED?

The question of when should ASD and PPP models be considered is complex. There are many variables that support or hinder the case for a shift to ASD and PPP models.

ASD and PPP models make sense when they can harness a provider's business models, technology and expertise (Hjartason et al. 2014). There are some functions that are too close to the core business of government to make ASD models appropriate. Gash and Panchamia (2013) pose three questions to assess whether a service is inherently governmental:

- Does the service involve making key policy decisions?
- Does the service constitute the government's law and order capability?
- Is the service intimately related to the government's duty to protect the public?

If the service has any one of these characteristics, engaging in an ASD or PPP model "will substantially limit the government's control and authority over core functions. As a result, in such cases it might generally be prudent to retain such of services within the public-sector" (Gash and Panchima 2013, 8-9).

Research also indicates that the potential for ASD and PPP models is higher where there are numerous high quality providers already active in the space. For example, outsourcing waste management has made sense for many municipalities because of the private sector's active presence in this space. Hjartason et al. (2014) calls this the 'Yellow Pages Test'. If there are sufficient potential service infrastructure or service providers in the Yellow Pages, then the private sector's capacity is much higher than if there is no presence.

The existence of high quality providers will also influence cost. Any calculation should include

the transaction costs associated with tendering, contracting and performance monitoring. Capital avoidance or total cost of ownership should also be factored into the cost-benefit calculation (Hjartason et al. 2014). Governments such as Newfoundland and Labrador should also consider whether or not the private sector has the ability to contribute additional value to the service in question through capital injection, access to technology and new business models.

Examining and developing the business case for engaging in ASD and PPP models is essential for success. For instance, a precondition for determining cost-savings or service quality improvements will be the government's ability to quantify costs and outcomes. Understanding where ASD and PPP models have worked and why is also critical; the provincial Newfoundland and Labrador government should consider whether other jurisdictions have been able to successfully shift a particular service or infrastructure development to a private sector provider.

The business case for ASD and PPP models should also consider whether the contextual factors present in Newfoundland and Labrador will result in successful implementation. For example, expanding the scope for entrepreneurialism and innovation in the economy would be a contextual reason for engaging in PPP and ASD models. In many cases the amount of time that is required to conduct an analysis around potential outcomes is significant and often necessitates that senior officials are intimately involved with projects for an extended period of time – often with uncertain outcomes. As a result, research shows that senior bureaucrats often see this type of commitment as a significant barrier to entry.

In addition, the early history of public private partnerships in Canada, particularly those involving the Government of Canada were such that they



involved a significant financial commitment by prospective provincial and in some cases municipal government partners. At one point the minimum project value that would be considered at the Federal level was in excess of \$50 million – putting such potential arrangements out of reach for some provinces and territories and municipalities. The combination of financial investment and human resource commitment served as a significant entry barrier for many – never mind the technical

complexity associated with many such projects – such as municipal waste treatment facility design in harsh environments. Creating the business model, developing options and scenarios but, moreover, isolating government officials from political pressures in the analysis of the value of implementing ASD and PPP models as well as ensuring that viable choices can be implemented is therefore essential for long-term success.

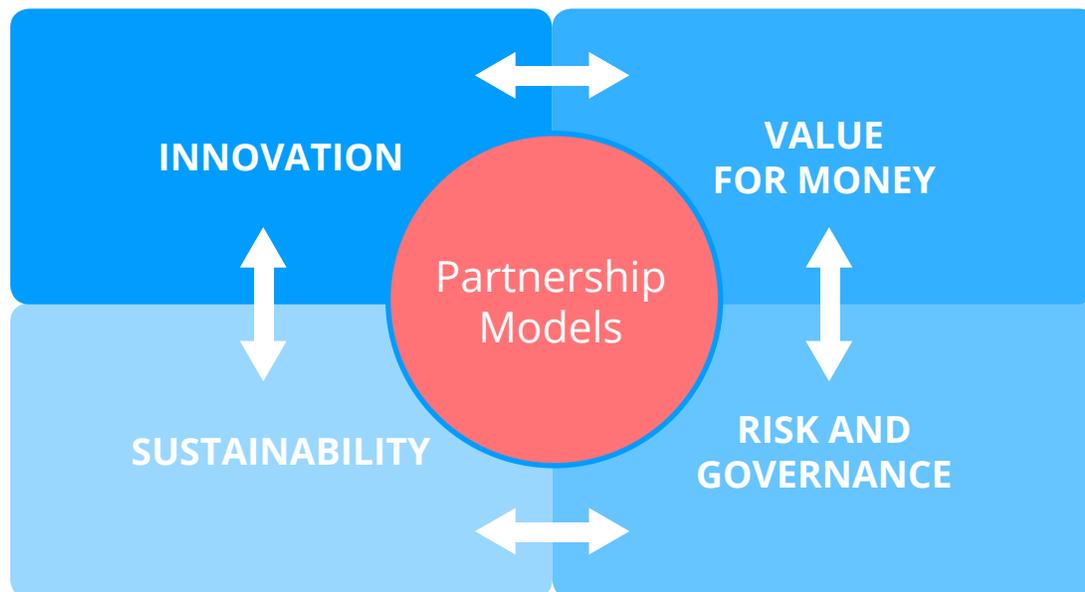
WHAT MAKES SUCCESSFUL EVALUATION CRITERIA FOR ASD AND PPP MODELS?

Based on our analysis and review of the research, we believe there are four evaluation criteria that are essential for the success of ASD and PPP models.

The four criteria are:

- Value for Money
- Innovation
- Risk and Governance
- Sustainability

Figure 3: Evaluation Criteria for ASD and PPP Models



All four criteria are interrelated and have to be managed in order to ensure ongoing, long-term success. Each of the criteria are outlined and explained in Appendix B.

IMPLEMENTING ASD AND PPP MODELS IN NEWFOUNDLAND AND LABRADOR

ASD and PPP models are most effective when the competencies, the processes, and the technologies previously absent in delivery of public services are put in place. Effective change management is essential for the success of ASD or PPPs. These models are transformational and necessitate, by definition, the application of new business models.

In transformative processes there will be change as well as a need for strong relationships with public sector unions. ASD and PPP models by definition have the potential to be disruptive for the public sector; undoubtedly, with change will come concerns associated with implementation. For example, job descriptions may change as individuals migrate between the inherited and retained organizations, new processes implemented and staff laid-off. There may also be periods where cheques are not in the mail as fast, data transfers are incomplete and client satisfaction initially dips. The transition to new models can take more than a year to complete. Ineffective change management and risk aversion to the transformation in processes can be a real barrier to successful implementation of ASD and PPP models (Hjartason et al. 2014).

Based on the evaluation criteria for ASD and PPPs, we would propose an adoption matrix where there is a sliding scale from relatively easy adoptions to more challenging to the most challenging adoptions. However, all of the opportunities identified here can be adopted. Moreover, the

adoption of these public sector products and services into delivery models, such as ASD and PPP, is dependent upon not only on change management but also service quality as well as the overall approach to governance.

We define the adoption criteria as the following:

Easy – has been implemented in a number of other jurisdictions, has well established processes, significant support may be available from the public and there is clear evidence/data available to substantiate implementation based on the success evaluation criteria of value for money, innovation, risk and sustainability;

More challenging – has been not as widely implemented in a number of other Canadian jurisdictions, has less well established processes, not as significant support is available from the public and there is less clear evidence/data available to substantiate implementation based on the success evaluation criteria of value for money, innovation, risk and sustainability; and

Most challenging – has been not implemented in a number of other Canadian jurisdictions, has less well established processes, less support may be available from the public and there is a lack of evidence/data available to substantiate implementation based on the success evaluation criteria of value for money, innovation, risk and sustainability.

Table 2: Adoption Matrix

Adoption Matrix	Relatively Easy Adoption	More Challenging Adoption	Most Challenging Adoption
Innovation (Culture of Innovation)	Motor vehicle registration	Administration, Back Office Support	Hospitals and shorter-term care facilities (Due to attitudinal barriers)
Sustainability (Economic, Social Environmental)	Diagnostic imaging services Low risk transactional health services such as blood collection & laboratory testing	Social Housing Road Construction & Maintenance Construction & facility maintenance of public buildings	Personal Health (Cost Escalation & Contract Issues)
Value for Money (Cost Savings)	Waste Management, Registry of Deeds, Liquor, Libraries, Accounts Payable/Receivable, Back Office Support, Street Lighting, Construction and maintenance of other government buildings and other transportation infrastructure	Public Transit including provincial ferries, Water & Waste Water, Road Construction	Personal Health Care (Big Risk – Big Reward), Public Private Partnerships – Hospitals.
Risk & Governance (Project & Operational Risk)	Street Lighting (Requires Safety Parameters)	Lab Testing, Accommodation (Health), Food Service	Personal Health Care Services (Due to attitudinal barriers)
Service Quality (Actual vs. Perceived Quality Distinction)	Low Distinction – Entry Level Accounting Technicians	Back office technical support functions like information technology (IT) support and email hosting	Personal Health Care Services (Due to attitudinal barriers)

The Real Opportunity is in Services

Comparing both PPP and ASD models, the real opportunity would be in services. PPP in terms of infrastructure and buildings represents huge cost savings as well as opportunities for innovation and better risk management. Still, from the perspective of change management and overall implementation to focus on services first appears reasonable. Services that would do well in an ASD model that have applicability to Newfoundland and Labrador can be seen in Table 3 – *ASD Model Potential in Newfoundland and Labrador*.

Table 3: ASD Model Potential in Newfoundland and Labrador

Service	Where it has Worked	Why Would it Work in Newfoundland and Labrador	Challenges and Opportunities
Back office – transactional – travel booking	Currently being used in Newfoundland and Labrador	Designated travel agencies are required for all provincial government travel	Attitudinal barriers Change management issues Currently difficult to ascertain how much cost savings have taken place
Low risk, routine medical procedures (cataracts, hernias, skin grafts, knee reconstruction, orthopedic)	Ontario - The Kensington Eye Institute, a not-for-profit organization, has developed a specialization that has lowered cost per procedure and increased patient volume.	<ul style="list-style-type: none"> • The private sector is already extremely active in delivering health services in Ontario. • The private and not-for-profit sectors have shown that they can provide health services at a higher level of quality (Kensington clinic for example). • Publically funded, privately operated health care systems typify the highest ranked health care systems in the world. • The potential for cost savings is high. 	Attitudinal barriers, mostly concerns about the privatization of the health care system, are the biggest obstacles to shifting medical procedures out of a hospital setting.
Contact Centres (911, Other provincial contact centres around tourism, other information)	British Columbia	World class firms already operating in Newfoundland and Labrador (some limited work being done already)	Attitudinal barriers

Service	Where it has Worked	Why Would it Work in Newfoundland and Labrador	Challenges and Opportunities
Information Technology and Information Technology Functions (help desks, local and wide area network management, mainframe operations, web hosting)	Nova Scotia has entered into a ten-year deal with IBM who will provide SAP application management services for the province's Core Competency Centre and Health Administrative Services programs. IBM has extended job offers to all seventy-five government employees who were managed under those services.	<ul style="list-style-type: none"> • Nova Scotia and B.C. are increasingly relying on the private sector to deliver IT functions. • The federal government is consolidating its IT functions or shifting them to the private sector when a cost savings can be achieved. 	Bureaucratic incentives may not be aligned. The private sector has a high level of expertise in IT. They also have the capital necessary to make up-front IT infrastructure investments. A potential for cost savings exists. The potential for efficiency gains is high
Employment training and small business consulting	British Columbia	The private college system is strong in Newfoundland and Labrador and already provides a number of forms of training. There are a number of the Community Business Development Corporations (CBDCs) already assisting small businesses in providing education and consulting services. Moving employment training and consulting away from the public sector, would allow more focus on policy development and performance improvement.	Bureaucratic incentives may not be aligned.
Medical imaging – MRIs, Ultrasound, Bone Mass	Nova Scotia and other Jurisdictions	There are currently waitlists in some parts of the province for medical imaging. This is a well understood business model that has been used in Nova Scotia and other jurisdictions for a number of years.	Attitudinal barriers around the provision of health care systems.

Service	Where it has Worked	Why Would it Work in Newfoundland and Labrador	Challenges and Opportunities
Registry of Deeds	Ontario & Manitoba	As discussed earlier in the paper, a PPP around the registry of deeds	Volume and up-front investment costs.
Food services, laundry services, janitorial and other support functions within government run correction facilities	International – UK, Australia, New Zealand	There is much work being done in non-corrections facilities already the province of Newfoundland and Labrador already. This would allow other services to be provided by the private sector in correction facilities.	Attitudinal barriers. Process implementation.
Employment Services (assistance in job and educational placement)	Has been done in Newfoundland and Labrador in the past	This has already been done by a number of non-government organizations already in the province. The expertise and processes already exist.	Bureaucratic incentives may not be aligned.
Laboratory testing	Available in Newfoundland and Labrador	There are already world-class labs and testing facilities available in the province.	Bureaucratic incentives may not be aligned. Volume of transactions.
Ferry Provision and Maintenance	Already being done in Newfoundland and Labrador	Ferry and other public transport alternatives are already being offered in the province through a number of local firms.	Bureaucratic incentives may not be aligned. Attitudinal barriers.

Overall PPP and ASD models have the ability to transform the public sector economy provide a real opportunity for the Newfoundland and Labrador government as well as the overall province.

LESSONS LEARNT AND THE ROAD AHEAD FOR GOVERNMENT

The challenge facing governments is simple:

Governments are being asked to do more, do it better, and do it with the same amount of taxes that have been levied in the past.

The public sector must think differently, implement processes and procedures that are new to them, while building new kinds of relationships with their suppliers and citizens. As governments seek innovative ways to transform their infrastructure and service offerings, we also expect to see the continued growth of the so-called mixed economy – the one that emerges between the public, private, and non-profit providers of public services. We can also expect to see a greater role for private and non-profit organizations in taking on issues traditionally seen as being within the domain of public policy. This three stakeholder (public, private, and non-profit) relationship also requires the public to adopt a new mindset with respect to the capability of such partnerships to effectively deliver services through a wider network of policy and delivery partners.¹⁴

Newfoundland and Labrador can be led by a number of good practice examples throughout Canada and elsewhere in the world. There is strong political and public policy support for carrying out large infrastructure projects through PPP models. To date, the Ontario government has carried out more infrastructure PPPs than any other government in Canada. As part of the study conducted by Siemiatycki and Farooqi (2012), within the 28 projects reviewed in Ontario, a retained risk premium (averaging 49% of the base cost of delivering the project) was added to the traditional government procurement option, and in each case this additional risk premium swung the Value for Money calculation in favor of the PPP.

One of the leading jurisdictions in Canada is in British Columbia where the ASD Secretariat was established in 2003 with the mandate to identify key ASD and PPP opportunities and act as an empowered, nimble central body and results management team that oversees, monitors, and supports ASD projects across government. The key objectives of the initiative were to include:

1. Maintaining or enhancing service levels;
2. Allowing government to focus its resources more effectively on those services that remained within the purview of government;
3. Cost reduction, increasing revenue and maximizing cost avoidance in the future; and
4. Where possible, supporting general economic development

As of 2012, 11 ASD contracts valued at in excess of \$2.4 Billion had been signed in British Columbia, with the financial benefits to government expected to exceed \$550 million over a ten year period.

The models developed in British Columbia appear to have been particularly insightful in its approach to project identification and priority setting as well as governance and has much relevance to Newfoundland and Labrador. Also consistent with good practice is that British Columbia has shown that a high level of commitment by senior political and administrative leadership is a prerequisite to the successful implementation of ASD and PPP models. This leadership is required throughout - not just when the agreement is signed.

For example, while senior management in government may champion and procure ASD and PPP opportunities, lower level staff may be charged with some aspects of project monitoring and control. If these individuals have serious

¹⁴ Michael Barber, Alastair Levy and Lenny Mendonca (2007) *Global trends affecting the public sector*, McKinsey and Company

reservations about certain aspects of a given project, because they may be worried about their job security, or perhaps concerned about provoking backlash from stakeholders, the public and/or their political masters, they may be reticent to speak up when problems arise. The potential for lapses in oversight are real and while resistance can create unpleasant situations it must be handled by those same individuals who were responsible for implementation (Hjartason et al. 2014).

Research has shown that there are four key reasons to pursue PPP and ASD models:¹⁵

1. Governments must find ways to solve what Accenture calls, the “public sector productivity puzzle” – the need to deliver better outcomes for the same or lower costs (2012). Productivity in the public sector is difficult to measure “but such numbers as there are all pointing in the same direction. With a few small exceptions, government lags behind the private sector” (The Economist 2011; see also Deloitte 2013; McKinsey 2011).
2. The private sector has some levers for improving productivity that the public sector does not, including financial capital (in a context of mounting public debt), access to technology (in a context where government investment in IT lags), and new business processes that have been tried and tested elsewhere.
3. Private sector managers face starker incentives and market signals that are simply less urgent among public sector managers – including the incentive to enhance worker productivity, continuously examine supply chains for efficiencies, harness technology and leverage economies of scale and scope.

4. Improving its productivity and performance will generate considerable multiplier effects “Even if government were to cost the same but produce more (better educated workers, decent health care, roads without holes, simpler regulation) the effect on private sector productivity would be electric” (Economist 2011).

By vacating certain service delivery areas, government can create greater opportunities for the private sector to generate wealth, create jobs and deliver innovation that can be marketed and sold elsewhere.

At the same time it is important to note that ASD and PPP models are not a panacea for the fiscal challenges confronting government. Transformative changes must also be made to other areas. Exploring and implementing ASD and PPP models are, however, an important part of how the government can return to balance. It is also important to note that some ASD and PPP models have produced decidedly mixed results across the OECD. In some areas, the cost savings are elusive and service quality has declined. However, early efforts provide useful lessons on the pitfalls of ASD and PPP models and how they can be avoided. Importantly, there are also numerous examples where ASD and PPP models have met the twin objectives of reducing government expenditures while improving service quality.

¹⁵ McGuinty 2013

RECOMMENDATIONS

Embracing ASD and PPP models is not a divestment of government responsibility for the delivery of public goods; instead it is a partnership.

Our research has emphasized successful projects that have demonstrated the value of new and refined processes designed to select, negotiate and govern projects more effectively. The most successful projects also have established a process whereby they invite vendor feedback in the areas of RFPs, contract structure, implementation and operationalization. The need to be fair and transparent is also imperative. In fact, some recent failures have highlighted examples where governments were not open and or transparent.

It is recommended that the following steps be undertaken when government chooses ASD and PPP models as delivery methods:¹⁶

1. Build internal capacity by establishing a Centre of Expertise equipped to incent and encourage the broader public sector to adopt ASD and PPP models. This Centre of Expertise should develop the capacity to help government assess the effectiveness of public services, conduct value-for-money analyses, and understand the cost-drivers in its existing service delivery models in order to facilitate decision-making on ASD and PPP.
2. Mandate this Centre of Expertise to undertake a services-audit to identify further ASD or PPP opportunities across the broader public sector. Our research has shown that this process takes time and requires experienced, senior staff members. The most successful constituencies have taken as many as five years to establish project and sectoral priorities and negotiate their first contracts. Given that the implementation of such initiatives is somewhat more mature in other constituencies and many

valuable lessons can be learned from other Canadian provinces, it seems reasonable to suggest that it may not take the provincial Newfoundland and Labrador government as long to establish such priorities and make such decisions.

3. Move from procurement to commissioning by collaborating with potential service providers on problem definition and solution design; making greater use of outcomes-based contracts and building the capacity to 'steward markets' in order to properly commission certain services.
4. Move from deal monitoring and oversight to focus on deal governance as well as the objectives of risk management and value creation. Government should ensure that the retained organizations in ASD and PPP arrangements are re-engineered so that they possess the skills and processes—and are subject to incentives—that enable government to fulfill its obligations to service providers. Government should create more opportunities for external, public scrutiny of ASD or PPP arrangements through 'follow the dollar' provisions and transparency clauses in service provider contracts.
5. Move from risk mitigation to risk management. Government should undertake an 'early wins' strategy that focuses on landing less complex ASD or PPP deals in the short-term in order to build competence and capacity and build risk tolerance among key stakeholders. At the same time, Government should develop tools and strategies to help policy makers systematically evaluate and manage risks. These tools and strategies should inform the development of risk management frameworks in each ASD and PPP model being implemented.

¹⁶ Ontario Chamber of Commerce (2014) *Unlocking the Public Service Economy in Ontario: A New Approach to Public-Private Partnership in Services*

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6. Specify the rights and obligations of government, providers and the public sector. Government and the private sector should negotiate a 'public sector employee transfer' framework, where appropriate, that clarifies the rights and obligations of government, service providers, and public sector workers when government embarks on an ASD or PPP initiative. Government should also develop a pension framework that is based on best practices and allows transferred public sector employees to maintain access to their public sector pension plans.

In Canada today, best in class governance of such projects includes:

1. Enterprise or agency wide governance with well-defined processes;
2. An established gateway for timely yet thorough project approvals;
3. An agency that works with governments to facilitate the transformation of service delivery – from the traditional government service delivery model to the newly designed model – no matter what it takes including:
 - a. These may require specialized expertise;
 - b. A cross-ministry issue resolution mechanism;
 - c. Effective overall ASD and PPP governance;
 - d. The effective representation of the government's interest;
 - e. Effective leadership on behalf of those who remain with the project in question; and
 - f. Commercial grade discipline and expertise in the areas of deal negotiation and review.

The recent success that has been achieved by other Canadian provinces should serve as a beacon for

Newfoundland and Labrador in as much as they provide evidence of the type of projects that are most easily implemented – those easy wins in low touch areas – where service efficiency gains can be achieved and confidence built at all levels of government, among prospective investors and the general public.

Prioritization is essential. Our research has shown that, in many constituencies, the keys to the successful implementation of ASD and PPP models lies in the thoughtful identification and prioritization. Ideally, such work should be completed by a dedicated senior management group that is experienced in both the inner workings of government and the various alternate service delivery options that might be available.

Attention to implementation challenges is also a critical success factor. The most successful ASD and PPP projects have also been carefully examined in terms of the challenges associated with their implementation. Those government agencies that are associated with the most successful projects in Canada and around the world have typically attempted to categorize and prioritize prospective projects by the degree of difficulty associated with their implementation – with the simpler projects (those service delivery mechanisms that can be packaged with other government services for central delivery - with more efficient and accepted technologies delivered as part of a suite of services) are typically selected first. Those that require a service delivery mechanism that is associated with health care or personal well-being are typically undertaken only after government has demonstrated competence in both project identification and implementation. Services such as Deed Registration, Motor Vehicle Registration, Liquor Sales and Public Transportation have typically been prioritized higher and executed

earlier than those activities associated with the provision of selected health care services, for example.

The people involved in ASD and PPP implementation are essential. Governments that appear to have been most successful in the development and execution of alternate service delivery projects have invested heavily in experienced project leaders; individuals with experience in large-scale procurement projects and innovative delivery systems, who are effective communicators and have a reputation for wide ranging consultation and inclusivity. In many cases these individuals have identified projects that are poised for early stage success based on agreed upon and measureable outcomes, the achievement of which can serve to build user confidence and the kind of momentum that is required for more complex and challenging projects in the future.

Overall, our analysis is preliminary but is based on a central recommendation that the government of Newfoundland and Labrador undertake a rigorous

review of publicly delivered services to determine where the public would be better served by moving to ASD and PPP models for the provision of government infrastructure, programs and services.

Along with this review, a comprehensive communications strategy and plan should be implemented to better explain the benefits of ASD and PPP models for infrastructure and services, including suggestions for areas where the transition might be smooth and the improvements most easily achieved.

We believe that the province's political leaders should show the courage and leadership to lead the debate as to what is the best model for delivering public services. One model does not fill all. Best practice shows a willingness to engage in examining what models work to best encourage innovation in the economy, ensure the adequate management of risk for all stakeholders, effectively manage costs as well as enable the long term sustainability of the public sector in the province.

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APPENDICES

APPENDIX A

EXAMINING OUTSOURCING

Traditionally governments have turned to outsourcing as a way of accessing external expertise, delivering services more cost-effectively, and transferring employees on to new types of contracts. Outsourcing public provision of services tends to lower labor intensity and increase efficiency. While costs are usually lower, in some sectors perceptual problems related to service delivery and overall quality can sometimes be evident. While some jobs may be lost in the short run, the long-term effects are generally positive for a wide variety of activities.¹⁷

Traditional explanations of public sector outsourcing have mainly focused on contracting difficulties and transaction costs. As a result, the difficulties with contract administration are associated with the challenges that are often emerge with the measurement and monitoring of service quality, the need for flexibility, and the risk that specific assets are more likely to give rise to hold-up problems. An implicit assumption is that policy makers are attempting to maximize social welfare and political party ideology, and the self-interest of the voters and politicians do not matter.¹⁸

Outsourcing offers strategic and economic benefits for the public sector that are usually too compelling to ignore. When it works, outsourcing decreases costs, increases flexibility, enhances expertise, increases discipline, and provides the freedom to focus on core business capabilities. However, as suppliers become more tightly integrated into the fabric of the public sector's basic operations, the risks associated with the failure of these relationships escalate.

For the public sector, good practice suggests that decisions about which functions to outsource should be made only after thoroughly evaluating whether the activity can be performed most effectively, cheaply, and reliably in-house, or by an external provider. Good practice also indicates that a full cost-benefit analysis should be undertaken and include an assessment of production and service impacts (e.g., the impact on productivity of outsourcing building maintenance). As with most ASD and PPP models, sufficient attention should also be given to supplier selection with an effective evaluation process thoroughly reviewing a supplier's qualifications, track record, and cost structure. Moreover, this anticipates the risk of failure and provides for backup capabilities (either external or in-house) in the event the relationship breaks down. Adequate management of the ongoing supplier relationship is essential in successful outsourcing implementation. Public sector organizations that do not appreciate the magnitude of the required changes often fail to capture the full benefits of outsourcing — or worse, they see their costs actually increase.¹⁹

Research indicates that outsourcing is not sufficiently adequate as a strategy in itself, but rather, a single tool or means to an end among many that comprise a broader strategy of efficient, high quality public service delivery. If cost efficiency and added value can be demonstrated through collaboration with an external partner, outsourcing becomes favorable. Research also indicates that relationship-based outsourcing built on trust is much more conducive to good growth and excellence in service delivery; but, it still requires careful consideration of all associated costs, values, and risks.²⁰

¹⁷ Panu Poutvaara (2014), *Public-sector outsourcing: The desirability of outsourcing the provision of public services depends on their characteristics and market conditions*, IZA World of Labor

¹⁸ Mikael Elinder and Henrik Jordahl (2013) *Political preferences and public sector outsourcing*, *European Journal of Political Economy*, Issue 30, Pg 43-57

¹⁹ Tim Jackson, Kari Iloranta and Shayne McKenzie (2001) *Profits or Perils? The Bottom Line on Outsourcing*, Booz Allen and Hamilton Inc.

²⁰ *The Future of Public Outsourcing, 2020 Vision*, ISS White Book

Internationally, a popular example of public-sector outsourcing can be found in education. The empirical evidence on public-sector outsourcing of education services is quite positive: competition can lead to higher-quality education and more efficient use of resources. Interestingly, this finding has been demonstrated in diverse array of settings. The effect of the private provision of schooling on educational outcomes has been studied in: Chile, for the creation of autonomous grant-maintained schools in the UK, and for the effect of private-school competition on public-sector schools in Milwaukee in the US.²¹

Ultimately, effective outsourcing for public sector organizations requires the use of smart contracts. It is imperative to look at the experiences – the failures and successes – in public sector outsourcing in order to design these contracts. Many of

the outsourcing failures are, for the most part, attributable to poor contract negotiation or contract execution. Incentives, such as pay for performance, play an important role in the analysis, because transferring production from the public to the private sector involves a shift in the fundamental incentive structures faced by employees within organizations.²² Risk is also an important factor to consider - as uncertainty is a feature of most production and service environments. Outsourcing necessitates consideration of how this risk will be allocated between the parties. While it is well established in the academic literature that transferring risk to an agent involves a trade-off with incentives, this insight has rarely been applied to the analysis of public sector outsourcing. Bearing this in mind, contract design usually plays an important role in determining the success of outsourcing arrangements.²³

²¹ Panu Poutvaara (2014), *Public-sector outsourcing: The desirability of outsourcing the provision of public services depends on their characteristics and market conditions*, IZA World of Labor

²² Paul H. Jensen and Robin E. Stonecash (2005), *Incentives and the Efficiency of Public Sector Outsourcing Contracts*, *Journal of Economic Surveys* Vol. 19, No. 5

²³ Paul H. Jensen and Robin E. Stonecash (2004), *The Efficiency of Public Sector Outsourcing Contracts: A Literature Review*, Melbourne Institute Working Paper No. 29/04

APPENDIX B

SUCCESSFUL EVALUATION CRITERIA FOR ASD AND PPP MODELS

Value for Money

Not surprisingly, Value for Money (VfM), defined as a measure of the extent to which cost savings are achieved when delivering a project or service through a PPP or ASD model relative to a traditional government-led procurement approach, is often cited as the primary criteria on which such proposed initiatives should be evaluated.

Proposed drivers of VfM in PPPs and ASDs include contracts that encourage innovation, the management of complete lifecycle costs, and the allocation of project risks such that governments are protected in case of large cost overruns and revenue shortfalls. The concept of VfM has been developed as the benchmark used to assess the comparative merits of using a PPP or ASD to deliver a project relative to other delivery options.

Some public sector experts maintain that the underlying complexities of public services prohibit them from being accurately costed, particularly in human services and those areas where back, middle or front office functions are shared. However, many jurisdictions have now developed successful costing methodologies. The Government of Canada, for example, has a clear understanding of the cost of producing a single passport – SAP Technology has helped governments and corporations alike undertake activity-based costing analyses with high degrees of accuracy (Hjartason et al. 2014)

In the case of ASD models, for several reasons, simple calculations of pre and post-ASD input costs are too narrow when evaluating their suitability. First there is basic agreement that services in more complex areas, such as those with complex value chains and multiple and shared back and front office functions, are more difficult to cost accurately. Second, lowering input costs is often a secondary goal to transformation and service delivery modernization. As referenced earlier,

there is a need to conduct complex value-for-money analyses that attempt to disentangle the relationship between input costs and downstream outcomes across a range of public services, focusing first on those areas that are obvious candidates for modernization and/or that could be good candidates for leveraging private sector capital. However, these calculations are complex, are often subject to probability assessments (under varying supply and demand conditions) and in some cases subject to wide outcome variations.

Value-for-money analyses require a clear understanding of cost-drivers in the provision of existing services. For example, demand variability can artificially inflate the costs of delivering a service. Government will typically staff to (or close to) peak demand in a service area. Service providers that apply innovations to smooth demand variability stand to reap large windfalls, potentially eroding public acceptance for ASD models (Hjartason et al. 2014)

Ontario's Chief Peguis Project and other Canadian road construction projects stand out with respect to the value of early completion time: the Chief Peguis Trail Extension in Winnipeg (nine months early), the Route 1 Gateway Project in New Brunswick (nine months early), and the AutoRoute 25 extension in and around Montréal (five months early) are examples of extensive infrastructure developments the early completion of which afforded direct economic benefits to commercial users in particular and industry in general – to say nothing of the benefit to the travelling public. Unlike hospital or school projects, road projects are available for use almost immediately upon completion. The value of being available in service earlier than expected can be roughly estimated by applying an opportunity cost of capital to the project.²⁴

On the other hand, value for money analysis also requires significant capacity to monitor outcomes

²⁴ Vijay Gill and Sarah Dimick (2013), *Canada as a Global Leader: Delivering Value through Public-Private Partnerships at Home and Abroad*

and operational performance. Governments everywhere struggle to evaluate the impact of their activities. Building the necessary capacity within government is a necessary but insufficient condition for successful ASD arrangements. Governments need to modify their approaches to service partnerships across three dimensions:

1. transition from procuring to commissioning for services;
2. transition from monitoring to governance; and
3. transition from risk mitigation to risk management (Hjartason et al. 2014)

Commissioning refers to “the process of assessing the needs of people or users in an area, designing and specifying the services to meet those needs and choosing the delivery mechanism to secure an appropriate service while making the best use of total resources available (Gash et al. 2012, 20). As noted earlier in this report, these tasks are costly, time consuming and in some cases may not result in immediate short term improvements. For example, while the first PPP in the UK reached financial close in 1990, the initial list of UK government PPP priority projects did not emerge until 1995 – a full five years after the first project was announced (European PPP Expertise Centre 2012).

Innovation

Research also shows that competition in the public service economy creates a fertile climate for innovation and experimentation. Innovation in service delivery is enhanced through the introduction of new business models from which other government departments and units can draw (Hjartason et al. 2014).

Public service productivity is difficult to measure. A simple “output produced divided by hours worked” calculation will not apply to a sector where outcomes are difficult to measure and attribute (Ovsey 2012). However, such measures that do exist point to lagging public sector productivity

(Economist 2011; Deloitte 2013; McKinsey Quarterly 2011; Hjartason et al. 2014)

For example, innovation can be seen in service level standards. Since 2005, MAXIMUS BC Health Inc., a private sector provider of health insurance coverage in BC has met all 27 new service level requirements for Health Insurance BC. For example, all calls from citizens and providers are answered within specified time frames. Prior to the handover to MAXIMUS, more than 50 percent of calls encountered a busy signal. In addition the initial ten year contract required MAXIMUS to make significant capital investments, in particular to replace the aging technology that supported the existing programs – these are programs where the province of BC retains ownership at the conclusion of the contract (Hjartason et al. 2014).

Importing new business practices or leveraging private sector investment in technology and infrastructure can increase overall service levels and enable government to achieve more with equivalent or lower investment. In some areas, reducing overall expenditures may not be a goal. Instead, governments may want to increase service levels to reach more clients and address rising demand. Observers point out that the introduction of new service delivery models is not always required to achieve productivity improvements, innovation and many of the other benefits of ASD. The concept of ‘contestability’ describes situations where public service managers behave as though they are facing actual competition (Sturgess, 2012).

It is not the case that the public sector is always less innovative and less productive than the private sector. Where public services have been open to competition and open tendering, the public sector often wins (Hjartason et al. 2014).

An interesting international example would be in India where eSampark in Chandigarh, India offers citizens a convenient ‘one-stop-shop’ for 11 government services ranging from payment of taxes and water bills, to bus passes, birth

registration and passport applications – accessible online and through seven e-Sampark Centres. More specifically, the vision for the project was to create a suite of Information technology services that would facilitate the effective transfer of information and services in a manner that would improve access, shorten wait times and thereby enhance the quality of life of the public. The specific project objectives include:

1. The provision of hassle free one-stop service to the citizens of the region;
2. A reduction in the number of contact points for the citizens – thereby saving time;
3. The provision of enhanced turnaround times in the receipt, processing and issuance of services; and
4. Transparency in the delivery of selected services

International projects such as eSampark demonstrate that ASD and PPP models can drive much innovation not only in the public sector but in the overall economy.

Risk

An often purported advantage of ASD and PPP models is the ability to transfer risk to the private sector. However, an important consideration in at least some circumstances is the fact that certain types of risk are essentially not transferable. For example, the political risks associated with total service failure in social, health and other essential services will always be borne by government. Also, with respect to the provision of safe water, governments will ultimately be deemed to be responsible for the provision of, or oversight of, the provision of such services. However, other

risks, such as financial and transactional risks, are more easily shared between governments and third parties. Infrastructure PPP models, for example, have been very successful in transferring responsibility for cost overruns and delays in large capital projects (Hjartason et al. 2014).

For example, the Chief Peguis Trail Extension identifies clearly the risks transferred to the private partner. Annual service payments are linked to the quality of service provided. A savings of \$31 million was identified based on a comparison of the DBFM model to conventional procurement. As is typical of VfM studies, the base costs and transaction cost of the project are slightly higher for DBFM procurement, but the risks retained by the city are much lower, resulting in a net benefit. The risk categories that show the largest transfer from the city to the private partner are operational and maintenance cost risks and design as well as construction cost risks.

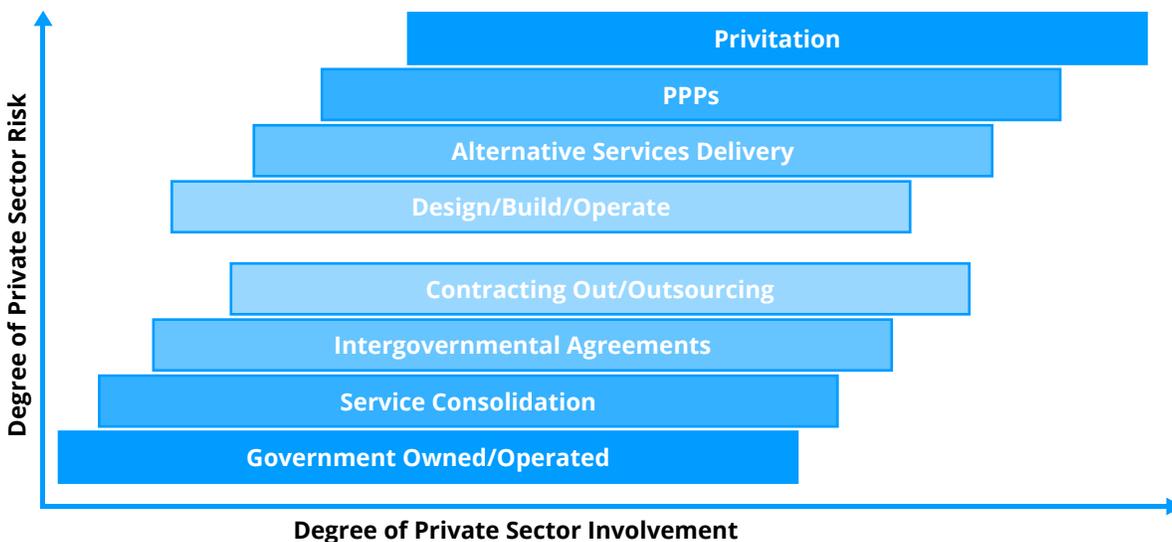
The Chief Peguis Trail Extension project is considered a model for Canadian PPP projects because the construction phase was completed ahead of schedule; the risks transferred were clearly identified; the procurement process was open, fair, and efficient; and the infrastructure was delivered at a significant cost saving to the public purse.²⁵

The importance of the allocation of risk can be seen as tipping the scale in favor of ASD and PPPs, it is also important to delve deeper into ASD and PPP models to better understand how project risks are actually transferred. Different ASD and PPP models will have dissimilar risk profiles depending on type. Government owned and operated services and infrastructure, for example, have little or no private

²⁵ Vijay Gill and Sarah Dimick (2013), *Canada as a Global Leader: Delivering Value through Public-Private Partnerships at Home and Abroad*, Conference Board of Canada

sector risk as there is little of its involvement. On the other side of the spectrum, a fully privatized service or infrastructure puts all the risk within the private sector. PPP and ASD models are more accurately classified as having more private sector risk than public. Failures and, more specifically, the cost of failures are usually borne by the private sector partner. Transferring and managing risk is an important element of the case for the development of ASD and PPP models. However, how that risk is identified and managed is an important part of assessing the viability of ASD and PPP models.

Figure 4: Risk and Degree of Private Sector Involvement



It is widely proposed that PPPs transfer project risks to the private sector by aggregating key project delivery functions that were traditionally dispersed. This aggregated approach to infrastructure project delivery is meant to deepen early and ongoing relationships between the public and private sectors so that their interdependence is of an increasingly reciprocal nature. Accountability and performance is increased among the public and private sectors by better linking financial reward with ongoing

project performance. There is a spectrum of risks in the design and construction as well as the operating period. For example, while short-term contracts may lower the risk to government, they may ultimately raise the provider's costs, deter competition between potential providers and stifle innovation and investment (Hjartason et al. 2014). Understanding and managing those risks is essential to the overall success of PPP and ASD models.

Figure 5: Risks in ASD and PPP Model Development

DESIGN AND CONSTRUCTION PERIOD		OPERATING PERIOD	
Risks	Issues	Risks	Issues
Results not achieved	Poor conception and planning	Cost overruns	Poor cost estimation Design is developed to minimize cost Errors in operations lead to higher than expected maintenance and lifecycle spend
Poor quality of works	Poor design Poor management Errors by contractos		
Cost overruns	Poor definition of the project Change orders Insufficient due diligence Contract not fixed price Poor planning of works Inefficient processes Poor cost estimation Unexpected inflation Errors in design Poor interface among unions		
Delays	Poor definition of the project change orders Poor planning No incentives to maintain the original schedule		

The cancellation of the diabetes registry contract in Ontario is perhaps a good example of the risk transfer mechanism. In that case, eHealth Ontario had signed a contract with a vendor for the completion of an electronic diabetes registry, with payment to be made upon completion. While the government was out a portion of the funds allocated for the project, the project proponents assumed much of the risk associated with project delays and cancellation.

Not surprisingly the debate associated with the risk allocation process continues. For example, the Ontario Health Coalition has raised concerns around the subjective nature of the approach to pricing ASD and PPP initiatives as well as the risk

allocation process, referencing specifically the overestimation of risks retained by the public sector in the traditional procurement process and the underestimation of risks that could be controlled under a traditional contracting model.

In the Canada Line project, the coordination activities required (between so many government authorities), was difficult to achieve, but in the end was successful. With respect to the technical aspects, a key success factor was the transfer of geotechnical, excavation and demand risks.

To date, in Canada, there have been few examples of a full demand risk transfer. In the case of Canada Line, the level of demand risk transfer was low,

as the private sector partner did not have control over the tariffs, and therefore over the volume of passengers. However, the private operator was allowed to promote the “passenger experience” of using the Canada Line based on values like punctuality, neatness, order. So the owner received an availability payment not only for fulfilling a schedule, but also for the number of passengers using the service.²⁶

Risk transfer and management are important considerations in the consideration of the viability of ASD and PPP models.

Sustainability

While the proponents of PPP and ASD models list the ability to develop and sustain cost effective initiatives, the simple reality to date is that much of the evaluation associated with the economic benefits attached to such projects has been primarily focused on the value for money (VfM) calculation. Environmental and social safeguards have yet to be embedded into the analytical framework associated with the model’s evaluation. Organizations such as the International Institute for Sustainable Development (IISD) suggest that the requisite constructs and instruments that are required to capture sustainability have yet to be designed and empirically tested. IISD is also of the view that ASD and PPPs have yet to deliver on their potential for long-term sustainability and that a substantial rethinking of the business and contracture models are needed to ensure that these initiatives move in this direction in the future. They suggest a greater integration of sustainable procurement and investment principles into ASD and PPP agreements can serve as a vehicle and catalyst for the growth of greener enterprises across many sectors of the global economy (IISD 2011).

In our review of the research and interviews with key stakeholders, questions emerge as to how sustainable the provision and delivery of traditional government infrastructure, programs and services are. Viewed from a triple bottom line perspective, examining ASD and PPP models allows for:

- **Economic** – better clarity around Value for Money
- **Social** – overall benefits to society through better innovation, risk and cost management
- **Environmental** – focus on lean delivery and management can result in more effective environmental gains

Conclusions

There are already many examples of ASD and PPP success stories in Canada. Those countries, states, provinces and municipalities with the most experience in the implementation of such projects consistently report that, prior to implementation of their first such project, government officials often spent years engaged solely in activities related to project identification and prioritization. In the United Kingdom, for example, officials executed one such (test) project and subsequently spent the next five years developing an exhaustive list of potential projects based their pre-defined project selection criteria. While such criteria often include various measures designed to evaluate the value for money expended, they often also include criteria designed to evaluate the risks associated with project implementation, the project governance activities that are required, the quality of the service/user experience, in addition to the more challenging issues associated with project sustainability.

As more projects and services are procured under ASD or PPP models, a minimal set of standards is reinforced. Constructors, operators, financiers etc. will become used to a new way of working.

²⁶ Adrian Barrios, *The Canadian PPP model and its applicability in Latin America*, PwC Canada

Therefore, the willingness of one of these participants to jump to this new environment will depend on the presence of certain compatibilities between the way they are used to working and what the new environment is offering.

The procurement process for ASD and PPP models is long. As a result, all parties will have to be committed to spending time and resources, if they find that the new environment is in some ways familiar, this will enhance their predisposition to participate. This is why, logically, the first investors are often local or regional. But when we are dealing with large infrastructure projects, global players are almost always required. This explains what Canada did to create and reinforce its infrastructure market, basically following the UK model and improving it.

In all related matters, communication from the government is very important, not only to stakeholders involved but also inside the different

government, at the ministries, regions, municipality levels. Historically, the ASD and PPP promotion process has begun from a specialized agency. As a result, public servants working in ministries or municipalities, at first may not see any benefit from changing their way of working. The same is likely true for the general public. However, as all parties are exposed and trained in ASD and PPP models, they should see this option not as a panacea but as an available alternative tool for procuring infrastructure projects and alternate service delivery models.

To attract investors to an ASD and PPP project what may be required are the design, management and governance of a carefully selected project. Projects need to have a fair and transparent evaluation process and one that has at its base the achievement of well-defined government objectives, where the technical requirements are well specified, and the contracts are financeable.²⁷

²⁷ Adrian Barrios, *The Canadian PPP model and its applicability in Latin America*, PwC Canada

