

Partnering for the Future

Public-Private Partnerships in Tourism Development





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**Prepared for:
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I Introduction

The Ontario Ministry of Tourism, Culture and Recreation (the “Ministry”) engaged KPMG LLP (“KPMG”) to prepare guidelines (the “Guidelines”) for private-sector involvement in Ontario’s publicly owned tourism assets. The audience for the Guidelines is project managers within the Ministry and its operating agencies. The Guidelines have been prepared to assist project managers identify, assess and implement public-private partnerships (“PPPs”).

The information contained in the Guidelines is for the exclusive use of government officials. Certain of the case studies presented in the Guidelines include confidential information, and accordingly, the PPPs are presented at a high level to protect confidentiality.

Throughout the Guidelines, “assets” are defined broadly to include not only physical assets (e.g., museums, parks and attractions) but also such resources as festivals, events and marketing initiatives. Further, we refer to “project” as an all-encompassing term to include any initiative to develop publicly owned tourism assets.

A. Background

All over the world, governments are examining how to best take advantage of the creativity, flexibility and financial capacity of the private sector to help meet the needs for public infrastructure. PPPs are now widely used in many jurisdictions to deliver many government products and services. The scope of PPPs cover such diverse products and services as:

- Transportation – airports, municipal bussing, bridges and roads.
- Energy and utilities – electricity, water and sewage.
- Social services – nursing homes, schools, public housing, sport and recreation complexes.
- The criminal justice system – courthouses, prisons and detention centres.

In today’s fiscal environment, other pressing public priorities – such as select investments in other key strategic infrastructure and social priorities (e.g., health care, education and social housing), as well as pressures for tax and debt reduction – are competing with tourism investments for limited public funds. Accordingly, while continuing to play an important role in the development and support of tourism assets, the Ministry believes it appropriate to examine opportunities for greater private sector involvement in Ontario tourism.

B. Purpose and Scope of the Guidelines

While PPP is being used for a wide range of government products and services, it has not been as widely or effectively employed in tourism as one might hope. The Guidelines were developed to provide a road map for project managers by outlining the structure, success factors and processes demonstrated in successful PPPs. As importantly, the Guidelines provide a framework to assess the applicability of PPP to a given problem or opportunity.

The Guidelines provide an overall framework for project managers interested in identifying or developing a PPP opportunity. The scope of the Guidelines is to help project managers:

- Define the “problem” or “opportunity” facing an operating entity, agency or Ministry department and determine if a project is a potential means to address this “problem” or “opportunity”.
- Determine the appropriateness of a project for PPP.
- Identify the scope for, and potential benefit of, private sector involvement (e.g., funding, management, control) in public sector tourism development initiatives.
- Identify appropriate forms of interaction between government and private sector partners.
- Identify policies, programs and approaches that encourage and facilitate PPPs, as well as barriers that prevent the private sector from sharing the risks and rewards of participating in public sector tourism development initiatives.
- Plan the PPP to ensure the best possible chance of success.
- Select a private sector partner.
- Monitor the PPP.

The Guidelines focus on PPP as it relates to tourism, while providing much of the same theory and principles that are common to PPP in any area. The Guidelines assume that the project manager has experience and knowledge of project planning, procurement and contracting, and therefore deal with selection and monitoring of a PPP at a high level only. These aspects of PPP are largely generic, and accordingly, do not require extensive discussion in the Guidelines.

Should the project manager require further information on a specific aspects of PPP, or wish to explore further the underlying principles of PPP, they are encouraged to consult additional reference materials. Appendix A references informative web sites and PPP publications that may be of use to the project manager. In particular, information on selecting a partner and negotiating the agreement is available

through government procurement offices as well as through several of the references noted in Appendix A.

C. What is PPP?

For the purpose of the Guidelines, PPP is defined as “any co-operative venture between at least one public and one private sector partner that transfers substantial financial return and risk from government to the private sector”. That is, to some extent the return to the private sector partner depends upon the success of the project.

PPPs are distinct from more traditional service agreements, where the private sector partner is rewarded based on its ability to perform a specific role (or provide a specific product). In a service agreement the private sector’s profits depend, in part on how efficiently and effectively it delivers a particular product or service, rather than on sharing risks and returns that are linked to the overall success of the venture.

Typical Features of PPP, Service Agreements and Sponsorships

Public Private Partnership (PPP)

The private sector earns a return based on effectively managing business risk. The private sector partner generally assumes many of the project risks.

The private sector group may be for profit or not for profit. Typical examples include:

- Sports complexes
- Casinos
- Food services within a provincial parks
- Golf course developments on public lands

Service Agreement

The private sector earns a return based on efficiently meeting contractual obligations.

The private sector group may be for profit or not for profit. Typical examples include:

- Cleaning
- Ticketing
- Security
- Advertising

Sponsorship

The private sector contributes funds to an event or capital project and gains rewards from the associated publicity. The private sector group is most likely ‘for profit’. Typical examples include:

- Music festivals
- Car races
- Sporting events
- Art centres

While sponsorship typically involves a public and private sector partner, it does not meet the definition of PPP used in the Guidelines. In a typical sponsorship arrangement, the private sector partner commits resources (monies and in-kind) to support a specific project, but does not share in the profits or underlying risks of the project. For example, Le Grand Prix Players De Trois-Rivieres is a partnership between Player’s Ltd. and the City of Trois-Rivieres. The title sponsor provides funding, marketing support and advice, but does not contribute more money if gate sales fall short or the operating budget is exceeded.

Private sector partners can include for-profit and not-for-profit organizations, although generally when substantive financial risk is to be borne by the private sector partner, at least one member of a private sector consortium will be a for-profit entity. Although much of the material presented in the Guidelines is applicable to partnerships with for-profit and not-for-profit partners, the primary focus is on partnerships with commercially oriented (for-profit) businesses.

PPPs come in many forms. They may be for a period of months or many years. They may involve minimal or significant capital investment. They may encompass a single project element, such as an operating agreement, or several elements, such as design, build, operate, finance agreements. Exhibit I-1 highlights characteristics of three “typical” PPPs, specifically for an event (e.g., a week-long festival or a special exhibit at a museum), food service concession (e.g., provision of foodservices at an attraction) and a hotel development (e.g., construction and operation of a hotel on public land).

**Exhibit I-1
Characteristics of Three "Typical" PPPs**

	Event	Food Service Concessions	Hotel Development
Term:	Months	3 to 5 years	Over 20 years
Capital investment:	Thousands	Under \$1 million	Many million
Agreement type:	Operating	Operate finance transfer	Design build operate finance transfer
Objective of PPP:	Marketing support	Operational skills	Capital, development and operational skill

The case studies presented in Appendix B highlight the range of private sector involvement in PPPs. For example, Discovery Harbour (a historic site located in Penetanguishene, Ontario) is a five-year operating agreement to manage and operate a theatre, restaurant and retail store under fairly specific operating conditions. At the other end of the spectrum, La Ronde Amusement Park is a long-term, design-build-own-finance-operate-transfer agreement with SixFlags (a large, U.S.-based attraction operator). Under the terms of the agreement, SixFlags will invest substantial capital and have virtually a free hand to operate and manage the attraction.

D. Why a PPP?

The underlying premise of PPP is that all parties will benefit through the alignment of their resources and objectives. As PPP becomes increasingly common, governments are realizing that such arrangements can have very tangible and immediate benefits, while the private sector sees access to new markets and opportunities.

For example, Ontario Place structured a three-way PPP between Molson’s and MCA to develop the Molson Amphitheatre. Molson and MCA received the benefit of existing visitation to the attraction as well as awareness of a proven entertainment venue while Ontario Place benefited from MCA/Molson’s investment in the new concert venue. All three parties benefit from the ongoing exposure and patronage at the facility.

Caution! PPPs should not be viewed as cure-alls for public sector challenges such as limited development capital and operating funds or inefficient cost structures. In general, our experience is that, while there may be significant benefits of PPP, these benefits are difficult to achieve and may not be achievable in all circumstances. One purpose of the Guidelines is to help project managers assess the likelihood of achieving the anticipated benefits of PPP.

While PPPs align their objectives and resources, the benefits to government and the private sector differ.

1. Potential Benefits of PPP to Government

Although many PPPs are initiated for financial reasons, government can enjoy a wide range of benefits, which may not have been identified fully in the initial business case. For government, the potential benefits of PPP can include:

- **Access to new sources of capital.** The private sector may have access to capital (e.g., both debt and equity markets) that is not available directly to government. Access to these markets, and other forms of third party and innovative financing, can increase the availability of capital.
- **Accelerated development of infrastructure assets.** The private sector is not subject to the same “capital rationing” that affects the management of public sector capital budgets, and may be able to complete a project in advance of government.
- **Risk sharing.** By its very nature, PPP involves the sharing of project risks (e.g., operating and/or financial risks inherent in the project).
- **Maintain or improve service levels.** A private sector partner may bring economies of scale or new technologies to improve service delivery.
- **Access to a wider range of skills in planning, management, and service delivery.** Government may gain access to expertise and/or management support tools that may not be available within government.
- **Realize value of under-utilized assets.** PPP can provide an opportunity to realize the value of assets that may be under-utilized. Creative development projects, combined with creative financing techniques and/or intensified marketing efforts, can provide substantial financial benefits to the government.
- **Realize economic development opportunities.** Large infrastructure projects, for example, can provide an opportunity to develop new skills in the labour force and/or encourage private sector investment in local communities.

The Southern Golf & Country Club in Barbados, WI encompasses many of the benefits of PPP. Through PPP, the government was able to bring private sector equity to the project, revitalize dormant lands, recruit experienced management and add critical mass to its golf tourism product. (See Appendix B for more details.)

2. Potential Benefits of PPP to the Private Sector Partner

In virtually all PPPs, the (for profit) private sector partner participates to earn a return on its financial investment that is commensurate with the risks borne by the company. The private sector partner may also be motivated to participate in a particular project to realize other, less direct benefits, such as, to:

- Provide access to a regulated market, with no or limited competition.
- Enter a new market, including new geographic areas.
- Expand products or services beyond the company's established base.
- Enhance credibility in the market or improve the public image of the company, through association with a government agency or a particular project.

While it is unlikely that a (for profit) private sector partner would participate for the less direct benefits alone, they may prove important in deciding to pursue a PPP opportunity, rather than other business opportunities.

The proposal call for both Casino Windsor and Casino Niagara attracted interest from several established international casino operators. For the bidders, these projects presented opportunities to enter a regulated market with limited competition and to expand into a new geographic area.

E. Steps in PPP and Organization of Remaining Chapters

Exhibit I-2 provides a very high-level overview of the components of a business case analysis and a PPP. It is not intended to be comprehensive, but rather, to provide an overall perspective of the relatively discrete steps that a project manager must consider in planning and implementing a PPP.

The remaining chapters of the Guidelines are organized around these five steps.

**Exhibit I-2
Overview of Business Case Analysis and the Components of a PPP**

	Business Case Analysis	PPP Planning	PPP Screening	Partner Selection	Monitoring
Objectives	Definition of project to address problem or opportunity	Definition of PPP	Confirmation of PPP approach to project	Selection of private sector partner	Compliance with PPP agreement
Process	Definition of problem or opportunity Analysis and selection of strategies and projects	Analysis and development of business opportunity	Evaluation of PPP potential of a specific project	Evaluation of proponents Negotiations	Monitoring
Key documents	Mission statement Business case	PPP plan Communications plan	Screening analysis as per response to questions	RFEI / RFQ / RFP Proposals Agreement	Agreement Performance reports
Key elements	Gap analysis Strategy and project identification, screening and prioritization Identify project delivery approach Analysis of financial and other impacts	Market research Assessment of roles and risk policy framework	Evaluation criteria and methodology	Fair and transparent process Government approvals Negotiations	Audit/review of performance reports Relationship management

II Developing the Business Case

The business case sets out the steps required to determine if a specific project, and a PPP approach to deliver that project, provides a suitable solution to the given problem or opportunity. As a result of the business case analysis the “problem” at hand may, or may not, be identified as a candidate for a PPP solution.

We strongly recommend that the project manager develop an objective and thorough business case for approval by senior government prior to proceeding with a PPP. Many failed PPPs can be traced back to an inadequate or faulty business case. Failure to consider all the business case elements may lead to erroneous decisions and/or ill-conceived projects.

This chapter has been incorporated in the Guidelines not because it is an element of PPP per se, but because of the importance of developing a thorough business case for any new project. Chapters III and IV deal with defining or planning the PPP, and assessing and confirming the appropriateness of a project for PPP.

A. The Conceptual Framework for the Business Case

In this section we describe a conceptual framework that may help the project manager think through a problem, identify and assess potential solutions and finally determine the appropriateness of various methods of implementing the solution.

To develop an objective and thorough business case, we suggest that the project manager follow a stepped approach:

- Identify the problems to be addressed.
- Identify and assess potential strategies to address the problem.
- Identify potential projects to implement alternate strategies.
- Evaluate potential projects.

In our experience, the temptation is to jump to a specific project and delivery approach, without giving adequate consideration to different strategies or alternative projects. Even when presented with an unsolicited proposal, the project manager should step back and consider the proposal within the context of the organization's mandate and the merits of the project in relation to other potential strategies and specific projects.

- Select a delivery approach and develop an initial implementation plan.
- Assess potential impacts of the project (financial and other).

Exhibit II-3, at the end of this chapter, summarizes the basic steps to developing a thorough business case. Exhibit II-1 outlines how the conceptual framework described in this chapter might be applied to a theoretical example. This example will be developed in more detail throughout the chapter as we describe various elements of the business case.

Exhibit II-1 Applying the Business Case to an Example

Background

An established attraction in a large city has experienced a steady decline in visitation over the past several years. The attraction is beautifully situated on prime land with good access by car or public transit. The physical building, while somewhat dated in appearance, is large enough to accommodate some expansion and has been well maintained. Residents in the local and day-trip market generally have a positive impression of the attraction, but most have not visited for many years because they perceive that the attraction has little to offer repeat visitors.

Steps	Example
Identify the problem to be addressed	Declining visitation
Identify potential strategies to address the problem	To attract more visitors could: <ul style="list-style-type: none"> A Add attractors B Improve quality/value C Improve marketing
Assess potential strategies to address the problem	Strategy B eliminated because: <ul style="list-style-type: none"> • Exit surveys indicate overall satisfaction with the quality of the experience • Admission prices are low in comparison to competing attractions
Identify potential project to implement alternate strategies	A Potential attractors: <ul style="list-style-type: none"> • Large screen theatre • More exhibits C Improve marketing <ul style="list-style-type: none"> • Focus on specific exhibits • Implement a multi attraction pass (e.g., link with other like attractions in the local market)
Evaluate potential projects	One project (more exhibits) eliminated based on response to past exhibit addition. The remaining projects prioritized as follows: <ul style="list-style-type: none"> • Large screen theatre • Focus marketing on specific exhibits • Implement a multi attraction pass
Select a delivery approach and develop initial implementation plan	Different delivery approaches were identified for each project: <ul style="list-style-type: none"> • Large screen theatre – PPP • Existing market plan adjusted to highlight specific exhibits – in-house deliver • Multi attraction pass – public sector collaboration, potentially incorporating corporate sponsorship
Assess potential impacts of the project (financial and other)	The benefit cost analysis supported implementation of the large screen theatre

B. Identify the Problem (Step 1)

This section identifies a variety of potential “gaps” between an organization’s mandate and current circumstances. For the purposes of this discussion, the identified gaps between the organization’s mandate and the current operating reality represent “problems” or “opportunities”.

On the issue of organizational mandate, the project manager, senior management (and the board) should thoroughly consider the current relevance of the organization’s mandate. A review of the mandate and an understanding of the latitude permitted should be conducted BEFORE considering new business initiatives, strategies or specific projects.

A project should only be undertaken when it is consistent with the organization’s mandate. Analysis of the problem may identify a need to reassess, and potentially change, the organization’s mandate. This exercise should be completed before proceeding with a project.

To fully identify and explore the problem, the project manager should consider and clearly articulate:

- Why the current analysis is being undertaken.
- Any limitations or constraints associated with the problem, organization or environment.
- Any political considerations.

Potential “gaps” in meeting the organization’s mandate may vary greatly. The following list is intended to be illustrative but not comprehensive:

- ***Financial self-sufficiency***

Is financial self-sufficiency the only aspect of the mandate not being achieved? If so, consideration of a PPP must take into account the need to harmonize the organization’s financial objectives with all other objectives. Further, the organization must recognize that its financial need does not necessarily create a PPP opportunity that would be of interest to the private sector.

- ***Improving the efficiency and/or effectiveness of existing operations***

Is there reason to believe that a private sector operator could deliver a service(s) at a lower cost? In this context “service” could be defined as the overall mandate of the organization or some supporting component. For example, could a private sector golf course operator take over operation of a golf facility currently operated by a public-sector body, and operate at a lower cost given labour and other support resources in the market area (e.g., management, marketing)?

■ *Rejuvenation and marketing support*

Is the operation able to achieve target visitation levels or has visitation fallen off in recent years? Perhaps the operation suffers from “tired” infrastructure or limited marketing resources. In this case a PPP might be used to bring new capital investment (e.g., the development of new amenities) or marketing expertise.

■ *Taking the operation to a new level*

Is the operation successful but the mandate provides sufficient latitude for additional growth? For example, does the operation meet or exceed visitation targets while satisfying its service delivery objectives? This type of “gap” assumes the operation is performing well but would benefit from further development. The private sector could be brought in to address new development initiatives that complement the activities currently provided under the operation’s mandate.

In some cases, unsolicited offers are made to government. These do not necessarily constitute a “gap” in the mandate but may afford an opportunity. Unsolicited offers however, should be put through the same screening process as discussed above to determine consistency with the organization’s mandate.

C. Identify and Assess Potential Strategies to Address Problem (Step 2)

It is important to consider a broad range of potentially feasible strategies to address a problem. The project manager should consider seeking expert advice and/or stakeholder input and to brainstorm a full spectrum of possible strategies to address the problem.

Once a broad range of potential strategies has been identified, the project manager should systematically evaluate potential strategies to identify those strategies that are most likely to successfully resolve the original problem. In determining whether

a potential strategy makes sense to pursue further, the project manager should consider the specific strengths and weaknesses of the asset and any limitation or constraints on the organization.

In our example, the project manager identified three strategic options that might potentially increase visitation:

- Add attractors.
- Improve quality/value.
- Improve marketing.

Further research indicates that the quality/value of the attraction is good. The attraction is widely recognized for the quality of its exhibits and visitor surveys suggest a high level of satisfaction with the overall experience. Additionally, admission prices at the attraction are comparable to, or lower than, competing attractions.

Accordingly, a strategy that rests upon improving the quality/value of the attraction would be unlikely to have a significant impact on visitation. Consequently, this strategy for increasing visitation was discarded in our example.

Many strategies are complementary, and provided sufficient resources are available, may be pursued in parallel. In almost all circumstances, however, a focused approach that does not scatter resources too thinly affords the greatest likelihood of success.

D. Identify Potential Projects (Step 3)

At this stage in the business case analysis, the project manager may still be dealing with several alternate strategies to address the underlying problem.

For each alternate strategy, the project manager should develop an initial list of potential projects. The list should be comprehensive to ensure innovative project opportunities are not overlooked. The project manager should consult a wide range of sources to identify potential projects. For example, the project manager might consider:

- How have other jurisdictions with similar assets addressed similar strategic issues?
- What additional assets are likely to complement the existing tourism product mix?
- What do potential partners and stakeholders that know the asset suggest?

In our example, the project manager identified two potential projects that would add an attractor to the attraction:

- A large screen theatre.
- More exhibits.

To identify other possible attractors, the project manager might speak informally to private sector developers to see what they think might work well in the market, and particularly at the attraction. Additionally, the project manager might poll current or past visitors to determine what additional attractors are of interest to them.

E. Evaluate Potential Projects (Step 4)

The project manager may be able to eliminate some potential projects or at least flag them as lower priorities for follow up. The project manager should assess the long-list of potential projects using evaluation criteria to eliminate projects that:

- Do not fit with the organization's mandate.
- Require the government to give up more than it perceives it would likely gain through the project.

- Require more resources to plan and implement than the organization can provide.
- Are considered less likely to satisfactorily address the original problem.
- Are difficult or unlikely to be successfully implemented.

A common paradox in the tourism sector is an attraction (or recreation facility, or cultural facility) where the mandate is to provide a “service” to visitors such as heritage interpretation—but on a break even or self-sustaining basis. In many cases, the “service” component of the mandate is met but the financial self-sufficiency is not, resulting in the need for operating subsidies, a lack of capital for upgrading and/or compromises in day-to-day operations. The “problem” is identified as a cash shortfall and the organization considers, among other solutions, PPP-type projects to address the problem (e.g., the private sector investing in a development opportunity that produces revenue). The challenge in this situation—and the potential for a PPP failure if the challenge is not met—is the prioritization of projects against a multi-faceted mandate (i.e., interpretation versus self sufficiency) BEFORE consideration of PPP.

In our example, the project manager may feel that three of the potential projects that were originally identified can be undertaken concurrently. These projects, in order of priority might be:

- Add a large screen theatre.
- Focus on specific exhibits in its marketing plan.
- Implement a multi-attraction pass.

Adding new exhibits was dropped as a potential project since adding new exhibits in the past had a disappointingly small impact on visitation to the attraction.

In evaluating potential projects, the project manager will often need to obtain more information about the potential for each project. For example, in evaluating the potential for a large screen theatre, the project manager should have some idea of whether the existing building can accommodate the facility, the cost of constructing the theatre and any required modifications to the site and the impact large screen theatres have had on visitation at comparable attractions in other jurisdictions.

In evaluating potential project, the project manager may wish to involve external advisors to help develop a more informed assessment of potential projects. Professional advisors that specialize in a particular sector (such as hotels, golf or food service) may be able to help set pricing levels, estimate demand and develop pro-forma revenue and costs projections. Similarly, professional advisors with specialized functional skills (such as real estate development, urban planning or engineering) can help determine the technical feasibility and estimate the capital cost of a project.

Because the project manager is working with only limited information about the potential projects, he or she may not have sufficient information to absolutely eliminate certain projects from the long list. In such circumstances, the project manager may elect to put such project to the side until more information

becomes available through outside sources or until resources are available to explore further the potential of these projects.

It is important to reduce the long list because planning, managing and implementing a project (through PPP or any other delivery approach) requires an investment of significant resources.

F. Select Delivery Approach and Develop Initial Implementation Plan (Step 5)

Once a project has been short-listed from amongst potential projects, the project manager will need to determine the best potential approach for delivering the project. In assessing alternate approaches, the project manager should consider how each potential approach safeguards the public interest, and ensures the project is undertaken as efficiently and effectively as possible.

The project manager should consider whether it is best to implement the project using:

- Internal resources.
- Public sector partners.
- Sponsorship.
- PPP.
- Alternate service delivery.

Note that at this point PPP might be selected as a preferred approach, but a final determination to proceed with a PPP would require the application of the detailed evaluation criteria described in Chapter IV.

The project manager might choose to implement a project using internal resources if the organization has, or can acquire, the necessary expertise and resources within its existing funding. For many projects this is the most efficient and effective approach. Generally, activities that touch on policy analysis and development or intergovernmental relations are considered to be core to government, and consequently, unlikely candidates for alternate service delivery.

In our example, the project manager elected to pursue the three shortlisted projects as follows:

- The large screen theatre was identified as a potential candidate for PPP because it could generate significant new revenue, needed skills and technologies not currently available within the organization and required a large capital investment.
- The project to develop more focused, exhibit specific marketing was identified as an opportunity for the in-house marketing department to pursue. The existing marketing plan would be reviewed and revised to place greater emphasis on positioning certain exhibits to target groups within the local community.
- The multi-attraction pass was seen as an obvious candidate for collaboration between several public agencies. Additionally a commitment was made to explore the potential for incorporating corporate sponsorship in the project to market and offset some of the incremental costs of the project.

In considering projects that require the introduction of new assets or services, there may be reason to believe that a private sector operator could deliver the project more effectively and efficiently than government. Ontario's three commercial casinos, for example, are PPPs between the province and private casino operators. The casino operators offer established casino development and operational experience, marketing capabilities and systems to the province, in addition to risk capital (which varies by situation). Using outside expertise allowed the province to commence casino operations much faster (and with greater certainty) than by trying to develop a "made-in-Ontario" gaming regime.

Other forms of alternate service delivery include a wide spectrum of delivery options. In determining the most efficient and effective means of delivering the project, the project manager might also consider: privatization, franchising or devolution to another level of government or not-for-profit group. In assessing the appropriateness of some of these approaches to implement a project, it may be appropriate to reconsider whether the organization should participate in the delivery of services or whether they might best be provided solely by the private sector. In particular, does the mandate encourage or discourage such participation?

Once a delivery approach has been chosen, the project manager should prepare an initial implementation plan for that particular project. At this stage the project manager may find it helpful to take a step back and consider the big picture. In developing the implementation plan, the project manager may wish to consult with stakeholders and advisors to help ensure the overall scope of the project is considered and potential issues identified.

The implementation plan should:

- Describe the requirements and timelines for implementation.
- Identify and assess any relevant operational issues.
- Identify crucial dependencies, obstacles and implementation risks.

G. Assess the Financial Impact of the Project (Step 6)

Once a project has been identified potentially as worthy of pursuit, the benefits and costs should be systematically analyzed considering both quantifiable costs and benefits, and other non-financial measures (which are discussed in Section H).

In describing the financial impact analysis, we have focused on the requirements for a business case to undertake a project using PPP. Clearly, the overall requirements to support a project that is to be delivered through some other form of alternate service delivery or in-house are quite similar.

1. Benchmark Cost

Where government is considering the provision of a new service and cost information does not exist, benchmark costs must be projected. The projected costs for in-house delivery of a new service should be based on the costs of providing similar services by government and cost data from other governments already providing the service.

The establishment of benchmark costs requires that the true costs of providing the service by government be quantified. These include both capital and operating costs, such as:

- Direct costs of providing the service, including salaries, wages, benefits, office space, equipment, capital equipment and insurance.
- Indirect costs, such as corporate overhead.
- Financing costs, including debt service costs and interim financing.

The benchmark costs should reflect all relevant costs so that the PPP option can be compared fairly.

2. Partnership Cost

The financial analysis should include an estimate of the costs of the PPP. These costs include the resources required to:

- Establish the partnership, including all internal and external advisors.
- Monitor the agreement, including performance audits.

Until the private sector responds to a proposal call for a particular project, the actual costs of a PPP will not be known.

H. Assess Other Impacts of the Project (Step 7)

Through the business case the project manager is presenting a realistic assessment of the impact on the government and its stakeholders of implementing the project. The business case should present a high-level assessment of the benefits and costs of the project. It should identify impacts and, to the extent possible, quantify the relationship among quality, service and cost-effectiveness.

The project manager should also assess the project in terms of the:

- Economic/social impact.
- Service quality impact.
- Human resource impact.
- Logistical prerequisites.
- Risks.

Below we outline the requirements for each of these components of the impact analysis.

1. Economic/Social Impact

To the extent the project manager can identify economic and social issues associated with the project, these should be highlighted in the business case. Economic/social impacts of a casino, for example, might include:

- Anticipated spending in a region and province or territory.
- Anticipated direct and indirect jobs in a region and province or territory.
- Economic development of area (e.g., development of supporting suppliers or technological industry in a region).
- The cost of addressing mental health, public safety and security issues.
- Anticipated number of room-nights in area hotels.

2. Service Quality Impact

Service quality measures will be unique to each project. For services currently being provided by government, the project manager should identify any anticipated impacts on the quality of the service. In moving from a government operated excursion train to a contract operator, for example, the project manager should identify any anticipated changes in the frequency of trips, operating season or terms and conditions of ticket sales.

3. Human Resource Impact

For projects involving existing operations, the project manager should identify anticipated changes in government staffing levels and skill requirements as well as any new position associated with the project.

To the extent the project manager identifies additional human resource issues associated with the project, these should be highlighted in the business case. In transferring the operation of an area attraction from government to a private contractor, for example, the project manager should consider whether there are any issues associated with:

- New training and skill requirements.
- Recruitment and retention of workers, union agreements.
- Pension or income security liabilities.

4. Logistical Prerequisites

The project manager should identify and provide an assessment of any logistical prerequisites associated with the project. As a minimum, the project manager should identify the operational and environmental changes necessary to support the project. In developing a business case for a cruise ship passenger terminal, for example, logistical prerequisites might include assembly of land, zoning and environmental approvals and site infrastructure development (e.g., break walls, dredging and service roads).

5. Risks

The project manager should identify and provide an overall assessment of the risks to government associated with the development and implementation of a project. Potential risks to consider include:

- External environmental risks.
- Industry risks.
- Business or initiative risks.

Exhibit II-2 summarizes some of the questions a project manager should consider in assessing the risk to government of proceeding with the project. The sample questions are designed to help project managers determine the degree of risk inherent in a potential project. (Not all questions will apply to all projects.)

Exhibit II-2 Risk Analysis Assessment Tool

Risk Factor	Risk Question	Response	Risk Level		
			Low	Med.	High
EXTERNAL ENVIRONMENTAL RISK					
Social/Public Acceptance					
Social values and trends	Does the current trend in social values support this initiative (e.g., healthy living):	Strong long term trend Moderate or medium term trend Niche market trend	✓	✓	✓
Stakeholder analysis	Has a stakeholders' analysis been completed and shown favourable results:	Many studies and broad public acceptance Limited study and acceptance Little or no public consultation	✓	✓	✓
Competing social interests	Do competing interests exist which may be motivated to cause friction:	No competing interests Some competing interests Many interest groups with conflicting motives and goals	✓	✓	✓
Experience in other jurisdictions	Has a similar initiative taken place in another jurisdiction:	Yes, very successful results Some similar experience No comparable initiatives	✓	✓	✓
Political Regulatory Considerations					
Constraints	Does the current political and regulatory environment facilitate this project:	Few hurdles Some hurdles Many hurdles	✓	✓	✓
Regulatory reporting and compliance	Is this a highly regulated sector, (e.g., safety requirements, reporting requirements, liability concerns):	Very little reporting and compliance required Some reporting and compliance required Significant reporting and compliance required	✓	✓	✓
Economic Considerations					
Economic outlook/sentiment	What is the current medium term economic forecast:	Good Uncertain Poor	✓	✓	✓
Investment Cost	Does the current interest rate environment support investment:	Low interest rates <5% Medium 5-9% High >9%	✓	✓	✓
Valuations	Do current asset valuations support taking the proposed investment or divestment action:	Yes No	✓		✓
Technology Impact					
Technology cost and the demands of evolution	Does the long term technology trend (of increased migration technology platforms) limit this business model/partnership:	No Yes	✓		✓
Technology Opportunities	Is this a situation where very little technological support is currently applied and where applying some technological tools will greatly enhance the asset:	Yes No	✓		✓

**Exhibit II-2
Risk Analysis Assessment Tool (cont.)**

OVERALL RISK RELATED TO THE EXTERNAL ENVIRONMENT					
INDUSTRY RISK					
Business & Market Risk					
Intensity of rivalry	How intense is the rivalry within this business segment?:	New market or little rivalry Normal competition Intense competition	✓	✓	✓
Customer acceptance	Demand is well established (within Ontario or within another market):	Business exists and is profitable Exists profitably in another market or is young in Ontario New business/untested market	✓	✓	✓
Depth of market research	How verifiable are the critical assumptions? How much "due diligence" has been conducted?:	Pilot results Customer focus groups No statistical market research	✓	✓	✓
OVERALL INDUSTRY RISK					
BUSINESS OR INITIATIVE RISK					
Internal and Execution Risk					
Knowledge (often this relates to newness of an investment or project area)	Project team members average years of experience in this business area:	Greater than 4 years 3 to 4 years Less than 3 years	✓	✓	✓
Dependence	Degree of dependence on one or two particular team members (internal or external):	No Yes	✓		✓
Public Manager/Team	The priority placed on the project by the project manager and team is:	Their highest work priority Half of team considers project highest work priority Less than half of team considers project highest work priority	✓	✓	✓
Public Policy changes	Policy changes required:	Little change Moderate change Considerable change	✓	✓	✓
Executive Steering	Executive Steering Committee exists to approve decisions beyond team authority:	Steering Committee in place Informal Committee exists No Steering Committee	✓	✓	✓
Scope	The number of business lines involved: (for example a project that incorporates a retail store, hotel and restaurant has three business lines)	One business line Two business lines Three or more business lines	✓	✓	✓
Time	Estimated project duration:	Less than one year Less than five years Greater than five years	✓	✓	✓
Interdependencies	The number of interdependencies of this initiative with other groups or initiatives:	One Several Many	✓	✓	✓
OVERALL RISK RELATED TO BUSINESS OR INITIATIVE					
OVERALL RISK ASSESSMENT					

A low risk rating does not mean that the project should be undertaken. Likewise, a high risk rating does not mean that an initiative should not be undertaken, rather it identifies a need to mitigate some of the risks before proceeding with the project.

I. Document the Business Case (Step 8)

The business case should document the underlying issues, analysis and approach being put forward for review and approval by senior government. Documentation should:

- Be clear and concise, emphasizing the logical thought process followed in identifying and evaluating alternate strategic approaches and potential projects.
- Follow the steps described in this chapter (adapted as necessary to reflect the specific circumstances).
- Provide supporting documents in appendices, citing references and underlying assumptions.

The draft business case should be reviewed internally and amended as appropriate prior to final submission for approval.

Exhibit II-3 summarizes the basic steps to develop a thorough business case, which are discussed in some detail in this chapter.

Exhibit II-3

Basic Steps to Developing a Thorough Business Case

Step 1 – Identify the problem to be addressed

- State known deficiencies, limitations and constraints.
- Ensure a full understanding of the organizations mandate and the political context.
- Clearly define the potential gap between mandate and the current performance of the tourism asset.

Step 2 – Identify and assess potential strategies to address the problem

- Consider the strengths and weaknesses of the tourism asset.
- Consider any limitations and constraints.

Step 3 – Identify potential projects for each strategic approach

- Brainstorm a full spectrum of possible projects.
- Consider: other jurisdictions experience, the appeal of the asset and local product offerings, suggestions from potential partners and stakeholders.

Step 4 – Evaluate potential projects

- Develop evaluation criteria.
- Gather preliminary information on potential projects.
- Apply evaluation criteria to the project options.

Step 5 – Select a delivery approach and develop an initial implementation plan

- Consider use of government resources (internal, other levels of government).
- Consider use of the private sector (sponsorship, PPP or alternate service delivery).
- Describe requirements and timelines.
- Identify relevant operational impacts, critical dependencies, obstacles and implementation risks.

Step 6 – Assess the financial impact of the project

- Develop benchmark costs.
- Consider the cost of the preferred delivery approach (for example, the cost of establishing and monitoring a PPP).

Step 7 –Assess other impacts of the project

- Consider the economic/social impact, service quality impact, human resource impact and logistical prerequisites.
- Assess the risks inherent in implementing the project.

Step 8 –Document the business case

- Be clear and concise and ensure thorough internal review.

III Planning a PPP

In this chapter, we review the steps necessary to define and plan a PPP. Chapter IV, which follows, describes how to assess and confirm the appropriateness of a project for PPP. Chapters III and IV are closely linked. It is impossible to thoroughly assess the appropriateness of a project for PPP without defining the PPP in some detail. However, in evaluating the appropriateness of a project for PPP, refinements to the initial PPP plan are inevitable.

To maximize the attractiveness of a PPP opportunity, the project manager will need to ensure that the business opportunity is defined appropriately; so it makes sense from a business partner's perspective. The project manager will need to consider:

There is no single best way to structure a PPP. In assessing the potential for a project, the project manager must apply his/her own judgement and knowledge of tourism, the organization and potential partners.

A project that at face value appears to be an attractive opportunity for PPP, may receive a tepid response from the private sector if it is inappropriately structured or poorly defined.

- What is government's role to be?
- What new public policies or guidelines are needed, if any, and what are the implications of current policies?
- What provisions are necessary to secure project financing?
- How soon should a private sector partner be brought into the process?
- What form of PPP should be used?
- What should the term of the arrangement be?
- How much return / risk should be transferred to the private sector partner?
- Who needs to be consulted with or advised in the process?

In addressing these questions, the project manager should debate these issues internally within their agency or department and may also need to consult with senior management and other stakeholders, as appropriate.

A. Importance of Planning

Successful PPPs require substantial time and resources to plan. The amount of time required to plan the project can vary depending upon the nature of the project. As can be seen in Exhibit III-1, even PPPs with relatively short agreement terms take substantial time to plan and put in place. Large capital infrastructure or unusual events may take several years to put in place.

Exhibit III-1
Time Required to Plan PPP Relative to Selection Process and Term

	Project Planning	Selection	Negotiation	Closing	Term
Discovery Harbour	4-5 mth	3-4 mth	1 mth	2 mth	11 mth
Guelph Sports & Rec Complex	< 1 yr	2 1/2 mth	4-5 mth	4-5 mth	20 mth
Southern Golf and Country Club	> 1 yr	8 mth	N/A	6 mth	Permanent

Potential private sector partners need to understand the project along a variety of dimensions. Based on its understanding of the project, potential private sector partners will assess the attractiveness of the opportunity and decide whether to invest the resources necessary to put forward a proposal.

Project planning is an iterative process. To assess whether a project is an appropriate candidate for PPP, the project needs to have been thought through in detail. As the project proceeds it will undoubtedly be refined further, and some elements may change. The development of the RFP and final negotiations of the PPP agreement also may result in refinements to the original plan.

As discussed in the following chapter, the level of effort that is required to implement a PPP is a critical consideration in determining whether a specific project is an appropriate candidate for PPP.

B. What is Government's Role?

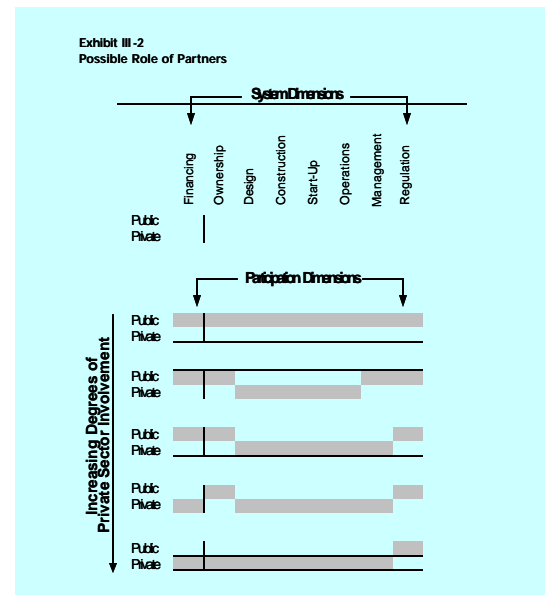
The project manager must determine the extent to which government is willing to relinquish or accept hands-on control of the project, once it has decided to partner with the private sector. The extent of control government retains should depend largely on the nature of the specific project.

It is often more difficult than it appears for government to relinquish active control because as issues arise, the public, media and stakeholders look to government, not the private sector partner, for answers.

Exhibit III-2 provides a schematic overview of the possible role of the private and public sector partners within a PPP.

If private sector involvement is to be used to maximum effect, the PPP must be structured so that government retains the ability to monitor and enforce the agreement.

If the project requires substantive input from more than one ministry, or governmental agency, the project manager will need to ensure that the roles and responsibilities of each department/agency are clear, before the private sector joins the project.



Many private sector partners find it difficult to deal with more than one public-sector agency in a partnership. They are leery of becoming caught in the middle of inter-departmental battles that may take time to resolve, or worse still, may undermine government's commitment to the project.

Many PPPs have benefited from the appointment of a lead government agency to interface with the private sector partner. The lead agency is responsible for managing the relationships with other governmental departments/agencies and resolving any inter-governmental issues. The project manager would develop side agreements between the lead and supporting departments to formalize each department's roles and responsibilities and confirm its commitment to the project. Potential private sector partners see these agreements as an important signal that government is committed and they will be able to work effectively together throughout the project.

Tourism Oriented Destination Signing ("TODS") is a good example of a project where two government ministries have a major interest in the project. The Ontario Ministry of Tourism, Culture and Recreation is responsible for promoting small and large attractions across the province. The Ontario Ministry of Transportation is responsible for safety on the highway right-of way where the TODS signs are placed. The Ontario Ministry of Tourism, Culture and Recreation took the lead role in managing the project and signed the agreement. Both departments worked together to develop the policy framework that underlies the project and to select the private sector partner.

C. Are there Policy Implications?

The project manager must establish the underlying guidelines for the project. This framework must be communicated to the private sector as part of the selection process. Value is lost when potential bidders are forced to guess at government objectives, or when government attempts to “use the market” to tell it what to do.

Public policy should always be debated in private and not in front of bidders during the selection process.

1. Guidelines to Enable and Guide the PPP

Guidelines for the project can help ensure government has thought through the project at a strategic level. Specific policies and/or guidelines must:

- ***Be germane to the project.*** For example, private sector casino operators are required to fund local programs to educate the public and council individuals with gaming addictions.
- ***Support the overall tourism appeal of an area.*** If the project is likely to have a major influence on the image or reputation of an attraction, it may be appropriate to take steps to ensure the private sector partner does not undermine the project’s public image. For example, most food and retail concessions within governmentally operated attractions, such as an historic designated site, are required to fit the overall theme of the attraction. At Granville Island, for example, the Federal Government has restricted large commercial chains, which they have decided detract from the overall image of the area.

In our experience, private sector partners are much more comfortable working within an identified policy structure, rather than being limited by directives that may appear arbitrary and/or inconsistent. Evidence of a clear policy framework provides some assurance that government is less likely to act upon agreement provisions that allow government to change the operations of the partner.

2. Imposition of Other Policy Objectives on the Private Sector Partner

In addition to any policy implications that are specific to a PPP, the project manager should determine what, if any, public policy objectives are relevant. For example, should the private sector partner be required to:

- Adhere to government’s human resource or procurement policies?
- Commit to specific economic development targets?

- Provide facilities to support access for visitors with special needs?
- Provide services in both English and French?

A private sector partner is likely to see additional policy objectives as restrictions on its ability to operate and manage the project in the most efficient and effective manner, and hence, as potential increases in the cost of the project. Accordingly, the project manager should consider both the benefit of incorporating public policy objectives into the project and the potential loss of value to the project.

3. Imposition of Other Policy Objectives on the Selection Process

The project manager should determine whether there are government procurement policies and procedures that should be adhered to in the proposal call or selection process. Should, for example:

- Private sector proponents that are from the local area, Ontario or Canada receive preferential consideration?
- Government consider an unsolicited proposal, or should it require a competitive process? (See Chapter V, Section A, Subsection 3 for further discussion.)

4. Compliance with Applicable Legal Requirements

Clearly, a private sector partner must comply with all applicable laws and regulatory requirements. Further, the project manager should ensure that the PPP agreement allows government to take appropriate action in the event the private sector partner is in violation of the law. For example, most food concessions provide for contract cancellation if the operator is in violation of any legislated health and safety requirements.

At the same time, the project manager should avoid establishing provisions that conflict with any applicable laws and regulations. For example, rather than establishing separate requirements to ensure the private sector does not reveal confidential information, the private sector partner should be reminded of the need to comply with the *Freedom of Information and Protection of Privacy Act*.

Restrictions that are established through the project agreement may unwittingly set up a conflict with legislation either at the time of drafting or at some future date due, for example, to a subsequent change in legislation.

D. Financing Issues

The project manager should consider a range of financing issues in planning a PPP, including:

- Can private sector financing compete with public sector financing for the project being considered?
- What is the effective cost of borrowing?
- Can private sector companies be bonded for a project of this type and magnitude?
- Is the project financially self-sufficient or can it become self-sufficient?
- Are there any government grants available for projects of this type and are partnerships eligible for such grants?
- Is the government prepared to provide financial support (e.g., recourse financing, subsidies, supplies, equipment)?
- Is it possible to define an equitable and appropriate rate-setting mechanism?

The proposed resolution of these issues will need to be communicated to potential bidders in the RFP.

E. When to Bring the Private Sector Partner into the Process?

This decision can be affected, in part, by the range of benefits that government wants to realize from a partnership with the private sector (i.e., the scope of the proposed partnership transaction).

1. Private Sector Involvement in Defining the Project

Frank and open discussion early in the planning process can help the project manager assess fully the appropriateness of the opportunity for PPP and help ensure the project is appropriately structured to attract private sector partners. If in doubt about the appeal or structuring of a project, the project manager should consider seeking input from potential private sector partners. Input for the private sector can be sought:

- Informally before beginning the formal procurement process.
- By inviting formal comment from potential bidders on draft documents. For example, other government agencies have used MERX to invite comment from potential partners on a draft RFP.

- As part of the procurement process. For example, a Request for Expressions of Interest (“RFEI”) was recently issued by Ontario Northland soliciting input from potential operators as to their interest in acquiring or operating various rail assets and services, including the Polar Bear Express, a summer excursion train that runs between Cochrane and Moosonee.

2. Private Sector Involvement in Establishing Technical and Operating Standards

One of the biggest challenges governments face with respect to procurement, is the extent to which the private sector can be involved in the establishment of technical and operating standards. The tensions affecting this decision apply to both government and the private sector. Governments must discharge their public interest function and cannot be seen to be “catering” to the private sector in establishing appropriate standards.

The private sector is equally concerned about intellectual property and commercial confidentiality in the event they participate in the establishment of standards. Involving the private sector in the approvals process enhances the opportunity for innovation, but can transfer risk to the private sector that many potential partners do not want to assume.

F. What Form of PPP?

PPPs encompass a variety of delivery models including:

- Service or management agreements (e.g., Discovery Harbour).
- Design-build-operate-transfer concessions.
- Design-build-own-finance-operate-transfer concessions (e.g., La Ronde Amusement Park).
- Sale of public infrastructure (e.g., Barbados Golf Club).

The selection of a service delivery model should be based on a consideration of which partner is best suited to fill each role in a specific project, and what benefits government seeks to realize from the transaction.

To maximize value through PPP, the project should be structure so that each element is provided effectively and efficiently. In determining which party is in the best position to provide each element of the project, the project manager should objectively assess the core competencies of government and of the private sector. The project manager should consider the following questions:

- **Project design** - Can the private sector bring more innovation and efficiency to the design process than the government? The objective should be to develop designs that provide value for money and lower overall life-cycle costs of the project, not only the capital cost.
- **Procurement and construction** - Who can secure goods and services required for the project or servicing initiative most quickly and competitively? Who is in the best position to construct the facility?
- **Financing** - Who can secure the most competitive financing?
- **Ownership** - Who should own the facility or service? Do the benefits of public ownership outweigh the benefits of private ownership?
- **Operations and maintenance** - Who is in the position to operate the service effectively and more efficiently? Will the inclusion of operations and maintenance in the PPP enhance the original objectives of government?
- **Marketing** - Who would do a better job promoting the project?

Many of the components of service delivery are logically bundled together, such as design-construction, ownership-financing, and operations-maintenance. It is important to consider bundling to determine whether combining various components leads to greater value for money than providing individual components. However, the project manager should investigate each component of service delivery on its own merits.

G. How Long a Project Term?

The contract should be long enough to allow a partner to earn an acceptable return on its upfront investment (if any), but short enough that the terms of the agreement can be established with some certainty. Further, the private sector partner must feel comfortable with the provisions for service and pricing changes that may be made at contract award or throughout the agreement term.

For example, potential private sector partners will assess whether the project offers a reasonable opportunity to recover the required investment and earn an appropriate return based, in part, on the length of the operating agreement in a design-build-own-finance-operate-transfer arrangement for a hotel.

Generally, the private sector looks for a longer operating period for projects that require substantial capital investment.

Generally, projects requiring substantial private sector investment typically require a minimum term of between 20 and 30 years. Contracts involving less risk transfer can be shorter in duration.

To assess the length of a project, the project manager should develop a cash flow projection for the project. Such a projection will help identify the underlying economics of the opportunity and potential risks that will need to be assigned to the project partners.

As an industry guideline, PPPs for concession operators are typically three to five years, while larger scale infrastructure projects (e.g., hotels, golf courses, amusement parks) are typically 20 plus years. The longer term reflects the limited financial returns anticipated in the early years of the project (i.e., due to the large capital investments at the beginning of project).

H. How Much Risk?

In this section we discuss the risks inherent in the PPP project. We focus on the specific business risks that will need to be assumed and managed by the project partners. Examples of risks inherent in a project are those associated with:

- The site.
- Design, construction and commissioning.
- Financing.
- Operations and maintenance.
- Marketing.
- Other risks, such as inflation, foreign exchange rates, changes in legislation or regulation, and force majeure. (Force majeure is any event beyond the control of the parties, such as acts of God, acts of war, riots, epidemics, strikes, labour disruptions or lockouts.)

In Chapter II (Exhibit II-2) we described the risks to the government the project manager should consider in assessing the likelihood that a project will be successfully implemented.

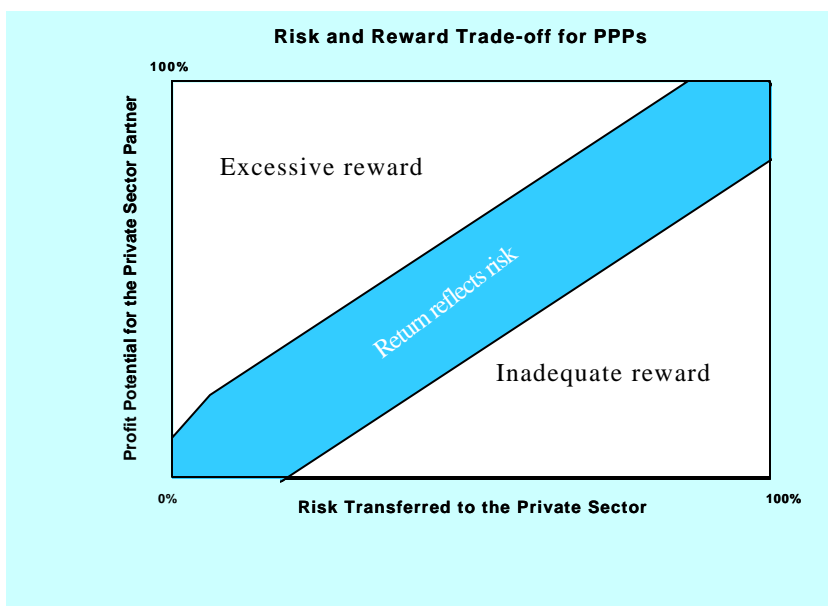
The degree of risk to be borne by the private sector partner will determine the required return or reward. The more risk the private sector partner is asked to assume, the higher the expected return.

Many private sector companies we spoke with in preparing the Guidelines feel that government wishes to pass all the risk. The private sector will not be interested in opportunities in which government is unable or unwilling to offer rewards that are commensurate with risks the private sector may be required to accept. Proposals for PPPs that do not balance risks and rewards between the prospective partners have limited prospects of proceeding.

Government needs to understand why the private sector requires a reward for sharing project risk. Risk has commercial value. The private sector assigns a monetary value to risk, an approach not necessarily considered by government. Government being “self-insured” frequently under-values or does not acknowledge the value of risk and hence, under-appreciates the value of risk sharing.

Many risks are inherent in a project, independent of the use of a PPP to undertake the venture. The project manager should reduce the risks inherent in the project to the extent possible.

Although we refer to the concept of risk sharing in the Guideline, the concept would perhaps be more accurately described as



assigning each specific form of risk to one of the project partners. In very few instances do the public and private sector partners truly share a risk. In those rare instances where the intent is to share a specific risk, the project manager should ensure the arrangement for sharing the risk is as clear as possible. For example, in a new attraction development, the partners might agree to split construction cost overruns equally, in the event that the over-run is due to a delay in the project schedule.

For example, a food services provider within a government-owned attraction generally bears the demand and operating risk. An exception might be any costs arising from government intervention or interference (e.g., changes in operating season for the attraction or costs associated with switching to new environmentally friendly wrappings due to a new attraction-wide operating policy).

Generally, it is preferable to transfer each specific risk to one of the partners. For example, in a hotel development project the private sector might assume the risk of changes in borrowing costs (assuming the private sector partner was responsible for financing the project and therefore in a position to control the project risk exposure). In this example, the private sector

partner decides how much debt and equity to invest in the project and has more ability to negotiate interest rates and whether to apply a fixed or variable rate loan.

Risk should be allocated to the partner that is best able to assume it. To maximize value for money, the risk should be borne by the project partner who can limit the likelihood that an event will occur and/or limit the consequences if it does. It costs that partner less to assume the risk than the partner with no control over it.

There are some project risks that the government cannot transfer to the private sector. These include the risk that:

- The private sector partner will fail to honour the intent of the agreement.
- The private sector partner will fail financially.
- Unforeseen events will occur that undermine the relevance/integrity of the project.

In each of these instances, the project manager can, at least to some extent, control this risk and minimize the cost in the event the risk is realized. For example, the risk that the private sector partner will fail financially can be minimized during the selection process by assessing potential partners' financial capacity and experience. Further, the cost to government in the event the private sector partner fails can be minimized through appropriate provisions in the PPP agreement.

I. Communications Plan

An important consideration in planning a PPP is the support and acceptance of stakeholders. The project manager should prepare a communication plan that considers the need to consult with and advise key stakeholders. The Ministry of Tourism, Culture & Recreation's Communications Branch can help the project manager in this area.

1. Elements of the Communications Plan

In preparing the communications plan, the project manager should identify the:

- Objectives of the consultation and communications strategy.
- Lead spokesperson and supporting spokespersons.

In our opinion, the potential benefits of involving stakeholders early, as well as throughout, the process are many. For example, stakeholders may help identify issues that will need to be addressed in the project plan and potential obstacles to implementation. As well, stakeholders are more likely to support the PPP if they feel their needs have been considered.

- Key stakeholder groups and their interests in the project.
- Milestones in the project requiring consultation and/or communication.
- Anticipated schedule and lead times.
- Overall approach and methods to be used for informing stakeholders and receiving input from them.
- Any tie-ins or potential conflicts with other government communications initiatives.
- Anticipated resource requirements and estimated cost of the communications plan.

The communication plan should reflect the scope of the project and the existing or expected interest in it by stakeholder groups. Large, and potentially controversial, projects should incorporate extensive communication over the life of the project. Smaller or less controversial projects may not require the same level of effort.

2. Stakeholders to Consider

The project manager should consider the need to communicate with:

- Current visitors or customers.
- Local tourism agencies and boards.
- Municipal councils.
- Local residents and businesses.
- Staff and union representatives.
- Regulators and approval agencies.
- Other organizations that might be involved in the project (e.g., lending institutions).

3. Informing and Consulting

The project manager should facilitate two-way communication between government and key stakeholders. Stakeholders should be involved as early as possible in the process to avoid difficulties at later stages. Various methods of disseminating information and receiving responses should be provided in the strategy. Potential methods of communicating and receiving input are listed below.

Communication	Consultation
<ul style="list-style-type: none"> ■ Public announcements (speeches, press releases) ■ Advertisements (newspaper advertisements, flyers, newsletters, radio, television) ■ Internet web-site ■ Information centre ■ Open houses ■ Direct mailings or e-mail notices 	<ul style="list-style-type: none"> ■ Surveys ■ Internet web-site ■ Dedicated phone line ■ Round tables, workshops and seminars ■ Public hearings

In planning the communications plan, the project manager should also consider how stakeholder input would be assessed and incorporated into the project.

Final Thoughts on Planning a PPP

While compiling the Guidelines and supporting case studies, we spoke to many government officials and private sector businesses. We thought their perspectives and advice on the importance of planning a PPP might be of interest:

- “A clear vision for the project has to be well defined, before looking for private sector partners.”
- “A partnership has to work for everybody involved.”
- “It is hard to encourage private sector investment, especially for large-scale projects. The terms of the agreement have to reflect the financial risk the investor is going to take.”
- “The length of the agreement has to be long enough for the private sector to obtain a fair return on its investment.”
- “The government must look at the long-term viability of the project, before engaging the private sector.”
- “Projects must demonstrate that they are going to generate some benefits to the community.”
- “It is hard to get financing from the banks...you cannot use crown land as collateral...the government has to have a role in assisting private sector partners work around this issue.”

IV Determining Project Suitability for PPP

This chapter presents several criteria that should be thought through in deciding whether a potential project would be a good candidate for PPP. These criteria should help the project manager step back and consider the likelihood that a PPP will be successful.

While PPP can be an appropriate means of facilitating tourism development, in our opinion, PPP is not appropriate for all tourism development projects. For many projects where private sector involvement is desirable, more traditional supplier arrangements may be appropriate.

The project manager should consider six overall criteria to assess whether a project is a good candidate for PPP:

- **Financial** – Will a PPP be able to carry out the project under acceptable financial terms?
- **Operational** – Are there operational hurdles that prevent private sector involvement?
- **Acceptability** – Are there any public concerns (e.g., social, economic or environmental) that may result in rejection of the project, or rejection of the involvement of a private sector partner, by the public-at-large?
- **Implementation** – Are there implementation barriers that prevent the involvement of the private sector?
- **Technical** – Can a technical solution to the project be found through a PPP?
- **Timing** – Are there time constraints that would pre-empt involvement of the private sector?

In general, any project which appropriately addresses the above six criteria could be pursued as a suitable candidate for PPP. If a project fails on more than one of the general criteria, this does not necessarily mean that the project could never be appropriate for PPP, but rather, that one or more elements of the project may require further thought and potentially some scope adjustment to increase the likelihood of establishing a successful PPP. If the project fails to meet several of the criteria, it may be worth considering alternate approaches to undertake the project, including for example, a partnership of public sector agencies.

Within each of the six criteria, the Guidelines identify specific questions to help the project manager determine whether a tourism development initiative meets the overall criteria. Several of these questions are effectively “show stoppers” on their own, and failure to achieve a positive response is reason enough

to exclude the option of involving the private sector. Most of the questions, however, are not absolute prerequisites to a successful PPP

The list of underlying questions presented for each of the criteria is not intended to be comprehensive. In assessing the appropriateness of a tourism development initiative for private sector involvement, the project manager may identify additional questions that provide relevant insight to their project and help determine whether the project meets the requirements of the screening criteria.

A. Financial Criteria

In assessing whether a project is a good candidate for private sector involvement, the project manager should assess the range of financial issues associated with private sector financing. For example:

‡ ***Is the project, or can it be, financially viable to the private sector?***

Essentially, the private sector's primary motivation in any PPP is to earn a return commensurate with the risks undertaken.

In our experience, many (if not most) PPPs require some form of government support. This support can take a range of forms, including: recourse financing, subsidies, the payment of a portion of the project's cost (e.g., land acquisition), and revenue guarantees.

For example, a cultural organization whose mandate is to maintain and/or interpret the "collection" (e.g., artworks, natural history artifacts) may experience some difficulty in identifying potential private sector interest. This is not to suggest that the cultural organization's mandate is erroneous, simply that the potential to involve the private sector in service delivery may depend on a financial subsidy.

‡ ***Is it possible to define an equitable and appropriate price-setting mechanism?***

Potential private sector partners (and lenders) need to be assured appropriate mechanisms are in place to adjust the pricing or rate structure to reflect changes in, for example, general inflation, the cost of specific inputs and interest rates.

Rate-setting mechanisms are a practical necessity to protect the end consumer in any PPP where a potential "monopoly" is established. An appropriate rate-setting mechanism when a monopoly is being granted can also be important in developing and maintaining public acceptance of the PPP.

‡ ***Can the "custodial" and "visitor" components be separated from a financing and operational point of view?***

Many of the Ministry's cultural attractions have significant custodial objectives (e.g., Royal Ontario Museum) and training/educational objectives (e.g., Ontario Science Centre), which in some ways, are not related to the visitor experience. The St. Lawrence Parks Commission, for example, has interpretive programs which, while inherently part of the visitor experience, are not revenue generating. The ability to separate these various components, maintaining the government's interpretive and custodial

responsibilities while allowing private involvement to provide other services, will be an important criterion in assessing project suitability.

‡ ***Are there other government priorities or goals that may impact the evaluation or structure of the financial arrangement?***

In certain circumstances the government may have secondary objectives that it can meet through the project. In such circumstances government may wish provide a subsidy or seed funding to the project to generate an acceptable return to the private sector partner. The types of objectives that might justify such a financial arrangement would include regional economic development initiatives or the creation of a primary tourist attraction in a previously under-developed area.

B. Operational Criteria

In assessing whether a project is a good candidate for private sector involvement, the project manager should assess the range of operational issues associated with the development of project specifications. For example:

‡ ***Is the project free of any operational constraints that are beyond the control of a private sector partner?***

In other words, are there unresolved operational considerations preventing potential bidders from delivering the required product or service. The project manager must resolve such operational restrictions before the project will be considered a feasible and attractive opportunity by the private sector. For example, would the involvement of “friends of” groups place overly onerous restrictions on the private sector, or remove revenue generating opportunities (e.g., gift shop)?

‡ ***Can government develop appropriate operating standards for the project?***

Identifying and articulating operating and maintenance standards is an important component of the detailed project plan. In the case of tourism assets, factors such as operating hours, language services and pricing policies are all of concern as inaccurate or incomplete operating specifications may lead to costly amendments to the legal agreement or sub-optimal operation and maintenance of the asset. Generally, operating standards should focus on “output specifications” rather than prescriptive procedures.

‡ ***Can the private sector partner be held accountable for appropriate performance?***

The project manager will need to develop control mechanisms that provide meaningful incentives/disincentives for the achievement of performance standards. This is of particular importance in tourism where a region’s reputation can easily be undermined by even a few unfortunate visitor experiences.

C. Acceptability Criteria

In assessing whether a project is a good candidate for private sector involvement, the project manager should consider whether there are significant public (e.g., socio-economic or environmental) concerns with the project. For example:

‡ ***Are elected officials willing to accept a PPP?***

In assessing the opportunity presented through a project, potential private sector partners look for tangible signs the project, and the use of a PPP, have strong political commitment and support. A “half-hearted” or disorganized procurement process, or failure to provide sufficient reasons for failing to proceed with awarding the contract can, over time, undermine the Ministry’s ability to attract private sector interest in future PPP opportunities.

‡ ***Are the public-at-large willing to accept the project and the involvement of the private sector in the project?***

Although arguably elected officials can be considered as a proxy for the public-at-large, in certain instances the public has successfully overturned the decision of government. The Ontario government, for example, ran a proposal call and selected private sector partners to establish many small charity gaming facilities across the province. This project failed to come to fruition in its original form because many communities held referenda and passed local by-laws banning the operation of such facilities within the municipality.

‡ ***Are other stakeholders willing to accept the project and the involvement of the private sector in the project?***

Where a government product or service is an integral component of a larger system, the project manager will need to consider the acceptance of other stakeholders (e.g., agencies, boards, local tourism organizations) within that system. Would the private sector, for example, be perceived as being capable of maintaining the quality service standards of certain attractions?

‡ ***Is government staff willing to accept the project and the involvement of the private sector in the project?***

Staff acceptance of a project and private sector involvement is likely to be high for new product development partnerships or for government products and services traditionally contracted out. However, staff acceptance of a PPP is likely to be less for projects previously staffed by government employees. In such circumstances, concerns over job security and the disruption to the normal work environment may generate substantial resistance from government staff.

D. Implementation Criteria

In assessing whether a project is a good candidate for private sector involvement, the project manager should assess whether there are any issues associated with implementing the project or the PPP. For example:

‡ ***Is it possible to generate meaningful competition through the procurement process?***

Is there an adequate pool of private sector bidders interested in pursuing the opportunity? Is the opportunity to compete for the opportunity restricted or unrestricted? For example, does one potential bidder have some inherent (perceived or real) advantage that would effectively discourage other potential bidders from pursuing the opportunity? In smaller, more rural communities (such as the North), there may be a lack of competition due to the limited number of potential private sector partners.

‡ ***Is the project free of jurisdictional or liability issues that prevent government from using a PPP?***

Before pursuing a PPP, the project manager must ensure that it has the necessary legal authority to pursue the project in the proposed manner. A web of legislative and regulatory constraints may preclude private sector involvement in a project, or make project risks difficult for the private sector to assume and manage. For example, the enabling legislation for the St. Lawrence Park Commission does not allow it to assume debt and would need to be amended before the Commission could proceed with a PPP that required the Commission to guarantee a loan.

‡ ***Can an internal project champion be found?***

Planning for and selecting a private sector partner requires substantial time, effort and skill to coordinate the input and support of elected officials and staff from within many government departments and agencies.

Failure to identify and empower a strong project champion is an all too frequent contributor to unsuccessful PPPs.

Conversely, the support and stewardship of a strong project champion can go a long way in overcoming many seemingly overwhelming barriers. Private sector partners

look for evidence of support from a senior member of the procuring government as an indication of public sector commitment for a successful process.

Unfortunately, in our opinion, the reward structure inherent in government does not match the workloads and stresses placed on PPP project champions, resulting in few volunteering for the role (and fewer still agreeing to do it a second time).

‡ ***Can the project champion access the resources necessary to administer a thorough procurement process?***

A substantial up-front investment is required to develop an effective PPP. The project champion has to act as an overall project manager, coordinating the detailed work of a range of specialists while anticipating the requirements of outside stakeholders. No one can do it alone; all successful project

champions have had the support of a strong project team. The project team may include a mix of government staff and external advisors such as financial, legal, architectural, engineering, operational, process, communication and environmental consultants.

‡ ***Can a successful transition plan be developed?***

In many PPPs, transfer of ongoing operations from government to a private sector partner is required. In some circumstances, the risk of an unsuccessful transfer may outweigh the expected benefits of using a PPP. This has proven to be a real issue when the transition involves the transfer of large numbers of government employees to a private sector partner, requiring all of the various labour and union issues to be addressed successfully.

E. Technical Criteria

In assessing whether a project is a good candidate for private sector involvement, the project manager should assess whether there are any potential problems with developing technical specifications. For example:

‡ ***Is the project free of any technical constraints beyond the control of a private sector partner?***

In other words, are unresolved technical considerations preventing potential bidders from delivering the required product or service? Examples of such restrictions include uncertain technologies, uninsurable risks and unknown baseline conditions such as soil conditions. The project manager must resolve such technical restrictions before the project will be considered as a feasible and attractive opportunity by the private sector.

‡ ***Can government develop appropriate technical specifications for the project?***

Incomplete and/or inappropriate technical specifications may increase the cost to government of the PPP. Private sector proponents will feel more comfortable that they will be able to generate a profit if the technical specifications are structured to provide them with some flexibility. For example in selecting a private sector partner to operate an excursion train, if the technical specification dictate a specific schedule for the train, potential proponents may feel they will not have sufficient flexibility to set the schedule to maximize the appeal of the train excursion to a broad market. In this example private sector proponents will consider this restriction in estimating their return, and accordingly would be less likely to bid or would reduce the bid made to reflect this restriction.

‡ ***Can an appropriate mechanism be established to monitor and control a private sector partner?***

Monitoring and control mechanisms are important to the delivery of the capital project. They are also essential to the success of the operational phase of the partnership. Inadequate monitoring and/or

enforcement of the technical standards may undermine the PPP if bidders perceive that they will not be held to the commitments made in their proposals and/or in the legal agreements. The project manager should structure monitoring provisions to protect the public interest without unduly limiting the freedom of private sector partners to manage the project to realize efficiencies.

F. Timing Criteria

In assessing whether a project is a good candidate for private sector involvement, the project manager should assess whether the time available is adequate to plan and establish a PPP. For example:

‡ ***Are the timelines adequate to develop operating specifications?***

Inadequate timeframes may lead to inaccurate or incomplete operating specifications, which may result in costly amendments to the agreement or sub-optimal operation and maintenance of the asset.

‡ ***Are the timelines adequate to develop acceptance of the project and the involvement of the private sector in the project?***

While extensive consultation with various stakeholders does help ensure a project is understood and the needs of various stakeholders reflected in the technical and operating specifications, it can extend the project timeline considerably. Many important stakeholders require time to consider a project and the implications of PPP.

‡ ***Are the timelines adequate to develop technical specifications?***

Identifying and articulating technical specifications is often a painstaking and relatively slow process in comparison to a more conventional procurement process. Further, the potential costs of inadequate technical specifications are high enough to offset most potential benefits of PPP procurement. Accordingly, if sufficient time is not available to devote to the development of technical specifications, government should delay the process until such time as the specifications are completed.

V Selecting a Partner

This chapter is not intended to be a “how to” guide to RFP procurement methodology, but should help project managers understand the range of issues they will need to consider, and the level of effort inherent in the RFP process.

As mentioned previously, the selection process is not specific to the tourism industry and many references are available to assist the project manager select an appropriate partner for PPP. Further, this section is not intended to over rule corporate directives regarding procurement. For departments and agencies that are governed by the government’s corporate directives, the Shared Services Bureau can assist with the procurement process.

In our experience, many public bodies have identified projects suitable for some form of PPP, but failed to realize the anticipated benefits because of flaws in the procurement process, partnership agreement or monitoring.

A. Attracting the Right Partner(s)

Finding the right private sector partner is by no means a simple or straightforward task. The process must strike an appropriate balance between value and fairness. On the one hand, government wishes to ensure it receives the best proposals possible, while on the other hand, it is essential the process be fair, open and transparent.

1. Marketing the Opportunity

The project manager will need to determine, in general terms, who will be interested in the opportunity. The target audience for the competition will be a key factor in deciding how to market the opportunity.

For relatively small opportunities, a targeted approach should be used. For example, if the opportunity is to operate a food concession for a relatively remote, seasonal attraction, it is likely to be of interest to local or speciality companies. With this audience in mind, the project manager might elect to advertise the RFP in the local newspapers and perhaps a trade journal for the food service industry. Additionally, the advertisement might be posted on the organization’s public Internet site.

For sizeable opportunities, a broad advertising approach should be used in addition to MERX. For example, if the opportunity is to develop and operate a casino in a large city, the project manager should consider advertising in the national newspapers, sending letters highlighting the opportunity to major international casino operators.

Regardless of the size of the opportunity, it is important to demonstrate that the government is interested in potential bidders. Potential bidders are more likely to respond if government has signalled that the company is seen as a strong candidate. For example, the project manager might send a standard letter to potential bidders or call them to make sure they are aware of the opportunity.

2. Structuring the Selection Process

Prior to releasing an RFP, the project manager should consider whether there is a need to issue a Request for Expressions of Interest (“RFEI”) or Request for Qualifications (“RFQ”). Generally, the main difference between the two processes is that an RFQ is used only to shortlist or pre-qualify bidders, whereas the RFEI is used primarily as an information-gathering tool (and may also be used to shortlist or pre-qualify prior to drafting an RFP). Depending upon the circumstances, it may be appropriate to use an RFEI, an RFQ, or both. Exhibit V-1 outlines some of the important features of each approach and identifies, in general terms, the circumstances that would support the use of each.

An RFEI is used when the project manager has a general idea of what it hopes to achieve through a PPP, but does not know how to structure the project. In this case, the project manager is looking to the private sector for innovative and cost-saving ideas before drafting the RFP.

Depending on the responses received to an RFEI, a project manager, might in certain situations elect to proceed directly to an RFP. For example, if the RFEI responses suggest that only a few companies will respond to the opportunity and these companies are believed to be acceptable.

**Exhibit V-1
Overview of RFEI, RFQ and RFP**

	RFEI	RFQ	RFP
Description	Invites interested parties to comment on project before committing to proceed.	Sets minimum requirements for potential partners who are then invited to participate in the RFP	Is used to select best overall proposal from all potential partners
Purpose	Helps structure project to maximize appeal to potential partners	Helps screen potential partners	Helps identify proposal offering best value to government
Indications for use	Appeal of opportunity is not clear (e.g., new service or unsure what is in the market) Project requires further definition Need to pre-qualify or short list	Level of effort/cost to prepare a full proposal is high Opportunity is well defined Interest is intense – opportunity appeals to diverse assortment of bidders Proposal preparation requires access to sensitive or confidential information	Opportunity is well defined Potential number of competitors is limited (either through RFQ or based on appeal of opportunity)
Contra indications	Speedy selection is of primary concern Government is inflexible as to how project will be structured	Not clear what criteria would be used to qualify bidders	Level of effort/cost to prepare a full proposal is high* Opportunity appeals to diverse assortment of bidders *
Examples where might be used	To determine types of events or products that might be added to an existing public park or attraction	To identify appropriate bidders for major casino	To select food and beverage operator at seasonal heritage attraction

* Consider using a RFEI and/or RFQ to reduce the number of potential proponents.

An RFQ is used to pre-screen potential partners before issuing the RFP. It may be used in a variety of circumstances, for example, when there is:

- A large field of potential bidders, and substantial resources will be required to prepare a submission. Reducing the number of potential bidders may motivate high calibre companies to invest the necessary resources to submit a thorough proposal because the bidder's perception of their chances of success has been improved.
- Some uncertainty as to whether there any private sector partners with the skills necessary to undertake the project.
- Commercially sensitive information that will need to be reviewed to prepare a proposal.

3. Sole Source

In some relatively unique circumstances, it may be appropriate to enter into direct negotiations with a private company, rather than using a competitive selection process. Government needs to clearly define the circumstances that would justify this approach, and in all such instances should submit the PPP to a competitive selection process at the earliest possible opportunity.

In assessing whether to proceed with an unsolicited proposal, the project manager should consider:

- The benefits of PPP are achieved, in part, because they take advantage of competition among private sector partners.
- The potential for perception of bias and unfair procurement procedures is greater with unsolicited proposals.
- The Ministry requires public accountability and transparency in structuring PPPs.

If the project manager believes the circumstance justify a sole source approach, the decision should be confirmed at senior levels before proceeding.

4. Structuring the RFP

The project manager should ensure that the RFP:

- Clearly articulates the government's requirements and identifies areas where innovation is encouraged.
- Provides an appropriate time period for the submission of bids. (If the submission deadline is too tight, the private sector may see this as a signal that government already has an arrangement in mind – and is only going through the motions. Alternately the private sector may feel that government is being unreasonable – which would signal that the agency or department might not be a good potential partner.) Additionally, a tight response deadline forces potential bidders to trade off the time and cost of preparing a response with other short-term commitments. If a company is short-handed because of scheduled holidays or pushed to meet other pressing deadlines, for example, they are more likely to pass on the opportunity.
- Sets reasonable submission requirements. Private companies frequently comment that submission requirements are too inflexible and do not reflect the size and scope of the opportunity. For example, it may be appropriate to require full personal history disclosure and security clearance for senior management when selecting a partner to operate a casino. Most potential bidders would consider these same requirements to be inappropriate in a proposal to operate a food concession for a three to five year term.
- Protects the confidentiality of sensitive financial or other privileged information. The project manager should receive these materials and use them in the strictest confidence.
- Establishes the criteria that will be used in selecting a project partner.

Private sector faith in a potential partnership is diminished substantially by a poorly structured RFP. This may in turn discourage quality participants from responding to the RFP.

While these suggestions may seem obvious and perhaps even simplistic, they are among the most frequently heard comments from the private sector. Private companies that deal with government frequently are reasonably comfortable with the challenges of responding to an RFP. For private companies that deal with government infrequently, or for the first time, the specific requirements of the RFP may be a very real deterrent to pursuing a PPP, particularly if the RFP document is unclear or disorganized.

As mentioned previously, for departments and agencies that are governed by the government's corporate directives, the Shared Services Bureau should be consulted to assist with the procurement process, including the structure of the RFP.

5. Selecting a Successful Proponent

As evaluations and negotiations are most often closed to the public, it is at this stage that claims of favouritism, patronage politics and other general abuses of the process may occur. The Canadian Council for Public-Private Partnerships notes that the process must be fair, open and transparent. This does not mean that the public becomes involved in evaluation and negotiation. Rather, the government's project team must establish an evaluation process that is (and is perceived to be) correct, complete, and even-handed and therefore fair.

Confidentiality and security procedures—Given there are significant financial implications to the bidders regarding who is ultimately selected, appropriate confidentiality and security issues must be addressed.

Confidentiality of information throughout the process needs to address who is to keep what confidential from whom, and in what manner. While there are often good reasons to maintain the confidentiality of certain information related to public policy and the protection of proprietary information and intellectual property, these reasons must be appropriately counter-balanced against the reasons for disclosing material information related to the project.

Conflicts of interest—Conflicts of interest, both real and perceived, must be closely monitored. A process for the confidential documentation and monitoring of relationships helps avoid unfortunate surprises.

Evaluation criteria—One of the key benefits of a well-defined project is that the development of evaluation criteria should be straightforward. A key strategy to a successful project is for government to use a series of “pass/fail” criteria which confirm that a proponent is capable of and proposes to meet all of the requirements of the project, accompanied by a “simple criterion” which is used to determine the winner among the compliant proposals. This simple criterion is often lowest cost/highest offer.

The development of detailed evaluation criteria before/during the development of an RFP is highly advisable. Doing so helps ensure the RFP is accurate and complete. This is rarely the case. Unfortunately, and somewhat surprisingly, evaluation criteria are often treated as an afterthought.

To enhance the defensibility of the process, the criteria should be as detailed as early as possible in the RFP process.

6. Ensuring a Fair and Transparent Selection Process

At the risk of over simplifying the subject, we have developed a very high level checklist of the key provisions of a fair and transparent selection process:

- Equal information to all bidders.
- Sufficient information to fully understand the opportunity.
- Consistent treatment of bidders throughout the bidding and selection process.
- Reasonable access to information on the procurement process.
- Evaluation criteria truly reflect the needs and objectives of the project.
- Pre-established evaluation criteria and process that clearly predates evaluation.
- Consistent application of the evaluation criteria.
- Close attention to the details of the process.

We know of several private sector companies that will not bid on projects with particular government bodies because they perceive that past selection process were in some way compromised. Accordingly, we strongly recommend that the project manager work closely with expert advisors (internal or external) to ensure that the project is untarnished by an inappropriate competitive process.

B. Structuring the Project Team

The project team designs and administers the procurement process from project approval through to finalization of the legal agreement. The project team operates under the direction of a project manager and with the assistance of relevant government departments and outside advisors. Relevant government departments include, as required, the line department as well as departments with responsibility for finance, procurement, land acquisition, environmental management, municipal affairs, and economic development. Outside advisors may add significant depth to the project team by advising on, for example, the procurement process, legal agreements, project financing, accounting, tax, transportation, engineering, environmental and public relations issues.

The success of a PPP is, in part, dependent upon the ability of the project manager to access expertise and resources, which often run across departmental and organizational boundaries. Organizing the resources to select a project partner, establish the partnership and oversee the development and operating phase of a project requires a sophisticated and dynamic organization of public sector resources and decision makers.

1. Governmental Resources

In general, the project manager will need to consider, at a high level, how public sector resources for the project will be organized and managed. Certain responsibility and approval practices, which may to some extent be tailored to the specific context of each project, have proven themselves to be most suitable in ensuring fairness to both proponents and government, while not compromising value.

Generally in successful PPPs, the project manager will draw in a variety of skills and expertise to the selection process. Typically, for large projects, these resources are coordinated using a team approach, with clearly defined roles and responsibilities for each member or team.

Regardless of the size of the project, the project manager should ensure appropriate provisions are made for:

- Development and application of the detailed evaluation criteria in accordance with the general evaluation criteria stipulated in the RFQ (if any) and in the RFP.
- That a due diligence process is in place to confirm the integrity of all relevant matters, both content and process.
- Senior levels of government provide policy guidance regarding the project from conception to the end of contract and to confirm the integrity of the evaluation and determination of the successful proponent. (Generally for large and/or complex projects, this role is provided through a Steering Committee, typically staffed by senior staff from the relevant government departments.)
- “Audit” the selection process. Specifically, someone who is external to the selection process should review and comment on the evaluation and/or procurement process (Generally, for controversial, complex or very large projects, it is beneficial to have an independent party fill this role.)
- The project authority to receive and ratify recommendations made by staff. For major projects, Cabinet, the Minister etc. would normally receive and ratify recommendations made to it by the steering committee, including the selection of the successful proponent, or send the recommendations back with a requests for clarification.

The project manager should ensure the right skills, perspectives and authorities are brought to bear at all stages of the PPP. For very large projects, due diligence, the steering committee and the process auditor, in particular, are often provided by different individuals or teams, so as to establish an appropriate system of checks and balances.

2. External Advisors

The Canadian Council for Public Private Partnerships indicates that acquiring outside technical advice is a best practice for many government agencies looking to enter into a PPP. External advisors can help the project manager for a number of reasons:

- Consultants can offer arm's length advice. A consultant cannot become a potential partner placing a bid on the project after the RFP has been developed. Advice usually comes with no vested interest.
- External technical advisors can keep government apprised of the evolving legal, financial, policy and other aspects of PPPs. This type of specialized expertise may not be available from within government.
- Subject matter experts can help define the project and may provide expert advice on the specifics of a particular industry. For example, in a hotel development, an external advisor who is familiar with hotels may help forecast occupancy rates, room revenue and operating costs. Additionally they may provide valuable insight as to how the PPP might be structured to appeal to brand chains or major developers.
- Strong outside advisors can assist government in the development of the RFP and in final contract negotiations. This brings credibility to the government's commitment to the PPP.
- Technical advisors can ultimately save the government time and money due to their expertise in these types of arrangements. They know what to watch for in developing an RFP as well as in contract negotiations. This expertise leads to respect and a balanced negotiation situation that can often lead to the “best deal” with a private sector partner.

C. Negotiating the Final Partnership Agreement

The project manager is responsible for ensuring the final agreement appropriately reflects the successful proposal.

1. Maintaining Options Until the Deal is struck

Many private sector proponents use the strategy of doing whatever is necessary to be selected during the procurement process, and then endeavouring to negotiate their way out of commitments in the final agreement. This strategy has proven to be successful in certain instances where government has lost leverage in negotiations because it does not wish to reverse an announcement as to the identity of the successful proponent. In most circumstances, the project manager should endeavour to maintain competition to the maximum extent possible during the negotiations. This is sometimes achieved by conducting parallel final negotiations with the two highest ranked proponents. (It is important that the

intention to conduct parallel negotiations be clearly communicated at the outset and that a legal advisor be consulted before proceeding with such an approach.)

2. Presenting the Contract with the RFP

An alternative, or supplementary approach is to issue the agreements in final form before receipt of proposals. Such an approach should involve appropriate consultation with the proponents to ensure that an “even-handed” agreement has been generated. This approach works especially well when the evaluation criteria are structured as a series of “pass/fail” requirements and the winner of the process being determined as one that offered the best financial offer among those that met the requirements. However, in many circumstances, some form of “customizing” is necessary and advisable.

3. Covering Standard Agreement Provisions

Regardless of the specific requirements of the PPP, the project manager should work with a legal advisor to ensure the agreement contains all necessary controls over quality, excellence and effectiveness of the service or facility.

Before completing final negotiations, it is important for the project manager to ensure that the elements of the arrangements are authorized by any founding legislation or other statute or regulation, and that nothing contemplated in the agreement(s) is prohibited by statute or regulation or in contravention to the government’s mandate.

PPP agreements should:

- Identify the responsibilities of the public and the private partner.
- Set out the legal liabilities of the public and private partner.
- Impose clear standards of performance, goods to be delivered, services performed and delivery or performance dates.
- Identify mechanisms for monitoring performance, quality of service and other government objectives.
- Establish control of costs, quality, service, deadlines, safety, community relations, compliance and operating and maintenance requirements.
- Clearly assign all risks between the public and the private partner.
- Protect the public in the event the private partner becomes insolvent or walks away during the term of the agreement.

- Establish conflict/dispute resolution mechanisms.
- Provide a mechanism for the parties to modify certain provisions of the agreement.
- Provide flexibility to revise the contract in the event of unexpected circumstances (e.g., changes in technology, equivalent materials, applicable laws, acts of God or other unforeseen circumstances).

Final Thoughts on the Selection Process

While compiling the Guidelines and supporting case studies, we spoke to many government officials and private sector businesses. We thought their perspectives of the selection process clearly illuminate the importance of a fair transparent selection process, which is scaled to the project opportunity:

- “The private sector will not bid on projects if it is perceived that the government has a preference for certain businesses or individuals during the procurement process.”
- “Procurement process is sometimes too complex...the terms in the RFP have to be written in a simple manner, so that anybody can understand it...the government might be missing the opportunity to attract the right partner.”
- “The public sector has to take time to prepare a good quality RFP...sometimes the same terms of reference are used over and over again...circumstances change over time.”
- “You put a lot of time, money and effort to submit a bid...you don’t hear from the government after that.”
- “The whole process has to be as open as possible...it’s important that your concerns are heard.”
- “During contract negotiation, the government has to have a clear understanding of every aspect of the project and what needs to be accomplished.”
- “I want to deal with the decision makers...it’s frustrating to deal with people who cannot make decisions on the spot.”
- “From the time proposals are submitted, it can take months before the government selects a partner.”

VI Monitoring

Public sector agencies are often poor at contract administration or being a competent partner, especially after the development and construction phase (i.e., during ongoing operations). A common strategy used by private sector proponents is to agree to the government's technical specifications for the project during the negotiations and then to ignore them in the actual implementation of the project.

Government and the private sector partner must keep in mind that a PPP is just that – a partnership. As such, the partners should develop communications mechanisms that facilitate the exchange of information and the identification and resolution of issues. Many PPPs will encounter unforeseen difficulties or opportunities, and the ability of the partners to successfully deal with these situations will depend upon an established relationship and a flexible attitude on the part of both partners.

Once the “excitement” of the development phase is over, we have seen many projects where the government agency views monitoring of ongoing operations to be a routine task that can be handled by an individual of lower qualifications. As a result, private sector parties are often able to erode commitments, particularly with respect to service levels and operations.

PPP can enable government to measure the performance of the private sector partner; where it sometimes would not have previously measured these outputs under public delivery. For example, in developing technical specifications, it is relatively easy to set a requirement of tracking tourism statistics upfront, rather than trying to add the requirement later in the project.

A. Importance of Monitoring

The project manager should establish monitoring provisions to help ensure that government receives the products and services it envisioned through the design of the project and the selection process.

For example, through monitoring of the PPP, government should be able to:

- Confirm the asset is being operated and maintained in keeping with the agreement.
- Confirm established service standards are being met.
- Understand the fit of the project within the local tourism market, (e.g., the private sector partner may provide key statistical indicators).
- Respond appropriately to specific events, such as a disaster or accident.
- Learn what works well, and what could be done better, for future PPPs.

B. Methods of Monitoring

The project manager is responsible for ensuring that sufficient provisions are in place to monitor the private sector partner's performance throughout the PPP. The project manager will need to think about how the project will be monitored very early in the planning process to ensure the government's requirements are clearly articulated in the RFP and final agreement.

Depending on the scale and nature of the project, monitoring methods may differ. Performance monitoring may include the use of:

- Periodic management reports.
- Key performance measures.
- Periodic audit.
- Oversight by a stakeholder group.
- Exception reporting requirements for unusual or extreme conditions.
- Other methods.

The project manager should apply his/her knowledge of the project, the asset and the local tourism market in determining which methods to apply to a PPP. We strongly recommend, however, that all PPPs include periodic review (audit) by an independent party. Depending upon the size and scope of the PPP, this review might be completed by staff from elsewhere with the department, agency or government, or by an independent third party.

C. Government Resource Requirements

The project manager should ensure that sufficient resources are available to ensure the public entity can:

- Be a competent partner to the private sector party.
- Effectively discharge its public policy obligations, and any other roles or responsibilities assigned to government in the PPP plan.
- Exercise effective oversight to the PPP.

The project manager should ensure that the knowledge gained during the procurement process is not lost once a PPP is in place.

D. End of Term

A key challenge in establishing end of term conditions is to ensure appropriate operations are continued in the period leading up to the end of term. If there is a commitment contractually to carry out ongoing maintenance, the private sector partner has little incentive to do so as the contract term approaches. Appropriate care must be devoted to ensure that these commitments are adhered to. Particular challenges are associated with the end of term of a project, if the project's useful life is significantly longer than the term of the agreement. Conversely, other challenges must be addressed if the project's useful life is significantly less than the term of the agreement (e.g., where the private sector is required to rehabilitate an asset as a condition of a longer term concession).

Final Thoughts on Monitoring PPPs

While compiling the Guidelines and supporting case studies, we spoke to many government officials and private sector businesses. We thought their perspectives and advice clearly illuminate the importance of open communications and flexibility in the monitoring phase of a PPP:

- “We made a capital investment because we believe in the project and in our skills...the government agency has been instrumental in making this partnership a success...they support us all the way.”
- “PPPs work, if both parties are truly committed to the success of the project.”
- “There is a need for open discussions...the private sector should be allowed to provide some input as to what can realistically be accomplished from the partnership...we have the expertise.”
- “Government has to work together with the private sector throughout the entire term...it doesn't end when the contract is awarded and the agreement is signed.”

VII Summary

Congratulations! You have completed one important step in enhancing the success of your public-private partnership.

In the end, a PPP is just that, a partnership. Both parties must share the risks and rewards of the project.

Successful PPPs do not come about by accident. They are based on an objective business case, which includes an analysis of the problem and assessment of the benefits and costs of potential solutions.

PPPs require extensive resources (both government and private sector) to put in place. Stakeholders and expert advisors should be consulted in planning the PPP. A clear and complete RFP, supported by a fair and transparent process, will help ensure the best possible partner is found.

Perhaps the most challenging aspect of PPP is monitoring, both parties must commit the time and resources necessary to work together throughout the agreement term.

* * * * *

If you have any suggestions on improving the Guidelines please contact the Ministry of Tourism, Culture and Recreation's Investment & Development Office (see insider front cover).

Appendix A

Reference Materials

Reference Documents and Websites

A. Textbooks

- Savas, E.S. *Privatization and Public-Private Partnerships* (can be ordered through The National Council for Public-Private Partnerships <http://www.ncppp.org/publications/books.html>).
- Stainback, John. *Public/Private Finance and Development* (can be ordered through The National Council for Public-Private Partnerships <http://www.ncppp.org/publications/books.html>).
- *100 Projects: Selected Public-Private Partnerships Canada-2000 Edition*. (can be ordered through the Canadian Council for Public-Private Partnerships <http://www.pppcouncil.ca/publicat.htm#Publications%20List>).

B. Papers/Articles/Speeches

- Allan, Dr. John R.. Saskatchewan Institute of Public Policy. Public Policy Paper No. 4. *Public/Private Partnerships: A Review of Literature and Practice*. 1999. (<http://www.uregina.ca/sipp/publications/publicpolicypapers/cicreport.pdf>)
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- Department of Transport, Local Government and the Regions and the Local Government Association. *Delivering Better Services for Citizens: A review of local government procurement in England*. June 2001.
- Government of UK. *Public Private Partnerships: The Government's Approach*. 2000.
- Government of UK (National Audit Office). *Managing the Relationship to Secure a Successful Partnership in PFI Projects*. November 2001.
- Government of New South Wales. *Working with Government: Guidelines for Privately Financed Projects*. November 2001.
- Government of New South Wales. *Working with Government: Private Financing of Infrastructure and Certain Government Services in NSW*. Government Green Paper. November 2000.
- Partnerships Victoria (Australia). Practitioners' Guide
http://www.partnerships.vic.gov.au/domino/web_notes/PartVic/PVSite.nsf/Frameset/PV?OpenDocument

C. Websites

- Government of Ontario, Management Board Secretariat
<http://www.ppitpb.gov.on.ca/mbs/psb/psb.nsf>.
- Industry Canada, Public Private Partnership (P3) Office
http://strategis.ic.gc.ca/sc_indps/construction/index.html

- The Canadian Council for Private-Public Partnerships <http://www.pppcouncil.ca/>
- The National Council for Public -Private Partnerships (US) <http://www.ncppp.org/>
- 4ps: Public Private Partnerships Programme (UK) <http://www.4ps.co.uk/> .
- Partnerships UK <http://www.partnershipsuk.org.uk/index.shtml> .
- Partnerships Victoria
http://www.partnerships.vic.gov.au/domino/web_notes/PartVic/PVSite.nsf/Frameset/PV?OpenDocument
- Government of New South Wales (Working with Government)
<http://wwg.premiers.nsw.gov.au/wwg/index.htm>
- Ontario Shared Services Bureau
<http://intra.ssb.gov.on.ca/myssb/published.nsf>
- MERX
<http://www.merx.bmo.com>

Appendix B

Case Studies

Granville Island Hotel, Vancouver, B.C.

Location:	Granville Island, Vancouver, B.C.
Partners:	Canadian Mortgage and Housing Corporation and Private Sector Investors
Type of Partnership:	Build-own-finance-operate-transfer concession

Background

The Canadian Mortgage and Housing Corporation (“CMHC”) have been responsible for managing Granville Island since 1972. In the late 1970s, a partnership comprised of more than 20 private sector partners approached the CMHC with a business plan to build, own, and operate a hotel and a restaurant/pub. The business plan was approved and in 1980, the 54-room Granville Island Hotel opened to the public. Since then, the hotel has changed ownership twice, due to financial difficulties. The current owners bought the property in 1996 and invested additional capital to upgrade the rooms and to expand the pub. The owners have recently expanded the hotel’s capacity to 86 rooms.

General terms of the agreement

Overall, the private sector partners own the Granville Island Hotel, the Dockside Brewing Company (a restaurant and a pub) and an adjacent marina. The marina is operated under a sub-lease agreement between the hotel owners and a third party. In addition to a fixed revenue from the land lease, the CMHC receives a percentage of revenues from the operation of the hotel, pub and marina. The initial land lease was for 35 years. Subsequently, because of the major capital investments made by the current owners, the term of the lease was extended to 45 years.

Risk sharing and responsibilities

The private sector partners have assumed all the financial risk associated with the development of and subsequent re-investments in the hotel, pub and marina. In general terms, the CMHC does not assume any financial risk when it enters into agreements with private sector partners. However, the CMHC is aware that the success of the different private sector partners depends to a great extent on visitation to the Island. CMHC is responsible not only for the general maintenance of Granville Island, but also for its promotion. For example, the CMHC spends an average of \$300,000 to \$400,000 annually to sponsor local art groups and entertainers, at approximately \$50,000 per event.

Results and ongoing monitoring

Although it is not clear as to why the hotel faced receivership twice (1990 and 1996), the hotel seems to be performing well under the current management. The current owners have made significant financial commitments to the project over time, and annual occupancy levels are within the average for the Vancouver market.

The CMHC does not actively monitor how the hotel and other related facilities are doing. We understand that the agency is planning to address this issue in the near future.

The Brandon Recreation and Sports Centre, City of Brandon, MB

Location:	Brandon, Manitoba
Partners:	City of Brandon and Taurus Golf Ltd.
Type of Partnership:	Operate-finance-transfer concession

Background

The Brandon Recreation and Sports Centre (the “Centre”) is a multiple purpose recreation facility, comprised of four tennis courts, cross-country ski trails, a restaurant, an 18-hole golf course and a curling rink. Prior to 1975, the Centre was owned and managed by a private sector group. Due to financial difficulties, the City purchased the facility in 1975 and operated it until 1999 when the City released an RFP calling for a partner to manage the facility. Three proposals were received and Taurus Golf Ltd. was chosen as the successful proponent.

General terms of the agreement

Taurus Golf Ltd. and the City of Brandon entered into a 12-year lease agreement in March of 1999. The City receives a portion of revenues from the operation, which is re-invested in the Centre, as illustrated below:

Revenues to City of Brandon	Green fees	75%
	Restaurant	6%
Required capital investment	Year 1:	\$119,600
	Year 2:	\$103,500
	Year 3:	\$104,900
	Year 4:	\$92,900
	Year 5:	\$43,650

Risk sharing and responsibilities

Both the City and Taurus Golf Ltd. work cooperatively in making their partnership a success. The City is willing to make adjustments to the agreement if there is a need to do so. In the area of revenue collection, for example, the City will adjust the amount planned for capital improvements if the facility does not meet the annual revenue targets.

The City is still in charge of general maintenance for the golf course.

Results and on-going monitoring

City officials indicate they are very pleased with the partnership.

On-site Entertainment at Discovery Harbour, Penetanguishene, ON

Location:	Penetanguishene, Ontario
Partners:	Huronion Parks and Drayton Entertainment
Type of Partnership:	Operating agreement

Background

Discovery Harbour is a historic site, located in Penetanguishene, Ontario. The site welcomes thousands of visitors during the summer months and is open from June to September every year. The King's Wharf Theatre is one of the main features at Discovery Harbour, along with two full-scale ship replicas, and other historical buildings.

In 1999, the Government of Ontario released an RFP to identify an operator for the King's Wharf Theatre, the Captain Roberts' Table Restaurant, and a small retail store at Discovery Harbour. From the four or five proposals submitted, the Drayton Festival Theatre was chosen as the successful proponent. The Drayton Festival Theatre is a non-profit organization that has been in operation since the early 1990s. In 2000, the Drayton Festival Theatre and the Huron Country Playhouse announced a merger between the two, to form Drayton Entertainment. Today, Drayton Entertainment operates five stage locations across Ontario, including the Discovery Harbour facility.

General terms of the agreement

The PPP is for five years, with an option to renew for another five years. The agreement stipulates that a percentage of revenues from the facilities are to be collected by Huronia Parks, commencing in year three. A fund has been opened recently which will be used for re-investment in the Discovery Harbour facilities. Huronia Parks agreed to defer its share in the revenues to year three, as opposed to the first year, to allow Drayton Entertainment to first increase theatre attendance. (Attendance was very low before the company assumed responsibility for its operations.)

Risk sharing and parties responsibilities

Drayton Entertainment purchased theatre and restaurant equipment when it assumed responsibility for the operation of the theatre, restaurant and store. There are some limitations as to what Drayton Entertainment can do with the facilities, since Discovery Harbour is a designated historic site (the infrastructure has to reflect this).

Results and ongoing monitoring

Both parties are very pleased with the partnership. The Drayton Festival Theatre is now attracting between 27,000 and 28,000 theatregoers per season. However, the company still relies, to a certain degree, on memberships, corporate sponsors and fundraising, due to high production costs.

There are some reporting mechanisms in place to monitor the operation of the facilities.

Barbados Golf Club, Barbados

Location:	Durants, Christ Church, Barbados
Partners:	Barbados Tourism Investment and various partners
Type of Partnership:	Sale of Public Infrastructure

Background

During the late 1990s, the Government of Barbados decided to redevelop the Barbados Golf Club which was then more than 20 years old. Based on a feasibility study prepared by KPMG, a Prospectus was developed to offer shares in the golf course development to small business and to Barbadian citizens. The development project was completed by September 2000 and the 18-hole golf course opened to the public as the first public championship golf course in Barbados.

The government continues to own 14.5% of the shares and provides special tax incentives to encourage share ownership among middle-income earners. Additionally, the purchase of shares has been combined with various membership packages to encourage club members to invest in the company.

Ownership in the company is as follows:

	Class of Shares	Number of Shares	Percentage Ownership
Barbados Tourism Investment (gov't)	A	1,425,000	14.5%
Pyramid Golf Course Holdings Ltd.	B	3,210,000	32.7%
Caribbean Financial Services Corporation	B	1,000,000	10.2%
Various shareholders (companies and individuals)	B	4,190,000	42.7%
Total		9,825,000	100%

General terms of the agreement

The government negotiated agreements with the different partners involved. There is a covenant on the land, stipulating that it must be used as a golf course. In addition, the course must remain a public golf course, unless 75% of all registered shareholders vote against it.

Risk sharing and parties responsibilities

Risks are shared proportionately, based on ownership.

Results and on-going monitoring

The golf course is popular among Barbadian residents and an annual report provides periodic feedback to shareholders.

La Ronde Amusement Park, Montreal, Q.C.

Location:	Île Sainte-Hélène, Montréal, PQ.
Partners:	City of Montreal and Six Flags
Type of Partnership:	Design-build-own-finance-operate-transfer concession

Background

La Ronde Amusement Park (“La Ronde”) is located on Île Sainte-Hélène, an island that was expanded through man-made means to host a world exposition in celebration of Canada’s centennial (Expo ’67). Today, the amusement park is one of the largest theme parks in Quebec, offering 35 rides. The original construction of the 135-acre amusement park cost \$25 million.

Between 1967 and 2001, La Ronde was managed by The Société du para des Îles (“SPÎ”), a government agency of the City of Montreal (the “City”). In the late 1990s, SPÎ approached the City asking for a significant capital investment in La Ronde: the infrastructure was becoming obsolete; visitation levels were relatively low; and there were some years when La Ronde operated at a deficit. The need for a capital injection prompted the City to look for a private sector investor. A private agency was engaged to identify the best possible partners. In 1999, Six Flags, a US-based amusement park company, with locations in the US, Latin America and Europe, started contract negotiations with the City.

In May 2001, Six Flags announced that it had purchased La Ronde, increasing its portfolio to 39 theme parks worldwide.

General terms of the agreement (strictly confidential)

- The land lease agreement is for a significant period (in excess of 50 years).
- Six Flags purchased the buildings and the rides at La Ronde for a significant up-front sum.
- During the first 10 years, the City is to receive a minimum payment, including land lease, taxes and other revenues.
- A substantive capital investment is required over the next five years.

Risk sharing and responsibilities

The City did not provide any subsidies or financial assistance to Six Flags and Six Flags has full control over the operation of La Ronde. The company is also allowed to build new infrastructure at La Ronde, as long as the development is in compliance with the City's by-laws.

Results and on-going monitoring

A private company, with financial resources and name brand recognition is motivated to rejuvenate an important real estate asset.