

# PPPs AND ALTERNATE SERVICE DELIVERY IN NEWFOUNDLAND AND LABRADOR: Important Next Steps

BY TOM CLIFT AND TOM COOPER

THE CURRENT FISCAL SITUATION IN NEWFOUNDLAND AND LABRADOR, INDEED ACROSS CANADA, IS SUCH THAT IT IS TIME TO RE-IMAGINE HOW PUBLIC SERVICES ARE DELIVERED AND HOW INVESTMENTS ARE MADE IN PUBLIC SECTOR INFRASTRUCTURE. INDEED, THE REDESIGN OF THE CURRENT SERVICE DELIVERY MODEL IS ESSENTIAL FOR THIS PROVINCE'S LONG-TERM FINANCIAL STABILITY AND SUCCESS.

AS THE CURRENT PROVINCIAL BUDGETING CYCLE DRAWS TO A CLOSE, WE FIND OURSELVES WITH DECLINING ROYALTY REVENUES FROM OUR OFFSHORE OIL HOLDINGS; OUR REAL GROSS DOMESTIC PRODUCT (GDP) IS FORECAST TO DECLINE BY 2.6 PER CENT; AND AS OF FEBRUARY 2016, THE PROJECTED DEFICIT FOR 2015-16 IS ESTIMATED AT APPROXIMATELY \$2.0-2.5 BILLION. IN ADDITION, OUR NET DEBT IS EXPECTED TO INCREASE TO MORE THAN \$12 BILLION IN 2015-16 AND INCREASE TO NEARLY \$23 BILLION AS OF 2020-21.

PREMIER DWIGHT BALL STATED IN A 2016 FISCAL UPDATE, "THIS PROVINCE IS FACING AN EXTREMELY DIFFICULT FISCAL REALITY. UNDERSTANDING THIS NEW REALITY, CORRECTING THE COURSE AND MOVING FORWARD WITH STRONGER FISCAL MANAGEMENT WILL BE MY GOVERNMENT'S TOP PRIORITY. STATUS QUO IS NOT AN OPTION."

## **A New (Emerging) Mandate**

To that end, early in 2016 the provincial Liberal government, as part of its Government Renewal Initiative, sent a detailed set of guidelines to every provincial Department, Agency, and Commission. These guidelines were designed to test whether a given provincial government program or service could potentially be delivered by the federal government, municipalities, the community sector, or the private sector—or any combination thereof. Departments were asked to explore whether they had observed situations where like departments in other jurisdictions may have had success with alternative partnering models. A follow-up test, the so-called 'efficiency test,' also encouraged departments to look at privatization options.

## **An Organizing Framework**

In order to meet the fiscal challenges noted above and while adhering to the implied mandate issued by the Liberal government last month, government administrators and prospective private sector partners will need an organizing framework for the assessment of these alternative partnering options—one that considers the nature of success and failure in other jurisdictions, while at the same time taking into account the unique challenges associated with NL's geography and aging population. In the process of developing such a framework, all parties must re-evaluate the fundamental role of the public sector in service delivery and seek new business operating models. The focus must be shifted away from the traditional approach to service delivery and instead consider how to best achieve desired

outcomes. In NL, the need to engage in a debate and subsequently reorganize to best deliver public sector infrastructure and services is clear.

In our recent research in this area we have advocated for the exploration and consideration of non-traditional delivery models such as Alternative Service Delivery (ASD) and Public Private Partnerships (PPP) for the provision of government infrastructure, programs, and services. Overall, we have found that by championing models of ASD (the delivery of services traditionally provided by the public service by an alternate partnering arrangement with the private or not-for-profit sector) and PPP (where a government service or private business venture is funded and operated through a partnership of government and one or more private sector companies), governments can focus on policy design and define desired outcomes, while not having to assume the administration and ongoing operation of such systems. Another benefit which we observed was that the increased competition that often comes when the provision of such services is moved to a private sector partner can foster competition between service providers, often harnessing the private sector's capacity to innovate and find efficiencies.

While it is clear that other provinces are well ahead of Newfoundland and Labrador in the establishment of ASDs and PPPs, the good news for us is that there are many lessons that can be learned from other jurisdictions—both within Canada and outside—and there are many good practices that can be followed, improved upon, or tailored to suit our unique needs.

As the NL government embarks upon what appears to be the most thorough examination of the merits of ASD mechanisms and PPPs since the Wells Government of the 1990s, it is important that all parties recognize that ASD and PPP models are not a divestment of government responsibility for the delivery of public goods, but a partnership with the private and not-for-profit sectors, with governance continuing to reside within government.

### **Criteria of Success**

In fact, our research suggests that the definition and successful execution of a 'partnership' is an essential condition for the success of such ventures. It is also important to re-iterate that the successful implementation of ASD and PPP models does not mean the elimination of public sector and/or unionized jobs.

Instead, ASD and PPP models allow for both the public and private sector to focus on what they do best; be it policy development or management of processes and deliverables.

Perhaps the most important criterion for success is the establishment within government of a separate, dedicated staff (with no other responsibilities) that is mandated to oversee the establishment of such partnerships in areas that constitute strategic investments for government and its partners. Research in other constituencies has consistently pointed to the fact that those governments that appointed separate units to oversee the development of a strategic implementation plan for such initiatives—based on a well-defined mandate—achieved the highest level of success. In such cases it was not unusual to see such organizations take a year or two to identify and prioritize such projects prior to actually entering into formal partnerships.

### **Project Screening**

Our research also suggests that decisions associated with the implementation of ASDs and PPPs are complex and vary by constituency. In fact, there are many variables that can support or hinder the case for a shift to ASD and PPP models. ASD and PPP models make sense when they can harness a provider's business models, technology and expertise. Yet, there are some functions that are often too close to the core business of government to make ASD models appropriate. Researchers in this field typically suggest posing the following questions when trying to assess whether a service is inherently governmental:

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

As Tom Gash and Nehal Pancharia note in "When to Contract: Which Service Features Affect the Ease of Government Contracting?", if the service has any one of these characteristics, engaging in an ASD or PPP model "will substantially limit the government's control and authority over core functions. As a result, in such cases, it might generally be prudent to retain such services within the public-sector."

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

Research also indicates that the potential for ASD and PPP models increases where numerous high quality providers are already active. The existence of high quality providers will also influence cost. Any related calculations should also include the transaction expenses associated with tendering, contracting, and performance monitoring. Governments like NLs should also consider whether or not the private sector has the ability to contribute additional value to the service in question, either through capital injection, access to technology, or new business models. (Government's ability to inject new capital will be limited in the coming years, considering its overall debt and lowered credit rating.)

### **Key Elements of the Organizing Framework**

Our research suggests that the following organizing framework may help provide perspective for NL as we consider the role of ASDs and PPPs in the provision of services to the provincial economy. On the one hand, governments must examine possible projects in the context of their ability to provide: 1) Value for money; 2) Innovation in service development and delivery, and sustainability; 3) Enterprise risk (who will or can assume such risk); and 4) Governance (final responsibility).

ASD and PPP models are most effective when the competencies, the processes, and the technologies previously absent in delivery of public services are put in place. Effective change management is essential for the success of ASDs or PPPs. These models are transformational and necessitate, by definition, the application of new business models. An example might be derived from Ontario, where a new service provider developed a new information system for tracking land and real estate transactions.

### **ASD versus PPP in the Short-term:**

When comparing PPP and ASD models, the real short-term opportunity would appear to be in service delivery. While PPPs, in terms of infrastructure and buildings, represent huge cost savings as well as opportunities for innovation and better risk management, the time frame for such deliveries is generally longer. From the perspective of change management and overall implementation, focusing on services first appears reasonable. Services that would do well in an ASD model that have applicability to Newfoundland and Labrador can be seen in the table above.

## Caveats and Considerations

As we move forward and consider possible options here, it is also important to recognize that developing good practice around ASD and PPP models is very context-specific; what works in Ontario and British Columbia, with their larger populations and, for the most part, more favourable demographics, may not work here. As a result, a targeted, step-by-step geo-centric approach may be needed for long-term success.

Initial opportunities for ASD and PPP models in the province of Newfoundland and Labrador include such services as: motor vehicle registration; transactional health services like blood collection and laboratory testing, diagnostic imaging services; construction and facility maintenance of public buildings: land registration; importation and sale of beverage alcohol; food services, laundry services, and back office support such as Information Technology.

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

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

Today, national and provincial governments have managed to find projects that require less investment and are more easily implemented, resulting in greater savings and enhanced service delivery in areas that were once considered the sole domain of governments. As we move forward in our search for alternate and more efficient ways to deliver what was once considered to be ‘government’s responsibility,’ we should pay close attention to what has worked in other similar constituencies—both from a planning and administrative perspective as well as an end-user perspective—as there is much to be learned from those who have gone before us. **NQ**

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