House of Commons
Chambre des communes
CANADA

Standing Committee on Aboriginal Affairs and Northern Development

AANO • NUMBER 042 • 2nd SESSION • 41st PARLIAMENT

EVIDENCE

Thursday, May 14, 2015

Chair

Mr. Blake Richards

Standing Committee on Aboriginal Affairs and Northern Development

Thursday, May 14, 2015

● (0935)

[*English*]

The Chair (Mr. Blake Richards (Wild Rose, CPC)): We will call the meeting to order this morning. Welcome, everyone, to the 42nd meeting of the Standing Committee on Aboriginal Affairs and Northern Development.

We have with us this morning from PPP Canada Inc., Michael Mills, vice-president of investments.

Mr. Mills, you have the floor for 10 minutes to make some opening remarks. Then we will turn to questions from members.

Mr. Michael Mills (Vice President, Investments, PPP Canada Inc.): Thank you.

It's my pleasure to be here today on behalf of PPP Canada to answer any questions you may have with respect to access to capital and the challenges and opportunities therein on reserve, and to look at how the use of public-private partnerships could be a way of addressing some of these issues for first nations on reserve.

Let me begin today by explaining a little bit about what P3s are in general, and the role of PPP Canada in supporting P3s.

Public-private partnerships are a long-term performance-based approach to procuring public infrastructure that can enhance the government's ability to hold the private sector accountable and to transfer risk.

P3s transfer a major share of risk associated with infrastructure development, such as the costs associated with overruns, schedule delays, unexpected maintenance, and/or latent defects. This is accomplished by engaging the private sector in a bundled contract for the whole life of the asset. This contract connects ongoing operations and maintenance payments to the ultimate performance of the private sector partner.

[*Translation*]

PPP Canada's role is to facilitate the execution of P3 projects by acting as a source of expertise on P3 matters through knowledge development and sharing. The crown corporation also provides expertise and advice in assessing and executing P3 opportunities at the federal level, as well as leveraging greater value for money from Government of Canada investments in provincial, territorial, municipal and first nations infrastructure through the P3 Canada Fund.

The P3 Canada Fund was created to improve the delivery of public infrastructure and provide better value, timeliness and accountability through the effective use of P3s. The P3 Canada Fund is a merit-based program, designed to incent innovation in P3s as well as encourage inexperienced governments to consider P3s in public infrastructure procurements. It is the first infrastructure funding program anywhere in Canada that directly targets P3 projects.

To date, $1.3 billion in investments has been announced for more than 20 P3 infrastructure projects across 8 provinces and territories. These projects will, in turn, generate more than $6.5 billion in public infrastructure investments in every part of the country.

[*English*]

There's often confusion, when speaking of P3s, related to funding and financing of projects in particular. To be clear, financing a P3 project is not funding a P3 project. P3s are not a source of funding or capital for procuring authorities. Funding is the source of resources or money that will ultimately pay or be used to pay for such projects. These ultimately come from public sources such as fees and tolls, properly taxes, general tax revenues, and in some cases, private revenues and contributions from senior levels of government.

The P3 approach does replace a fiscal commitment to address infrastructure needs. There will always be an obligation to repay the private financing over the term of the P3 contract.

In Canadian P3s, the repayment of capital and maintenance combined are an availability payment that is subject to deductions for non-performance. In practical terms, this means governments do not pay for the asset until it is built, and a substantial portion is paid for over the life of the asset but only if the performance is met.

The costs are known up front for the life cycle of the asset, meaning that taxpayers are not on the financial hook for cost overruns, or subject to delays or other increases in cost over the life of the asset.

Security for the construction and operating period is achieved indirectly through private financing. During the construction period, the lenders can be expected to require bonding or security from their contractor. They will also perform a higher level of due diligence on projects. They will take action to complete construction and commence receiving capital payments if the contractor flounders. During the operating period, the lenders can be expected to ensure that the contractor's performance meets the project specifications and does not trigger availability payment deductions that could imperil the project and throw it into default.

A notable project in which PPP Canada is currently involved and which is creating direct economic benefits for first nations is the Kokish River hydroelectric project. This is a 45-megawatt run-of-the-river hydroelectric project on the north end of Vancouver Island, located within the 'Namgis First Nation of British Columbia. The project is a green energy project that generates enough clean and sustainable energy to power 13,000 homes, with electricity being sold to British Columbia Hydro under a 40-year electricity power purchase arrangement that provides a secure stream of payments, or funding, which are bankable.

PPP Canada's support in the form of a low-interest loan to the 'Namgis First Nation helped the 'Namgis obtain an equity ownership stake in the project. The 'Namgis own 25% of the overall project, with Brookfield Renewable Energy owning the remaining 75%. While the 'Namgis participated in the decision-making and focused on environmental safeguards and monitoring, they were able to leverage the expertise in hydroelectric development of their partner Brookfield.

The project also includes a community benefit fund for the 'Namgis with 40¢ paid into the fund for every megawatt of power that is generated by the project. This particular project created a unique arrangement between all parties involved, where PPP Canada provided a low-interest loan to allow the 'Namgis to accrue benefits sooner from its participation in the project. These benefits are also being reinvested in additional infrastructure for the community. By entering this long-term partnership agreement the 'Namgis has secured an active role as a partner in the project and this highlights how the public and private sectors can work together to improve energy and develop community infrastructure in the long term.

The success of this project is not to suggest that P3s are right for every first nation community or for every first nation project. Lenders are looking for opportunities to secure long-term revenues, which can be achieved through power purchase arrangements or other such secure mechanisms, such as first nations GST resource revenue sharing arrangements.

One of the challenges with realizing P3s in first nations communities is the inability to provide the same assurance of payment that other levels of governments can have. However, this could be achieved through looking at new mechanisms to securitize Aboriginal Affairs contributions. To help address these challenges faced by first nations, PPP Canada continues to do outreach with first nations communities and work with Aboriginal Affairs on new ways we can advance the P3 model in first nations communities.

On that note, I look forward to hearing from you and I welcome any of your questions.

● (0940)

The Chair: Thank you, Mr. Mills.

We'll now go to the first round of questioning from members. First we have Ms. Ashton for seven minutes.

Ms. Niki Ashton (Churchill, NDP): Thank you very much.

Thank you for joining us today to discuss a very important issue for first nations across our country.

One of the recurring themes in our discussion so far has been the fundamental barriers that first nations face in terms of access to capital. I appreciate that your work is more focused in terms of the financing and development of projects, but I wonder if perhaps you could share your thoughts about how important it is for us to deal with some of those fundamental barriers, such as literacy, financial literacy, access to education, access to post-secondary, which I'm sure you appreciate is on all fronts much lower than for non-first nations across the country.

How might those barriers connect to a community's lack of capacity in terms of being able to develop key projects or push key projects that are necessary?

Mr. Michael Mills: Coming from the PPP Canada perspective, I think the way we could maybe look at an interface between your question and our own line of business is that these are very complex transactions and the financing structures are very complex. In order to pull these off, whether you're a municipality or a provincial government, it takes a very specialized skill set.

Anything that can be done in terms of promoting human capital development so that people can build those specialized skill sets—whether they be in public administration so that you can develop projects, having the ability to understand the technical requirements of projects, the ability to develop robust business cases, or having the business acumen to be a sound, credible counterparty to the private sector that you're negotiating with—anything that can be done in terms of education and human capital development that can help communities build those capacities would be very helpful and necessary to pulling off these transactions.

It's not a problem that's fully unique to first nations. It's a problem that many jurisdictions deal with in our line of business. That's a big part of why within the corporation we spend a lot of time working on expertise. Though we have the P3 Canada fund, which is an important source of funds and incentive for people realizing their projects, equally important is providing and serving as a source of expertise.

In the short term, while people are developing those capacities within communities, which is more of a long-term project, we would like to think that we could be there to help first nations address those kinds of expertise gaps.

Ms. Niki Ashton: Another barrier that's come up time and time again, certainly in terms of first nations that want to engage in private development and business development including infrastructure development, is the slow rate at which their land claims or treaty land entitlement is taking place. We've heard from a few first nations that have jumped through all the hoops and filled out all the paperwork. Their piece of land is approved as belonging to them and having reserve status, and the only barrier is the sign-off by the minister. That's a purely bureaucratic step when everything else has been done.

I know you gave an example about the island. I'm wondering if you can speak to how important it is to make sure that first nations land transactions are seen as priorities. Without that land, the kind of development that first nations want to commit to is simply theoretical.

● (0945)

Mr. Michael Mills: Sorry, I don't really have anything to add to that topic.

We haven't in our experience working with first nations really been focused on the land issues.

Ms. Niki Ashton: Okay.

It would seem that there may be some parallels given that a significant number of projects, particularly those that might involve partnerships and private investment, often take place in urban settings as well, on reserve land that is owed to first nations.

I might encourage you to look at that realm.

Mr. Michael Mills: Okay.

Ms. Niki Ashton: Finally, I've heard on occasion from officials with the federal government that first nations might want to look at P3 partnerships when it comes to building schools. I think that's a rather egregious proposal given that you wouldn't think of the same proposal in a non-first nation instance. I think it has everything to do with the fact that we're talking about some pretty dire circumstances in terms of the school infrastructure that does exist.

You mentioned that P3 partnerships aren't appropriate in all areas. Is there a double standard here so that we're pushing P3 partnerships in terms of certain projects on reserves when we wouldn't actually talk about them off reserves?

Mr. Michael Mills: I would say that first nations are looking at P3 schools partly because the United Kingdom had a private financing initiative program that was very successful and that has been modelled around the world. One of the key investment classes they used in the United Kingdom involved schools and building schools for the future. It has been used internationally.

In Canada it has also been used fairly successfully in the province of Alberta for delivering their schools. I believe people are looking at it because there is a precedent off-reserve context.

Ms. Niki Ashton: I think the Alberta example actually had some real challenges in terms of cost overruns. I'm not familiar with the U. K. example, but I did want to put that into the record.

I want to give my remaining few seconds to Carol Hughes.

The Chair: You have about 40 seconds.

Mrs. Carol Hughes (Algoma—Manitoulin—Kapuskasing, NDP): I'm just wondering if there are any potential financial risks for first nations that embark on P3s.

Mr. Michael Mills: Again this comes back to making sure that the difference between funding and financing is clear. Ultimately under a non-P3 or under traditional procurement, they're paying 100% of the costs in a typical project. It's the timing of those costs. If you're looking at a P3, you're paying those over the long term.

Again, you're paying on a performance basis, so the risk that some people can see is that if you were ever in a place where you had a failed P3, the project would come back and those costs would be more directly taken up by the community. Ultimately they would be paying that cost over the whole life of the project.

Would it create additional costs? If you had a failed project, there would be additional transaction costs. That's the real financial risk that exists in any project.

The Chair: We'll move right now to Mr. Seeback for the next seven minutes.

Mr. Kyle Seeback (Brampton West, CPC): Thanks, Mr. Chair.

I looked at the summary and I heard your testimony today, and it seems to me that there's been one project that PPP Canada has engaged in with first nations. Is that the only one that PPP Canada has been involved in?

Mr. Michael Mills: That's the only project that we invested in. We worked with many first nations in the early phases of developing projects, so in the earlier rounds of the P3 Canada fund we had a lot of interest. One of the challenges that we had, not just in the first nations context but also in the municipal context, was that the transaction costs of public-private partnerships are quite high, so there is a threshold. Some jurisdictions have set a threshold at $50 million. More recently, jurisdictions like British Columbia have actually raised that to $100 million. In a lot of cases people had an interest in pursuing them, but the projects didn't materialize and go fully to an investment stage because the business case wasn't there due to many of these costs in the context of their project.

In addition to that, we have been working with the Department of Aboriginal Affairs looking at water, providing water to all the first nation communities in the Atlantic region, as well as looking at schools and looking at different asset classes where the model may be deployed at a future time. We're not at the place where we have a complete robust business case and are moving to execution phase on those, but we've worked with many first nations looking at the idea. It will take time to find projects that fit with that model where the business case comes together and we can move forward to implement.

● (0950)

Mr. Kyle Seeback: Whereabouts do you see the low end of the threshold for a P3-type investment for a project on reserve?

Mr. Michael Mills: I would say it's very difficult below $50 million, so I would say $50 million to $100 million is probably the range that we're looking for, given the scale of typical first nation investments and the economics of P3 transactions.

Mr. Kyle Seeback: How does the financing work? Let's say there was a $50-million project on reserve. Explain to me how the P3 model is going to work. How much money are you going to put in? How does the rest of the funding flow? Who's responsible for making those long-term payments?

Mr. Michael Mills: If you were to take the typical Canadian model, which is called an availability-based deal, during the construction period the private partner would be responsible for providing 100% of financing the cost of construction. Once the project is completely constructed, there's someone called an independent engineer who comes in and certifies it as substantially complete.

Mr. Kyle Seeback: Done, yes.

Mr. Michael Mills: At that point, you would be looking at probably 50% of the capital cost being paid in what's called the substantial completion payment, and the private sector would long-term finance the remaining 50%. At the $50 million threshold, we'd probably be looking at something in the neighbourhood of $5 million to $10 million in equity capital. The balance of that would be long-term loans and the private sector would get paid two series of payments.

If we're looking at a full P3 where there's design, construction, operations, maintenance, and finance bundled into the transaction, then they would get two streams of payments for the 30-year term of the contract. They get one stream that would be an operations and maintenance availability payment that would cover their operations and maintenance. It would grow over time to reflect inflation, and there would be another payment, a fixed capital amount that would be paid every year for 30 years. The proceeds of that would be used by the private partner to pay back the principal and interest on the loan as well as the equity.

Mr. Kyle Seeback: What's the interest rate that's going to be in that second payment? What do you normally charge? What does a P3 charge?

Mr. Michael Mills: That a private partner would charge...?

Mr. Kyle Seeback: Yes. They must have a markup because they're paying interest on the money they borrowed, so what is it?

Mr. Michael Mills: Right now in the Canadian market, we have a very robust financing market for P3s, so an A-minus rated P3 transaction is probably paying out a premium of about 170 basis points above the Canadian prime rate.

Mr. Kyle Seeback: You said that's an A-minus graded..., so projects are graded based on what?

Mr. Michael Mills: Credit rating agencies will look at the solidity of the counterparty, so how solid the actual sponsor is. They will look at the solidity of the revenue stream. This is why.... It depends on what kind of funding source they're using. If you're using a project agreement that is, in the case of Kokish, a hydro facility, they have a power purchase agreement where they have a 30-year offtake, basically, of their electricity, so there are pretty secure revenues. There is risk in that based on essentially the amount of rainfall, the fluctuation. In other cases where it's basically going to be based on the general revenue sources available to the government, the sponsoring government, in the case of first nations, if you were looking at many of their asset classes, depending on how you structure, it ultimately comes back to the credit rating of the Government of Canada because that's the majority source of funding for them. Then they would look at the actual project risk allocation of the model of the transaction to see how it fits from a risk profile with respect to other P3s.

Mr. Kyle Seeback: Does the credit worthiness of a first nation community come into play on that? You seemed to indicate ultimately it's the Government of Canada. If that's the case, I would think the credit rating would be very high and there would be very few projects, even on a first nation reserve, that would be below what you suggested to be A minus.

Mr. Michael Mills: It could. There are ways to structure around that. If you had a structure whereby the source of funds was ultimately the contribution from the Government of Canada and you had it legally structured so there was a direction to pay by the Government of Canada into a locked account that was paying back financiers, then you would immunize that stream, for credit-rating purposes, from the actual financial position of the first nation.

● (0955)

Mr. Kyle Seeback: Yes, so in order to get the top credit rating there would have to be some kind of—for lack of a better term—guarantee by the Government of Canada to minimize risk.

Mr. Michael Mills: Yes.

Mr. Kyle Seeback: I don't know how much you know about first nations land on reserve, but under section 89, it's not fee simple. It's exempt from seizure.

Mr. Michael Mills: Yes.

Mr. Kyle Seeback: How big of an issue is that when you look at the security of a project?

Mr. Michael Mills: I'm not a legal expert, so I guess the question is—

Mr. Kyle Seeback: To me the question would be on risk assessment for a project.

The Chair: I'll have to ask that the response be quite brief because the time has just expired.

Mr. Michael Mills: Okay.

It would depend on how far-reaching the provisions of section 89 are in terms of whether they include, in that definition of what can't be seized, the payment coming from the Government of Canada. As long as the Government of Canada had that structured into a separate thing, then it wouldn't apply.

The Chair: Thank you.

Now we'll turn to Ms. Bennett for the next seven minutes.

Hon. Carolyn Bennett (St. Paul's, Lib.): Thank you very much.

There's only one that's happened so far. Have there been other nibbles that didn't work, or are there risks to first nations so they aren't taking up this option or opportunity?

Mr. Michael Mills: Are there risks? No.

There have been nibbles. I would say definitely the strongest interest is around green energy projects in looking at wind and hydroelectric. It's about making sure you find the right partner and that the underlying economics of the resource are there to sustain the partnership. Some of those factors haven't come together. In some cases there have been difficulties in negotiating the power purchase arrangement, which would give a clear funding source that would make it go forward.

The other area we're seeing nibbles on and we're moving forward with is waste water. There the challenge is one of scale. How do you get to an area where you can get into the $50-million to $100-million range of projects? They're taking a bit more time because they require partnerships with the public sector. In some cases you're looking at first nations communities looking at partnering with neighbouring municipalities. It takes time to work out the arrangements on how you're going to partner and what your contributions will be.

In the case of looking at working with Atlantic first nations, it's about creating the partnerships across all those first nations. What is the entity you need to bring together your collective interests, and how are you going to work together?

I'm very hopeful and optimistic more of those transactions will be realized, but there's the upfront work of getting the business case right and getting the partnerships in place before those transactions can proceed.

Hon. Carolyn Bennett: In terms of the partnerships with the municipalities, I think we heard a little bit about that during the water bill. Do you work with the Federation of Canadian Municipalities on other P3s? Are you able to suggest the part of FCM that's working with municipalities and that interface with first nations should...?

Mr. Michael Mills: Yes. Over the last several years we have worked with the Federation of Canadian Municipalities. We have had the discussion on their program to encourage partnerships between the municipalities and the first nations. We try to reach out to them and work with them in those cases to help that happen. We work directly with both sides of the partnership to try to help catalyze that or support that in any way we can to move the project along.

Hon. Carolyn Bennett: You've become an equity partner in it. Are you in a position to be able to coach first nations to not get into a deal that wouldn't be good for them?

Mr. Michael Mills: Just to be clear, we're not an equity partner in there. We're providing contributions. In most cases, the P3 Canada fund is providing non-repayable contributions. This is similar to government contributions in other programs.

Hon. Carolyn Bennett: Say that again. You're providing...?

Mr. Michael Mills: We're providing non-repayable...and in some cases loans.

In the case of the Kokish, because there are private revenues, we will do loans. The structure for a loan is different. If we were doing a water treatment plant, it would be a non-repayable contribution that we would make. We are in a position to, and one of the things we do, is that somewhere between our funding and our expertise role, we work with them to look at and dig through where it makes sense. For many of those earlier projects that didn't come to fruition, we worked with them to develop business cases and through the development of the business case process, we were able to show people when it didn't make sense and when they should pursue different roads.

● (1000)

Hon. Carolyn Bennett: Are you able to suggest potential partners? Are you a bit of a marriage broker, too?

Mr. Michael Mills: We don't play much of a marriage broker.

In terms of finding the private partner, we promote a competitive procurement process as a means to actually find your private partner. We're able to help first nations work through those kinds of competitive processes, but in terms of other types of partnerships in which we would say to the first nation, maybe, here are the municipalities you could work with or here are other first nations, we don't typically play that role.

Hon. Carolyn Bennett: Obviously, Brookfield was the one that did the Kokish hydroelectric plant. How would first nations know where to go to find a partner?

Mr. Michael Mills: The first area I would counsel them in is looking into their territories at the resources. Companies would have to take out permits or whatnot to actually do water studies, so typically, they could get a sense of who's actually doing work in those areas. There is a model where, if first nations were to undertake some of that early work, they could potentially use the leveraged competitive processes that we use in the P3 to find the partner that's going to be the best match.

Hon. Carolyn Bennett: Thank you.

The Chair: You have about a minute and a half.

Hon. Carolyn Bennett: That's fine.

The Chair: Okay.

We'll move then to Mr. Seeback for the next seven minutes.

Mr. Kyle Seeback: Thank you.

Can you walk me through a transaction from the beginning to the end? I'll give you sort of a hypothetical transaction.

Let's say a first nation community is looking at building a new or a better water treatment facility, or expanding one. How would that interaction begin with PPP Canada?

Mr. Michael Mills: I think the first stage we look at is really this project identification. The community would typically engage a technical consultant to flesh out what their needs are and to look at what are feasible solutions to meeting their needs, and then develop a scope of project. Once they have completed what would be a fairly preliminary feasibility study for their project.... We run annual rounds of applications, so we would get an application that would say they were looking at pursuing a water treatment plant that's going to have this much capacity, and initial figures are that it's going to cost $75 million and they're interested in pursuing a private partner to develop that as a DBFM.

When they come to us, again it's at that preliminary stage, if they were screened in—we have narrow criteria where we screen in projects based on a level of intensity, the readiness, and the potential for that to deliver value—we would work with the first nation to basically engage more financial advisers to develop and look at the business case, to look at the risk profile, to look at the economics of the project, to see if it can achieve value for money.

In parallel, they would continue their development work, looking at fleshing out a representative project on about a 25% to 30% design basis, and to solidify more of their costs. Typically, we will end up having, at the time that we make an investment decision, 25% design. We'll have a schematic design. We'll have schematic cost estimate. We'll have plus or minus 15% certainty on the cost side, while the business case that shows the risk profile of the project will talk about the interest of the market.

We'll do market soundings to make sure the market is interested in pursuing that project and we know we have something that is feasible and we have the technical solution. At that point, we'll make an investment decision. We make a recommendation to the Minister of Finance. If he approves, then we will work to move to the procurement phase.

Looking at the next phase, we work with the first nation to implement a two-stage procurement process. That would start with a request for qualifications, where we would look to find the best partner based on their past experience in designing typical projects, constructing them, operating them, maintaining them, financing. Typically, you qualify three firms, or three consortia comprised of teams that can provide all of those functions. That's usually about a two-month process.

Once you've short-listed your two-month process, we would give a draft contract project agreement and a request for proposals to the partners, which would really give out more detail of the nature of the performance that we're seeking from the partner, the risk allocation that we're looking for. We'll have an open period where we'll have a dialogue called “commercially confidential meetings” with each of the partners separately, to really explain what the intent is, the performance we're looking for, and the risk allocation.

After that period of dialogue has taken place, we'll fix the contract and they will come back with a proposal that will provide their version of a 30% design, with a whole series of plans of how they intend to staff the plant, run the plant, look after safety, look after different considerations that may have been in there in terms of environmental considerations, land use issues, anything else in terms of.... We have seen, for instance, in the Iqaluit airport project, a strong need to have Inuit participation in that project, so there would be elements of that. They'll have to have a plan as to how they're going to involve local members in the project.

Finally, you will have an evaluation where you'll look at whether they have a technically feasible solution and who, ultimately, gives us the best price.

● (1005)

Mr. Kyle Seeback: How many projects from first nation communities have gone through and applied to PPP Canada for projects, do you know?

Mr. Michael Mills: I do have the number. In terms of applications, we're around 40 applications.

Mr. Kyle Seeback: Four...?

Mr. Michael Mills: Forty—I'm sorry, it's 36.

Mr. Kyle Seeback: Thirty-six applications, and one has been approved.

Mr. Michael Mills: One has been approved.

Mr. Kyle Seeback: Is that based on the recommendations of PPP Canada?

Mr. Michael Mills: That is based on the recommendations of PPP Canada, yes. Most of them on the recommendation, but in most cases working with communities toward their business case and then pursuing different options.

Mr. Kyle Seeback: One thing you did mention is that it then goes to the Minister of Finance for approval. Have there been cases that have gone to the Minister of Finance for approval and have not been approved?

Mr. Michael Mills: I don't believe so.

Mr. Kyle Seeback: You don't believe so. How long does the approval process in general take from the beginning when you receive an application, to approval from the Minister of Finance and off we go?

Mr. Michael Mills: When we do our open call for applications, people are applying with that technical feasibility study, and by the time we go for an investment decision they need to have completed technical work, advanced the business case as well as political approvals on their side to lock down their sources of funding. It's quite typical that we will get a project that has merit that will come in one round, and they will work on the business case, the technical program, and work through the entire round, and then they will have to reapply when the next round comes. Typically I would say when someone comes in we're looking at probably 18 to 24 months just to do that stage.

However, once we have a robust business case, it takes us usually six to eight weeks to actually make an investment decision. Depending on the time of year or whether people are around, we would say it's two to four months for an actual investment decision from the minister.

Mr. Kyle Seeback: I'm not sure if my question was clear when I said how many projects. Were you saying there were 40 first nations that have made an application, or is this just that 40 projects, in general, have been brought to PPP Canada since 2009?

The Chair: I'll ask that it be brief as well because the time has almost expired.

Mr. Michael Mills: No. We're well over 200 applications for the whole program. These are 36 projects that are first nations based.

Mr. Kyle Seeback: Thank you.

The Chair: Thank you. I appreciate that.

Now we move to Ms. Hughes for the next five minutes.

Mrs. Carol Hughes: Thank you very much.

Is there a difference between attracting private sector investments for projects on and off reserve?

Mr. Michael Mills: I would imagine there would be in the sense that there are differences for the private sector.

One area where we see a lot of private sector concern is around permitting and the legal framework for the Canada Labour Code, for health and safety, and what not. I would just imagine with the private sector, from our dealings with them, that their challenge on reserve versus off reserve is more about the legal environment and what kinds of permitting requirements they would have in terms of a typical P3.

They are used to working in municipalities. They know what the permitting regime is. They are used to working under provincial regimes. There is a bit of learning to be done with the private sector in terms of the legal framework on reserve that they would have to operate within.

● (1010)

Mrs. Carol Hughes: Is there something your organization could help with in better understanding the framework that the first nations work under and being able to assist the private investors to better understand what they are getting themselves into—

Mr. Michael Mills: Yes, I believe we could.

Mrs. Carol Hughes: —so they are better prepared so these could be successful?

Mr. Michael Mills: Yes. I'll give the example of our being part of the team for the new bridge in Montreal for the St. Lawrence. That is a unique transaction because even though it's within a very urban area, it's actually happening on federal lands. Within the procurement phase of that we had to document and produce product for the private sector consortia that were bidding on that project to explain the legal framework.

I think drawing on that experience we could work with the community to draw out the types of information the private partners would need to help them produce materials they could give to anyone bidding on the job or interested in the project. We would try to remove any uncertainty around that and provide the kind of information that's really tailored to helping the private sector understand their risk and their responsibilities in that context.

Mrs. Carol Hughes: You mentioned there were 36 applications. I'm wondering, out of those 36 applications, does that include the one that was approved?

Mr. Michael Mills: Yes.

Mrs. Carol Hughes: Then, out of the 35 applications that are remaining, have they all fallen off the table or are there still some that are trying to move forward?

Mr. Michael Mills: There are still a couple that are moving forward.

Mrs. Carol Hughes: Out of those applications, have some of them been for remote communities? Given the fact you mentioned the process takes anywhere between 18 to 24 months, and there's the technical side, there's the approval side, and then you mentioned one more.... Anyway, given the short construction season in some of these communities, especially the remote northern communities, how difficult is it to try to get P3s going in those areas, and should we be looking at a different model?

Mr. Michael Mills: It is difficult, but on the flip side of that, part of the appeal of the model is being very clear about the performance you're seeking. When you do have a shorter construction season and people are highly incented to meet the construction season, it can be a very beneficial model.

That was part of the appeal and the actual business case for the Iqaluit airport. The Iqaluit airport is an approximately $300-million transaction in the north. They'll have to fly in all of the material. You're looking at a project that was bid on by international consortia. There is an opportunity to bring global expertise to deal with these very challenging projects. I would argue that they are the most risky and challenging projects to do, so who better to engage in those kinds of problems than global constructors and designers and developers to deliver really high-quality assets?

There are challenges. They have their unique issues in terms of executing a contract, tailoring the procurement process, and being open to short construction seasons, but on the flip side of that, there is a tremendous opportunity to leverage that talent in the private sector to address those concerns. The alternative is to go the traditional route and to expose the normal model to an even riskier environment.

Mrs. Carol Hughes: I'll wait for more time to ask more questions.

The Chair: We seem to have reached the end of our list, so if you have just one more question, go ahead and we can finish it off there.

Mrs. Carol Hughes: I have two small questions.

One of them was with respect to the financing piece. Is it difficult for first nations? Have first nations pulled out because they are not able to put their whole part of the P3 in financially? Is there a lack of funding on their part?

Mr. Michael Mills: I don't believe that's been the barrier to moving in the direction we want to. It's been more a case of the underlying economics of the transaction. If the transaction is too small and it can't carry the transaction cost, it doesn't make sense to go that way. There might not be enough market interest in a certain type of project or location of project, so you can't actually extract the kind of value that you're looking for by having an open competition. You may not get enough people to show up. It's been more about the features of the projects.

We haven't gotten as far along as having a project that has the internal economics, that's demonstrating value for money, and that has market interest but just lacks a funding stream so we can't get there. We haven't seen that yet.

● (1015)

Mrs. Carol Hughes: You mentioned the inability to provide the same level of payment. I'm just wondering if you can explain that. You also talked about non-refundable contributions. I'm wondering if there's a maximum to that or how you judge that.

Mr. Michael Mills: Could you just give me a little bit more context for the level of payments not being the same?

Mrs. Carol Hughes: Yes. You talked about the inability to provide the same level of payment a while ago. I'm just wondering if you were able to explain this. You also talked about the non-refundable contributions your organization provides. I'm just wondering if there's a maximum amount you provide.

Mr. Michael Mills: Under the P3 Canada fund we provide up to 25% of the capital costs. That is the maximum.

With regard to restricted ability to provide funds, from my understanding, first nations communities don't have the same level and breadth of own-source revenues that, say, a municipality would have in terms of a property tax base, fees, and even, in some cases, the provincial contributions that you would see in the programs.

The Chair: Thank you.

Mr. Seeback just indicated that he would like one more brief question as well, so I will allow that and then we will wrap up there for our witness.

Mr. Kyle Seeback: How much of the $1.2 billion that initially went into the fund has been used for projects?

Mr. Michael Mills: All of it has been committed. We're now into committing our second wave of the fund. We've committed over $1.3 billion.

Mr. Kyle Seeback: Thanks.

The Chair: Thank you, Mr. Mills, for being here with us today. It was very helpful.

We'll now suspend the meeting briefly to clear the room so we can move in camera to do some committee business.

[*Proceedings continue in camera*]