

A CUPE 503 BRIEFING PAPER



# TRUTH, LIES AND PRIVATIZATION

HOW PRIVATIZATION HURTS  
COMMUNITIES and the WORKERS  
WHO SERVE THEM



## THE RUSH TO PRIVATIZE PUBLIC SERVICES

**F**or some time, a number of business groups, think tanks and politicians around the world have touted the idea that the private sector can do virtually everything better and more cheaply than the public sector. The result has been a flood of proposals to “shrink government” by transferring public sector services to profit-seeking companies.

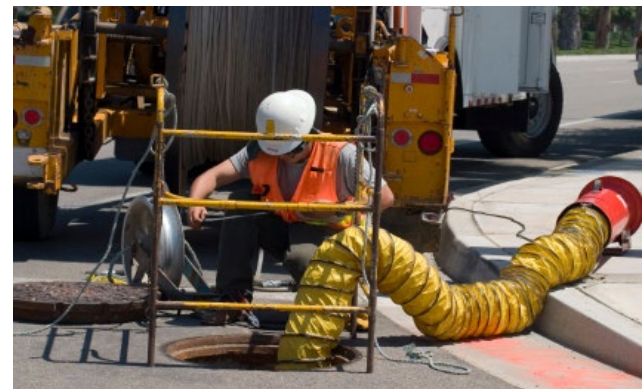
Canada is no exception – as seen by the chorus of business groups and right-of-centre politicians demanding that many of the functions traditionally performed by government be transferred to the private sector – in other words, profit-seeking companies. Motives for this vary. In some cases, it is a sign of the desperation felt by hard-pressed public officials seeking to provide more and better services while at the same time having to cut taxes and balance budgets. For yet others it is a reflection of an ideology that views all governments as hopelessly inefficient and all public sector workers as under-worked and overpaid. To such people almost any government involvement is a problem – which makes shrinking the size and activities of the public sector a priority, no matter what the cost to ordinary people.

Whatever the motives, the truth is that those demanding privatization have enjoyed considerable success in communicating their point of view – which has persuaded many that downsizing the public sector is the only way to go. As a result, a number of services previously delivered by governments in an efficient and cost-effective manner are now being provided by the private sector – often with negative results for consumers and ordinary citizens. Sometimes, this has taken the form of full-scale privatization involving the sell-off of public institutions to the private sector. More frequently, it has seen the contracting out of jobs and services and the creation of public-private partnerships (sometimes called P3s or PPPs) encompassing both government and the private sector.

## PRIVATIZING MUNICIPAL SERVICES

Municipal governments are not exempt from this trend as many local politicians turn to outsourcing and P3s to solve their budgetary woes.

This temptation to privatize is understandable, given the severe financial problems facing municipal governments in Canada - in large measure due to the provinces “downloading” more and more services to their municipalities. Municipalities are now forced to provide services that used to be handled by the provinces, and the provinces only give the municipalities a fraction of the money they used to spend on the service. This downloading meant that, in 2017, Canada’s municipalities’ expenses were 43% higher than in 2007. Not surprisingly, municipalities are finding it hard to make up this shortfall since their other main sources of revenue - property and business taxes and user fees – are hard to increase without hurting ordinary citizens and economic growth.



The result is a budgetary nightmare for municipalities – made worse by the downloading of responsibilities by federal and provincial governments and the often conflicting demands of citizens who at one and the same time call for better services and lower taxes.

They are also faced with the need to replace ageing infrastructure. As we all know, things wear out and need to be replaced – and assets owned by municipalities are no exception. As a result, every year, local governments find themselves faced with huge bills for repairing and replacing assets ranging from sidewalks and vehicles to buildings and sewage treatment facilities. And each year they must provide new facilities, equipment and services in response to changing needs and community growth. The problem is that all of this costs money.

Addressing these situations can be tough since the traditional way of doing it – by financing it themselves and doing the work in-house – has a big political downside for municipal politicians since it means borrowing money and occasionally raising taxes – not a happy prospect at the best of times.

Recognizing this, many municipal officials have gone looking for politically less risky options. That's where privatization comes in – with its promises of lower costs, lower taxes, more and better services and the transfer of risk to the private sector. It sounds too good to be true – and it is!

## CONTRACTING OUT

Some of the biggest costs facing any municipality – rivaling even capital costs – are those connected with having people on the payroll. These include both direct costs such as salaries and benefits and a number of indirect and shared costs such as administration. So it's no wonder that this is a major area of concern for municipal officials. The problem is that in most jurisdictions municipal employees are union members who have fought long and hard for the protection they currently enjoy. So they are not going to give up their rights without a fight. Recognizing this, some officials have sought to get around it by contracting out work to private sector companies – which offers the promise of eliminating unionized positions, cutting costs and balancing their books. Or at least that's the hope – which is why a number of municipalities have contracted out important services such as garbage collection, snow removal, transportation, and maintenance. The list is endless.



To hear cheerleaders for privatization, you would think that contracting out is the best thing since sliced bread. And the costs savings they promise are truly impressive, offering hard-pressed municipal politicians the prospect of dramatic cost savings that will allow them to offer new and better services in other areas while still cutting taxes. According to them, it's a situation where everyone wins – except maybe the workers who lose their jobs and have to apply for these new privatized positions, which provide lower pay, few benefits, worse conditions of work, and no job security.

But as the saying goes, "If something seems too good to be true, it probably is." That's certainly the case here, since, based on past experience, what's more likely to occur is higher costs, worse service, higher debt, and a steep decline in accountability.

And when things go wrong, it's the municipality that's left holding the bag. That's what happened when the privatization of the Hamilton-Wentworth water and waste-treatment system went seriously wrong. Originally, it sounded like a good deal – with the usual promises of lower costs and better service. But it quickly turned into a nightmare. One problem was the frequent changes in ownership of the contract – which changed hands four times (once even involving Enron). This corporate merry-go-round made it hard to establish accountability for cost overruns and environmental spills – which became an important matter later on when one of the largest-ever sewage spills in Lake Ontario's history led to the service being taken in-house once again.

As it happened, this proved to be a blessing for the citizens of the area. For a year after the City of Hamilton took back the operation and maintenance of the water and wastewater facilities, management reported improved performance and cost-effectiveness – with treatment facilities coming in about \$1.2 million below budget. And as a result of improved staff performance, the city saved \$195,000 in incentive payments that would have been paid to contractors, were it still in private hands. Alberta has also been burned by the private companies responsible for their new schools – after six years' experience having schools built and maintained by private businesses, Alberta's government changed course and decided to build its future projects itself.

Of course, you don't have to look to other cities for examples of contracting out that are problematic. For the City of Ottawa has its own tales to tell – particularly following the creation of the "New Ottawa" in 2001, which gave a real boost to privatization.

Take for instance garbage collection – a portion of which has been contracted out to private sector firms. Now the City of Ottawa's approach to this is interesting to say the least. For while it does contract out most of its garbage collection, it still retains two zones of the city for service by its own employees and equipment comprising downtown Ottawa and the Parliament Buildings. This area of the city represents the really "heavy lifting" since it involves the most difficult and expensive parts of the city to service, because of their narrow, crowded streets and many alley ways. What this means is that the city gets the tough and expensive areas to service while the private companies get the easier and cheaper suburban routes. Hardly a level playing field!

Such an approach begs the question why it is that the City still does some of its garbage collection in-house – if privatization is so great. After all, isn't the point of this whole

exercise to get rid of your in-house facilities and personnel so you can realize big cost savings by contracting out? Well, it would be if contracting out were all that great. But it's not – and municipal officials know it. And they're smart enough to know that if they get rid of all of their own garbage equipment and personnel, this could provide private contractors with an opportunity to reduce price competition and raise their fee for providing this service.



To make things worse, using private companies may actually be more expensive at times – since one of the things that makes their bids look so good is the City's insistence that "ghost costs" be included in estimates of how much it will cost to continue delivering a service in-house. These "ghost costs" include the allocation of costs related to assets the city already owns as well as a number of other costs that have nothing to do with the matter at hand. The idea is to create a level playing field. But the result is anything but fair since private companies are not assessed with some of these costs against their tenders.

Contracting out snow removal is also a problem. For once again, the City retains some of its own in-house capability – which is probably a good idea, given the number of complaints by municipal workers concerning the quality of contractors' equipment and work. One problem is the equipment they use – which in some cases is decommissioned equipment sold off by the City for a variety of reasons such as age, safety, maintenance, and reliability. Then there is the quality of the work, which at times has had to be redone by city employees to make sure it's up to snuff. And even when it is done properly, the City must still use its own people to supervise the work – which reduces any cost savings the municipality might otherwise realize from privatization.

So much for the benefits of contracting out!

## PUBLIC-PRIVATE PARTNERSHIPS

Public-private partnerships are another way municipalities seek to control costs and build new infrastructure. Once again, as with contracting out, those proposing this solution tout the many benefits likely to result. Unfortunately, just as with contracting out, the benefits are nowhere near what is promised and the negative impact on workers and communities is all too obvious.

To begin with, it's important to note that public-private partnerships are not new. After all, individuals and organizations from the private sector, such as voluntary sector groups and businesses have been working with the public sector for much of our country's history. Occasionally, there have been problems – such as the scandals that plagued our country early on. But in general this form of collaboration has worked pretty well – in part, because of the limited size and nature of these partnerships in the past.

What's different today is the size and nature of the partnerships we are seeing – with some involving the takeover of entire public institutions. We're talking 'really big' here – which is why Canadians should be worried.

While such full-scale takeovers do occur, they are relatively rare. The more usual case involves situations where government gives a company or consortium a piece of the action by allowing it to plan, finance, build or operate a public facility – thus allowing it to make a handsome profit at the public's expense along the way. This arrangement is being seen more and more frequently as financially strapped governments – often at the municipal level – seek to repair and replace crumbling infrastructure with the limited financial resources at their disposal. Faced with such a dilemma, many politicians take the easy way out and opt for a P3 solution. Under such an approach a company or consortium builds a new facility – such as a highway, water purification station or power plant – and then leases it back, leaving citizens to pick up the tab for years to come.

Apart from the companies, which see handsome profits from such arrangements, the main beneficiaries are politicians. For these partnerships make it look like they are controlling costs and cutting back on borrowing, while still providing excellent service to the community. And initially these deals often do look good. After all, there is new infrastructure in place, isn't there? And the cost of the building the infrastructure does not appear on the municipal books. So far, so good! The problem comes later when taxpayers discover that the cost of doing it through a P3 is often much higher than it would have been if they had financed and built it themselves.

So why is it more expensive using a P3? Well, part of it relates to financing – and the simple fact that it costs more for companies to borrow money than it does for governments. So finance costs are bound to be higher in P3s. Then there's the company's profit to be considered – since no company is going to do this work for free. That means that someone has to pay them for assuming risk and doing the work – and that someone is the municipal taxpayer. Then there are the many other costs that inevitably get loaded in – like legal fees, marketing costs and the cost of preparing a bid. These all get thrown into the hopper and the result is decades of expensive lease payments and user fees. By the time the contract is over, the cost to taxpayers may be far in excess of what it would have been, had government financed and built it itself.

Of course, that's not the problem of the politicians who signed the deal – who by the time this is clear will have retired or gone on to bigger and better things. As always, it will be the taxpayers and municipal workers who are left holding the bag.

All of this has been borne out by a significant body of research on P3s and the experience with this approach in the United States and Britain. For example, one researcher, Professor S. J. Loxley of the University of Manitoba, examined the findings of a large number of studies dealing with these partnerships. Based on the many studies he looked at, he concluded that:

- » Governments exaggerate the savings to be gained in both capital and operating costs;
- » The cost of private sector borrowing is well in excess of a government's cost;
- » Government often accepts most or all of the risks while the private sector partners carry little or none by themselves;
- » There is little or no evidence of improved service levels; and
- » Private sector involvement usually results in a decline in accountability.

In 2014, Ontario's Auditor General reported that the province could have saved \$8 billion if it had rejected P3s and kept its work in-house. In the same year, BC's Auditor General found that P3s were more expensive than having government employees do the work. Not exactly, a stamp of approval, is it?

And it's not just citizens who get shortchanged. For the impact of such partnerships are even more devastating for municipal workers, many of whom find their whole world turned upside down when privatization is forced on them.

This was also underlined in Professor Loxley's study, which reported that, "Workers pay a price in PPPs as wages, benefits and pension funds can be sacrificed in a PPP agreement over which they have no control." Sounds pretty bad, doesn't it? But hold on. There's more to come. "Workloads are often increased significantly placing workers under tremendous pressure to meet service guarantees." Unfortunately, this does not exhaust his list of negative impacts.

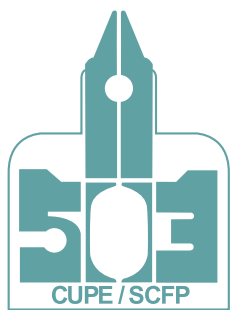
These hard truths have not been lost on some municipal officials, particularly when forced to clean up the mess after a privatization experiment goes terribly wrong – a good example being that of the Hamilton water and waste system cited above. Unfortunately, this is just one of many such examples – with even more to be found abroad. A number of these failed privatization experiments have taken place around the world with predictable results. A 2012 review of PPPs worldwide found that "when PPP projects in the essential service realm are in danger of failing, the government has little choice owing to legal or political consequences but to bail out PPP contractors who get into trouble". So even where the contractors can't hold up their end of the bargain, governments are left to clean up the mess on their dime – just the same as if they did the work themselves. The only difference is that, if the project goes well, the benefits go to the contractors instead of the taxpayers.



## WHAT ABOUT THE WORKERS?

One group almost always left out of the debate on privatization is municipal workers, those most likely to be negatively affected. Judging from past experience, it's clear that little attention is paid to how privatization will impact them – or their families.

But there's another way they get left out – and that's in calculating the relative benefits of doing things in-house or handing them off to the private sector. Currently, there's a tendency to view workers as commodities – sort of like pieces in a board game which you can move anywhere you like. They are interchangeable and one's pretty much the same as the next. Under such a view, it doesn't matter whether a job is done by a person with good skills, lots of training and twenty years of experience or someone you just pull in off the street. But how can that be true? After all, much of the research and real life experience suggests that in-house operations are often more efficient and cost-effective. Why is this? Well, a lot of it has to do with the people doing the work. So maybe we aren't talking about pawns after all. Maybe, just maybe, it's the people who work for municipal governments that make the difference – every day of the year, working hard, making decisions, and bringing their knowledge and experience to bear in situations that impact the health and well-being of our community. This is something we need to consider in deciding whether to privatize or do the work in-house since the choices we make will impact the quality of life of our communities and their citizens. So it's critical we take everything in account, including the considerable value-add municipal workers represent. For it is only by considering all of the variables that we can get these important decisions right – decisions that will affect our communities for decades to come. Doing anything else is to invite disaster – for workers and for the communities they serve.



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