QUALITY PUBLIC SERVICES YOU CAN COUNT ON

Ours to keep: municipal public services and assets

Canada's cities and towns are the bedrock of our country. They are responsible for the services that keep us safe and healthy. They build and maintain the systems that treat and deliver clean water to our homes, and return treated wastewater to the environment. Municipalities take care of the transit systems, roads, and bridges that let us travel safely and efficiently through our days and keep the economy moving.

Municipalities also deliver public services that are vital to our collective health and well-being, like social services, libraries, and recreation programs. And local governments are in charge of services and facilities that ensure a healthy environmental future, such as solid waste collection and disposal, and wastewater treatment.

But our cities and towns are being held back. Underfunding, downloading and privatization threaten our social and economic fabric. It's time to make our cities work for the people that live in them – and for our country.

Canadian municipalities are chronically underfunded. Federal and provincial infrastructure programs don't deliver long-term, sufficient and predictable funding. And few infrastructure programs cover the long-term operating and maintenance costs beyond initial capital investments. Limited in their ability to raise their own revenues and facing a growing and aging population, cities and towns are also facing downloaded responsibilities for housing, social services and other core municipal services.

Instead of properly funding cities and towns, successive federal governments have instead attempted to push municipalities into privatization through public-private partnerships (P3s).

Experience from Canada and around the world has long shown privatization through P3s is risky, expensive and undemocratic. Now, important new evidence confirms P3s cost considerably more than infrastructure that's publicly financed and operated. In addition, P3s lack proper oversight and do not have independent, unbiased assessment. Yet P3s are being made the focus of entire programs, such as the new federal transit fund.

Ontario auditor reveals P3 model's fundamental flaws

In 2014, Ontario's auditor general undertook a comprehensive review of the province's P3 program, run by provincial crown corporation Infrastructure Ontario. Auditor Bonnie Lysyk reviewed 74 P3 projects (known in Ontario as AFP or Alternative Financing and Procurement), as well as the overall processes and practices of Infrastructure Ontario. The scope and depth of the review is significant. The auditor examined the entire P3 program, and had access to financial and other details that are not publicly available.

The report's main findings call into question the entire P3 model:

- ✓ The 74 projects cost a total of $8 billion more than if they had been publicly financed and operated. Of this, $6.5 billion was due to higher costs of private borrowing. Overall, the projects cost nearly 30 per cent more than if the province had borrowed the money itself.
- ✓ All of Infrastructure Ontario's 74 P3s were justified on the basis that the projects transferred large amounts of risk to the private sector. But there was absolutely no evidence or empirical data

CUPE Canadian Union of Public Employees

provided to support these claims in the crucial value-for-money (VFM) assessments. Instead, pivotal decisions were made on unsubstantiated opinions, and not facts.

- The consulting firms preparing the business cases and VFM assessments showed a clear bias in favour of P3s. Specific "risks" included over $6 billion dollars worth of double counting (a basic accounting error that misrepresents costs) and other inappropriate calculations.
- Estimates of the cost of public procurement also involved fictitious charges, so the actual benefits of public procurement are likely even higher than $8 billion.
- Initial cost estimates for P3 projects tended to be highly inflated, making it easy to later claim projects were on or under budget.
- There is very little competition among the large P3 contractors. Five contractors got over 80 per cent of all Infrastructure Ontario projects, while just two facility management companies took a majority of P3 projects with a maintenance component.
- Infrastructure Ontario could not provide signed conflict of interest declarations or disclosures of relationships for those evaluating submissions for a number of projects. This should be especially concerning given that prominent people in the industry (and no doubt other officials) have shifted back and forth between the private sector and P3 agencies.

Overall, Ontario P3s cost on average 29 per cent more than publicly financed and delivered projects — and more for those with substantial operating and maintenance contracts. These extra costs mean even if a project receives a 25 per cent P3 subsidy from the federal P3 Canada fund, P3s still cost more than public projects.

Of the 74 projects reviewed in Ontario, six were transit P3s. While Infrastructure Ontario played an advisory role in the Ottawa and Waterloo LRT projects, it was involved in procuring four others. With the federal government pushing for all future federal transit funding to be delivered as P3s, municipalities will be increasingly exposed to the higher costs and biased assessments uncovered in Lysyk's audit. The Federation of Canadian Municipalities has been lobbying the federal government to provide municipalities with flexibility and discretion over the level of private sector involvement so they are not forced into P3 contracts as a condition of receiving federal funding.

Earlier audits in Nova Scotia, New Brunswick, Quebec, British Columbia, and at the federal level have also uncovered examples of P3s costing more than public projects. The Ontario audit report is significant because it uncovers systemic problems with the province's entire P3 program and methodology. These problems apply across Canada, since the federal government and most provinces have P3 agencies that function in a very similar way to Infrastructure Ontario.

These P3 agencies are conflicted in their mandate to both promote and assess P3s. The Value for Money assessments they commission invariably always recommend P3s, even though they never reveal all the details behind these conclusions.

The Ontario auditor general's report is even more important given the federal Conservative government's support for P3s, and its pressure on municipalities to engage in P3s as a condition of receiving federal infrastructure funding, with all projects evaluated by federal P3 agency PPP Canada Inc.

While very few municipal P3 projects have been individually reviewed by an auditor or other independent third party, an academic review of a municipal wastewater P3 adds to existing concerns about evaluation and assessment of P3s. In a recent presentation about their forthcoming research, University of Regina business professors Bill Bonner and Morina Rennie criticized the lack of transparency surrounding the financial justifications for a 30-year P3 contract for Regina's new wastewater treatment plant.

Their review found a "lack of verifiable substance" to the business case and supporting documents used to justify and promote the P3 wastewater treatment plant. Critical data used in the P3 value for money analysis was "severely redacted," even after an access to information request. This left residents unable to evaluate or verify claims made by the city, such as a claim that residents would pay $276 more a year if the wastewater plant was publicly procured. Promoters of a fully public plant could only rely on heavily blacked-out documents to challenge the city's figures, resulting in what Bonner and Rennie characterize as "a war of numbers from nowhere."

Transparency and accountability for P3s is very weak, with the financial details for these decisions and other details kept secret. When auditors review P3s, the contracts are signed and the money is already spent. We need much greater accountability up front, before lengthy contracts are signed.

Mounting federal pressure for P3s

The federal push for municipalities to use P3s began with federal Liberal governments of the 1990s and early 2000s. Since coming to power in 2008, the federal Conservative government has dramatically expanded this approach through its dedicated privatization agency PPP Canada Inc., which promotes, assesses and subsidizes P3s. PPP Canada has identified municipalities as a clear target, focusing on water and wastewater, transit, local roads, solid waste, and energy-from-waste projects.

The federal Conservative government has also tightened the privatization strings attached to infrastructure funding. Budget 2014 attached P3 conditions to any Building Canada Fund project with a capital cost of more than $100 million, forcing projects through a mandatory P3 assessment – performed by the same agency tasked with increasing the number of P3s in Canada. If a project is deemed viable as a P3, funding will only be approved if the municipality agrees to privatize. This undemocratic policy takes away the autonomy of local governments to choose how to procure and manage public infrastructure projects.

To make matters worse, the New Building Canada Fund features less funding, and comes with complicated and unclear application requirements. This has slowed applications and delayed projects. The mandatory P3 screen is sure to add further delays.

The most recent expansion came in Budget 2015, with the new federal transit fund. While details of the future fund have yet to be announced, one feature was made clear up front: all applications will flow through PPP Canada. Municipalities will be forced to engage in expensive P3s, privatizing the financing and operation of public transit projects.

A transit fund could have been a positive step to address the environmental and economic costs of gridlock. But the proposed plan does not provide capital funding or access to lower-cost public financing. This will massively increase costs for municipalities and is a gift to the large private corporations and financiers that benefit from P3s.

Other federal initiatives, such as new wastewater treatment standards, have been introduced without a penny of additional funding to deliver plant upgrades. By failing to provide its share of dedicated public funding, the federal government is backing municipalities into a financial corner and forcing them into P3s.

The P3 debt bomb

Municipalities are being forced into long-term P3 contracts with future payments that will limit other spending opportunities, tying the hands of future local governments and hampering innovation and adaptation for decades to come.

The cumulative effects of the long-term liability of P3 contracts, with their higher costs and restrictive terms, are becoming clear in Canada. In Ontario, just 74 P3 projects have created over $36 billion in liabilities. The actual long-term commitments are kept secret, but could be twice this, approaching $15,000 per household.

In 2014, British Columbia's auditor general published a comparison of how much it costs the government to undertake projects on its own compared to using private investment through P3s. She found the government is paying nearly twice as much to borrow through P3s as it would if it borrowed the money itself. Over the average 35 year lifespan of P3 contracts, this means the government is paying more than $2 billion more just in private financing.

The Private Finance Initiative, the United Kingdom's version of P3s and forerunner to the Canadian program, has created a full-blown fiscal crisis in the United Kingdom. Here, a mass P3 program has been in place since the 1990s. The consequence of more than 720 PFI contracts is $88 billion already paid out and a debt estimated at more than £222 billion owed to banks and corporations, all to pay for assets valued at £56.5 billion.

Financing P3s through asset sales

As governments continue to promote P3s, some are also exploring other forms of privatization, including so-called 'asset recycling.' At its core, asset recycling is nothing more than a new way to privatize all or part of a public asset such as a hydro utility or a government building. An asset is "recycled" when a government or corporation either sells or borrows against its physical assets to generate money for new investments. Money from the sale is then invested in new, P3, infrastructure. Governments such as the Ontario Liberal government are using this expensive and short-sighted method of borrowing to hide debt from the public.

Until recently, governments increased public ownership of assets through direct public borrowing and investment in infrastructure, paying off the debt with the savings through productivity growth from the investment. Asset recycling increases long-term costs through increased rents paid by the government to continue to use the privatized assets, and increased costs caused by expensive private sector borrowing for the new infrastructure.

Giving up public ownership of vital assets is the wrong choice, as shown by the Ontario government's short-sighted plans to sell off a majority stake in the provincial electrical transmission and distribution utility, Hydro One. This move will create a permanent budget shortfall, sacrificing billions of dollars in future revenues from the crown corporation for a one-time payment. In exchange some – not all – of the proceeds will become seed funding for a transit infrastructure trust that will fund more P3s. This approach is not only more expensive, it also doesn't plan for life-cycle replacement of transit infrastructure, raising the question of how future revenues will be generated, and what else will need to be privatized to raise funds.

Social impact bonds

Another emerging form of privatization is known as 'Social Impact Bonds.' A SIB is a new scheme of financialization and privatization of social service delivery. It is being marketed by banks and private investor-backed agents to cash-strapped municipalities as a way to innovate, while delaying or reducing service delivery costs. Municipalities are vulnerable to this pitch as they grapple with responsibility for many services downloaded from other levels of government, and a growing population.

Social impact bonds are based on the claim that the private sector can find better and more efficient ways of delivering services. In reality, study after study shows private sector "pay for performance" or "pay for success" processes don't improve the delivery of social services.

Social impact bonds give financial investment companies dangerous levels of control over social services, distorting priorities and profiting from social needs. In all cases, it is much easier and cheaper to improve service delivery through properly-funded public social service delivery, instead of borrowing at a rate of eight to 12 per cent per year from private sector financiers.

Less expensive and better options include stable and sufficient core funding for public social services, as well as a comprehensive review of where expanded public service investment could be targeted to improve social services to reduce costs over the long run. Such services include targeted programs for skills and social programs for recently-released offenders, child care and support programs for at-risk youth and young parents, and expanded early learning programs in high-risk communities.

Global trend is to public – not private

As Canadian municipalities face mounting pressure to privatize, it is clear the federal government is swimming against the tide. The international experience with privatized water and wastewater services is a telling example. Cities around the world are cancelling or not renewing contracts with private water corporations. In the last 15 years, there have been 235 cases of water contracts being terminated or not renewed in 37 countries, affecting over 100 million people.

A recent study of this trend concluded that reversing privatization – known as remunicipalization – gives local governments the control they need to develop socially responsible, environmentally sustainable and higher-quality water services that benefit present and future generations.

The study finds that privatization led to "poor performance, under-investment, disputes over operational costs and price increases, soaring water bills, monitoring difficulties, lack of financial transparency, workforce cuts and poor service quality."

In France, 94 communities have taken back their water or wastewater systems. In the United States, where 58 communities have taken back direct ownership and operation of their water systems, municipalities have improved service and reduced costs. In 18 small US communities, remunicipalization cut costs by an average of 21 per cent , while the City of Houston saved $2 million a year – a 17 per cent cost reduction. In Hamilton, Ont., ending a P3 contract for the city's water and wastewater operations saved the city $5.7 million over three years and improved the plant's performance and treatment standards.

Building stronger communities

Across the country, municipalities of all sizes survive and thrive with the help of public services and infrastructure. This web of support creates the social and economic conditions that improve our quality of life, increase equality and foster our collective prosperity. Accessible, affordable and accountable public services help ensure everyone can participate in and contribute to their community, maintaining a healthy democracy. Community assets that are publicly owned and controlled create economic and social wealth, and are key to environmental sustainability.

Municipal governments own and are responsible for more than half of the country's public infrastructure assets. Much of this infrastructure is nearing the end of its life and needs to be renewed or replaced. Canada's cities and towns are under incredible pressure. But privatization through P3s is not the answer to the infrastructure crunch. With interest rates at historic lows, and public sector borrowing continuing to have a major competitive edge over private financing, the time is right for increased investment in infrastructure that's publicly financed, owned and operated.

There are more cost-effective and efficient alternatives to P3s, asset recycling and other privatization schemes. These include direct public borrowing and investment; green and/or infrastructure bonds which allow pension plans and private sector investors access to low-risk investments without private ownership of the infrastructure; and investment in productive capital projects like utilities and local public green power generation.

A fully public infrastructure program will create much-needed good jobs, boost the economy, and leave future generations a legacy of assets, not long-term liabilities.

Learn more at cupe.ca/communities