



# Keep Manitoba public: Why P3s are the wrong direction for our schools

The Government of Manitoba wants to build and maintain four new public schools through expensive, decades-long deals with for-profit corporations.

This is a bad plan for our province. Public-private partnership (P3) schools have failed to make the grade in Canada. Governments and corporations promoting this form of privatization claim the model has “evolved” and moved beyond initial “growing pains.” But the facts speak for themselves. From the earliest P3 schools in Nova Scotia and New Brunswick, to more recent education P3s in Alberta and Saskatchewan, major problems persist.

- P3 schools cost more than schools that governments finance and operate publicly.
- P3 schools are associated with lower quality, restrictions on after-hours access, and design that does not meet the broader community’s needs.
- Lengthy P3 contracts, often 20 years or more, are inflexible and limit community control.
- P3 deals are secretive, lacking transparency and accountability.
- P3s do not let governments off the hook when it comes to risk and responsibility for the facilities that students, staff and their communities depend on.

## For-profit P3 schools cost more

Paying for the construction of public facilities with high-cost private lending makes no financial sense. Borrowing costs are always higher for private corporations than for governments. Beyond the long-term costs of higher private-sector interest rates, legal, consultant and other transaction costs also add to the P3 bill. Compensating losing bidders, a common practice in the P3 industry, can also be costly. The Saskatchewan government recently paid \$5.6 million to eight unsuccessful groups bidding on P3 contracts.<sup>1</sup>

Profit-driven operating and maintenance costs are built into the long-term payments that governments take on when signing a P3 deal, further inflating the price tag. P3 contracts are usually for 20 years or more, which limits the budget and planning flexibility of future governments and school districts.

## **Alberta**

In 2007, the province of Alberta signed a P3 deal for 18 kindergarten to Grade 9 schools. By the time the contract was awarded, costs had tripled from the original budget for the 18 schools – yet P3 promoters claim this project, like many P3s, was “on time” and “on budget.”<sup>ii</sup>

The higher costs of private borrowing had a dramatic impact. Economist Hugh Mackenzie concluded that “for every two schools financed using the P3 model, an additional school could be built if they were all financed using conventional public-sector financing.”<sup>iii</sup> Expensive private financing cost the Edmonton board \$39 million more<sup>iv</sup>, and the Calgary board \$29.7 million more.<sup>v</sup>

Alberta has over 40 P3 schools. In 2014, the Alberta government announced that 19 new schools would be built publicly, saying that cancelling P3 plans would save \$14 million. In cancelling the plans, the Conservative government said the P3 process did not lead to competition for contracts, with only one private bid for the 19-school project.<sup>vi</sup> In 2015, details emerged that the Conservative government had paid \$750,000 to the one bidder and had incurred other P3-related advisory costs for the failed experimenting totalling over \$715,000.<sup>vii</sup>

Alberta’s auditor general asked for information needed to fully analyze the deals, ultimately releasing a 2010 report<sup>viii</sup> without gaining access to all relevant information. Even with partial information, the auditor general concluded that the government had made an error that overstated P3 savings by \$20 million.<sup>ix</sup> The report also concluded that not enough had been done to keep Albertans informed about the process, nor had the government backed up its claims that the project delivered value for money.<sup>x</sup>

## **Saskatchewan**

The Saskatchewan government claims that building 18 joint-use schools as P3s is saving \$100 million, but the details behind those claims have never been publicly released or independently verified. Internal advice to the government early in the process, obtained by CUPE through a Freedom of Information request, warned that “P3s are an expensive public procurement approach because they involve higher interest rates, a more expensive bidding process, third party advisors and a profit margin.”<sup>xi</sup> There are signs that, as in other jurisdictions, the Saskatchewan government is playing fast and loose with ‘value for money’ claims.<sup>xii</sup>

Observers are warning that the Saskatchewan government’s long-term P3 financial obligations, including the future contracted payments for P3 schools, are having a major impact on the province’s debt and fiscal capacity.<sup>xiii</sup>

## **New Brunswick**

New Brunswick P3 schools, among the first in the country, drew criticism from the provincial auditor. Moncton's Evergreen Park School opened in the fall of 1996. A 1998 Auditor General review of the arrangement found that Moncton's Evergreen school cost nearly \$900,000 more than a publicly financed and owned project – a far cry from government claims that the P3 would save more than \$184,000.<sup>xiv</sup>

Ten years later, the provincial government went ahead with two more P3 schools, the Moncton North and Eleanor W. Graham Middle schools. The two schools were bundled into one project. A 2011 auditor general review found “no evidence” the government had done a formal analysis of the P3 to ensure it was the most cost-effective way to build the schools.<sup>xv</sup>

The provincial government had based claims the P3 deal would save \$12.5 million on the faulty assumption that future governments would underfund public maintenance and life cycle costs. When the auditor removed this assumption, and compared public and private projects on an equal footing, he found the two P3 schools cost \$1.7 million more than publicly-delivered and maintained projects.<sup>xvi</sup> The auditor's report highlights that preliminary findings about the two P3 schools played a role in two other schools going ahead as public projects, instead of as P3s.<sup>xvii</sup>

## **Nova Scotia**

Nova Scotia's P3 school experiment is finally ending – at significant public cost. In the late 1990s, Nova Scotia signed a series of 20-year deals to build 39 P3 schools and lease them back from private companies. The original plan appears to have been to keep the capital costs off the government's books. That practice ended after it drew strong criticism from the provincial auditor<sup>xviii</sup>, but more P3 schools went ahead.

In 1997, the provincial auditor found “major deficiencies” in how the province decided on the first wave of P3 schools, as well as in how the contracts were negotiated and finalized.<sup>xix</sup> A 2010 audit found that risk had not been transferred to the private companies, as well as significant problems with P3 contract oversight and management.<sup>xx</sup>

In 2000, the P3 schools program was cancelled in favour of publicly owned, financed and operated schools. At that time, the newly-elected Conservatives said P3 schools “grew too elaborate and costly,” noting that construction costs alone had gone \$32 million over budget.<sup>xxi</sup>

As leases began to expire in 2016, the provincial government faced the choice of buying back the schools, renewing leases or giving up the schools to their private owners. The provincial government opted to buy back 37 of the schools, at a total cost of \$215.9 million, stating that

“purchasing the schools will result in substantial savings when compared with renewing the leases for the next 30 years.”<sup>xxii</sup>

A comprehensive 2017 analysis of the province’s P3 school contracts by the Canadian Centre for Policy Alternatives concludes that the cost of buying back 37 of the 39 P3 schools, combined with original contract costs, “likely exceeds \$1 billion.”<sup>xxiii</sup> Lax reporting and poor contract management likely puts the price tag even higher, with the CCPA stating “we will never know how much this experiment actually cost.”<sup>xxiv</sup>

## **P3 schools limit access and community use**

Alberta P3 contracts limited school boards to a set number of hours of access per year. Extra time was on a for-profit, fee-for-service basis. The P3 contracts strictly limited how school facilities could be used, including preventing education workers from posting on classroom walls.<sup>xxv</sup> Community groups also found the first wave of P3 schools, which opened in 2010, prohibited space being leased to community groups like child care, sports leagues and other after-hours uses.<sup>xxvi</sup>

School board workers in Saskatchewan also face limits on how they can use classrooms. Only a small amount of designated space (20 per cent of the wall space) can be used to post student work, decorations or other materials. In addition, schools are prohibited for opening any windows for a full year after the schools open. A staff guide instructs workers to treat the facilities as “leased spaces.”<sup>xxvii</sup>

Some P3 schools in Nova Scotia charged “prohibitive” rates to sports and other groups for after-hours use.<sup>xxviii</sup> The province had to go to arbitration to resolve disputes, including over cafeteria revenues, after-hours fees, and the appropriate level of insurance corporations running the schools should carry.<sup>xxix</sup>

## **Public works best for maintenance and quality**

Underfunding and ongoing public-sector austerity budgets can create pressure on school maintenance budgets. But it’s a myth that P3s are a magic solution to this problem. While lengthy P3 contracts lock in regular maintenance and set standards for upkeep, the same planning tools (and long-term financial commitments) can and should be used by governments to integrate low-cost, life cycle maintenance into public projects.

As New Brunswick’s provincial auditor pointed out, “if the Province is willing to commit funds to maintain the school at documented standards under the P3 model, it should be willing to do the same under the traditional model.” When the auditor corrected for this faulty assumption about the province underfunding public maintenance budgets, he discovered it made a P3 school deal look \$1.7 million better than it actually was.<sup>xxx</sup>

Claims that the private sector is more efficient in operating and maintaining facilities like schools are also questionable, at best. The most recent report of Ontario's auditor general found that hospitals are being gouged by P3 contractors on maintenance work that isn't covered in the original contract.<sup>xxxii</sup> Several hospitals are in long-term disputes with P3 maintenance companies, using dispute resolution methods that are "time-consuming" and "ineffective."<sup>xxxiii</sup>

In Nova Scotia, P3 maintenance deals led to contractors gaming the public system. A 2010 auditor general report found that some developers subcontracted maintenance work back to the school boards at a lower cost than they were charging the province. The auditor estimated that over the 20-year deals, the private sector pocketed the \$52 million difference. The auditor also found some contractors were putting students at risk by using staff that hadn't undergone the required background checks in the child abuse registry and for any criminal record.<sup>xxxiii</sup>

CUPE members working in Alberta P3 schools have reported [significant concerns with design and maintenance](#). In P3 schools, direct school board employees have the same cleaning responsibilities as in regular schools, but maintenance issues are the responsibility of the private contractor – including such routine tasks as replacing light bulbs, setting clocks and going up on the roof to retrieve a ball. CUPE members see this divide between contracted and in-house work creating widespread maintenance issues, cost overruns and safety concerns.<sup>xxxiv</sup>

When the lights in a gymnasium in one school came loose from the ceiling, the contractor indicated they would do repairs "in a month to six weeks." In some schools, board staff have taken back responsibility for services like snow shovelling or re-keying schools, after significant problems with the contractor's service quality and timeliness. In Edmonton, there were electrical problems right from the beginning. In cases where the contractor's work failed inspection, board staff ended up making repairs. The local school board ends up paying twice to get the work done right and on time.

Public control of our schools will ensure community-centred facility design. P3 schools in Alberta drew criticism from school officials for a cookie-cutter approach to design and construction. The superintendent of Edmonton Public Schools at the time [told the media](#) there were "pretty strong parameters around what we could see happen and what would work because they needed to have schools of a very similar design in order for the economy-of-scale and efficiency factor to come into play."<sup>xxxv</sup>

Alberta's 'one-size-fits-all' design has created significant problems. The P3 school design does not include awnings or shades for south or west-facing parts of buildings, often leading to very high (over 28°C) indoor temperatures.

The design has also led to flooding concerns in at least one school, with drainage problems leading to water running into the school. Delays in repairs further complicated this issue and the school board ended up paying more for repairs. Equipment installed in P3 schools has been of lower quality (e.g. PA systems) and some items which appear on the blueprints, like ceiling data plugs, were never installed. In one school, in response to a request to add an outlet for a TV, the

contractor gave an extremely high quote that included an inflated amount for 30 years of future maintenance.

A 2016 study [found](#) that “iconic architecture and design has not been a common feature of PPPs in Canada or globally. The evidence on the architecture of PPPs suggests that PPPs tend to deliver functional, if mediocre architecture, with very few PPP projects globally winning major awards for architectural merit.”<sup>xxxvi</sup>

## **No transparency, unproven claims**

Local and provincial governments, and other public-sector bodies, can borrow money to build infrastructure much more cheaply than the private sector. Even advocates of P3s fully admit this. To sell their plans, P3 promoters justify higher costs by saying privatizing transfers risk away from the public sector, to corporations. They use private consultants to generate reports that place a dollar value on risk transfer and other supposed private-sector advantages. But these numbers don’t stand up to scrutiny.

So-called “value for money” reports are rarely, if ever, publicly released. Private consultants that are part of the P3 industry conduct analysis in ways that favour the private sector, and don’t make their full calculations and assumptions public for independent verification. The entire P3 industry is based on this flawed model. It’s a model that auditors have repeatedly criticized.

In 2014, Ontario’s auditor general reviewed 74 P3 projects, all justified on the basis that they transferred risk to the private sector. She found there was “no empirical data” to back up the decision to enter into a P3.<sup>xxxvii</sup> Billion-dollar decisions were based on unchecked assumptions. The 74 P3s cost \$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.

In 2010, Alberta’s provincial auditor questioned government claims that 18 P3 schools were going to save \$118 million, finding that savings were, at best, overstated by \$20 million. He also highlighted that the claims were never backed up with a value for money report.<sup>xxxviii</sup>

P3s have also gone ahead based on flimsy evidence in Saskatchewan. In 2015, the provincial auditor looked at how crown agency and P3 promoter SaskBuilds was evaluating whether infrastructure projects should proceed as P3s. The auditor noted the risk assessment model used by P3 agency SaskBuilds to justify P3s was deeply flawed, and wasn’t based on actual evidence or past experience with similar projects.<sup>xxxix</sup>

The report found that “participants and external experts made decisions about identified risks, and calculation of related costs based primarily on the results of verbal discussions. Not making information available in writing or maintaining key empirical data makes it difficult to substantiate or scrutinize decisions, particularly those that require a high level of expertise and professional judgement.”<sup>xl</sup>

The Saskatchewan AG also found SaskBuilds had a skewed method of assessing value for money. Benefits and efficiencies that were counted on the private sector side, such as efficient building design or proper facility maintenance, should also have been counted on the public side. At the same time, some risks, such as the additional cost and delay caused by construction changes, were only factored into the public model - not into the private comparator.

As the auditor notes, "these problems may contribute to currently creating a more favorable environment for the use of a P3 approach."<sup>xii</sup> Auditors in Saskatchewan and Ontario have also commented on the potential to enhance and improve public sector procurement, if the substantial planning and assessment resources of provincial P3 agencies were instead focused on conventional projects.

Finally, the private sector likes to claim that the "discipline" of P3s delivers school facilities 'on time and on budget.' In reality, the way P3 promoters measure budgets and timelines is flawed, and is based on shifting goalposts. Lengthy selection and negotiation processes aren't factored into official project start dates, nor is this phase viewed as the delay that it is. Project costs can also rise during this phase, in addition to large and unaccounted for transaction costs - the costs of lawyers, consultants and other outside advisors involved in developing complex contracts.<sup>xiii</sup> All this undermines private sector claims of cost control.

## Can't we "get P3s right" in Manitoba?

Some may argue the P3 model is evolving, and can be adapted to learn from past mistakes in other provinces. This backgrounder has highlighted fundamental flaws in the P3 model, flaws that persist across Canada, and in other countries around the world. A recent study from the Calgary School of Public Policy concluded P3s don't live up to the claims of promoters, and aren't delivering better projects than publicly-procured projects:

"Ultimately, several of the problems common to traditional government PSA [public sector alternative] projects, and supposedly absent from PPP arrangements, are still there, only much harder to discern. The costs can be just as high, if not higher than with a fixed-price PSA, the timeframes can be just as lengthy, when the entire process is accounted for, and the amount of government resources tied up in the negotiation and planning process will often rival that of traditional procurement methods. Furthermore, all those risks that are supposedly transferred to private players are never truly transferred: The government is always the residual risk holder should the consortium somehow fail. From a policy standpoint, the measure of whether PPPs are worthwhile should be based not on whether they come in on time or on budget, but whether they increase social value relative to a PSA. There is, currently, no convincing evidence that they do."<sup>xliii</sup>

Others may argue that a few privatized schools won't do too much damage. But one experiment, even a small one, can be an expensive mistake that costs communities for decades to come. The Auguston School in Abbotsford, BC, was a short-lived P3 experiment in 1999 that failed almost as soon as it began.<sup>xliv</sup> It's the only school developed as a P3 in the province. Years later, the school district is facing repair bills that, according to one report, were close to \$2 million in 2014 (the school cost \$3 million to build).<sup>xlv</sup> Even a study promoting the merits of the Auguston P3 noted the statements of school district staff that, if the project had been managed by the district, it would have been built with a sloped roof. Leaks have been one of the problems plaguing the school.

P3 schools are not just a Canadian problem. Hundreds of schools in England and Scotland have been built as P3s. These Private Finance Initiative, or PFI, schools were financed by expensive private-sector borrowing and are being leased back to governments over lengthy periods. The high cost of privatized maintenance that's built into long-term PFI contracts is threatening school budgets<sup>xlvi</sup>, diverting resources out of classrooms, and hampering progress on curriculum reform.<sup>xlvii</sup> School officials described bills "out of proportion to the goods they had bought," such as CD\$13,800 to install a window blind.<sup>xlviii</sup> School authorities are being locked into long-term contract payments for buildings that are no longer needed.<sup>xlix</sup>

A 2017 investigation into the emergency closure of 17 PFI schools in Edinburgh, Scotland, revealed dangerous flaws in schools across the country<sup>l</sup>, including defective fire-safety materials and hundreds of other safety problems.<sup>li</sup> The schools were closed after a brick wall collapsed at Oxgangs school. The investigation found similar collapses had occurred at other schools due to shoddy construction. An earlier investigation had uncovered that part or whole ownership of more than 200 Scottish PFI schools is held offshore in tax havens, meaning substantial private profits were being sheltered from any taxes.<sup>lii</sup>

## Keep Manitoba schools public

Despite growing concern nation-wide that P3 schools are poor public policy, the Manitoba government has hired KPMG, a private consultant well-known in the P3 industry, to develop a business case for the four new schools. The province's decision to borrow for and operate two new schools in Winkler and Niverville the way governments always have – publicly – shows that P3s aren't inevitable.

It's time to listen to the experience, and the evidence, that P3 schools are poor public policy. Let's work together to stop the provincial government's P3 plans, and build new schools publicly - ensuring public funds are spent efficiently and wisely, and protecting local control with public operation and maintenance.

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Note: All URLs accessed Jan. 24, 2018.

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- <sup>vi</sup> "Alberta government scraps P3 funding model for new schools," *Global News*, June 18, 2014. <https://globalnews.ca/news/1401800/alberta-government-scraps-p3-funding-model-for-new-schools/>
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<sup>li</sup> “‘They’re the difference between life and death’: Flaws in fire prevention at dozens of PFI schools,” *The Sunday Post*, Oct. 15, 2017. <https://www.sundaypost.com/fp/expert-niall-rowan-sounds-alarm-over-scrutiny-of-school-buildings-these-safety-measures-are-not-things-that-are-nice-in-theory-but-not-vital-theyre-the-difference-be/>

<sup>lii</sup> “Revealed: more than 200 Scottish school PFI schemes 'owned by offshore investment funds',” *The Herald*, Aug. 23, 2016.

[http://www.heraldscotland.com/news/14698208.Revealed\\_more\\_than\\_200\\_Scottish\\_school\\_PFI\\_schemes\\_owned\\_by\\_offshore\\_investment\\_funds\\_/](http://www.heraldscotland.com/news/14698208.Revealed_more_than_200_Scottish_school_PFI_schemes_owned_by_offshore_investment_funds_/); and *PPP Profiteering and Offshoring: New Evidence*, European Services Strategy Unit, Oct. 11, 2017. <https://www.european-services-strategy.org.uk/news/2017/ppp-profiteering-and-offshoring-new-evidence-and-updated-essu-ppp-equity-database-1998-2016>