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P3s no Cure for the Infrastructure Deficit

Municipalities were hoping for a long-term plan to eliminate the infrastructure deficit in the 2007 federal budget. What we got instead was a bitter pill wrapped up in sweet promises that will do nothing to cure the infrastructure deficit.

Years of cutbacks and underfunding have created an infrastructure deficit in Canada estimated at $100 billion and growing by at least $2 billion a year. The reason for most of this deficit is not hard to find. If federal and provincial transfers to local governments had kept pace with own-source revenues, local governments would have had $49.5 billion during the 1996 to 2005 period, with $6.5 billion more in 2005 alone.

The gas tax transfer is welcomed, but it isn't indexed to inflation or population growth. This means it will lose about 3% of its real value per person each year, with a loss of 23% over seven years.

Repackaging Infrastructure Funds

The 2007 Budget provided virtually nothing new in infrastructure funding:

- The Building Canada Fund doesn't include any additional funding, but is just a repackaging of currently planned infrastructure funding.

- The only real increase in direct funding was an additional $325 million per year to be divided equally between each provinces and territories, amounting to $25 million each.

The additional funding seemed to be more directed at the complicated attempt to satisfy provinces and territories over the fiscal balance than to address infrastructure needs. For Ontario, it adds up to less than $2 for each resident per year.

Bitter pill of P3s will cost local governments more

Even worse, the federal government announced that municipalities and other proponents would have to fully consider public-private partnerships (P3s) as a condition for receiving funding for major infrastructure projects. This condition will apply to the $8.8 billion in the new *Building Canada Fund* and the $2.1 billion in the gateways and border crossings fund (over 7 years).

In addition, the federal budget spent $25 million to set up a federal office to promote P3s and another $1.25 billion for a national fund to subsidize up to 25 per cent of the cost of "innovative" P3 projects.

Municipalities aren't getting anything more in funding from the federal government, but their costs will increase considerably for a number of reasons.

- The need to demonstrate that they have "fully considered" the P3 option, even when public delivery is known to be more cost efficient and accountable. Simply preparing a P3 proposal can be very expensive for most municipalities, and prohibitively expensive for smaller municipalities.

- Municipalities and other governments generally lack the appropriate tools to evaluate and assess the real cost of P3 options compared with public delivery. Provincial and federal governments have been far from transparent about the methodologies they use for their "public sector comparators". This has spawned a private industry of P3 consultants, but the advice they provide is frequently very biased, adding a wide range of fictitious costs to the public sector costs, and not including the additional administration, legal, supervision, transactions and monitoring costs or the additional risk associated with P3s.

- Inappropriate costing methods mean that municipalities will often choose P3 options when public delivery is less expensive, less risky, more accountable and more flexible. Because of the secrecy and lack of transparency surrounding P3 deals and faulty accounting procedures, the local governments and residents will rarely know how much extra they cost except when there is a default and a thorough public audit.

- P3s and privatized services tend to provide much less in terms of local economic benefits. Wages and salaries are generally cut in favour of profits and higher financing fees that flow out of the community. Reliance on P3s displaces small and medium sized businesses and often reduces the level of private competition. This reduces the capacity of the local community and of local governments to manage public services themselves. The broader social, environmental and economic impacts of projects on local communities are almost never considered as part of these alternatives. P3 projects provide local governments little, if any, flexibility to deal with changing circumstances and needs, such as climate change, to adjust for these wider social and political considerations and to increase these broader public benefits.

- P3s funding is most attractive to the private sector for new projects and new construction. It provides little for the more urgent problem of repairs and maintenance of existing infrastructure. This can bias spending towards new projects that increase local government operating costs in future years.

- A local government may lose its capacity to provide public services after programs are privatized, as a consequence of restrictions created by international and internal trade agreements.

The federal P3 infrastructure initiative doesn't respond to the needs of municipalities, who have told the federal government that they don't want funding tied to these conditions.

Instead the federal emphasis on P3s is responding to the push by large corporations and investment banks to get a much larger piece of the highly lucrative P3 market. Unfortunately, local governments, which are strapped for revenues and face difficult budget choices, and local residents who don't want to pay more in taxes and user fees for less in services, are being forced to pay for this scheme.

Canadian experiences with some P3s

Because of faulty accounting procedures, lack of transparency and inadequate public oversight and accountability, information about the real costs of P3s in Canada is hard to find.

Contracts and deals are too often kept secret from municipal councillors, let alone the public, using the justification of commercial confidentiality. The Ontario Health Coalition had to fight in court for four years simply to get public disclosure of the cost comparison for the Brampton P3 hospital.

Just in the last month, information has come to light about major problems with three more P3s in Ontario:

- Ottawa's Auditor recently revealed that two of the city's five high profile P3s, which the former mayor had recently praised, were already in deep financial problems only a few years into the lengthy contracts.

- The Bell Sensplex facility, owned and operated in part by the successful Ottawa Senators Hockey Club, called for and obtained a $1.4 million bail-out from the city and an extra $225,000 for its operating reserve – despite being provided with debt guarantees, a waiver of all property taxes and development charges, and a revenue guarantee worth over $10.5 million. The bail-out is for 3 years, which leaves another 24 years left in the agreement for future bail-outs from the public purse.
- The Ray Friel Centre was built for $13 million and operated by Serco, a very profitable UK company with most of its business in defence and military contracting. Despite a waiver of all property taxes and development charges, a revenue guarantee from the city worth more than $7 million over 20 years, and sold-out rink time, the scheme failed as a result of faulty accounting and projection. The city had to take over this facility together with its $12 million debt.

- The Brampton P3 hospital cost the Ontario government up to $300 million more than if it were built publicly, based on information released through court and analyzed by Lewis Auerbach, former Director in the office of the Auditor General of Canada.

These join a list of P3s that have gone sour and required bail-outs by local governments, including Hamilton-Wentworth water and sewage, Guelph arena P3, Cranbrook arena, and many others. These are only some of the ones that are known because they have gone seriously wrong.

There are no doubt many other instances where the P3 projects have not failed yet, but local governments are unknowingly paying excessive amounts as a result of opaque deals, inappropriate accounting and faulty cost comparisons. In most cases, unless they go bust, local officials and the public may never know how much more these long-term locked-in P3 deals really cost in comparison with public alternatives.

CUPE Position: more support for local governments and accountability to the public

- Under no circumstances should the federal government impose P3s, or an obligation to consider P3s, on municipal or other governments as a condition of receiving infrastructure or other funding. Local governments are accountable to their taxpayers for the services they provide and understand their community needs and resources. They shouldn't be forced to risk public funds to comply with the ideological bias and private interests of upper levels of government.

- Forcing P3s schemes and the privatization of public services on local governments will not solve the infrastructure problem; it will only make it worse by increasing costs, reducing public accountability and control by elected officials, increasing risks and limiting flexibility.

- Municipal governments need substantially higher transfers and dedicated funds from federal and provincial governments to reverse years of cuts, downloading of responsibilities, and an escalating infrastructure deficit.

- Increased transfers need to be provided as part of a long-term plan to eliminate the infrastructure deficit, develop a comprehensive climate change plan, and a national transit plan.

- Municipal governments must be consulted closely and involved in the development of these plans and other programs that substantially affect them.

- Federal and provincial funding dedicated to P3s and promotional offices create a very unbalanced playing field in favour of P3s and privatization and should be ended.

- The shroud of secrecy and lack of public accountability for P3s and private contracts using public funds must be removed. Public accountability rules, access to information, and powers of public auditors should cover

P3s and contracts to at least the same degree that they cover public organizations and non-profit organizations – particularly since they provide much greater opportunity for fraud and profiteering. Contracts should be posted publicly, with information about company principals and beneficiaries to avoid conflicts of interest.

- Accounting procedures and detailed “public sector comparators” used by governments to assess projects must be made public. Accounting methods should reflect real costs, and not phantom or fictitious costs that make P3s and privatized options appear more attractive. Comparisons should also include a financial and political risk assessment and take account of broader social and environmental factors.

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