Public works best for infrastructure and services

We enjoy good quality of life thanks to public services. Canadians expect their services to be accountable, accessible, locally-controlled and a wise investment of tax dollars.

Privatization undermines these community values. Contracting out and public-private partnerships (P3s) are risky and expensive for municipalities and taxpayers. Costs rise, quality suffers and local control is weakened. Services are less accessible, and projects are delayed. Public funds are diverted from core services to corporate profits.

A growing body of evidence points to traditional public procurement as the best way to finance public infrastructure. This research highlights the economic and social costs to communities of privatization through public-private partnerships.

Among the key findings:

- Private financing costs more;
- P3s lack transparency. Full financial information is not available before a contract is signed – if at all;
- Lengthy P3 contracts bind municipal councils for decades;
- P3s are inflexible. Contract amendments lead to cost overruns or new and increased fees;
- The business cases and value for money analyses used to justify P3s are biased and flawed;
- P3s hamper local control and accountable public governance; and
- P3s compound the problems with international trade agreements.

Despite the evidence favoring publicly financed and operated infrastructure and services, the federal government and several provinces continue to promote P3s through P3 agencies and infrastructure screening processes.

The following is a list of new evidence in support of public procurement and delivery. Links to all documents cited are available at **cupe.ca/fcm/public**

Analysis of the business case for Victoria, B.C. sewage treatment

In this review, forensic accountant Ron Parks assesses the business case developed by Victoria, B.C.'s Capital Regional District (CRD) for a new sewage treatment system. The business case outlines three procurement options (traditional, hybrid or P3) for the region's wastewater treatment needs.

Parks examines how the options were considered. He scrutinizes whether the cost of public procurement was artificially inflated and private costs underestimated, and finds the CRD's business case is built on faulty assumptions and biased calculations.

Parks concludes "there is no reasonable rationale provided" to back up assumptions that public sewage treatment will cost more. In fact, Parks calculates that public operation is actually $116 million cheaper than a P3.

In late March, the region voted for public operation in at least five, and possibly all seven communities covered by the sewage treatment plan.

Source: Capital Regional District ("CRD") Core Area and West Shore Wastewater Treatment Programs *Review of Business Case in Support of Funding from the Province of British Columbia*
By Blair, MacKay, Mynett Valuation Inc.
March 2010
Available in English only.

Analysis of the Canada/U.S. Procurement Agreement's implications for Victoria, B.C. sewage treatment

This review analyzes the impact of the new Canada/U.S. Procurement Agreement (CUPA) on the Capital Regional District's plans for a new wastewater treatment system. International trade lawyer Steven Shrybman explains how CUPA will affect Canadian municipalities, and how P3s compound these harmful effects.

All Canadian municipalities are subject to CUPA. The agreement sets out temporary rules covering municipal purchasing of construction and related services.

CUPA strips municipal governments of their purchasing powers, limiting local initiatives that support community economic development, protect the environment and develop home-grown green technology. The pact opens local procurement policies to legal challenges from U.S. companies. Shrybman finds that the CRD can preserve local control and decision-making power by keeping its wastewater treatment system public.

Source: *Capital Regional District Wastewater Treatment Program; The Agreement between Canada and the United States on Government Procurement*
By Steven Shrybman, Sack Goldblatt Mitchell LLP
March 2010
Available in English only.

Analysis of the problems with P3 hospitals

In this report, Pierre J. Hamel, researcher at the "Institut national de la recherche scientifique" (INRS), examines P3 hospitals. Hamel concludes P3s are too risky for complex projects such as teaching hospitals. He also finds P3s limit competition and are biased towards multinational – not homegrown – corporations. The report expands on Hamel's 2007 work examining P3s in the municipal context.

Source: *Un hôpital en partenariat public-privé (PPP) : un pari trop risqué*
By Prof. Pierre Hamel, Groupe de recherche sur l'innovation municipale (GRIM), INRS-Urbanisation, Culture et Société
March 2010
Available in French only.

Quebec auditor general's review of Montreal P3 hospital

The Quebec auditor general's review analyzes the case behind the choice of a P3 to modernize Montreal's University Health Centres. The report finds the analysis from Quebec's P3 agency does not support the conclusion favouring a P3 over traditional procurement. The auditor questions the methodology used and notes the inherent conflict of interest created when a provincial P3 agency acts as an independent critic while also preparing a value for money analysis.

Source: Report of the Auditor General of Québec to the National Assembly for 2009-2010
November 2009
English summary available. Full document available in French only.

Review of Partnerships BC's assessment model

In this review, Dr. Marvin Shaffer looks at how Partnerships BC, the provincial P3 promotion agency, compares P3s with public financing and procurement.

Shaffer finds that Partnerships BC's assessment ignores the lower cost of public financing, undervalues the future costs of long-term lease obligations in P3 projects, and incorrectly assumes risk transfer is not possible with public procurement.

He concludes that Partnerships BC's methodology "is fundamentally flawed, providing no justification for selecting P3s over more traditionally procured publicly-financed projects."

Source: Review of Partnerships BC's *Methodology for Quantitative Procurement Options*
By Dr. Marvin Shaffer, Adjunct Professor, Simon Fraser University Public Policy Program
November 2009
Available in English only.

Analysis of the financial crisis and P3s

This paper looks at how tighter credit conditions affect the economics of P3 financing. Economist Hugh Mackenzie writes that P3s were a bad deal before the financial crisis, and are even more expensive now.

Traditional infrastructure procurement has always been cheaper because the public sector can borrow money at lower interest rates than the private sector. Mackenzie's report illustrates how the recent financial crisis has led to higher private-sector borrowing costs and an even wider spread between public and private sector borrowing rates.

The risks associated with P3s have also increased. Tighter credit conditions make refinancing of existing P3s more difficult, creating serious financial problems and instability for infrastructure projects.

Source: *Bad Before, Worse Now - The Financial Crisis and the Skyrocketing Costs of Public Private Partnerships (P3s)*
By Hugh Mackenzie
June 2009
Available in English only.

Resource guide for local governments examining P3s

This guide, published by the Columbia Institute's Centre for Civic Governance, is a resource for local officials. It provides comprehensive background and information on P3s for a municipal audience.

The guide concludes that experience proves P3s don't deliver. Long-term contracts are negotiated behind closed doors, using faulty financial information. The guide finds that "these long-term contracts essentially mean that the hands of future governments are tied, even in the face of changing circumstances and emerging issues."

Source: *Public Private Partnerships: Understanding the Challenge. A Resource Guide*
Columbia Institute Centre for Civic Governance
June 2009
Available in English and French.

The evidence is clear: there is a better way. When services are publicly delivered for public benefit, they deliver a solid, reliable foundation Canadians can count on. Privatization is not in the public interest.