Solid foundation: A COVID-19 recovery built on public infrastructure

Summary

The COVID-19 pandemic has triggered twin economic and public health crises in Canada and around the world. Rapid and drastic changes to limit the spread of COVID-19 have brought into sharp focus the importance of public services and facilities as the key to an effective pandemic response. The last few months have also highlighted the devastating consequences when these services and supports are weakened by cuts and privatization. As the federal government develops plans to use infrastructure investment to restart the economy and rebuild after the crisis, it must heed the evidence that privatization is the wrong prescription for our country's economic and social health.

Federal Minister of Infrastructure and Communities Catherine McKenna is developing a plan to boost the economy by speeding up more than $180 billion in infrastructure spending already budgeted between now and 2028. She has also announced that the Canada Infrastructure Bank (CIB), which allows corporations to profit from privatized infrastructure, will play a major role in this economic stimulus. This is a risky move that takes our country in the wrong direction.

The costs of privatization

Most CIB projects are expected to be developed as long-term privatization deals known as public-private partnerships (P3s). The CIB is mandated to use $35 billion in public funds over 11 years to leverage the private financing, ownership and operation of revenue-generating green infrastructure projects like renewable power and water and wastewater systems, as well as public transit, roads and bridges, and broadband projects.

Developing infrastructure projects as P3s will not provide the support local and provincial governments need and won't deliver a critical boost to the economy. Instead, P3s will lock governments into long-term contracts with corporations that can double infrastructure project costs over 30 years. These decades-long privatization deals are expensive, risky and unaccountable.

Research shows that P3s:

- **Delay infrastructure projects** because of lengthy timelines to plan and negotiate 20 or 30-year contracts that cover financing, maintenance and operations.
- **Drive up project costs** by using expensive private financing rather than public sector financing that is available at historically low interest rates.
- **Are now even riskier due to COVID-19,** with user-pay P3s experiencing plummeting usage and revenue.
- **Rely on flawed assumptions** about risk being transferred to the private sector.
- **Have higher transaction costs** because of complex legal, financial and corporate arrangements.
- **Cost the public more** through new or increased user fees, fares or tolls to use the services or infrastructure.

- **Benefit large corporations** instead of local or regional businesses. Only large corporations have the capacity to enter into P3s.
- **Reduce accountability and transparency** because contracts are protected by commercial confidentiality, leaving the public unable to assess the true costs.

A public plan benefits everyone

Canada's economic stimulus plan must rely on the overwhelming evidence that fully public infrastructure projects provide the most benefit to workers, communities and the economy. The federal government has the fiscal room to provide non-repayable grants or low-cost financing to provinces and municipalities, capitalizing on borrowing costs far lower than those of the private sector.

Infrastructure spending should go toward building or repairing the structures and facilities our communities need, not toward high long-term debt repayment, expensive private maintenance and operations, and unnecessary transaction costs. Privatization is not a wise use of public funds. Cutting out private financiers, corporations and consultants will allow more money to reach communities, not corporate shareholders.

The already-committed $180 billion in federal funding will help address a Canadian infrastructure gap estimated at up to $570 billion.[1] Investing in public projects more than pays for itself. Over the short term, Gross Domestic Product – a key measure of our economic health – rises $1.43 for every dollar of public infrastructure spending. Every million dollars spent creates more than nine jobs.[2] Adding to the benefits of public investment, infrastructure that is built or repaired will strengthen the vital network of structures and facilities that support and enhance our communities in the long term.

Infrastructure stimulus spending must address the ongoing legacy of colonization and underfunding of services and infrastructure for Indigenous peoples. First Nation communities alone face an infrastructure deficit as high as $30 billion including housing, water and wastewater and health facilities.[3] Further, the infrastructure gap affecting Inuit communities requires a major investment in infrastructure such as child care centres and social and transitional housing, in addition to telecommunications infrastructure.[4] Indigenous peoples deserve the same quality public services and infrastructure as everyone else in Canada, including reliable access to clean and safe drinking water. The federal government has an opportunity with stimulus infrastructure spending to address chronic neglect and injustice in Indigenous communities.

The federal government needs to ensure infrastructure stimulus spending gets out the door quickly, addresses shortcomings identified by the COVID-19 pandemic, and positions Canada for the future. Privatization does not meet any of these tests. A public recovery led by the federal government must:

- **Invest in public projects** by providing grants or low-cost public financing for infrastructure projects.
- **Streamline investments** to ensure needed infrastructure spending gets out the door, while ensuring safeguards are in place to ensure communities and equity-seeking groups benefit.
- **Prioritize green investments** that are publicly owned and operated, such as renewable energy.
- **Increase the federal share of project costs** to reflect the fact that provinces, territories and municipalities are under extreme financial pressure.

- **Prioritize social infrastructure** in areas such as child care, long-term care and social housing where a predominantly female workforce has been disproportionately affected by the COVID-19 crisis.

These principles will help ensure post-pandemic infrastructure projects are both 'shovel-ready' and 'shovel-worthy,' and will strengthen and expand the bedrock of facilities, networks and services that everyone needs during the recovery and beyond.

Backgrounder

In Canada and around the world, decades of austerity, social security cuts, and privatization have damaged public institutions and undermined the ability of governments to plan for and respond to a disaster like the current pandemic.

The public health and economic crises precipitated by the COVID-19 pandemic clearly demonstrate the importance of public services and infrastructure to an adequate and effective response. As the federal government moves to make infrastructure investment part of its recovery plan, it must heed the evidence that privatization is the wrong prescription for our country's economic and social health. Instead, governments must lay a foundation that builds a better, more equitable future.

Federal Minister of Infrastructure and Communities Catherine McKenna is developing a stimulus plan to speed up the more than $180 billion in infrastructure spending already budgeted between now and 2028. The minister also announced that the Canada Infrastructure Bank (CIB), which allows corporations to profit from privatized infrastructure, will play a major role in economic stimulus.[5] Most of the CIB's projects are expected to be developed as long-term privatization deals known as public-private partnerships (P3s). The CIB is mandated to use $35 billion in public funds over 11 years to leverage private financing, ownership and operation of revenue-generating green infrastructure like renewable power and water and wastewater systems, as well as public transit, roads and bridges, and broadband projects.

The federal government recently appointed Michael Sabia as chair of the CIB board. Sabia is the former CEO of the Caisse de dépôt et placement du Québec (CDPQ), which manages the funds of the Quebec Pension Plan and other smaller public plans. Sabia advanced major privatization projects while at the Caisse, including the CIB's first project: the Réseau express métropolitain (REM). The REM has been criticized for its climate change impacts, lack of transparency, real estate profiteering, and high costs.[6] Transit users may face higher fares to use the privatized system,[7] and decisions about the route, technology and compatibility with existing transit lines have been driven by corporate interests rather than the public interest.[8]

A recovery plan that relies on privatized infrastructure projects will not provide the support local and provincial governments need and won't deliver the boost our economy needs.

Well-documented P3 problems

P3s lock governments into long-term payments for private financing, maintenance and operations as well as construction costs. High private sector borrowing rates alone can double the cost of infrastructure projects over 30 years. The COVID-19 crisis has highlighted risks associated with P3 projects that will likely further drive up financing and project costs.

P3s will not provide the support workers and communities need during and beyond the COVID-19 recovery. The private sector has always played an important role in public procurement through the design and construction of infrastructure. This can and should continue. However, extending that role into infrastructure financing, service delivery and management redirects public funds to large corporations and investors, and away from workers and communities.

Project delays

P3s have a lengthy planning and negotiation period before contracts are signed and construction can begin. This would automatically disqualify projects developed as P3s from 'shovel-ready' status unless planning and negotiations are at an advanced stage. Public procurement of construction projects speeds up the economic and job-creation benefits of infrastructure investment, as these contracts have a reduced scope over a shorter time frame, which simplifies the planning process.[9]

In contrast, P3s have extensive legal and financial structures that lay out responsibilities, allocate risks and set financing terms, in addition to stipulating the design, construction and maintenance or operations requirements for public services and infrastructure for decades, often 20 or 30 years. The *Routledge Companion to Public Private Partnerships* notes, "All this can make tendering cost high and tendering time extremely long, creating an additional cost for society in terms of delayed provision of the public service."[10] The UK National Audit Office, writing about Private Finance Initiative (PFI) projects, the UK equivalent of P3s, notes:

"*A PFI transaction is one of the most complex commercial and financial arrangements which a procurer is likely to face. It involves negotiations with a range of commercial practitioners and financial institutions, all of whom are likely to have their own legal and financial advisors. Consequently, procurement timetables and transaction costs can be significantly in excess of those normally incurred with other procurement options*."[11]

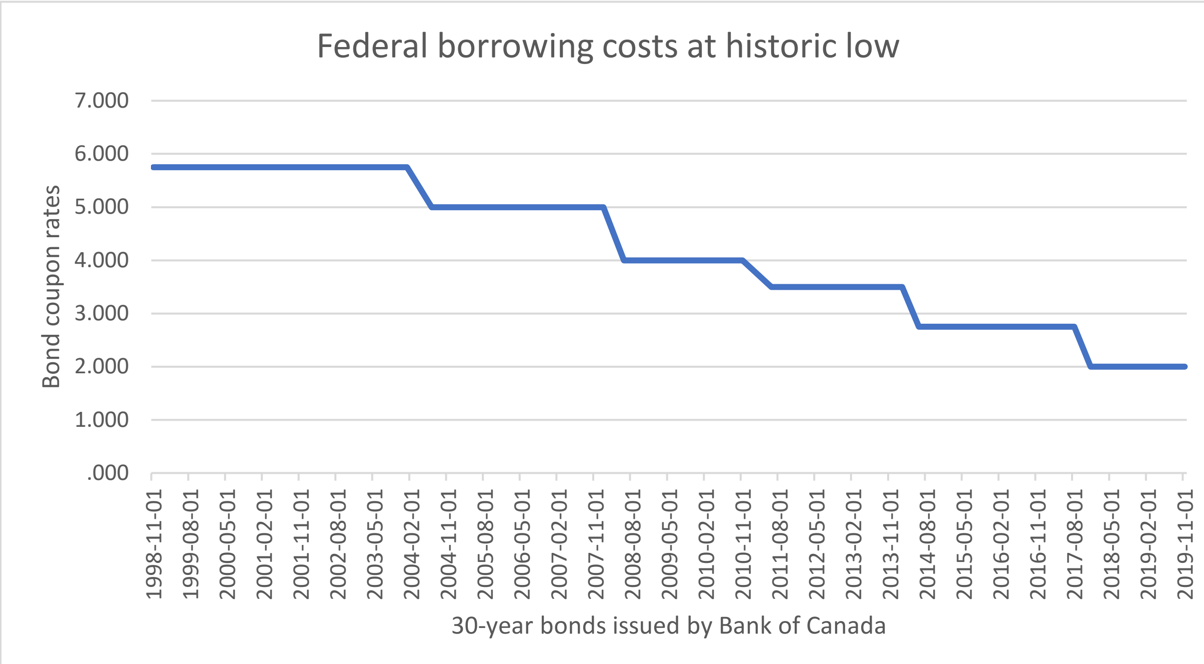
The P3 model won't provide the short-term economic boost that stimulus spending aims to deliver.

Expensive private financing

The federal government can borrow money at historically low interest rates in order to provide non-repayable grants or affordable financing to Canadian provinces and municipalities for infrastructure projects. Alternatively, the government can push costly private sector financing involved in P3 projects that can double total infrastructure project costs over 30 years.

The COVID-19 crisis will likely make P3s riskier and more expensive. With global financial markets in turmoil, investors may be hesitant to invest in infrastructure, or will demand a significant increase in returns to reflect additional perceived risk.[12] Reports are emerging of the postponement of infrastructure mergers, acquisitions and financing activities.[13] The Infra300 index, which tracks 300 unlisted infrastructure companies, has shown a 6.37 per cent decrease in returns for the first quarter of 2020.[14]

At the same time, the federal government can borrow money to fund or finance infrastructure projects directly at two per cent for a 30-year term.[15] Federal borrowing rates have been at a historic low since 2017, making direct federal support for infrastructure a smart, affordable choice.



Before the pandemic, private investors were expecting returns of between seven and nine per cent for infrastructure investments, according to Michael Sabia in his former role as CEO of the CDPQ.[16] Prequin, an investment data company, noted private investment in infrastructure was delivering an average 10 per cent return in any given year.[17] These rates were increasing to between 12 and 18 per cent for telecommunication infrastructure and 14 to 20 per cent for merchant power generation, according to J.P. Morgan Asset Management.[18] In her review of 74 P3s, Ontario's auditor general found that higher private financing alone meant the projects' cost $6.5 billion more than publicly procured projects.

	Public sector financing	**Private sector financing at 7%**	**Private sector financing at 9%**
Interest rate	2%	7%	9%
Amount borrowed	100,000,000	100,000,000	100,000,000
Total interest paid	$33,063,010	$139,508,898	$189,664,142
Total project cost	$133,063,010	239,508,898	289,664,142

A 2017 report showed the private financing required for CIB projects would lower government deficits in the short term, but dramatically increase costs to governments and the public over the long term.[19] Private financing at a nine per cent rate of return would double the total cost of an infrastructure project over 30 years. As the table above shows, even a seven per cent private sector rate of return, the lowest end of the range cited by Sabia, would more than double project costs.

Private sector financing rates may increase even further to reflect the economic turmoil and increased risks associated with the pandemic.

COVID-19 increasing P3 risks

The pandemic is increasing the risks of private infrastructure investment in many ways.[20] Like most areas of the economy, the effects of COVID-19 are placing significant pressure on supply chains, the workforce and cash flow for P3 consortiums.[21] The pandemic has highlighted who ultimately bears the risk in many privatization arrangements, as governments must ensure public services and infrastructure continue to function even if P3 consortiums are in financial difficulty.

It is possible *force majeure* clauses in P3 contracts, which allow the parties to not fulfill contractual duties and obligations because of events beyond their control, will be activated as a result of the COVID-19 pandemic.[22] For example, the corporations operating the 42 km A-30 toll highway in Quebec triggered the *force majeure* clause in their contract, seeking compensation for lost revenue due to the province's state of emergency declaration, which eliminated tolls throughout the province for two months, ending May 25.[23]

A March 2020 World Bank blog about the impact of COVID-19 advises governments to provide a number of supports for privatized infrastructure, including issuing financial guarantees that debt will be repaid for all infrastructure projects. It also recommends governments make payments to consortiums that have seen revenue drop because infrastructure use has declined.[24] The user-pay P3 model, where infrastructure users pay through tolls or user fees for access to roads, public transit, airports and maritime ports, will likely be most affected by this crisis as many have experienced plummeting usage.[25]

The Canada Infrastructure Bank is mandated to prioritize revenue-generating user-pay P3s. Bank documents state the "CIB model is aimed at mobilizing and leveraging private sector and institutional investment and attaching the financial returns to the usage and revenue risk of infrastructure projects."[26] The user-pay P3 model is different from most P3s in Canada where the government pays investors directly from general revenue raised through taxation.

Despite the CIB's mandate, investors in Canada have shown they are unwilling to accept much revenue risk inherent in user-pay P3s.[27] For example, in one of the rare P3s that transfers some degree of revenue risk, only 10 per cent of the Vancouver-based Canada Line LRT's P3 payments are based on achieving ridership projections. It is unclear whether these payments to the P3 consortium are continuing during the pandemic, with an 86 per cent drop in ridership levels on the transit line in April 2020.[28]

The COVID-19 crisis will likely heighten the risks associated with the user-pay P3 model. This will lead to either private sector demands for higher profit margins or the public sector assuming increased risk. Governments will have to pay corporations even more to guarantee profits and minimize risk, leaving less funding available for the public infrastructure and services our communities need.

Justified using unsupported risk transfer claims

The decision to use a P3 is generally based on assumptions about risk being transferred from the public to the private sector, with the private sector compensated for shouldering these risks. However, claims that risk is transferred, and that the private sector is better at managing risks, do not hold up. There are many examples of P3 delays, cost overruns and technical problems.[29] Many researchers and auditors have highlighted the flawed or exaggerated assumptions used to calculate the value of risk that is transferred in P3 contracts and have questioned whether risks are in fact transferred to the private sector.[30] These risk transfer assumptions are generally cloaked in secrecy and difficult to independently verify. As the CIB potentially ramps up its role, the bank is aiming to de-risk projects for private sector investors, further throwing risk transfer assertions into question.

There is little evidence to support the assumption that the private sector is better than the public sector at managing risk. Both P3s and publicly procured projects experience delays and cost overruns. The Champlain Bridge P3 project was completed late while the P3 Gordie Howe Bridge will go over the initial amount budgeted.[31] In another recent example, Ottawa's P3 light rail project was severely delayed and has had serious technical issues since its launch, forcing the city to bring buses back into service.[32] The Eglington Crosstown light rail P3, will be at least two years late and no less than $500 million over budget.[33]

The assertion that P3s are delivered "on time" and "on budget" compared to public projects lacks evidence. Boardman et al. note that the comparison of "on-time" and "on-budget" between conventional public procurement and P3s is flawed. P3s do not eliminate cost inflation and delays. In many cases, these issues occur during lengthy negotiation and project-planning phases, and so are rarely publicly reported.[34]

Ontario's auditor general has noted that public sector procurement can manage risks covered by P3 contracts at a lower cost by using a properly structured contract, sound planning and effective management[35] Boardman et al. note that in conventional public procurement, where the private sector designs and builds projects, much risk can be transferred to the private sector through fixed-price contracts.[36]

The public sector bears the ultimate risk for ensuring the infrastructure and associated public services continue to operate, as demonstrated by the 2017 bankruptcy of UK-based services corporation Carillion. The UK government had to ensure school children were fed, laundry was processed, and prisons were staffed after the bankruptcy, all functions included in Carillion P3 contracts.[37]

Auditors general and many experts have long questioned risk assumptions in value-for-money (VfM) analyses comparing public and P3 projects. Boardman et al. note a number of problems with these assessments. Transaction costs tend to be underestimated and risk transfer measures aren't accurate. In addition, assessments don't compare similar projects, and often use inappropriate discount rates to downplay the current dollar value of future P3 spending. The researchers also note these VfM analyses are rarely based on independent evidence from past projects.[38]

Many auditors general have arrived at similar conclusions. The Ontario auditor general's 2014 review of 74 P3 projects found there was no empirical data to back up the key assumptions Infrastructure Ontario, Ontario's P3 agency, used to assign costs to specific risks. Yet it was the "costing" of risks that ultimately guided the choice between public and P3 procurement.[39]

A 2018 federal audit of the Champlain Bridge P3 found risk evaluation was not supported by historical data from previous projects, which is recognized as a best practice. The risks of late completion and construction cost overruns were also not properly evaluated. The audit found "the value-for-money analyses were of little use to decision makers because they contained many flaws favouring the P3 model."[40]

In 2011, New Brunswick's auditor general reviewed two school P3s and found the government did not use costs of previous school construction projects to determine whether risk costs were reasonable.[41] In 2010, Alberta's auditor general reviewed a government decision to build 18 schools as P3s and[42] that risk costs were based on anecdotal evidence. In 2015, Saskatchewan's provincial auditor found that the risk assessment model used by crown agency and P3 promoter SaskBuilds to justify P3s was deeply flawed. Public and private sector participants in a workshop to determine risks were not provided so they could "review, consider, and challenge the information presented and use it to inform their decisions."[43]

A 2018 Columbia Institute study notes, "Curiously, projects in the same sector do not carry the same amount or even similar amount of risk".[44] For example, provincial P3 advisory agency Partnerships BC assigned one hospital project a 6.9 per cent risk adjustment while another had a 16.2 per cent adjustment.[45]

Even with the non-scientific nature of risk valuation, the private sector will always seek to carry as little financial risk as possible in P3 projects. As the federal government looks to the CIB to play a role in post-pandemic infrastructure projects, the bank will likely take on a larger share of risk and a lower share of returns, reducing overall risk for private sector investors. The bank's third quarter financial report notes, "To crowd-in private sector and institutional investment, support may be provided at below market rates, more flexible terms or on a subordinated basis." The bank's disproportionate share of risk can be viewed as a government subsidy for private infrastructure investors.[46] For example, with the REM transit project in Montreal, the bank is providing a $1.28 billion loan starting at a below-market one per cent interest rate, rising to three per cent over the 15-year term. Compare this with the eight to nine per cent return for CDPQ, the project's private sector investor.

Governments are choosing expensive P3s based on unreliable risk transfer assumptions. Public infrastructure procurement with proper planning and sound management will deliver the best results for stimulus spending.

High transaction costs

Beyond the higher cost of private financing, P3s have a multitude of other higher costs compared to public procurement. The average transaction costs for P3 projects are 3.5 per cent, twice the 1.7 per cent rate for conventional projects.[47] Transaction costs include deal structuring and closing costs, contract negotiation, staff time to monitor performance and meet with contractors, data collection, external audits and dispute resolution .[48]

The complex nature of P3 procurement requires the public sector and potential bidders to make greater use of consultants and advisors such as legal, auditing and financial firms than would be needed for a public project. Virtually all P3 projects are developed and operated through special purpose vehicle (SPV) corporate structures. A UK report notes that the management and administration fees for SPVs amount to between one and two per cent of total P3 payments.[49] This money is lost to communities.

P3s also involve increased insurance costs, whereas governments can self-insure. P3 insurance rates can be as high as 20 per cent.[50] Depending on the contract, P3 corporations may have third-party liability insurance, construction "all risk" insurance, or environmental pollution liability insurance.[51] One industry commentator notes that recent large insurance claims for P3s have made the P3 insurance market more challenging.[52]

These additional costs make P3s an expensive procurement model. The federal government should ensure stimulus spending benefits communities and workers rather than the corporations and consultants that profit from P3s.

Cost the public more

The user pay P3 model gives the private sector the right to earn money by charging people bridge or road tolls, transit fares and water or energy fees. These public services are natural monopolies. There is usually only one service provider and no market or competition. This can lead to fare or rate increases to bolster corporate profits. In some cases, privatization contracts will dictate a minimum revenue guarantee that obliges the public sector to pay for any shortfalls if the forecasts used to estimate investor profits, such as the number of people using a public service, are not met.

Highway 407 in Ontario illustrates how privatization increases costs for the public. In 1999, the provincial Conservative government leased the highway to the 407 International Inc corporation for $3.1 billion, a fraction of its value, for 99 years. Two decades later, SNC-Lavalin sold 10.1 per cent of its stake in the highway to the Canada Pension Plan Investment Board for $3 billion,[53] putting the total value of the highway at over $30 billion. In 2018 alone, 407 International Inc reported revenues of $1.4 billion.[54]

Under the privatization deal, as long as the highway is used by a certain number of drivers, the corporations are free to increase tolls.[55] Despite the public funds which paid to build the highway, drivers have seen tolls increase more than 300 per cent since it opened. The approximate rush hour cost of travel from Burlington to Pickering is now over $40 one way.[56] This escalation in toll rates led to several unsuccessful government lawsuits seeking to lower rates.[57] High tolls paid by the public and high profit margins for the corporate owners can be expected for the remaining 78 years of the lease.

The CIB is pursuing user-pay P3s as part of its mandate to invest in revenue-generating infrastructure and has in fact held up Highway 407 as a model project.[58] Tolls and user fees are regressive, which means lower and middle-income earners pay a larger share of their income for these fees than higher-income people. A 2016 Department of Finance briefing note advised senior officials that “Typically, user fees are regarded as regressive since the same fee is charged to all users regardless of their income.”[59] A move to user-pay P3s will shift infrastructure costs away from Canada’s tax system, where individuals contribute based on their income level, to fees and tolls that most affect those who can least afford to contribute – lower-income and working-class people. Higher user fees for water or energy, tolls for transportation infrastructure, and transit fares are not in the public interest.

Favouring large multinationals

The harmful effects of P3s cascade through a community’s economy, sidelining local businesses and contractors. The scale of most P3 projects means only large firms can raise the capital necessary to bid on them. These large firms are often multinational corporations based outside the community or even the country where the project is located. Profits generated for the private partner through direct government payments or user fees leave the community instead of supporting the local economy.

In her 2014 report, Ontario’s auditor general notes “the AFP [P3] market in the province is dominated by a few large players. There are only a limited number of firms equipped to handle large complex projects.” The auditor’s review found that five general contractors were awarded over 80 per cent of 56 P3 projects that were completed or under construction.[60] This market dominance by a few large corporations hurts smaller and mid-sized local or regional companies.

Recognizing this reality, in 2012 the British Columbia Independent Contractors and Business Association, an organization generally supportive of privatization, objected to the bias toward large firms in P3 projects brokered by Partnerships BC. The CEO of the Vancouver Island Construction Association echoed this complaint by stating that "the way [Partnerships BC] puts projects together for the government prevents local small and medium sized construction firms from getting any of the work."[61]

While Partnerships BC has not facilitated any new P3 contracts under the current NDP government, these standard P3 practices persist in British Columbia and elsewhere. P3s are squeezing out small, local contractors that rely on local work.

P3 projects are usually steered by a consortium of firms, generally a combination of multinational and regional companies. The Rideau Transit Group, for example, is responsible for Ottawa's light rail project and includes large corporations such as SNC Lavalin and Alstom, as well as local firms such as bbb Architects.[62] The bulk of the capital in P3 projects, however, is still raised by the large, multinational firms. For example, the three equity partners of the Rideau Transit Group, ACS, EllisDon, and SNC Lavalin, are all based outside Ottawa.

On the ground, construction work will often be done by a local workforce subcontracted by the larger firms. EllisDon, for example, subcontracts approximately 95 per cent of the work in their largest projects.[63] This practice further distances the project from accountability, and often has serious implications for working conditions. The Rideau Transit Group is facing at least four multi-million-dollar lawsuits from subcontractors making a variety of claims including outstanding payments and worksite negligence.[64]

P3s can also involve equity flipping where ownership shifts between multinational infrastructure corporations during the 30-year contract. Multinational equity sales create instability for the public services being delivered and often result in reduced taxes paid to Canadian governments as many global infrastructure investors are located offshore and in tax havens.[65]

The total value of global P3 equity transactions was $29.1 billion in 2016, a 42.5 per cent increase in less than four years.[66] Canadian P3 equity stakes are being sold to corporate entities as part of these markets. There have been 30 P3 equity sales in Canada.[67] More of these sales are expected as P3s complete the riskier construction phase and enter 20 year or longer lucrative maintenance and operations contracts. In one case, the equity and loans for the Kelowna and Vernon Hospitals were sold to Bilfinger Berger Global Infrastructure, which is registered in Luxembourg, a European tax haven.[68]

These types of corporations have profit maximization, not quality public services and infrastructure, as their priority. They aren't the local or regional businesses that should be supported with infrastructure stimulus spending.

Secrecy and lack of transparency

P3 proponents and participants often claim that projects are transparent and accountable, because they involve competitive bidding and outside review. Performance assessment is also heralded as accountable, because the measures are set by legal contracts with penalties for sub-optimal performance.

In practice, P3 contracts are shrouded in secrecy, protected by federal and provincial access to information and freedom of information laws that exempt huge amounts of corporate data from public disclosure. In particular, the value for money assessments and financial assumptions used to justify a project are often fully exempted from disclosure. This diminishes accountability, since P3s are often justified solely by claims they provide greater value for money than public projects. The lack of transparency makes it difficult for the public to accurately evaluate the true costs and actual value of a P3.

When CUPE and independent evaluators like auditors general and researchers do gain access to P3 project details, the facts repeatedly show they cost more than public projects and don't deliver value for money.[69] For example, the Columbia Institute's 2018 review of 17 P3 infrastructure projects in British Columbia found the government overspent by at least $3.7 billion compared to what publicly-procured projects would have cost.[70]

P3s usually involve the private sector delivering a public service, making transparency vital to ensure the service remains accessible, high quality, and free from corruption. However, even critical municipal utilities have been removed from public scrutiny. In Mapleton, Ontario, where the Canada Infrastructure Bank hoped to launch a broader push to privatize water and wastewater services,[71] the municipal council held its deliberations on the P3 project almost exclusively *in camera*, with none of the public consultations or open hearings that should be expected in a project with such important implications for the community.[72] In addition, crucial financial assumptions in the business case prepared by PricewaterhouseCoopers were blacked out, making it difficult to independently assess the justifications for using a P3.[73] In July 2020, Mapleton municipal council decided to abandon the P3 project in favour of public procurement.[74] In Ottawa, members of the city council fought to access procurement records for the second phase of the city's troubled P3 LRT project for almost two years after the contract was signed[75]

CUPE and our counterparts have submitted access to information requests for records associated with P3 infrastructure projects, all of which receive substantial public payments. Some requests were outright denied, while the expansive scope of redactions in other responses made it impossible to evaluate the project or the process of choosing the P3. In the case of a request to Infrastructure Canada for reports and analyses justifying the commitment of $1.28 billion in public funds to the REM transit project in Montreal, 99 per cent of the records released were redacted.[76] This practice defeats the purpose of access to information laws and makes accountability for P3 projects virtually impossible to achieve.

All funds channeled through the Canada Infrastructure Bank, and bank projects, will be shrouded in secrecy. The legislation creating the bank includes overly broad prohibitions on disclosure and adds the bank to Schedule II of the *Access to Information Act*,[77] further limiting public access to information. The bank's private investors and the bank itself will be shielded from public scrutiny. A 2017 report from the Columbia Institute outlines the unanimity among Canadian and international information and privacy commissioners on the need for transparency and disclosure, stating that "When citizens are blocked from knowing the details of government operations it undermines both the accountability of government and democracy itself."[78] This statement applies equally to corporations receiving public funds to deliver public services or infrastructure. The report recommends that "private entities delivering substantial public functions or services, or receiving substantial government funding to carry out public functions or services, should be subject to access to information legislation."

A stimulus plan for a better future

Canada's economic stimulus plan must rely on the overwhelming evidence that public infrastructure projects provide the most benefit to workers, communities and the economy. The federal government has the fiscal room to provide non-repayable grants or low-cost financing to provinces and municipalities, capitalizing on borrowing costs far lower than those of the private sector. Cutting out private financiers, corporations and consultants will allow more public funds to benefit workers and communities, not corporate shareholders.

Infrastructure spending should go toward building or repairing the structures and facilities our communities need, not high long-term debt repayment, expensive private maintenance and operations, and unnecessary transaction costs. Privatization is not a wise use of public funds. It siphons money from our communities to corporate shareholders.

The already-committed $180 billion in federal funding will help address a Canadian infrastructure gap estimated at up to $570 billion. Investing in public projects more than pays for itself. Over the short term, Gross Domestic Product – a key measure of our economic health – rises $1.43 for every dollar of public infrastructure spending. Every million dollars spent creates more than nine jobs. Adding to the benefits of public investment, infrastructure that is built or repaired will strengthen the vital network of structures and facilities that support and enhance our communities in the long term.

Infrastructure stimulus spending must address the ongoing legacy of colonization and underfunding of services and infrastructure for Indigenous peoples. First Nation communities alone face an infrastructure deficit as high as $30 billion including housing, water and wastewater and health facilities.[79] Further, the infrastructure gap affecting Inuit communities requires a major investment in infrastructure such as child care centres and social and transitional housing, in addition to telecommunications infrastructure.[80]

Indigenous peoples deserve the same quality public services and infrastructure available to everyone else in Canada including consistent access to clean and safe drinking water. The federal government has an opportunity through stimulus infrastructure spending to address the chronic neglect and injustice regarding infrastructure in Indigenous communities.

The COVID-19 pandemic has reinforced the role that public services and infrastructure should play in protecting the health, safety and well being of Canadians. The federal government's commitment to infrastructure spending in the COVID-19 recovery can position Canada for the future to address climate change, enhance and expand social infrastructure, and promote inclusion.

CUPE recommends the federal government use the following principles to guide post-pandemic infrastructure spending plans.

Invest in public projects: The mandate of the Canada Infrastructure Bank should be modified to provide grants or low-cost loans directly to provinces or municipalities for infrastructure projects. The requirement for infrastructure projects to be revenue-generating should be eliminated. The private sector plays an important role in the design and construction phase, but should not own, lease, finance, operate or maintain public infrastructure. A large body of Canadian and international research confirms P3s do not deliver value for money, innovation or better design, and often come with higher user fees.[81] No private entity should make a profit from the critical infrastructure and services that Canadians rely on, and the benefits of economic stimulus spending should flow to workers and their communities. The global trend, after years of privatization failures, is to invest in fully public infrastructure and services.[82]

For example, the federal government should fund high quality, affordable broadband as a public utility. The COVID-19 pandemic has highlighted how the private sector is unwilling to make the infrastructure investments necessary to ensure broadband service throughout the country, particularly in rural areas and the north.

Support social infrastructure: Federal infrastructure stimulus spending should prioritize building new facilities that provide the social infrastructure that supports communities, including hospitals, long-term care homes and child care centres. The federal government should balance investments in physical infrastructure with investments in social infrastructure and services that support economic activity. This sector is often overlooked. Long-term care, child care, social housing, public transit, recreation and cultural facilities, and other social support services are vital for healthy communities.

Social infrastructure must be built using conventional public procurement, and services must not be operated at a profit. The consequences of leaving social infrastructure services to the for-profit sector are often disastrous, as demonstrated by the disproportionate toll that COVID-19 is taking in for-profit long-term care homes.[83] The federal government should bring long-term care under the *Canada Health Act*, making it a publicly funded and delivered health care service accessible to everyone. Our social infrastructure should be public, and robustly funded.

Social infrastructure investments will also help address the unequal impact of COVID-19 on women and racialized workers. Women workers accounted for two-thirds of initial job losses despite making up just under half of the workforce.[84] Stimulus measures should reflect an intersectional and gender-responsive approach to the COVID-19 recovery. This includes investment in public health care and building a universal public and non-profit child care system, both of which have positive impacts in terms of job creation, equity and economic growth.[85] Stimulus spending should also prioritize investments in Indigenous-controlled social infrastructure facilities and services in order to address chronic underfunding.

Green investments: Infrastructure stimulus investment should play a significant role in the shift to a sustainable economy. The federal government should build publicly owned and operated green infrastructure and support the transition to renewable energy. Some projects should involve transformative infrastructure development, such as public transit or publicly owned renewable energy production and electrical grid expansion. Other projects should be smaller scale to speed up infrastructure spending. For example, stimulus spending could support municipal workers replacing lead pipes located on municipal and privately owned land, using technology to detect water leaks so they can be repaired by municipal workers, or retrofitting public buildings to promote energy efficiency. The government should not spend public money supporting the fossil fuel industry, unless it is to assist with a just transition for workers or to mitigate environmental damage, such as supporting the clean-up of abandoned wells and tailing ponds. In cases where corporate pollution or dereliction necessitates environmental remediation, the government should ensure every effort is made to make the defaulting company fund the work.

Streamline infrastructure investments: Infrastructure spending is one of the most effective ways to spark economic growth. The federal government should remove as many barriers as possible to access funding from previous budgets and any future funding, without weakening environmental protections, community benefits agreements or financial regulations, as some industry groups have requested.[86] Infrastructure spending in the 12-year Investing in Canada plan[87] should be front-end loaded to provide the economic boost workers and communities need in the short-term. This may require the federal government to negotiate new or exceptional terms in bilateral agreements with provinces and territories. Work can also begin with local governments and municipal organizations to identify projects that are ready to proceed. Measures to increase equity such as the hiring and training of women or Indigenous peoples, or that increase a project's benefit to the community, should be maintained and expanded.

Increase federal share of project costs: The federal government should increase its share of project costs to 100 per cent. Provinces, territories, municipalities, and Indigenous communities will have limited ability to commit funds to infrastructure as they struggle to pay their workers and sustain critical public services. The federal government must use its borrowing capacity to directly fund projects. The increased spending will more than pay off, with many long-term economic benefits.

A solid foundation

Public investments through the federal government's stimulus plan can help tackle climate change, foster inclusion and strengthen communities. This is an unprecedented opportunity to invest in core physical spaces and networks such as long-term care homes, childcare centres, public broadband, and public transit that allow communities to thrive.

In the case of broadband, this crisis has clearly shown that online connectivity is not only a convenience, but a critical service for Canadians' health and livelihoods. Relying on the market will never bridge the digital divide for Canada's rural and Northern communities, as the large private telecom companies decided long ago there was little money to be made by investing in sparsely populated areas.[88] Currently, no households in the three territories, and only 37 per cent of rural households elsewhere in Canada have access to standard transmission speeds.[89] The Canada Infrastructure Bank should focus on funding reliable public broadband networks not subsidizing private networks, as recommended in its own October 2018 briefing note, which explored launching a public telecom utility.[90] To truly bridge the digital divide will require ambitious, non-market solutions.

The federal government must ensure stimulus spending supports job creation and new or renewed public facilities, not corporate shareholders. Infrastructure spending must rely on the evidence that shows conventional public procurement is faster, more cost effective, and more transparent.

The challenge ahead is to ensure infrastructure stimulus spending gets out the door quickly, addresses shortcomings identified by the COVID-19 pandemic, and positions Canada for the future. Privatization does not meet any of these tests. Investing in public infrastructure will lay a solid foundation for Canada's COVID-19 recovery.

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