CUPE

Protect public services we depend on

We enjoy good quality of life thanks to public services. Canadians know they can count on public services to be accountable, accessible, locally controlled and a wise investment of tax dollars.

Faced with funding shortfalls and urgent needs to upgrade and expand infrastructure, some municipalities have considered privatization as a quick fix. However, whether through infrastructure public-private partnerships (P3s), contracted-out services, or private financing, privatization ends up costing more. At the same time, corporate profits are put ahead of the public interest. Quality suffers, local control is weakened and over time, inequality increases in our communities.

Canada Infrastructure Bank a costly mistake

The federal government has eliminated the mandatory P3 screen for municipal infrastructure projects, and P3 promotion agency PPP Canada has closed its doors. But the federal Liberals are actively promoting infrastructure privatization. The new Canada Infrastructure Bank (CIB) was originally promised as a source of low-cost lending for municipal projects. Instead, the CIB will promote privatization, using expensive private financing that could double project costs compared to public procurement. This model will drive up costs for municipalities, lead to new or increased user fees and tolls, and shift planning, ownership and control of public facilities to private, for-profit corporations.

A 2017 report from the Columbia Institute warns that the CIB will keep the public in the dark about the true costs of privatized megaprojects. The report, *Canada Infrastructure Bank and the public's right to know*, finds that existing access to information laws restrict access to information about privatization. Legislation governing the CIB creates even stricter restrictions, limiting transparency and accountability, something that's vital to local democracy.

The CIB's goal is to finance up to 80 per cent of projects through private investors that would design, own, operate and profit from these projects – including pension funds. Instead of helping public dollars go further, bank-led projects will eat up public funds through expensive loan repayments and may lead to fewer projects being built overall as scarce public funds are diverted from new projects into loan repayment. These growing long-term financial liabilities will restrict the budgets of future generations.

As of April 2019, the CIB has funded only one project, the Réseau express métropolitain (REM) light rail line currently under construction in Montreal. This P3 rail line is owned by a subsidiary of the Caisse de dépôt et placement de Québec, the second largest pension fund in Canada. The REM is a prime example of the lack of transparency surrounding CIB projects, and it has been rightly criticized by civil society groups for its anticipated impact on the environment, on ticket prices, on current ridership levels, and on future costs for operation and maintenance. Despite this criticism, the CIB has recently touted other P3 transit infrastructure, such as the for-profit toll road Highway 407 north of Toronto, as good models for future investment.

For more municipal-specific information on the Canada Infrastructure Bank, visit **cupe.ca/not-for-sale**.

P3s don't save money or lower risk

While PPP Canada no longer exists, provincial P3 agencies continue to promote infrastructure privatization. Virtually all P3s in Canada have been justified on the basis that they are more efficient and transfer risk to the private sector. Yet there is no foundation to either claim.

A March 2016 paper from the University of Calgary's School of Public Policy concluded, as have nearly all objective studies, that P3s cost as much as, or even more than, conventional fixed-price procurement arrangements. The report also found that P3 time frames, when measured correctly, are just as long as public schedules. The study finds that "risks that are supposedly transferred to private partners are never truly transferred." This study adds to a growing body of independent evidence that the "value for money" analyses used to justify P3s are deeply flawed.

A report from October 2018, titled *History RePPPeated: How public private partnerships are failing* and written by experts across four continents from organizations including Oxfam and the Centre for Financial Accountability in India, exposes the negative impacts of PPPs to local communities. The report exposes how P3 projects across the world drain have come at a high cost to the public purse and carry an excessive level of risk for the public sector. The report also reveals a lack of transparency and failure to consult with communities, an increased divide between rich and poor, and serious social and environmental impacts. The report recommends that governments halt the promotion of P3s for social and economic infrastructure financing.

In 2014, Ontario's auditor general undertook a comprehensive review of the province's P3 program and found that 74 P3 projects cost the province $8 billion more than if they had been publicly financed and operated.

Quebec's Charbonneau Commission concluded that the lack of competition and veil of secrecy surrounding the bidding for mega-project P3s opened the door for corruption at Montreal's McGill hospital (MUHC). What's more, Quebec think tank IRIS demonstrated that the province could save as much as $4 billion by buying back the contracts for the MUHC and another Montreal P3 hospital.

Reviews by public spending watchdogs in Nova Scotia, New Brunswick, Quebec, British Columbia, and at the federal level have also uncovered examples of P3s being more expensive than public projects.

Economist Hugh Mackenzie says in the report *Bad Before, Worse Now*, "P3s waste public money because it costs substantially more to raise capital for public infrastructure indirectly through a P3 than directly through public borrowing." P3s do not make economic sense when governments can borrow at a much lower rate than private investors. Moreover, municipalities are realizing that being stuck in 30 or 40 year contracts with substantial payments and rising liabilities hampers their budgets and reduces their ability to make investments down the road.

To assist municipalities in exploring the myths and facts about P3s, CUPE has published *Asking the right questions: A guide for municipalities considering P3s*. Written by economist John Loxley, the guide is a useful resource that probes the costs and benefits of P3s and urges municipalities to examine all the evidence before considering a P3.

Social impact bonds

Another emerging form of privatization is known as social impact bonds (SIBs). 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.

The federal government's 2018 fall economic update announced $755 million in seed funding for "social financing" to charities and non-profit groups with an additional $50 million to promote the use of social finance. SIBs, a form of social finance, outsource the financing, planning and evaluation of social programs to third parties while providing profits to private investors. The federal government's plans to encourage private lending to social and community groups opens the door to the privatization of vital services.

Social impact bonds, in particular, give financial investment companies dangerous levels of control over social services, distort priorities, and gain massive profit from social needs through initial funding of taxpayer dollars. 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.

Local services coming back in house

Canadian municipalities are realizing there are alternatives to privatization. A growing number of municipalities around the world are remunicipalizing, or contracting in, services that were previously outsourced, including snow removal, water and wastewater operations, street and sidewalk maintenance, and public transit. Increased costs, decreasing quality of service and greater flexibility with internal resources are the main reasons that lead municipalities to contract in.

Some Canadian municipalities have recognized these risks and are choosing to bring services back in house or build infrastructure through conventional procurement. A 2016 report from the Columbia Institute, *Back in House: Why Local Governments are Bringing Services Back Home*, spotlights 15 recent cases where Canadian municipalities have decided to end a private contract. In 80 per cent of these cases, cost was the primary consideration. Other reasons included poor service quality, lack of transparency, and mismanagement by the private entity.

Public works best for our communities

Chronic underfunding has created a crisis that is putting enormous pressure on municipalities to privatize city services and infrastructure regardless of the harm it will do to future city budgets and community quality of life.

In light of mounting evidence that privatization of public services is not in the public interest, new federal infrastructure funds – including for water and wastewater facilities, public transit and green infrastructure projects – should be allocated to support municipalities maintaining public ownership and control of facilities. However, the federal government is heading in the other direction with the announcement that it will only fund 40 per cent of municipal infrastructure projects in the future rather than 50 per cent, and with the establishment of the CIB to facilitate and encourage private investment. These developments will put even more pressure on municipal finances.

Maintaining public ownership and control of municipal utilities, services and infrastructure is essential to ensure democratic, equitable and thriving communities.

For more information, including copies of Canada Infrastructure Bank and the public's right to know, Back in house and Asking the right questions, visit **cupe.ca/privatization**.

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