



# Fast

# FACTS

CANADIAN CENTRE FOR POLICY ALTERNATIVES – MANITOBA

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## Outsourcing Under Scrutiny

**T**he long, hard 2013-14 winter revealed serious problems with some city services, such as snow removal and repair of water pipe and water main infrastructure. Garbage collection service has been hit- and-miss since it was taken over by the private firm Emterra. Difficult as the weather was, it may not be the sole cause of inadequate service; jurisdictions across North America are starting to find that outsourcing, also called contracting out, can lead to increased costs and poorer quality services.

There has been a greater tendency for governments to outsource, and the City of Winnipeg is no exception. Outsourcing can be complex and lack transparency, particularly when public-private partnerships (P3s) are used. Under a P3, a for-profit company does any combination of: designing, building, financing, operating and even owning public infrastructure. Contracts range from years to decades.

The building of the Charleswood Bridge, which used a build-operate-own-transfer P3 model, is a case in point. We don't know as much about this contract as we would like to, but University of Manitoba economist John Loxley reports that Winnipeg tax payers are locked into an 11.05 per cent yearly interest rate – much higher than the going market rate. Fortunately the city was able to correct another example where a P3 did not deliver as promised: the South District Police Station.

In 2012, the Mayor announced that this P3 would be a cost-saving initiative for the

taxpayer. Yet only one year after the City agreed to a 30-year lease with a private company to build and manage the public asset, the P3 lease contract was canceled, with savings found by bringing the financing and operations of the project fully public. Contracts of this sort need to be carefully analysed before they are awarded, but intense lobbying from the private sector and the efforts of strong lobby groups such as the Canadian Council for Public Private Partnerships present P3s as a lower-cost, low-risk way to finance public infrastructure, and many administrations accept that claim at face value. Nonetheless, examples abound where P3s have been found wanting: for example, in BC forensic accountants found that the Abbotsford Regional Hospital, the Sea-to-Sky Highway Improvement, the Academic Ambulatory Care Centre and the Canada Line – all P3s – were more expensive than if they had been done publically.

Without transparency around P3 contracts, we cannot ascertain whether or not Winnipeg's P3s live up to their promise. For example, were the risk transfer assumptions behind the Chief Peguis Trail and the Disraeli Bridge, which were critical in the decisions to proceed as P3s, realistic? Why were the decisions not explained in detail and justified publicly nor verified by an independent third party? Public

there is an alternative.

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servants and elected officials have a duty to ascertain if any sort of outsourcing contract is truly the best deal. Loxley has devised a list of 10 questions that need to be answered when considering P3s. Some of them are:

- Will elected officials be fully informed about the alternatives and be able to speak freely about the information they receive concerning development of the P3?
- Have the full lifetime costs of delivering the project through a P3 been calculated and compared to public alternatives delivering the same level and quality of service and will the detailed information and calculations be made public?
- How important are assumptions of risk transfer in the P3 proposal and could any promised risk transfer instead be delivered through a public procurement process that involved a fixed price contract?
- Will the municipality be responsible for guaranteeing the private sector's revenues, and who will be liable for cost over-runs, or project deficiencies?
- Does the municipality have the capacity and resources to properly evaluate, administer and monitor a contract of the length, scale and complexity of the P3?
- Does the P3 permit the municipality the flexibility to make future changes in service delivery or other public policy decisions, to end the P3 in the procurement stage and to terminate the contract if it is not meeting the public interest?

All these questions and more should be asked about any type of contract with the private sector. Insourcing – bringing services that were contracted out by government back in house – is increasing and as a result, governments are saving money. Many American municipalities have insourced work ranging from

garbage collection, technology work, park maintenance and human resource management. A survey of data from the International City/County Management Association found that the most common reasons for bringing outsourced services back under public control was to re-establish adequate levels of service and better control escalating costs.

Winnipeg's snow removal and garbage collection are widely criticized, raising the question as to whether or not it is time for our city to consider insourcing. The city's response to requests from the Canadian Union of Public Employees Local 500 for information about the snow removal contract was that the city does not collect the data necessary for such a study. This inability of the city to perform such a basic administrative function speaks to the need for the formation of an arm's length economic analysis unit that could evaluate existing service contracts and proposals for P3s and other forms of contracting out, using Loxley's 10 questions as a starting point.

Such a unit, properly run, could also have allayed the concerns of the many Winnipeggers about the contract with Veolia to upgrade the South and North-end sewage treatment plants. This 30-year, \$2 billion contract was passed without all councilors being able to scrutinize it and many citizens remain sceptical that it was in the best interest of the city.

The upcoming municipal election gives us an opportunity to ask some pointed questions about who provides city services, how contracts are awarded and whether Winnipeggers are getting full value for money spent. If what is happening in other North American jurisdictions is any indication, the answers just might surprise us.

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