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Asking the Right Questions about P3s in Winnipeg

On Tuesday, June 11th, Winnipeg's Property and Development Committee reviewed a proposal to buy out the Private Public Partnership (P3) agreement for the South District Police Station. In 2012, the Mayor announced that this P3 was 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 is already slated to be canceled, with savings being found by bringing the financing and operations of the project fully public. CUPE has always maintained that P3s and privatization will end up costing taxpayers more. The South District Police Station is a case-in-point.

The problem is that Winnipeg, Brandon, as well as the Federal Government are not learning from mistakes like this, and are actively considering, and in many cases pushing for more P3 projects nation-wide.

When municipalities such as Winnipeg consider P3s, economist John Loxley recommends that they consider the following 10 questions before making a decision *(1):

1. Will there be full public consultation about the project, including the question of whether the project should be publicly or privately delivered?
2. 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?
3. 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?

4. 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?

5. Will the municipality be responsible for guaranteeing the private sector's revenues, and who will be liable for cost over-runs, or project deficiencies?

6. 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?

7. 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?

8. Are any private consultants involved in the project truly independent? Are they members of the Canadian Council for Public-Private Partnerships? Do they represent potential P3 bidders in any way? Have they profited in any projects from the delivery of P3s?

9. What impact will the P3 have on the local economy and on workers' jobs, pay and benefits?

10. What are the prospects of small and medium-sized local businesses bidding on the project?

In the case of the South District Police Station the about face appears to have come about by asking at least one of these questions (#3). When the Public Service of Winnipeg asked whether or not costs had been properly compared between the P3

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and fully public options, it found that because of lower interest rates, it is now more cost effective for the City to purchase the station and finish the project through taking on external debt. Over the thirty-year life of the project the City will save approximately \$9,665,000 (\$322,000/year) by switching to conventional, public control.

Justification for the change is presented in the fact that market interest rates have not increased as they were predicted to at the time the P3 was approved. But given that the City will always be able to borrow at a lower interest rate than the private sector, it is not clear if this argument makes sense. The fact that neither the public nor City Councillors were privy to the decision making process (as per questions #1 and #2) makes it difficult to assess if a P3 was ever justified.

The inability of the public and elected officials to access necessary records, particularly any risk transfer (question #4) analysis or P3 contracts themselves, gives private contractors a decided advantage in the high stakes game of P3s. Concern over 'commercial confidentiality' and competitive advantage has been a pervasive barrier to proper disclosure of proposals, appraisals, business cases, contracts etc. Without this information we will never know if this P3 contract should have been rejected at the beginning rather than waiting until construction was 60 per cent complete. Perhaps the savings could have been greater.

Unfortunately this case isn't isolated. Loxley reports that Winnipeg tax payers are locked into an 11.05 per cent yearly interest rate for the Charleswood Bridge P3. Further afield, a recent report from Regina found that the privatization of Regina's wastewater services would cost approximately \$61 million more than keeping it public (*2). Similar examples abound from around the world.

Part of the reason that P3s have become so prevalent is because of the efforts of a strong P3 lobby group

made up of such entities as the Canadian Council for Public Private Partnerships (CCPPP). Membership on this council includes construction companies, and consulting companies such as Deloitte and Touche (which was hired by the City of Winnipeg to opine on its plans to P3 its waste-water treatment plant and water service). This lobby group publishes reports that depict P3s in glowing terms and consultants such as Deloitte and Touche do not, to our knowledge, ever find a P3 proposal wanting. As per question #8, we do not know how much influence the P3 sector may have had in the initial approval of the South District Police Station P3.

At the end of the day, privatization often results in higher costs to the taxpayer, and leads to many questions about the P3 agenda as a whole. Hopefully the Province of Manitoba's new P3 Accountability Legislation will help to answer some of these important questions about proposed P3 projects, but the public should be demanding full transparency when municipal councils consider Public Private Partnerships.

The next time Winnipeg seeks a Public Private Partnership, ask yourself these 10 questions, and you'll likely come to the conclusion that P3s simply don't add up.

* (1) Loxley, John. Asking the right questions: A guide for Municipalities considering P3s, 2012.

* (2) Mackenzie, Hugh. Flushing Money Away: Why the privatization of the Wastewater Treatment Plant is a bad Idea., 2013

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