

Privatization Nation

SOUL

The Canada-wide Failure of Privatization, Outsourcing and Public-Private Partnerships



CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
CENTRE CANADIEN
de POLITIQUES ALTERNATIVES

Saskatchewan Office
2138 McIntyre Street, 2nd Floor
Regina, SK S4P 2R7

www.policyalternatives.ca

**Privatization Nation:
The Canada-wide Failure of Privatization,
Outsourcing and Public-Private Partnerships**

**By the Saskatchewan Office –
Canadian Centre for Policy Alternatives**

November 2015

This publication is available under limited copyright protection. You may download, distribute, photocopy, cite or excerpt this document provided it is properly and fully credited and not used for commercial purposes. The permission of the CCPA is required for all other uses.

Printed copies: \$10.00. Download free from the CCPA website.

ISBN 978-1-77125-207-2

Please make a donation ... Help us continue to offer our publications free online. We make most of our publications available free on our website. Making a donation or taking out a membership will help us continue to provide people with access to our ideas and research free of charge. You can make a donation or become a member on-line at www.policyalternatives.ca. Or you can contact the Saskatchewan Office for more information at 2138 McIntyre Street, 2nd Floor, Regina, SK S4P 2R7; phone 306-924-3372.

Contents

- Introduction**4
- Assessing the Damage: Privatization in Canada**7
 - Maritimes**
 - New Brunswick AG savages P3 process7
 - Nova Scotia P3 schools neglect student safety8
 - Outsourcing snow removal in Halifax leads to a pile of problems9
 - Quebec**
 - Montrealers short-changed on 30-year parking privatization deal10
 - Quebec’s super-hospital a super-disaster11
 - Ontario**
 - Privatized highway a road to ruin for Ontario12
 - Ontario’s private-prison a house of horrors12
 - Auditor General slams Ontario’s P3 approach to infrastructure13
 - Saskatchewan**
 - Saskatchewan’s public education channel sold for a song
 - Saskatoon private wine store accused of smuggling and tax avoidance15
 - Private vocational school closures leave students in the lurch15
 - Alberta**
 - Bankrupt private surgical clinic leaves patients in limbo, government holding the bag16
 - Alberta’s privatized registries awash in corruption and crime17
 - P3 school restrictions infuriate communities17
 - British Columbia**
 - BC Centre for Disease Control gives privatized cleaning service a failing grade18
 - Seniors pay price for “privatization experiment” in care home19
 - BC’s P3 model panned from all sides.20
- Returning Public Services to Public Control**21
 - Restoring public control of Hamilton’s water saves millions, improves quality21
 - Unionized waste collection saves Ottawa millions22
 - Fort McMurray brings transit back in-house, estimates savings of \$2 million23
 - Port Moody dumps private garbage collection24
 - City of Saint John realizes immediate benefits of “in-house” waste collection model24
- Conclusion**25

Canadian
politicians persist
in their pursuit
of privatization,
sure that “this time,
they’ll get it right.”

Introduction

We are now more than 30 years into the vast economic and social experiment of neo-liberalism that promised that private business could deliver essential public services and infrastructure at less cost and with better results than the public sector. It is now increasingly clear that those promises were illusory, as communities across the globe seek to return vital services and infrastructure to public control.¹ Nevertheless, politicians in Canada still cling to the promises of privatization—in all its various forms—despite a growing body of evidence that privatization’s benefits are at best fleeting and transitory, while its permanent effects appear destructive of the public interest and a serious obstacle to democratic accountability.² In the following report, we identify some of the most egregious failures of privatization in Canada in recent years. What this sordid record demonstrates is that despite 30 years of experience with privatization, governments rarely seem to get privatization right, and more often get it wrong with astonishing regularity. This raises the question of whether there is not something inherent in the very idea of privatization that seems to court disaster. Yet despite this possibility, Canadian politicians persist in their pursuit of privatization, sure that “this time, they’ll get it right.”

Indeed, when confronted with the privatization failures of the past, many politicians will assure us that they have “learned from past mistakes” and will apply extra caution “this time.” What is maddening about the “this time it will be different” rhetoric is that it never seems to be. Many of the examples we include in this cross-country catalogue of privatization disasters were initiated with assurances that “this time will be different.” Yet as our catalogue indicates, privatization initiatives continue to go horribly wrong—despite continued assurances from governments that they have learned from the mistakes of the past. This rhetoric has become even more pronounced with public-private partnerships (P3)—the latest incarnation of privatization to seduce Canadian politicians. Despite the very real record of P3 malpractice in Canada—many of which we catalogue here—governments continue to believe that they can successfully wield the P3 process to their benefit, irrespective of the failure of other governments to do the same.

This all-to-familiar rhetoric seems to precede failed P3 projects across the country. For instance, prior to multiple BC Auditor General reports criticizing the P3 process in that province, Finance Minister Gary Collins assured the electorate that “one of the advantages of being one of the last jurisdictions to start to explore these options in a real

This all-to-familiar rhetoric seems to precede failed P3 projects across the country.

way is that we get to learn from the mistakes and success that have happened elsewhere.”³ Similarly, Partnerships BC vice-president, Suromitra Sanatani penned an editorial for the *Vancouver Sun* that assured readers, “with the BC government pursuing P3s to build new hospitals and transportation infrastructure, it will have the benefit of learning from the successes and mistakes of others.”⁴

Prior to Alberta’s myriad P3 failures, Infrastructure Minister Ty Lund told the *Calgary Herald* that Alberta Finance had “set up an arm’s-length Advisory Committee on Alternative Financing that will carefully evaluate each and every proposed P3 project,” adding “it is certainly not the intention of our government to repeat mistakes of other jurisdictions.”⁵

In her attempts to convince a skeptical Quebec electorate of the value of the P3 model for what would become the McGill super-hospital disaster, Quebec Treasury Board chairperson Monique Jerome-Forget promised Quebecers that the province’s newly-minted P3 agency would allow the government “to develop new expertise to guarantee the integrity, the coherence and the transparency” of the P3 process.⁶ The eventual CEO of that agency, Pierre Lefebvre, would further assure citizens: “We have the advantage in Quebec of being late to the game. We can learn from the mistakes of others.”⁷ As our summary of the Quebec P3 experience illustrates, it appears these assurances were not enough to prevent Quebec’s signature P3 project from descending into unprecedented scandal and controversy.

Here in Saskatchewan, which has only recently embraced the P3 model, it appears the government has learned to read from the same canned P3 script. When confronted with Alberta’s P3 school-bundling fiasco, Premier Brad Wall responded that Saskatchewan would “learn from Alberta’s bulk-school buying fumbles, and promised his government would get it right.”⁸ When questioned about the failure of New Brunswick’s P3 schools, Education Minister Don Morgan replied, “since that time, there’s been a lot of change and a lot more sophistication about how P3s are put together.”⁹ As if on cue, President and CEO of SaskBuilds Rupen Pandya assured all concerned that “Saskatchewan has learned from the mistakes of other jurisdictions.”¹⁰ Despite these assurances, the most recent Saskatchewan Auditor General’s report on P3s shows the Saskatchewan government repeating many of the same mistakes that have been called out by other provincial auditors — such as the use of biased public comparators and the lack of empirical evidence used in risk assessments.¹¹ While it is too early to tell whether these assurances will come back to haunt the Saskatchewan government as they have in Alberta, BC and Quebec, the track record so far is less than encouraging.

If there is a silver lining to the disappointing record of privatization, it is the growing number of successes in returning formerly privatized services and assets to public control.

If there is a silver lining to the disappointing record of privatization, it is the growing number of successes in returning formerly privatized services and assets to public control—what has been dubbed “re-municipalization.” This has been most pronounced in regards to municipal water services. The Transnational Institute has identified over 230 instances of remunicipalized water across 37 countries over the past decade. The total number of people served by remunicipalized water services has grown to exceed 100 million. They also note a pronounced acceleration of remunicipalization efforts in high-income countries, with France and the United States leading the way in local water services returned to the public sector.¹² There is also a movement afoot among municipalities to return garbage collection and recycling services to public control as the promised cost-savings of contracting out failed to materialize. Indeed, in the United States, a growing number of cities that had previously contracted out to do their garbage collection are now bringing it back in-house. The biggest single reason, according to surveys by the International City/County Management Association, “is concern about the quality of service being provided by outside suppliers. That was cited by 61 per cent of the cities switching back between 2002 and 2007.” Moreover, “52 per cent also said that any cost savings associated with contracting out were inadequate, while 34 per cent cited improvements in the ability of local governments to handle the job themselves instead.”¹³ In the United Kingdom, over half of 140 local councils surveyed in 2011 were bringing services back from the private sector. The *Financial Times* suggests “local [UK] authorities have grown skeptical about the savings outsourcing can deliver, as well as fearing a backlash against private companies making large profits from the taxpayer.”¹⁴ While Canada still lags behind in comparison to the rest of the world, we end this report by highlighting some of the successful re-municipalization efforts that have occurred more recently in Canada.

Assessing the Damage: Privatization in Canada

In what follows, we catalogue the most egregious failures of privatization, contracting out, and public-private partnerships throughout Canada in recent years. While we are cognizant that this in no way captures all the instances of privatization currently ongoing in Canada, our primary concern is that despite more than 30 years of experience with all the various forms of privatization, governments and their private partners still seem to be unable to prevent the worst abuses and failures of privatization. We offer the following compilation in hopes it will equip citizens to critically assess the promises and assurances that politicians of all stripes will invariably proffer to justify future privatization schemes.

Maritimes

New Brunswick AG savages P3 process



New Brunswick Auditor General Kim MacPherson’s report found no evidence the Department of Supply and Services performed a formal preliminary analysis before moving forward with a private-public partnership (P3) to build the Eleanor W. Graham Middle School and the Moncton North School.

“We found no evidence, however, that any kind of formal preliminary analysis was performed to support the P3 decision made by the cabinet,” the report said.

The AG also raised concerns about the compensation and the process of hiring two advisors. A “process advisor” was paid \$107,000 and a financial advisor was paid \$565,000 for their services. However, both advisors were hired without a public competition.

“In our opinion, due process was not followed in engaging these advisors,” the report said.

Despite claims by the department that the P3 project would save \$12.5 million compared to the traditional approach of building a school, the AG report concluded the traditional public procurement model would have actually saved \$1.7 million over the P3 model.

Sources:

CBC News, "P3 school projects blasted by AG report." *CBC News*. January 12, 2012.

Office of the Auditor General. *Report of the Auditor General of New Brunswick—2011*. Saint John, New Brunswick. 2011.

Nova Scotia P3 schools neglect student safety



In a scathing report on the state of compliance of P3 developers with their contracts, the Nova Scotia Auditor General identified instances in which child abuse registry and criminal record checks, fire safety inspections, and emergency first aid and CPR training were not completed by the developers as required under the service contracts. The report concluded that, "individuals working in schools who have not been appropriately screened pose an unacceptable risk to students." Moreover, the Auditor found multiple instances of developers failing to pass along cost savings to school districts. In one case, the contractor did not pass on a cost-of-living increase from the province to the Strait Regional School Board. This went undetected until the Auditor General's staff pointed out the \$700,000 gap. In another case, the Cape Breton-Victoria Regional School Board had higher cost overruns in operating the schools. The \$251,000 shortfall was essentially paid by taxpayers twice, the report notes, as it was given to the contractor but also had to be made up from other areas of the board. The Auditor's report examined 31 P3 schools in total and deemed safeguards to ensure contract standards were met as "wholly inadequate."

Sources:

Paul McLeod, "Contractors sifting millions from school contracts: AG." *Halifax Metro*. February 4, 2010.

Office of the Auditor General. *Report of the Auditor General*. Halifax, Nova Scotia. February, 2010.

Outsourcing snow removal in Halifax leads to a pile of problems



A 2013 decision by the Halifax Regional Municipality (HRM) to outsource sidewalk snow removal to private contractors resulted in a 75 per cent increase in complaints over property damage. Gordon Hayward, the city's winter works superintendent, said they've had over 4,000 calls about snow damage.

"Most of it is sidewalk snow plowing/clearing. That's up 50 to 75 per cent more than we would receive in other years." Residents complained about splintered steps and garden boxes along with damaged curbs and grass. Residents were concerned with "hasty snowplow drivers and snow-clearing equipment ill-fitted for narrow peninsula sidewalks." Halifax residents most recently charged a private snow contractor with neglecting sidewalks in favour of plowing driveways for cash.

The HRM was forced to terminate the contracts of two private contractors and fine several others for failing to meet service standards.

Indeed, according to Halifax-based investigative reporter Tim Bousquet, putting the service out to bid "meant that competing contractors would try to low-ball the cost of the service, sacrificing adequate service in pursuit of lower costs, which is exactly what City Hall wanted."

Sources:

Brett Bundale, "Residents say snow contractor clearing driveways, not sidewalks." *Chronicle Herald*. February 23, 2015.

CBC News. "Halifax's snow removal complaints up 75%." *CBC News*. May 28, 2014.

Brett Bundale, "Halifax snow clearing drew lots of complaints." *Chronicle-Herald*. September 5, 2014.

Tim Bousquet, "That's one big clock: Morning File." *Halifax Examiner*. March 3, 2015.

Quebec

Montrealers short-changed on 30-year parking privatization deal



Montrealers are being shortchanged \$3 million each year under the 30-year deal that privatized the city's parking concession in 1994. Over the life of the agreement, Montreal City Auditor Guy Lefebvre concluded Montrealers would assume \$87 million in unnecessary added costs and shortfalls under the terms of the deal.

In 2002, the private company responsible for the city's parking meters—Parking Montreal—admits it paid \$300,000 for electronic meters it knew to be unsuitable for Montreal. The problem was that while electronic meters are meant to be placed curbside, in Montreal they are placed close to buildings to allow snow-removal machines to pass through. But the meter window that shows whether time has expired is located on the back of the machine—blocked by the building and impossible to read from a patrol car. The company was forced to spend an additional \$270,000 to replace the faulty meters. The conversion to electronic meters was necessitated by the inability of Parking Montreal's mechanical meters to distinguish between coins and metal slugs, which results in \$700,000 in lost parking revenue per year. Despite numerous calls by both the City Auditor and independent analysts to return the parking concession to city control, the 30-year contract remains in effect.

Sources:

Lynda Gyulai, "Parking: auditor gives no quarter: Montrealers are being shortchanged under 30-year deal that privatized concession, he says." *Montreal Gazette*. May 17, 2000: A3.

Charlie Fidelman, "Time's running out for parking meters at present locations: \$270,000 cited as replacement cost." *Montreal Gazette*. November 12, 2002: A7.

Quebec's super-hospital a super-disaster



In a series of reports investigating the P3 build model for Quebec's "super-hospital" project, Quebec's Auditor General concluded that the decision to build them as public-private partnerships was based on "false and incomplete information." Citing "major inaccuracies" in the cost analyses used to justify building the McGill University teaching hospital and Université de Montréal research centre, Auditor General Renaud Lachance dismissed government claims that the P3 model would save the province \$33.8 million. Rather Lachance calculated that using the traditional public procurement model would be "more economical by at least \$10.4 million."

The project has been plagued by controversy almost since the outset. Barely a year into the project, prominent architect Moshe Safdie resigned deriding the P3 model for "cutting corners" and stifling innovation in favour of the "cheapest possible solution." In 2012, SNC-Lavalin's former CEO Peirre Duhaime was charged with fraud in relation to the \$1.3 billion contract to build and maintain the McGill P3 hospital. Most recently, even after cost over-runs of \$172 million, the McGill University hospital was found to have inadequate wiring installed in new operating rooms. Operating room staff recently discovered that the heart-lung perfusion machines—which are used during coronary bypass surgery—require 20 amps of electricity, but the wiring that was installed in the operating rooms is not the correct gauge. The problem may force the hospital to reduce the number of planned surgeries until the problem is fixed.

Sources:

Aaron Derfel, "Architect Safdie pulls the plug on MUHC design." *Montreal Gazette*. December 5, 2007: A9

Lauren Vogel, "Quebec Auditor-General again slags public-private partnerships." *Montreal Gazette*. August 10, 2010: E517-E518.

Melissa Leong, "P3 gone awry." *National Post*. December 1, 2012: FP6

Aaron Derfel, "Wrong wiring, nurse shortage in new ORs could lead to delays at MUHC superhospital." *Montreal Gazette*. March 20, 2015.

Ontario

Privatized highway a road to ruin for Ontario



The infamous Highway 407 toll road was initially planned as a public-private partnership, but only for as long as it took to pay off construction costs. Once the 407 was paid off, the tolls would end and it would revert to a public highway. That changed in 1998 when the Conservative government of Mike Harris—facing an upcoming election and several billion dollars in debt—chose to lease the 407 to the private sector for a 99-year lease worth \$3.1 billion (at the time the largest selling price for a public asset in Canadian history). Despite the unprecedented sale price, it soon became evident that Ontario citizens had received a raw deal. Independent financial analysts now estimate the 99-year lease should have been valued at over \$12 billion—\$9 billion more than the Ontario Conservatives sold it for.

Moreover, despite promises that tolls on the new private highway would be strictly controlled and restricted to no more than two per cent annual increases, tolls increased by a whopping 50 per cent in just the first three years of privatization. By 2014, tolls had tripled—from about 10 cents a kilometre in 1999 to more than 30 cents today.

Sources:

Jim Trautman, “Did Ontario taxpayers get taken for a ride on Highway 407?” *Eye Weekly*. May 11, 2000.

Martin Regg Cohn, “PC blunder over Highway 407 looms over Liberals on Hydro.” *Toronto Star*. March 30, 2015.

Ontario’s private-prison a house of horrors



The Central North Correctional Centre, one of two identical maximum-security super-jails in Ontario built by the former Conservative government was supposed to demonstrate the benefits of private prisons in comparison to those under public control. The Ontario Ministry of Public Safety and Security created the two identical jails to allow a true “apples-to-apples” comparison between public and private operations. Their plan was to compare the two sites on several points: cost per inmate, repeat offender rates, inmate education and skills training. As the spokesperson for the US private management firm in charge of operating the Central North facility stated at the time:

“We believe this will effectively demonstrate the valuable alternative correctional privatization offers.”

In less than five years of operation, after accusations of medical neglect of inmates, chronic understaffing, controversy over the use of racial-identification badges and inmate riots over conditions, the super-jail was returned to public control.

“We found that in basically every single area, the outcomes were better in the publicly run facilities,” Ontario Community Safety Minister Monte Kwinter told the CBC. The comparison report compiled for the Ministry of Community Safety and Correctional Service found that while the private jail did offer certain cost-savings, the publicly run facility delivered a greater degree of security, a wider variety and higher quality of programming, faster and more effective medical treatment and reduced levels of inmate recidivism in comparison to the privately-run facility.

Sources:

Roberta Avery, “Super-jails risks inmates’ health: MD.” *Toronto Star*. February 28, 2003: A04.

Richard Brennan, “Understaffing at private jail breaks contract: memo.” *Toronto Star*. September 1, 2004, A01.

Ministry of Community Safety and Correctional Service. *Central North Correctional Centre Review and Comparison to Central East Correctional Centre*. April 18, 2006. www.privateci.org/private_pics/CNCC.pdf

CBC News, “Ontario to take back control of private super-jail.” *CBC News*. November 10, 2006. www.cbc.ca/news/canada/ontario-to-take-back-control-of-private-super-jail-1.586052

Auditor General slams Ontario’s P3 approach to infrastructure



Ontario Auditor General (AG) Bonnie Lysyk rebuked the Ontario government’s use of public-private partnerships for public infrastructure in a damning report that revealed P3s have cost the citizens of Ontario nearly \$8 billion more over the past nine years than if the government had successfully built the projects itself. The AG found that while the province assumes there is less risk of cost overruns and other problems with P3s than with the public sector, the province actually has “no empirical data” to back up that assumption. P3s, meanwhile, are more expensive because companies “pay about 14 times what the government does for financing, and receive a premium from taxpayers in exchange for taking on the project.”

Lysyk also found that the entire process of evaluating the cost effectiveness of P3s in comparison to the traditional public procurement

approach was replete with errors. The AG noted billions of dollars' worth of double counting and other inappropriate calculations that demonstrated a clear bias in favour of P3s. According to CUPE Economist Toby Sanger, these P3 projects have created an estimated \$28.5 billion in liabilities and commitments still outstanding to private corporations— a cost the citizens of Ontario will have to pay back in the future. Other P3 projects in Ontario would bring “total liabilities to over \$30 billion owing to P3 consortiums and financiers, the equivalent of \$6,000 per household.”

Sources:

Adrian Morrow, “Government-managed projects could save Ontario money: Auditor-General.” *The Globe and Mail*. December 9, 2014.

Toby Sanger, “Ontario audit throws cold water on federal-provincial love affair with P3s.” *The CCPA Monitor*. February 2, 2015. www.policyalternatives.ca/publications/monitor/ontario-audit-throws-cold-water-federal-provincial-love-affair-p3s

Saskatchewan

Saskatchewan’s public education channel sold for a song



In a surprise announcement, Saskatchewan’s government announced its intention to sell the province’s 38-year-old educational television channel, the Saskatchewan Communications Network (SCN) in March of 2010. Despite pleas by labour groups to delay the sale until a community-based bid could be organized, the government sold the broadcaster to Bluepoint, a private company for \$350,000. Just two years later, citing financial duress, Bluepoint sold SCN to Rogers Broadcasting for \$3 million, a price more than 8.5 times higher than what was initially paid for the channel. Prior to the sale, SCN prominently featured made-in-Saskatchewan productions, and provided information to citizens and filmmakers about how to contribute their ideas and films. Prime-time programs in 2009 included independent dramas and documentaries, short films created by SCN viewers, and shared APTN broadcasts. In contrast, after the sale to Rogers, the channel largely featured US sitcoms along with reality and game shows.

Sources:

Patricia Elliott (2015). *Independent Voices: Third Sector Media Development and Local Governance in Saskatchewan*. Unpublished Dissertation. University of Saskatchewan. Available at: <http://ecommons.usask.ca/handle/10388/ETD-2015-03-2010>

Saskatoon private wine store accused of smuggling and tax avoidance



One of the first private wine stores allowed in the province has had its license revoked and is banned from selling alcohol after an audit revealed the store engaged in smuggling. According to the audit, the owner and staff purchased hundreds of bottles of wine from an Alberta-based wine store worth \$523,432 to sell in Saskatchewan—thereby avoiding Saskatchewan taxes. There were also more than \$2.2 million in wire payments to suppliers based mainly in France. These payments were not recorded in Cava’s general ledger, the audit says. A Cava employee said she “did not know how to account for these transactions,” the audit says. Cava employees also accepted numerous “financial inducements,” contrary to the contract with the Saskatchewan Liquor and Gaming Authority. Trips to Italy and France were covered by various outside companies, the report says. Cava’s doors were closed and its substantial stock of specialty wines and its accounts were frozen following the discovery of a six-figure unpaid tax bill.

Sources:

Jason Warick, “Wine store faces ban; SLGA stops sale of alcohol.” *Saskatoon Star-Phoenix*. April 21, 2012: A1.

Charles Hamilton, “Cava stock sold.” *Saskatoon Star-Phoenix*. July 14, 2012: A5.

Private vocational school closures leave students in the lurch



The privately-owned “Academy of Learning” campuses in Regina and Swift Current locked their doors had their certificates of registration cancelled due to a lack of compliance with legislative requirements for private vocational schools in the province.

“We were given no advance warning, nothing,” said Michele Nicolychuk, a single parent and student at the Regina campus working toward medical office assistant certification—for which she paid \$7,000.

Ann Lorenzen, executive director of the Ministry of Advanced Education, Employment and Labour’s quality-assurance branch said the main issue was \$80,000 in unpaid tuition refunds owed to 14 students. School records indicate a total of 62 students in the two cities would

be affected by the closure. Another 18 students would be shut out when the Estevan campus closed a year later, after the provincial government again cancelled their certificate of registration citing a failure to comply with legislative requirements.

Sources:

Samantha Macaig, "Students left hanging by closures." *Regina Leader-Post*. August 26, 2009: A4.

Angela Hall, "Province closes school." *Regina Leader-Post*. July 24, 2010: A5.

Alberta

Bankrupt private surgical clinic leaves patients in limbo, government holding the bag



Calgary's Health Resource Centre, a private surgical clinic contracted to perform nearly 1,000 publicly-funded hip, knee and ankle surgeries each year faced bankruptcy in 2010 after one of its creditors applied for a bankruptcy order against the company. Faced with the possibility of a glut of cancelled surgeries, the province paid for an interim receiver in order to allow the clinic to remain open. The province's health provider, Alberta Health Services, was forced to pay an additional \$1.3 million to one of the hospital's creditors to bolster its legal case that the facility keep operating until additional capacity became available elsewhere. To add insult to injury, the province was also on the hook for \$114,000 per month in rental fees to the owner of the facility. David Eggen with Friends of Medicare notes the absurdity of bailing out a private health clinic that was supposed to *reduce* public healthcare costs: "It has cost millions of dollars to bail these guys out. Do the math—this has cost us at least \$3.5 million—\$4 million. The irony of this situation is pretty thick down there in Calgary. This experiment to do public services through a private contract is an expensive, disastrous error."

Sources:

The Canadian Press, "Surgeries to continue at private Calgary hospital, but at cost to taxpayers." *Red Deer Advocate*. May 11, 2010.

Collette Derworiz, "Province stalls closure of private clinic." *Edmonton Journal*. May 4, 2010; A3

Alberta's privatized registries awash in corruption and crime



As part of Premier Ralph Klein's sweeping privatization agenda in the 1990s, Alberta witnessed the wholesale privatization of vehicle registration, driver's licenses and examinations, land title, corporate registry and vital statistics services. Despite warnings from police and unionized staff regarding the security and integrity of a privatized system, Alberta handed over these former government functions to over 200 privately owned and operated registries. Abuse of the privatized system has been rampant almost since its inception. Numerous registries have been caught accepting bribes in exchange for fake licenses and false certifications. Service Alberta has had to notify several other provinces that more than 600 drivers—many with fraudulent Alberta Class 1 semi-truck licenses—may not have been trained or even tested. Private registries have also experienced "chronic, serious security breaches" with organized crime exploiting lax security measures in order to gain access to false identification. Even more disturbing, the *Edmonton Journal* revealed that a known Indo-Canadian crime organization—with links to the Air India bombing—used documents and personal information stolen from a private Edmonton-based registry office to abet a multi-million dollar auto-theft fraud.

Sources:

Charles Rusnell, "Highway safety threatened by fake licences." *Edmonton Journal*. February 24, 2008; A3.

Charles Rusnell, "Bogus licences traced to Alberta: privatization blamed for security breaches." *Edmonton Journal*. February 23, 2006; A1.

P3 school restrictions infuriate communities



Rigid P3 contract language in Alberta's P3 schools prevents communities from utilizing schools for local needs such as childcare, play-schools and after-school activities. "One of the necessary limitations [within the P3 contract] was that school boards would not be permitted to enter into long-term facility space leases with outside parties such as playschools, day care and community leagues," Alberta Education Deputy Minister Keray Henke said in a letter to the Calgary Board of Education. Long-term leasing to outside groups could require extra building requirements that "will have significant implications for the contractor's design, build, finance, maintain obligations, which could compromise or negate the contractor's building guarantee," the letter said. The YMCA, which runs licensed child-care programs,

couldn't set up day cares in the P3 schools. "They're building no additional square footage," said YMCA Edmonton president Franco Savoia. "If it's foreseen that we're going to have 500 students in the school, all they will build is the square footage for 500 students, period. There are other community needs from the point of view of children and families." Despite promises by government to modify the contracts, restrictions on community use persisted four years later.

In the summer of 2014, the Alberta government decided to abandon the P3 model for school construction citing lack of competition for the bundled contract and an estimated savings of \$14 million by using the traditional public procurement model. Despite abandoning the P3 model, the Alberta government is still on the hook for close to \$1.5 million in various consultant fees and advisory costs even though the project will not go ahead.

Sources:

Sarah McGinnis, "P3 schools off limits for preschools, day cares." *Calgary Herald*. September 10, 2008: B7.

Andrea Sands, "P3 model needs restructuring." *Edmonton Journal*. March 26, 2012: A1.

Andrea Sands, "New schools won't follow P3 model." *Edmonton Journal*. June 19, 2014. A1.

Caley Ramsey, "Alberta NDP says government 'wasted' \$1.5M on P3 funding model for schools." *Global News*. April 5, 2015.

British Columbia

BC Centre for Disease Control gives privatized cleaning service a failing grade



The BC Centre for Disease Control (CDC) issued a withering report about the cleaning practices of a private contractor—Crothall Services—contracted to clean Nanaimo Regional General Hospital. In the wake of an investigation into a *Clostridium difficile* (CDI) outbreak that witnessed 64 confirmed cases including eight related deaths, the CDC concluded that there were "insufficient numbers of cleaning staff to meet the basic daily needs of the facility and they were not adequately trained in appropriate cleaning procedures for a healthcare facility. They were not able to meet the increased demand for environmental cleaning that is required to control an outbreak of CDI." The CDC report found the private contractor used a diluted bleach solution for cleaning that was a hundred times weaker than

required, failed to clean equipment that moved between patients and mixed clean and dirty supplies together.

Sources:

Les Laynes, "Hospital contractor faced no penalties." *Victoria Times-Colonist*. June 23, 2009: A12

BC Centre for Disease Control, "Investigation of a *Clostridium difficile* associated disease outbreak at Nanaimo General Regional Hospital." August 2008. www.viha.ca/NR/rdonlyres/DD089EA3-E33F-4ED3-AE34-C08975093FEC/0/bccdc_cdad_investigation_report.pdf

Seniors pay price for "privatization experiment" in care home



In the wake of the BC government's Bill 29 that allowed for the extensive privatization of health services throughout the province, Sunset Lodge seniors' care home in Esquimalt sought to reduce costs by firing their unionized workforce in favour of a private contractor. Complaints by residents of the quality of service began almost immediately. Residents and family members inundated the home with complaints over pre-cooked, inedible food, urine stains, a complete lack of toiletries, and long delays for laundry. Family members were forced to cook and clean for their loved ones rather than rely on the care home staff. Critics argued the low-wage workforce at the home resulted in constant turnover and ill-trained replacement staff disrupting the continuity of care in the home. Although the private contractor was replaced in 2005, one year later the new private housekeeping firm received a moderate hazard rating after two inspectors from the Vancouver Island Health Authority arrived unannounced to investigate a complaint. "Many resident rooms and bathrooms noted to have debris on floors (including dust, hair, crumbs, Kleenex, food particles, toilet paper), and to be dirty, especially under beds and other furniture and behind chairs," the report says. The inspectors found similar problems at nursing stations and in medication rooms, and noted that wheelchairs, lifts, and other equipment were dirty as well. In addition, spills in fridges had not been wiped, and fruit was being kept in "soiled containers." The inspection report also notes that the lodge failed to report a resident's fall and subsequent injury to licensing officials, as required by law.

Sources:

Judith Lavoie, "Lodge faces barrage of complaints." *Victoria Times-Colonist*. May 30, 2005: C1

Lindsay Kines, "Sally Ann facility's cleanliness still spotty." *Victoria Times-Colonist*. September 30, 2006: B1

BC's P3 model panned from all sides



BC's P3 process has come under a withering attack in recent years as numerous high-profile critics have questioned the validity of the government's P3 model. In 2011, Auditor General John Doyle looked at the province's first P3 hospital, Vancouver General Hospital Academic Ambulatory Care Centre. The AG's report concluded that the final capitalized value of the hospital was \$123 million—29 per cent greater than the \$95 million capital cost initially estimated. The AG concluded that the P3 agreement "did not effectively control cost increases" and "did not effectively manage the project scope risk," the two main justifications for using a P3 according to advocates.

Three years later, new Auditor General Carol Bellringer found that government's reliance of private financing for P3 projects was costing the province millions. The AG reports that "while the government's weighted average cost of borrowing is approximately 4 per cent, on the \$2.3 billion that government borrowed through public-private partnerships, this is 7.5 per cent." The interest rate difference could cost BC citizens over \$80 million per year in comparison to public financing.

Most recently, a BC Ministry Finance study of Partnerships BC raised the concern that the agency is biased in favour of the P3 procurement approach, greatly compromising its ability to give impartial advice to government.

Sources:

Office of the Auditor General of British Columbia. *Audit of Academic Ambulatory Care Centre Public Private Partnership: Vancouver Coastal health Authority*. Victoria, BC May, 2011.

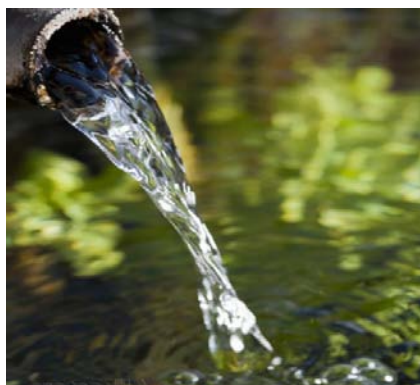
Vaughn Palmer, "Auditor general takes a real interest in numbers. Rates too." *Vancouver Sun*. October 31, 2014.

Keith Reynolds, "Bad news for P3 loving BC Liberals." *The Tyee*. January 8, 2015.

Returning Public Services to Public Control

Despite the disappointing track record of privatization in Canada—or perhaps in light of it—more and more communities are returning previously privatized services and infrastructure to public control. In what follows, we identify some of the success stories as communities across the country realize the benefits of reversing privatization and restoring public control to essential services and infrastructure.

Restoring public control of Hamilton’s water saves millions, improves quality



In 2004, the City of Hamilton ended its 10-year experiment with water privatization and returned its water service to public control. The decision to terminate the city’s water and wastewater treatment contract with Phillips Utility Management Corporation (PUMC) was the result of a litany of problems that occurred over the life of the contract. In January of 1996, a pumping system failure at the main sewage treatment plant operated by PUMC flooded over 50 homes and businesses and an estimated 135 million litres of raw sewage spilled into Hamilton harbour. The spill was believed to be the worst ever in the history of Hamilton’s wastewater treatment system. Hamilton Region ended up paying for all damages, the total amount reaching \$2.5 million, despite findings that PUMC was liable for the damages. Employees at the sewage treatment plant also raised concerns about “unreliable and out-dated equipment, deterioration of plant conditions, health and safety concerns to employees and the public” and operation of the plant “at maximum environmental dangerous thresholds”. Despite these concerns, PUMC continually downsized, laying off employees and leaving the plant dangerously understaffed.

Due to these concerns, along with a vibrant community movement to return water services to public hands, the city voted to de-privatize water and wastewater services in 2005. An assessment of water services after de-privatization noted city staff managed to reach “the best cumulated performance over the past 15 years at the

treatment facilities while operating below the approved budget of \$27.7 million, bringing \$1.2 million savings to the city budget.” The 2006 performance report indicated that savings continued to improve, “saving another \$185,000 in performance fees and \$950,000 on the approved budget of \$27.9 million.” Over all, for the period from 2005 to 2008, city staff managed a total savings of \$5.66 million from the operating budget. This was achieved while also increasing staffing levels and vastly improving the quality of effluent. Indeed, by 2010, the plant recorded the best effluent quality in its history—a true re-municipalization success story.

Sources:

Frank K. Ohemeng and John K. Grant, “When markets fail to deliver: An examination of the privatization and de-privatization of water and wastewater services delivery in Hamilton.” *Canadian Public Administration*. Vol. 51, No. 3, September, 2008.

Martin Pigeon, David A. McDonald, Olivier Hoedeman and Satoko Kishimoto (2012). *Remunicipalisation: Putting Water Back in Public Hands*. Amsterdam: Transnational Institute.

Unionized waste collection saves Ottawa millions



The City of Ottawa announced it has saved close to \$5 million, over four years, by using unionized employees to collect garbage in its downtown core. The city said since the Canadian Union of Public Employees Local 503—the city’s largest union—won the garbage collection contract for Ottawa’s downtown area in 2005, it has delivered the services it promised for less money. The city said the unionized collectors have also attracted fewer complaints from residents than the private company that previously covered the area.

Source:

CBC News. “Union waste collectors save Ottawa millions.” *CBC News*. February 8, 2011.

Fort McMurray brings transit back in-house, estimates savings of \$2 million



A recent audit on the state of Fort McMurray's public transit forced the city to terminate its contract with TOK Transportation and is moving public transit services back in-house. TOK Transportation has only been providing transit services in Fort McMurray since 2013. In that time, according to the audit, in the latter half of 2013, buses were late 774 times and five trips were missed due to mechanical issues and operator delays. Within the first six months of 2014, those numbers had skyrocketed, with 1,853 delays and 59 missed trips reported. Customer complaints over service quality began rising as well. The municipality noted that rider complaints were well over "acceptable threshold levels", with 312 complaints lodged in the first six months of TOK's operation of transit services. Complaints went down somewhat in 2014, with 170 complaints recorded in the first half of 2014, but this number was still well past what the RMWB considered an acceptable level. Complaints were particularly pronounced by seniors; "some seniors weren't even being walked to their door if they required help, if they were carrying groceries or something. There were a lot of complaints about the way people were being treated."

The municipality says that, by taking over the provision of transit services, the municipality is "moving from a profit-driven business model to one which plows cost-savings back into the system, ultimately benefitting transit riders and operators." Based on their best estimates and business case, the municipality estimates cost savings as much as \$2 million by bringing transit back in-house.

Sources:

Rebekah Benoit, "RMWB commits in-house transit services will be better after terminating contract." *Connect*. February 27, 2015: A.1.

Port Moody dumps private garbage collection



The City of Port Moody BC returned their garbage and recycling services back in-house after a 2008 survey pointed out that 81 per cent of households had issues with missed pick-ups and more than a one-third of residents said the private contractor misplaced or lost garbage cans, lids and/or recycling containers. Since returning waste collection to public control the city's solid waste services have achieved record high resident satisfaction. The city has also increased diversion rates from 47 per cent to 73 per cent, and won recognition from the Solid Waste Association of North America, recognizing the city's communications campaign to engage the public on its new collection system and ambitious diversion goals.

Sources:

City of Port Moody, "Port Moody's Waste Management Success." Available at: www.portmoody.ca/index.aspx?page=905

City of Port Moody, "Port Moody's Record-Breaking Trash Reduction Wins International Award." Available at: www.portmoody.ca/index.aspx?page=43&recordid=32&returnURL=%2findex.aspx

City of Saint John realizes immediate benefits of "in-house" waste collection model



A shift to an in-house model of garbage collection has saved the City of Saint John more than \$700,000 in one year, surpassing expectations. The city used to pay a private contractor to haul trash from 19 of 53 residential routes in the city in what officials referred to as "a hybrid model involving both city workers and private industry. But after crunching the numbers, city officials said they could find considerable savings by having existing unionized city workers complete the job."

"In 2013, the cost per tonne of garbage and compost was about \$212, the lowest in seven years, according to the staff report. Not only that, but residents are reporting fewer complaints with more routes being completed on time."

Kevin Rice, the deputy commissioner of transportation and environment services, said "the substantial savings are simply a result of removing the contractor's costs, which would include a profit margin. He credited the more efficient service to the unionized jobs, which are generally higher-paid and more secure than private industry."

Source:

April Cunningham, "In-house trash collection finds savings." *Telegraph-Journal*. November 27, 2013: C1

Conclusion

As the examples above show, neoliberal assumptions that the private sector is vastly superior in terms of costs and quality simply don't stand up to scrutiny. Claims by politicians that privatization is the only route to efficiency and cost-savings simply cannot be as uncritically embraced as they have been in the past. As this sampling of privatization-gone-wrong illustrates, governments have not learned from the "mistakes-of-the-past," and despite 30 years of experience, still seem unable to prevent the worst abuses of privatization from manifesting themselves. As more and more communities realize the benefits of returning essential services and infrastructure to public control, politicians can no longer suggest that "there is no alternative" to privatization. Indeed, we as citizens need to ask much more pointed questions of our politicians when they assure us of privatization's purported benefits. Matt Siemiatycki—Professor of Geography and Planning at the University of Toronto—puts forward a set of criteria that should guide citizens and governments when evaluating whether to privatize a public service or asset.¹⁵

Regulation

Will privatization be accompanied by deregulation of rates, service levels, safety standards or environmental standards? If so, how will the public be protected against dramatic rate hikes or depreciating service quality?

Source of Efficiency Gains

Are there sufficient opportunities for innovation, or will costs be reduced primarily through lower wages and the advantages of de-regulation? If the latter, these cost-savings represent an economic transfer from workers and users to the private owners and do not represent a true efficiency gain and may even be to the economic detriment of the community.

Accounting for Transaction Costs

Privatization has considerable transaction costs—the cost of structuring the privatization deal—such as the cost of ensuring contract compliance, competitive auctioning, monitoring and the mediation of contract disputes. Have these been accounted for in calculating the benefits of privatization.

1
2
3

4

Sufficient Competition

Privatization advocates continually claim that robust competition will assure reduced costs, but public services and assets do not exist in a pure market environment. This often means that the disciplinary market mechanisms that are supposed to effectively regulate private providers of public services often do not exist. For example, while there is often initial competition between bidders for government contracts, over time other businesses become reluctant to bid against a long-time incumbent contractor who may be believed, rightly or wrongly—to possess “the inside track.”¹⁶ The result is often a quasi-private monopoly as the private provider becomes virtually indispensable to the continued delivery of the service.

5

Public Interest

Many public assets can be used as leverage to affect public policy—such as keeping utility rates low to foster investment or subsidizing services for low-income users. Can a public asset continue as a positive policy lever when under private ownership and guided more directly by the profit motive?

6

Community Participation

Are there sufficient channels for input from citizens and service users to be integrated into decisions about critical public services when they are owned and operated by private companies?

We think government and policy-makers would be less enamoured with privatization if they keep the above criteria prominently in mind when evaluating a proposed transfer of a public service or asset to private control. Indeed, adopting a more sustained focus on the impacts privatization can have on people and a community rather than just the narrow economic calculus that seems to drive many of these decisions might even prevent a new generation of privatization failures in the future.

Endnotes

- 1 See Hilary Wainwright (2014). *The Tragedy of the Private, The Potential of the Public*. Amsterdam: Transnational Institute. Satoko Kishimoto, Emanuele Lobina and Olivier Petitjean (2016). *Our Public Water Future: The Global Experience with Remunicipalisation*. Amsterdam: Transnational Institute.
- 2 See Daphne Greenwood (2014). *The Decision to Contract Out: Understanding the Full Economic and Social Impacts*. Colorado Center for Policy Studies: University of Colorado, Colorado Springs. Ellen Dannin (2012). "Of Planning, Privatization, and Accountability." *Planning & Environmental Law*. Vol. 64, No. 9. September. Germa Bel & Mildred Warner (2008). "Does privatization of solid waste and water services reduce costs? A review of empirical studies." *Resources, Conservation and Recycling*. No. 52, 1337-1348.
- 3 Harvey Enchin, "Why BC is courting the private sector." *Vancouver Sun*. January 29, 2002: A1.
- 4 Partnerships BC is the organization charged with both promoting and evaluating P3s for the British Columbia government.
See Suromitra Sanatani, "UK leads the way in partnerships." *Vancouver Sun*. May 7, 2003: d7.
- 5 Calgary Herald. "P3s just a tool, minister says." *Calgary Herald*. November 15, 2003: B2.
- 6 Don MacPherson, "PPPs are perhaps not the best idea for hospitals." *Montreal Gazette*. February 6, 2005: A13.
- 7 Sean Silcoff, "It's just sucking up money." *National Post*. November 10, 2007: FP 5.
- 8 Emma Graney, "P3 schools analyzed." *Regina Leader-Post*. January 29, 2014: A1.
- 9 Emma Graney, "P3 schools mark policy turnaround." *Regina Leader-Post*. October 24, 2013: A1.
- 10 SaskBuilds is Saskatchewan's agency in charge of promoting and evaluating P3 projects in the province. See Emma Graney, "All hands on deck in designing new schools." *Regina Leader-Post*. March 8, 2014: A13.
- 11 Provincial Auditor of Saskatchewan. 2015 Report – Volume One. Available at: https://auditor.sk.ca/pub/publications/public_reports/2015/Volume_1/2015v1fr.pdf.
- 12 Satoko Kishimoto, Emanuele Lobina and Olivier Petitjean (2016). *Our Public Water Future: The Global Experience with Remunicipalisation*. Amsterdam: Transnational Institute.
- 13 Kenneth Kidd, "To save money, keep some trash collection public." *Toronto Star*. February 12, 2011.
- 14 Gil Plimmer, "Savings from outsourcing doubted by state." *Financial Times*. January 23, 2012.
- 15 Matti Siemiatycki, "Measuring the merits of privatization." *Toronto Star*. July 5, 2010: A11.
- 16 Daphne Greenwood (2014). *The Decision to Contract Out: Understanding the Full Economic and Social Impacts*. Colorado Center for Policy Studies: University of Colorado, Colorado Springs.

