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Provincial Call for Winnipeg Public-Private Partnership for Sewage Stinks

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In mid May, 2021 the province of Manitoba demanded the City undertake a single source contract with Deloitte LLP for a market assessment of Public-Private-Partnerships (P3s) for the much-needed north end sewage treatment plant with the City at a cost of $400,000 dollars. The estimated $1.8 billion North End Treatment plant was identified as a priority almost two decades ago when Manitoba's Clean Environment Commission (2003) prompted the provincial government to order Winnipeg to improve its sewage-treatment process. The existing facility has capacity for population equivalent estimated to be reached in the next five to nine years. Lack of action on the North End Treatment Plant could restrict growth in the City of Winnipeg.

It is important to note there is no requirement from the federal government to the province for this provision to access the Investing in Canada Infrastructure program. Governments at all levels need to understand the evidence against P3s as documented by Auditor Generals across Canada, Internationally and independent, academic research. P3s are more costly, riskier and less transparent that publicly-managed projects. The following is the presentation to Executive Policy Committee on the North End Sewage Treatment Plant upgrades and waste water treatment.

First of all I wish to acknowledge the challenging situation the Province of Manitoba has placed the City in prior to requesting an RFP for DBFOM P3.[1]

For example, eliminating the 50/50 transit cost-sharing agreement and withholding funding for capital projects, roads and emergency services. The federal Safe Restart Agreement signed by Premier Pallister for municipal support and transit funding during COVID totalling $106 million was not matched by Manitoba. Other provinces such as Ontario and Alberta did match this federal funding for municipalities.

Manitoba does have fiscal room to finance the key priorities of our capital City, but instead is choosing to cut taxes and needed revenue in the middle of the pandemic, most recently with the education property tax: a total loss of over $392 million over the next two years. Last week I gave a presentation to the provincial Standing Committee on Social and Economic Development Committee regarding the impact of the Property Tax Reduction Act, which gives tax cuts to those least impacted by COVID. Middle and upper class property owners earning will benefit hugely from this tax break while those most impacted economically by COVID, workers earning $24/ hour and below and mainly renters, will pay more.

This ask from the province on Public-Private-Partnerships (P3s) is not surprising given their bias toward private market interests. This Manitoba government scrapped the *P3 Transparency and Accountability Act* in 2017, which provided minimal provisions for a fair review process on P3s. The elimination of this oversight legislation demonstrates the provincial governments' predisposition to privatization, despite evidence of the high cost of these arrangements to taxpayers in the short and long term.

It is particularly poignant that the province is asking for a P3 on the treatment of sewage, which is key to our health, protecting the environment and beautiful Lake Winnipeg, tasks that should be firmly under public control. Health and environment are also in areas of provincial jurisdiction.

The elected officials representing public interests of Winnipeg should resist this request from the province to undertake a single source contract with Deloitte LLP for a market assessment of P3s at a cost of $400,000 dollars. There is no requirement from the federal government to the province for this provision to access the Investing in Canada Infrastructure program. Instead on May 27th, 2021 the City of Winnipeg's Executive Policy Committee (EPC) voted 4–3 in favor of a modified P3 single-source contract for the Design, Build

1 "Design Build Finance Operate Maintain (DBFOM),private sector is responsible for the capital upgrades, the operations of the facility for a specified period of time (often 30 years), as well as sharing in the financing of the project between the public and private sector.

The DBFOM market sounding will apply to the entire sewage treatment system at the three sewage treatment plants within the City, South End, West End and North End. The network's main control systems are housed at the largest plant, the NEWPCC and a full out DBFOM model would apply to the entire network" http://clkapps.winnipeg.ca/dmis/ViewDoc.asp?DocId=20950&SectionId=&InitUrl=.

and Finance portion of this project. As EPC has delegated authority for expenses of this nature, this single-source contract of a $400K expense to the City at the request of the province is going ahead.

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This policy brief is focused on six broad evidence-based considerations about the challenges with P3s and why the City of Winnipeg should unilaterally say no to this zombie policy that has been repeatedly killed by evidence only to come back again and again.

1. P3s are More Costly to the Public Purse Than Regular Financing and Management

Today when the rate of borrowing set by the Bank of Canada is at record-low levels, it makes little sense for governments to hand projects over to the private sector to finance at higher interest rates. In 2018, the province itself reversed a decision to use P3s to build four schools after a cost-benefit analysis found the savings were found to be enough to build *five* schools.

The City of Winnipeg itself moved away from a P3 model for the South District Police Station in 2013, due to the low interest rate environment then, saving the City $9.7 million over 30 years. The City also abandoned a P3 model during the same time period for four new fire stations.

In her annual report in December 2015, Ontario's auditor general (AGO), Bonnie Lysyk, exposed the waste and financial sham pervasive in P3s.. The Ontario Auditor General estimates that P3s cost the province $8 billion more than if they had been publicly financed and operated. As Toby Sanger pointed out at the time, that is the equivalent of $1,600 per Ontario household. There's plenty of evidence from other jurisdictions as well.

An independent analysis of the Sea-to-Sky highway project in BC found that it will cost taxpayers an extra $220 million over the next 25 years as a P3 than if the government had used its traditional financing and procurement processes according to a CCPA BC report.

A CCPA NS study on the construction of Hwy 104 Cobequid Pass Toll Highway found this cost $232 million more to build, finance, operate and maintain as a P3 project, with additional costs as follows:

- Financing ($102 million)
- Operations ($121 million) and
- Maintenance ($9 million)

In Europe, the European Court of Auditors concludes P3s "cannot be regarded as an economically viable option for delivering public infrastructure." The European Union's financial watchdog looked at 12 projects involving roads and information technology in France, Greece, Ireland and Spain. The review found P3s $2.4 billion in inefficient and ineffective spending, underwent "inadequate analysis," did not speed up project delivery, lacked transparency, and didn't always transfer risk to private corporations.

The P3 model emerged from the UK, but the UK's National Audit Office (NAO)—the equivalent of Auditors General or Provincial Auditors in Canada, found that using private money to pay for public infrastructure was more expensive than having the government borrow the money and do it themselves. The report found that over a 30-year period, the higher cost of borrowing for a P3 nearly doubled the cost of paying off debt.

2. P3s are Riskier

Carillion, a major global player in the promotion of P3s went into liquidation in the UK in 2017. The collapse of this massive company is a case study of all that is wrong with P3s as an approach to building and operating public infrastructure according to economist Dr. John Loxley. Carillion collapsed after it had failed to meet huge debt commitments. The UK government had to step in to feed children and hospital patience, operate hospitals and prisons and maintain roads, demonstrating P3s do not transfer risk.

Toby Sanger found that Infrastructure Ontario's 75 P3s was justified on the basis that they transferred large amounts of risk to the private sector, but there was absolutely no evidence or empirical data provided to support these claims in the value-for-money assessments (VFM).

Hospitals in Saskatchewan built under the P3 model were smaller, had design flaws such as stretchers not fitting through doors, and were poorer quality, leading to more expensive public costs to deal with these problems.

In Partnership in Name Only: How the public sector subsidizes the P3 model shows how P3s sow confusion about responsibilities and duties, relies inordinately on public sector workers to remedy many of the deficiencies of the P3 contract and often fails in both design and function to promote the best interests of the publics they are supposed to serve. Dr Simon Enoch interviewed 18 civil servants working on Saskatchewan P3s and found extensive problems and frustrations with the P3 model, and workers constantly called upon to remedy the failures of the model. The report concludes that in a very real sense the public sector is subsidizing the P3 model.

3. Small Markets With Low Competition for Public Sector Contracts

There is very little competition among large P3 contactors. For example in Ontario, five contractors got over 80 per cent of all Infrastructure Ontario projects. Just two of the facility management companies took a majority of P3 projects with a maintenance component. This lack of competition puts governments in a weak bargaining position for P3 contracts.

4. P3s Have Higher Risk

Risks can never be completely transferred through P3s. Sanger finds Ontario P3 projects have created an estimated $28.5 billion in liabilities and commitments still outstanding to private corporations — a cost Ontarians will have to pay back in the future.

Hamilton is another example. After signing a 10-year P3 deal for their water systems in the nineties, residents of Hamilton, Ontario woke up one day to find 135 million litres of raw sewage spilling into the harbour and flooding in their basements and small businesses. This followed with the City water services workforce slashed in half as project costs ballooned, and the contract changed hands four times. The City of Hamilton took water back into public hands, saving the city and its residents millions of dollars.

5. P3s Take as Long as Publicly-managed Projects

A recent Ontario study found that even though benchmarking was biased towards P3s, conventional procurement projects still had higher timely completion rates than P3 projects. According to a 2015 Infrastructure Ontario report on 45 Alternative Financing and Procurement (AFP) (Ontario's term for P3) projects and seven traditional direct delivery projects between $10 million and $50 million, the public procurement comparators (PSC) were 71 per cent on budget and 86 per cent on time (PSC) whereas 98 per cent of the AFP projects were on budget and 73 per cent were on time. Researchers found that the "on budget" discrepancy can be explained by public projects under-estimating budgets in order to gain approval for public projects.

6. Value for Money Numbers for P3s Manipulated

In 'Regina's P3 referendum: A vote hijacked by a war of numbers from nowhere,' Bill Bonner and Morina Rennie suggest there wasn't enough verification of data the City of Regina used to decide a public-private partnership (P3) was the best deal for building the facility. The expert calculations supporting these numbers used by proponents for P3 were severely redacted in reports released to the public. Despite the lack of verifiable substance these numbers were enlisted by P3 proponents and were amplified during the referendum, effectively drowning out all other discourse.

In conclusion P3s do not make sense financially, lead to a loss of good public sector jobs, less responsiveness to community concerns and blurred accountability. The City and the Province should consider evidence about the problems with P3s and resist the cimpulse to bring back this zombie policy from the dead.

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