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November 26, 2008

Private Public Partnerships for Winnipeg's Water are not the Answer

The decision by Mayor Katz and his allies on City Council to move ahead with an arm's length corporation to manage and operate the city's water and waste operations has provoked alarms from different citizens and labour organizations in Winnipeg. It is not however clear what the concern is all about, and whether it should be of concern to Winnipeggers at large.

There are multiple issues at stake here, many of which are being strategically confused with one another. This confusion has allowed the Mayor and his supporters to disrespectfully dismiss opponents to the proposal and shut down debate without consequence. This lack of clarity also has some councillors proclaiming to their constituents that the proposal calls for the creation of a crown corporation just like Manitoba Hydro, which is simply not the case.

The two main issues are the creation of the arm's length corporation and the involvement of the private sector in the provision of water and waste services. The first issue is whether the city should create a city-owned utility and give up some control over the delivery of services, while the second is whether for-profit companies should operate some water and wastewater services that have previously been publicly operated by the city.

Christopher Leo, in his Free Press article last week, pointed out the concerns with the issue of

public control. He argued that there are some real problems with Council giving up direct control over the essential services provided by the city's water and waste department. In particular, he pointed out that giving up this control would affect Council's ability to leverage our water system as an economic development tool to help sustain industry and jobs and combat urban sprawl.

The issue of private sector involvement in the proposed utility has received minimal media coverage to date. The proposal as set forth by City Council involves setting up the new utility as a Private Public Partnership (P3). Under a P3, a for-profit company takes responsibility for designing, building, financing, and in some cases operating and owning, public infrastructure - in this case aspects of our water and wastewater system. The city then "leases" the service from the company. This is different than traditional infrastructure procurement where the city hires the private sector to build and sometimes design projects, but finances, operates and retains ownership and control over the infrastructure over its lifespan.

The motion passed by City Council last Wednesday gives the city permission to "begin the procurement of a Strategic Partner that could bring private sector experience to the design, construction, finance and potentially the operation" of city water and sewage operations. In spite



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of the Mayor's assertions that Council has no intention to privatize Winnipeg's water and sewage services, the proposal clearly opens the doors to operating the city's water and waste operations as a P3, and thereby to the privatization of water services.

The argument in favour of P3s is that competition makes the private sector more dynamic and efficient than the public sector, and that transferring total control of infrastructure to the private sector gives them stronger incentives to do it right. However, the idea of private sector superiority is not supported by the evidence, and is in fact quite counter-intuitive when it comes to infrastructure. Governments can generally borrow at a lower interest rate - a direct cost advantage over P3 financing. Further, the gains from competition are not lost when the government maintains ownership, as private sector companies still compete for the contract to design and build the project. In fact, P3 contracts can reduce competition as they almost always guarantee exclusive service provision by the private sector partner and bind the government to continue the lease arrangement for decades. Lastly, P3 agreements are incredibly complex, meaning that substantial amounts of money are devoted to lawyers' fees that could be better spent on infrastructure and service delivery.

P3s also have to generate a profit to justify the private sector partner's involvement. P3s are generally made profitable through higher project costs (compared to public provision) and/or by cutting the costs of project operations. Even if the private sector can somehow generate efficiencies compared to the public sector, this gain is unlikely to make up for the additional costs. Furthermore, these "efficiencies" often mean replacing experienced unionized workers with less experienced low wage labour, cutting staff, reducing service delivery and quality, and applying or raising user fees – a move many

wouldn't characterize as efficient at all. Many of these P3 cost cutting measures have resulted in serious problems for governments across Canada, who found themselves with declining quality and poor delivery of essential services. This coupled with public outcry has led some governments to renegotiate or break P3 contracts, at huge expense to the taxpayer.

The most well known example of a P3 gone wrong is the Hamilton water treatment plant that was contracted out in a P3 arrangement to Philips Utilities Management Corporation in 1994. The company ended up firing half of the workers employed in the utility, flooding 200 homes and businesses, and spilling 180 million litres of raw sewage into the water system – the largest sewage spill ever into Lake Ontario. After a series of renegotiations and re-contracting, costing the taxpayer millions, the city eventually took back the service. Many municipalities, including Edmonton, Vancouver, and Victoria, after seriously investigating the option, decided not go move ahead with P3s for water treatment and delivery.

City Council would be wise to seriously consider the potential risks of P3s, particularly with respect to such an essential service as water treatment. There is simply too much evidence that P3s are a risky, costly, and in some cases, dangerous way of providing public infrastructure. Rather than putting ideology over good public policy by *assuming* that the private sector is more efficient, the mayor and city council should undertake a cost-benefit analysis of private versus public delivery and ownership of the city's water and waste services. Given the past performance of P3s, it is likely that the public sector would come out on top as the most efficient and cost effective option for Winnipeggers.

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