Fast FACTS
CANADIAN CENTRE FOR POLICY ALTERNATIVES – MANITOBA

there is an alternative.

October 9 , 2012

Let's Put the Horse Before the Cart: Why We Need Investment in Social Infrastructure

In July, 2012, the Canadian Centre for Policy Alternatives – Manitoba was invited by the federal government to participate, together with other groups representing a variety of industries, in consultations for its long-term infrastructure plan. Most presentations emphasized the need for traditional physical infrastructure projects related to roads, sewers, water treatment, etc. However, investment in social infrastructure is an equally critical investment in job creation and as such, a legitimate economic driver. If Manitobans are under-educated, under-trained, poorly housed, poorly paid and suffer from poor health, all the physical infrastructure investment in the world will not increase our economic performance or quality of life.

The scope for investment in social infrastructure is vast, but it has been noted that two of the most important areas to concentrate in are education and training, and housing (which includes, of course a physical infrastructure component). The first area includes investments in early childhood education and care, which can also stimulate the economy through the building of the required physical infrastructure. Quality childcare services lay the groundwork for a productive economy by providing children with the start they need to succeed in education and later, employment. Accessible childcare services allow parents to upgrade their skills so they can participate in gainful employment. Investment in low-income housing should include the hiring and training of local under-skilled people who would gain a foothold in the construction trades. By incorporating the training component in the provision of much needed physical infrastructure, we get a double payback on public investment.

Federal infrastructure programs can benefit entire communities by incorporating a Community Benefit Clause Policy. These contractual clauses add a social component when evaluating federal infrastructure projects, going beyond the more traditional consideration of price, quality, and environmental impact. Community Benefit Clauses can boost training and apprenticeship or employment opportunities for groups with multiple barriers to employment. There are business models emerging across the country, called social enterprises, which have a specific mandate to hire and train this clientele. Those hired generate new tax revenue as well as government savings because they no longer depend on social assistance or other community and social services.

Many individuals will continue to miss out on education and training opportunities unless the affordable housing crisis is addressed. As of spring 2012, CMHC reported that Manitoba's vacancy rate was 1.2 per cent, the lowest in Canada. In Winnipeg's inner-city and North End, income is far below the city's median rate, and subsidized housing is scarce. CCPA Mb. research shows that families are unable to meet their housing needs in the private

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market and the province is unable to make up for the loss of federal housing programs which were withdrawn in 1993.

Stable housing provides a base to improve educational outcomes for children and allow individuals to fully participate in their communities. It also contributes to better health and wellbeing, which reduces government spending in health and other areas, providing additional fiscal benefits. Meanwhile, housing construction boosts economic activity through job creation and generates additional economic and social benefits when targeted employment development strategies are employed. We feel that these types of strategies do much more to address obstacles to economic growth and societal well-being than some of the strategies, such as P3s, currently used.

In our presentation to the Committee, we were asked to recommend how the use of Public Private Partnerships (P3s) could be expanded. We recommended that support should shift away from P3s, which by nature are not likely to be interested in social infrastructure, and which have not proven effective in funding physical infrastructure.

Academic research into tools as the Public Sector Comparator (PSC) shows how easily P3 proponents can understate the public sector's ability to be innovative. Even the OECD admits that it is too easy to manipulate PSCs in favour of a P3. There is also evidence that the transfer of risk from the public to the private sector is highly exaggerated, and even when risk is transferred, the private sector knows how to avoid it through layers of subcontracting and insurance, thereby passing costs on to the public sector.

John Loxley, a Manitoba economist who has extensively studied the P3 model, has found that legal contracts can add to the considerable transactions costs incurred when pursuing a P3 contract; these often hidden transaction costs need to be considered carefully when judging whether or not to pursue the P3 option.

Construction costs and cost overruns must also be carefully anticipated and monitored. For example, the Auditor General of Ontario revealed that the P3 used for the Brampton Civic Hospital had overstated the Public Sector Comparator by $245 million. It did so by inflating some design and construction costs, and including some costs which it should not have. Other irregularities, including a questionable transfer of risk, led to a total cost overrun of $168 million, which was far greater than inflation. The funding agreement in place meant that the Province of Ontario had to bear up to 30% of the cost of this overrun.

Another crucial element in the evaluation process is the discount rate that is used for the Public Sector Comparator. The entire Value for Money calculation can be easily manipulated simply by slight changes in the discount rate. Loxley notes that according to the literature the rates used in Canada tend to be too high, thereby favouring the P3 option.

There are other examples of problematic P3s in Canada. In British Columbia forensic accountants Ron Parks and Rosanne Terhart found a consistent pro-privatization bias in the way Partnerships BC compares costs when evaluating P3 proposals. 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.

John Loxley's research shows that right here in Winnipeg we are paying 11.05 per cent in yearly interest to the private sector for the Charleswood Bridge P3, while the City's costs of borrowing are currently less than 6 per cent.

Instead of using P3s, we need to apply a broader lens when deciding how to invest scarce infrastructure money. Sustained public investment in social infrastructure, combined with targeted public investment in areas such as housing, provides the greatest value.

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