# WINNIPEG CITIZENS' COALITION PRESENTATION ON CAPTIAL BUDGET 2009 PUBLIC PRIVATE PARTNERSHIPS

This present City Council has been moving in a direction that is blurring the boundaries between the public good and private interests. The Council's policy commitment to expanding public private partnerships as a service delivery approach is a good example of this growing trend.

Public private partnerships (PPPs) are ideologically driven, embrace private market values, and are not based on objective analysis. The famous words of the well known neo-conservative economist, Milton Friedman, that "the business of business is business" should be kept in mind with respect to the underlying motive of public private partnerships and the role they play in obscuring the boundaries between the public good and private interests.

Mayor Sam Katz has argued that the recent $70 million cost overrun at the water treatment plant is an example why City Council should adopt a PPP approach for capital projects such as the Disraeli overpass upgrades, replacement of police stations, the extension of the Chief Peguis Trail, and construction of additional water treatment facilities. The implication is that the traditional public sector approach for building infrastructure is the reason for these cost overruns.

This misguided view needs to be challenged. Hyper- inflation involving the price of materials and labour in the construction sector, as well as labour shortages, are the key factors that have driven up costs for capital projects. It is private contractors working for the City that are incurring these capital costs. The City does not do its own contracting.

According to John Loxley, an economist from the University of Manitoba who has been studying public private partnerships for the past 10 years, these cost increases would not have been avoided by alternative approaches to construction. For instance, design-build approaches, a common feature of PPPs, put the onus on the contractor to bring in a project on budget, but contractors build expected cost increases into their bids. Unexpected and unbudgeted cost increases in a design-build project result in lower quality product being delivered, or in the private contractor going bankrupt or, more likely, as numerous instances around the world show (the most graphic being the Channel Tunnel Link in the UK), is the private contractor being bailed out by the public sector. One way or the other, the taxpayer ends up paying for cost increases.

Loxley identifies that academic studies uniformly conclude that PPPs:

1. Cost more than public sector alternatives ( i.e. higher PPP lease financing costs relative to the traditional government financing of capital projects have been confirmed by the provincial auditors of Nova Scotia, New Brunswick and Ontario)

2. Rarely provide value for money.

3. Do not necessarily shift risk to the private sector (i.e. the city of Hamilton had to pay for the clean-up costs of the PPP water treatment plant that was the site of the largest ever sewage spill into Lake Ontario).

4. Do not reduce government debt as they so often promise.

The Charleswood Bridge is a good example of the misrepresentation of the benefits of PPPs. Mayor Susan Thompson promoted the use of a PPP approach in 1995 to construct the Charleswood Bridge and said that it would be $1 million cheaper than using the traditional public sector capital construction approach.

However, Loxley has recently completed a detailed study of the Charleswood Bridge that concludes otherwise:

- The $11.6 million contract was leased by the city over 30 years instead of the traditional public sector capital project approach of 20 years and will cost an extra $1.4 million in present value terms for financing costs.

- While the City continues to pay a borrowing cost of 11.05% built into the lease, its own borrowing costs have fallen to between 4.50% for 10 year bonds to 5.05% for 22 year bonds. It is outrageous that the private financing partner is gaining all the benefits of lower interest rates.

- Hidden costs of bidding PPP's; preparing and evaluating requests for quotations and requests for proposals was estimated to be $1.6 million or 10% of the project; costs to consultants was 6.7 times as high as those incurred through the traditional design-bid-build approach.

The key questions that need to be raised regarding the PPP approach include:

1. The lack of rigorous evaluation of the private consultant's calculation of the Public Sector Comparator – in other words, the way in which the traditional public capital construction project benchmark is established as a comparison to the cost of the PPP approach.

2. Risk premiums are based on highly subjective methodology which also must be more closely scrutinized.

3. The PPP approach privatizes information that should remain in the public realm as access to information is denied because it is subject to commercial and confidential restrictions.

The PPP approach enables private sector consultants to exercise their private market oriented values to evaluate public sector projects. These private consultants need to be held more accountable. The community and academic sectors need to be able to evaluate the private sector consultants with respect to their assumptions, methodologies and findings in order for a more balanced approach to be developed regarding the use of PPPs in the construction of public infrastructure.

The Winnipeg Citizens' Coalition calls upon the Mayor and EPC to make the following commitments:

1. All reports (especially with respect to the development of the Public Sector Comparator), risk analysis and contracts associated with PPP capital projects should be made available to the public regarding the water treatment plant, police station, Disraeli overpass upgrades and Chief Peguis Trail extension in order to promote transparency, accountability and to ensure that value for money objectives are being achieved for the citizens of Winnipeg.

2. The maintenance contract for the Charleswood Bridge should be made available to the public – members of the community have been asking for this information for the past 10 years and have to date not been provided this contract.

3. The City of Winnipeg should pass a by-law that would require all reports, risk analysis and contracts associated with PPP capital projects be made available to the public (i.e. the provinces of Ontario and British Columbia have established public policies regarding public access to information regarding PPPs).

4. A moratorium on future public private partnerships should be instituted as recommended by the Alternative Municipal Budget developed by the Canadian Centre for Policy Alternatives given the misrepresentation of the benefits of the PPP approach that is evidenced nationally and internationally, including the Charleswood Bridge in our community.

In conclusion, if public private partnerships are all they are cranked up to be, then the Mayor and City Council should have no problem ensuring that these projects are open to full public scrutiny and accountability, and have, in fact, an obligation to the citizens of Winnipeg to do so given that the effective and efficient use of public funds are at stake in these type of initiatives.