
Members absent: T. Cowan, R. Deutschmann, B. Halloran, C. Millar

MOTION TO GO INTO CLOSED SESSION

MOVED by T. Galloway
SECONDED by J. Brewer

THAT a closed meeting of the Planning and Works Committee be held on Tuesday, February 7, 2012 at 5:45 p.m. in Waterloo County Room in accordance with Section 239 of the Municipal Act, 2001, for the purposes of considering the following subject matter:

   a) labour relations related to procurement

   CARRIED

MOTION TO RECONVENE IN OPEN SESSION

MOVED by L. Armstrong
SECONDED by S. Strickland

THAT the meeting reconvene into Open Session.

   CARRIED

Chair Wideman advised that Councillor Halloran was absent to attend a Federation of Canadian Municipalities conference; C. Millar forwarded her regrets; T. Cowan was absent to attend the Township of Woolwich Council meeting; and that J. Haalboom would arrive late.

DECLARATIONS OF PECUNIARY INTEREST UNDER THE MUNICIPAL CONFLICT OF INTEREST ACT

K. Seiling declared a pecuniary interest regarding Report E-12-011 Recommended Procurement and Delivery Option for Stage 1 Light Rail Transit due to two of his adult children who own residential properties within the proposed corridor.
D. Craig declared an interest regarding Report E-12-011 Recommended Procurement and Delivery Option for Stage 1 Light Rail Transit due to his son owning property within the area of a proposed station on the rapid transit system.

**RECOMMENDED PROCUREMENT AND DELIVERY OPTION FOR STAGE 1 LIGHT RAIL TRANSIT**

*K. Seiling left the meeting and J. Brewer entered the meeting at 6:08 p.m.*

**STAFF PRESENTATION**

Mike Murray, Chief Administrative Officer, provided a power point presentation with respect to the matter. A copy of this presentation is appended to the original minutes. He reviewed the staff recommendation; explained the Region’s role in the recommended procurement option; discussed the procurement objective; highlighted the key considerations; explained the Design Build Finance Operate Maintain (DBFOM) rationale; outlined the advantages and concerns with including the Operate component; highlighted the benefits of the DBFOM; explained cost savings; and reviewed the Region’s experience with Public Private Partnerships.

**DELEGATIONS**

a) John Shortreed delivered a power point presentation. A copy is appended to the original minutes. He requested Committee to consider removing the Operate and Maintain components of the Light Rail Transit (LRT) system from the procurement; to reconsider the choice of LRT over Bus Rapid Transit; and to redo the risk analysis. J. Shortreed explained various aspects to be considered when implementing LRT with respect to partnerships, traffic congestion and urban lifestyle trends.

b) Ian McLean, on behalf of the K-W Chamber of Commerce, expressed support for the recommended procurement option.

c) Robert Milligan expressed concern for the design aspect of the LRT and suggested that the Region implement and engage technical experts and specialists from the community for its design. He suggested that the design of the LRT should be world class to attract people out of their cars and into transit. A copy of his presentation is appended to the original minutes.

*L. Armstrong left the meeting at 6:46 p.m.*

d) John Jackson, on behalf of the Grand River Environmental Network, suggested that the staff reports have not provided enough information to fully understand the procurement models. He expressed concern for the financial aspect of the project; the minimization of risk; public involvement in decision making; and customer service responsiveness. J. Jackson suggested that Committee and the public should have more time to explore these issues prior to making a decision. He reviewed a Region of Waterloo submission to the Walkerton water inquiry regarding public services.

e) Warren Schnurr, on behalf of the Canadian Auto Workers Union Local 4304 which represents 550 Regional transit workers, addressed Committee. A copy of his presentation is appended to the original minutes. W. Schnurr expressed concern for privatization through the DBFOM model. He indicated that the Region has the ability to operate this system effectively. He commented that a private contractor would have higher financial borrowing costs than the Region. He suggested that Committee reduce
the risk of labour conflicts and retain the Operate and Maintain components and bargain with the CAW in that regard. He felt that this would also contribute to the continuity of service for the entire transit system.

f) Duncan Clemens delivered a power point presentation. A copy is appended to the original minutes. He expressed concern for a 30 year contract related to operations; explained potential benefits of the Design Build Finance Maintain versus the DBFOM models. He requested Committee to review the Value For Money Assessment; recommended the DBFM model for Stage 1 LRT and felt that Grand River Transit should bid for the operation of the system.

* D. Craig left the meeting at 7:13 p.m.

g) Janice Richards and Mark Goodwin appeared on behalf of the Canadian Union of Public Employees, Locals 1883 and 1656. A copy of their presentation is appended to the original minutes. J. Richards listed the various technical job positions within the Region that could be utilized and explained the benefits of Operate and Maintain being retained by the Region. She expressed concern for the lack of control the Region would have regarding labour relations if LRT was privatized. J. Richards requested Committee to exclude the Operate and Maintain components and to defer its decision until employee groups have an opportunity to supply additional information about the Operate and Maintain models.

*J. Haalboom entered the meeting at 7:19 p.m.

h) Kevin Thomason delivered a power point presentation and provided a written submission. Copies are appended to the original minutes. K. Thomason suggested that the Region retain the Operate and Maintain models in the procurement options. He reviewed the successful operations of Grand River Transit. He opined that the DBFOM model could potentially lead to a cheaper system and suggested that the system should be world class with leading edge innovation where increasing ridership is paramount. He suggested a shorter term for the procurement contract and that Farebox revenue be shared; a joint venture where the Region gradually takes responsibility at certain milestones in the project. He felt that the community has the ability and knowledge to successfully deliver on these aspects of the project.

i) Michael Druker expressed concern for the DBFOM model for several reasons including: expansion challenges; legal loopholes; uncertainty over long-term impacts; the construction timeline; and the potential increased costs of privatization. He commented that this decision would be based on information that was secret, unverifiable, questionable, and has not been made available to the public. M. Druker supported a Design Bid Build model and explained his reasoning. A copy of his presentation is appended to the original minutes.

j) Len Carter addressed Committee as a citizen and on behalf of the Waterloo Labour Council. He provided a number of written submissions to Committee. Copies are appended to the original minutes. L. Carter expressed concern for including the Operate and Maintain models in the procurement and explained his reasoning. He explained that Regional staff, together with expertise within the community, are very capable of taking on this project and he felt it would be in the best interest of the community to do so. He explained the Labour Council’s analysis of Public Private Partnerships.
k) Tim Mollison, on behalf of Tri-Cities Transport Action Group, expressed concern for privatization of the LRT. He reviewed what he felt was included or not included in the DBFOM model with respect to planning ahead to ensure staff have the experience and knowledge of the operation and maintenance of the system; borrowing power; the length of the contract; quality of service; and the risk of contract abandonment. He suggested that several procurement models be sought and a decision made after reviewing and evaluating all of them. A copy of his presentation is appended to the original minutes.

l) Graham Chevreau requested that the Region provide a summary of options which outlines the estimated cost; the private partner contribution, their return on investment, and the taxpayer’s portion; and the expected cost per household per year.

m) Ginny Quinn questioned whether the original project cost estimate of approximately $800,000 was still relevant. She supported the delay of this decision to allow for more information sharing.

n) George Bechtel expressed concern for inclusion of the Operate and Maintain model. He explored the issue of fewer American youth interested in driving.

REPORT - TRANSPORTATION AND ENVIRONMENTAL SERVICES - RAPID TRANSIT

a) Report E-12-011, Recommended Procurement and Delivery Option for Stage 1 Light Rail Transit

Committee members reflected on the impacts, scope, financial aspects, and procurement of the project. They expressed support for the DBFOM model, which is designed to protect the Region from the quality and value of the system that would be transferred back to the Region at the end of the term. They spoke about the partnership with Infrastructure Ontario who is recognized as a world leader in large scale infrastructure projects such as hospitals, transit and schools.

Members reflected on the delegates concerns for the Operate and Maintain model and explained why they support the DBFOM model noting that they are also concerned about the Operate function over the 30 year term and have built that into the recommendation. Committee members recognized that there are advantages and disadvantages to the procurement models which they have weighed and felt that the DBFOM model has the best opportunity for success.

Committee reiterated that the LRT project goal is to deliver the project on time, on budget and at a good value to the taxpayers. They reflected on the Region’s successful public-private partnerships such as Waste Management.

Through member inquiries, staff explained: where the savings would be realized in the DBFOM model; the Request for Proposal (RFP) public and approval processes; that the $818 million project cost estimate took inflation into account; the time restrictions and the work involved in the RFP process and the extensive documentation required.

For clarification, the information that the public perceived to be secret information belongs to Deloitte and is the information that they collected to determine the value for money results. That information is proprietary to Deloitte and has not been provided to the Region. The Value For Money calculation results are included in the staff report.
Committee members thanked the citizens for coming forward with their concerns. They thanked staff for the good quality work that they have done so far, and the Councillors for engaging in the debate.

G. Lorentz requested a recorded vote on the following motion.

MOVED by S. Strickland
SECONDED by T. Galloway

THAT the Regional Municipality of Waterloo take the following actions regarding the procurement of Stage 1 of the light rail transit project, as described in Report No. E-12-011, dated February 7, 2012:

a) approve Design-Build-Finance-Operate-Maintain (DBFOM) as the procurement and delivery option for Stage 1 light rail transit, with a 30-year project term for the long-term Finance and Maintain components, subject to confirmation by the provincial and federal governments that they will maintain their rapid transit funding commitments with the DBFOM option; and

b) direct staff to report back to Council with staff’s recommendation for initial and renewable project terms for the Operate component of the procurement and delivery option.

CARRIED

Yea: J. Brewer, T. Galloway, R. Kelterborn, G. Lorentz, J. Mitchell, S. Strickland, J. Wideman, C. Zehr
Nay: J. Haalboom

CORRESPONDENCE

a) Letter dated February 5, 2012 from Kate Daley expressing concern regarding Report E-12-011.

Received for information.

ADJOURN

MOVED by G. Lorentz
SECONDED by J. Mitchell

THAT the meeting adjourn at 8:38 p.m.

CARRIED

COMMITTEE CHAIR, J. Wideman

COMMITTEE CLERK, J. Reid
LRT Stage 1
Proposed Approach to Procurement and Delivery
Staff Recommendation

- Preferred Stage 1 LRT procurement and delivery option
  - Design – Build – Finance – Operate – Maintain (DBFOM)
- 30 year term for Finance and Maintain
- Evaluate options for Operations term (e.g. 5 to 10 years renewable) – and report back to Council
Region’s Role

• Own the LRT system
• Integration of LRT and conventional transit
• Continue to operate and maintain bus system
• Set fares and service levels
• Receive all fare revenue
• Customer service
Procurement Objective

• Best value for money – considering:
  – Capital cost
  – Long – term operations and maintenance costs
  – Costs associated with changes and unforeseen events (“risks”)
  – Construction and service quality
Key Considerations

• Minimize “interfaces” between different parties (Region, contractor(s), etc.)
  – Minimize “finger-pointing”, claims, litigation
  – More complete “bundle” = fewer interfaces

• Motivation to ensure long-term value
  – Optimize life-cycle costs
  – Hold back financing to ensure quality of construction and operations and maintenance

• Pay for Performance
DBFOM Rationale

• Design and Build
  – Consultants and contractors currently do this (separately)

• Why add Maintenance?
  – Integrate long-term maintenance into design and construction – optimize life-cycle costs

• Why add Finance?
  – Financial incentive to ensure quality of construction and guarantee performance
  – Additional diligence and oversight by lenders over entire project term
Operations – In or Out?

• Advantages of Including Operations:
  – Avoids ‘finger-pointing” between operator and maintainer (reduced claims for extra costs)
  – Access to contractor’s operating experience
  – Avoids “commissioning” complications

• Concerns:
  – Perceived loss of control / locked-in to contract
  – How to deal with Stage 2 expansion?

• Recommendation:
  – Include Operations in initial contract
  – Evaluate options for shorter, renewable terms (e.g. 5 to 10 years) or other exit options
Benefits of DBFOM

• Fixed price and cost certainty
• Minimizes interfaces – single accountability
• Improved coordination / time savings on design and construction
• Motivation / incentives to ensure quality of construction, operations and maintenance
• Best “Value for Money”
  – Considering capital and O&M costs and value of “risks” transferred to contractor
Source of Savings

• Integrating design, construction and maintenance
  – Faster construction, fewer conflicts and claims
  – Incentives and opportunities to optimize life-cycle costs

• Competitive pressures encourage innovation

• More flexible approach to operations and maintenance

• Incentives to anticipate and minimize “risks”
Experience with PPPs

• Region of Waterloo experience
  – Private consultants and contractors on all large capital projects (design, bid and build)
  – Wastewater Operations and Maintenance
  – Waste collection and MRC O&M

• Many successful transit projects
  – Good examples to learn from

• Recent Ontario experience
QUESTIONS?
John Shortreed, 1303-191 King St. S, Waterloo
PhD, Professor Emeritus UofW(Transport Planning); Director of Institute for Risk Research 1981-2009: shortree@uwaterloo.ca

- Taught graduate courses in transit planning, transportation, systems analysis, economics, statistics;
- Many transit publications about Canada, US and UK
- Currently on CSA risk management committee and advisory board for graduate Risk Management Program in New York area (Manhattanville College)
- Many research publications in Risk Management in all modes of transportation (air, truck, cars, rail, water, transit)
- Taught many of the senior transport staff at the Region
- 2011 risk talks to Deloitte and Auditor General, S. Korea
Warning – The chair of the Region, in the Record, and Regional staff, at public meetings, have stated that “my knowledge, experience, and opinions are now out of date”

I was able to discuss this with your senior staff and discovered that I do not understand modern trends of people choosing to live in “urban lifestyle areas served by transit”

(such as in UpTown, next to the LRT route, where I have lived for the last 17 years)
Warning - Continued

• It turns out that your staff were not aware that the 4 stage transport models used by Region’s UK consultants, can include any sort of household, and that people like Mike Batty of University College have done leading edge work on how to characterize these modern households and their travel demands for 4 stage models (I recently discussed this with him)

• You may also recall my recent presentation to you and other local councils on “Innovation Corridor” on how to achieve Provincial Intensification Targets by Urban Lifestyle designs – it was well received
What I would like you to consider

1. The Region operate and maintain the LRT system
2. The Region revisit the choice of LRT vs BRT based on the Deloitte risk analysis as it raises many new and significant “tipping point” issues for that choice
3. The Region redo the risk analysis, correctly, before revisiting the LRT versus BRT choice.
4. Finally, I hope that you will overcome inertia and revisit your previous decisions and not just say “We decided last June, it is too late now to worry about wasting a billion – we must press forward”
The region operate and maintain the LRT

- There is extensive coordination required between local bus transit and LRT, consider the recent situation in York Region with 3 months strike with no LRT service. They also fired one contractor. Oversight of contracts is not trivial or without risk.
- The LRT design, in order to increase its use makes extensive use of transfers from the local Bus system to complete transit trips. This adds to the two party complications.
- Almost all the big risks will be known when the design build contracts are considered. The smaller short fall of 5-8 million per year due to lower than expected ridership (E.G. see your consultant’s predictions of 10% peak hour transit not 15% as in your plan) can be managed by service cuts.
The region operate and maintain the LRT

- On King street, there will be considerable traffic congestion, delays to non LRT transit vehicles and ambulances, problems with no left turns on King between Kitchener and Waterloo (E.G. Bauer Lofts and Shops)
- It will be necessary to negotiate changes in the LRT schedule, traffic light timings, etc.
- Easier, cheaper, with one party, the Region
revisit the choice of LRT vs BRT

What if you knew, when you chose LRT over BRT, that staff did not have the expertise to design, bid, supervise construction, operate and maintain a LRT system? Would it have made a difference?

*Did staff have the expertise to supervise the consultants that developed the LRT concept?*

The chair of the Region, in a lead role, at the “Rally for Rails” months prior to the BRT vs LRT choice stated that “*LRT will be a legacy*”

*Did this bias staff?*
revisit the choice of LRT vs BRT (one example)

<table>
<thead>
<tr>
<th>City →</th>
<th>Waterloo</th>
<th>Minneapolis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>729,000</td>
<td>3,000,000</td>
</tr>
<tr>
<td>Downtown Emp</td>
<td>24,000</td>
<td>160,000</td>
</tr>
<tr>
<td>Malls on LRT</td>
<td>Conestogo, Fairview</td>
<td>Mall of America (900 stores, rink, amusement park, aquarium, etc.)</td>
</tr>
<tr>
<td>On LRT besides malls &amp; downtown</td>
<td>UpTown, UofW</td>
<td>Twins, Vikings, Delta Hub Airport (parking)</td>
</tr>
<tr>
<td>Cost overrun</td>
<td>est 5-10%</td>
<td>75%</td>
</tr>
<tr>
<td>Boardings/day (length of LRT)</td>
<td><strong>45,000</strong> (19 km)</td>
<td><strong>30,500</strong> (stable 3 yrs) (19 km)</td>
</tr>
</tbody>
</table>
redo the risk analysis, correctly

- It really is “preliminary” in every way
- Only ‘Heat Map’ (risk plots) I ever saw, with Red, Yellow, and Green all meeting at one point, unbelievable, (imagine the chaos at a traffic light)
- Unusual for engineering risk analysis, no real numbers are shown with ranges of real costs, number of riders, etc. No scales on axis of graphs!
- Main finding of Deliotte study is illogical, with private financing and higher interest rates than for Region, the result is lower costs ??? Unbelievable
  Unfortunately, no data given to find out why
redo the risk analysis -- Consider the Conclusion

<table>
<thead>
<tr>
<th>Proposed Option -&gt;</th>
<th>Design Build</th>
<th>Design Build Finance</th>
<th>Design Build Operate Maintain</th>
<th>Design Build Finance Maintain</th>
<th>Design Build Finance Operate Maintain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Savings (%) compared to Design-Bid-Build option</td>
<td>5%</td>
<td>9%</td>
<td>10%</td>
<td>16%</td>
<td>18%</td>
</tr>
<tr>
<td>Risks Retained by Region ($Million) over 30-year period of comparison</td>
<td>728</td>
<td>597</td>
<td>622</td>
<td>318</td>
<td>274</td>
</tr>
</tbody>
</table>

Reduce Risk and save more – risk reduction for less money – not possible

Adding **Finance** increases savings in red & green examples – not possible
Given **new information** please
revisit your previous decisions

Save Money, Reduce Risk, Pick BRT, Save Santa Claus

Keep Octoberfest, don’t say

“We decided last June, it is too late now to worry about wasting a billion”

Pleased to answer your questions now or later at shortree@uwaterloo.ca

lots more things you should know that no one has told you but no more time
TOWARDS A WORLD CLASS LRT SYSTEMS DESIGN

No matter what procurement and delivery option you select for the light rail transit (LRT) project, the Design component -- where you "complete detailed LRT design drawings and plans" -- will be the keystone process. So the LRT design process will be my focus.

Just as in the previous LRT/BRT debates, the LRT plan itself received insufficient attention except mostly for concerns about resulting local tax increases, and about some community and business disruptions. These valid concerns -- which I have tried to address myself -- have received inadequate attention by staff.

Similarly in the current debate, little concern is being expressed about the detailing of the LRT plan through the design process. This process is too important for the success of our greater Regional area to (again) virtually be left to "expert" staff and consultants -- with at most superficial collaboration opportunities for our community's vast technological brainpower.

To best serve and advance the Regional ecosystem of our World-class hi-tech companies and universities, our LRT system should be World-class. It was never planned so. Our LRT was planned to intensify. Attracting people out of their cars was a minor consideration. You have been parochial in your thinking and not World-class! What other LRT system in the World so ignored
ridership?

Only John Shortreed and myself have tried to encourage "Bigger Picture" innovation-thinking, but we have been mostly ignored. Perhaps rightly so in regard to John's persistent and innovation-limiting bus emphasis.

But what cannot be ignored now is the very precarious position of the World's economy and society. And worse, our complex civilization's environmental foundation is in an even more dangerous position under the guillotine of an irreversible climate tipping point.

Our planetary survival -- and that of all complex Life -- demands that all past and future innovations be made environmentally, socially and economically sustainable. What if we created in the greater Water district an exemplar leading-edge World Sustainable Innovation Hub? Thereby we could potentially make a great difference in the World IF we could muster the courage to rise above what we are to what we could become.

With this grand vision in mind as a strategic direction, let's begin relatively small with an LRT system that evolves in design as it transforms from general to detailed specifications. And it should do so with the overall objective of being the best in the World -- and continuously globally collaborating to remain so.

This sophisticated design task simply cannot be done with the Region's current approach to community and business involvement. You must use more open collaboration yet try to encourage the involvement of mainly persons who have broad technological knowledge and are flexibly innovative.
For example, using "Go-to-meeting"-like and Wikipidea-like (WIKI) software, this wide-ranging group might be called LRT Sustainable Innovation Network. Set it up ASAP. (This network could be included in an eventual Global Sustainable Innovation Network.)

We should not delay the hiring of a general engineering consulting firm but maybe look more for one that has a track record of successful technological creativity.

And to best evaluate their work, the Region should employ new engineering specialists in track system design (control software, signals, safety, etc.), vehicle design (propulsion, crash worthiness & other safety aspects, comfort & digital media integration, etc.) and even renewable energy generation. Mike has mentioned these types of staff hirings -- and I hope you will support him.

And as RIM struggles to survive, we surely do not want them to suffer the embarrassment of the touted greatest Innovative area in Canada "broadcasting" to World an on-going LRT failure. This is the precious area where RIM was founded and have their head office. We must minimize the possibility of RIM and many others being forced to "swim" in an LRT-poisoned Regional ecosystem.

These are tough economic times for the Province and now increasingly for Canada. Their governing bodies are looking everywhere to cut spending. Certainly the best way for our cherished LRT project to escape their possible triage is to try harder to decrease costs and increase benefits. In fact if we did this in an exemplar manner, we would be in effect be buying more triage-prevention insurance.
What follows is a possible first iteration of IDEAS that could be used by staff, the new general engineering consultants, and a possible LRT Sustainable Innovation Network so as to help the Design process create the best LRT system in the World -- and its continuous sustainable innovation could act as an on-going Global inspiration:

All my suggestions build on the currently approved LRT plan, but (at about 1 half the cost per km.) would increase both intensification and ridership (peak & non-peak) -- with a necessary-for-overall-success first-stage south Cambridge LRT. Let me elaborate on these two central ideas:

1) Encourage commuter ridership by more fully using the existing N. Waterloo to S. Cambridge rail corridor (partly 1-track with passing tracks and partly 2-tracks). It would be relatively inexpensive (approx. 1/5th $/km.), safer, much faster, shorter, higher-capacity, ...

But, because of what seems to be a short-term-view of key transportation planners in both the Region and City (Gerry Thompson and Darshpreet Bhatti, at least, being "informal" exceptions), the yet-to-be-approved twinning of the high-rise condominium currently under construction at 144 Park will complicate the necessity of including a single-track rail right-of-way -- along the original Iron Horse corridor -- between the two condominiums.

Perhaps a potentially insightful and creative developer here could persuade himself that the top World-class hybrid LRT vehicle running (silently with no ugly overhead wires) between his two buildings could be framed as an asset to be viewed by
important guests from around the World both from their balconies and the 3rd story overlooking patio deck. A few creative landscape use design changes could accommodate such an innovative community enhancing asset that our LRT could be IF . . . .
Note: The curvature of the building's patio is approx. the same as that of the adjacent original Iron Horse corridor.

2) **Increase intensification potential** by having 2 curb-lane mixed-traffic LRT tracks (like buses which can stop more frequently) along intensification targeted streets (KW's King, Cambridge's Hespler Rd.);

Free and frequent-stopping streetcar-like LRT vehicles running along the very long "linear malls" -- King St. & Hespler Rd. -- would act like a fast-moving sidewalk to shrink large averages distances between stores (cf. a conventional mall with its parallel corridors).

The LRT track could similarly use the curb lane on Ottawa (upgrade to 4-lanes) and Charles Streets thus encouraging and better enabling intensification in the longer-term future (with some early exceptions along the "east" side of Charles).

My estimate --based on current LRT costing and Ottawa's O-Train costs -- is for a Cambridge-included cost of less than $1B.

A selection of other cost-effectiveness-improving IDEAS;

- use a hybrid LRT (DBM's lithium-metal-polymer battery &
Ford's V-10 hydrogen combustion engine)

- this avoids catenary ugliness & system electrification costs (upto 1/4 capital costs)
- produce electricity (solar cells over terminals & maintenance centre)
- produce hydrogen (green box methane)
- avoid Waterloo Downtown (2-tracks in traffic along Caroline)
- avoid Caroline/Erb intersection congestion (single track bridge from PI to Caroline)
- initially intensify only along King between downtowns (reduces costs & refines approach before proceeding to Charles/Ottawa & Hespler Rd.)
- use Intelligent Transportation System software with GPS (enables safe use of timely passing tracks & existing single-track bridges & tunnel)
- build a 3-track interchange yard north of Sportsworld Dr. on free MTO land (this would help make available during the day CP track from the Grand R. to Fairway Mall)
- work out a way for CN/GEXR to operate their only day train at night
- use free MTO land north of Sportsworld Dr. for a more central maintenance shop.
- take a continuous research approach involving the University of Waterloo (could justify additional gov't funding)

To summarize:
The IDEAS proposed here -- and others -- would result in an exciting, fast, safe, comfortable, hi-capacity, even educational, ... LRT train that uses in an upgradeable manner proven sustainably
innovative IDEAS -- smart technology, hybrid propulsion systems, solar cells, ... -- to realize both an "order-of-magnitude" lower LRT system costs (very approx. $491M in KW & $217M in C) and dramatically increase transit system performance. Not only will this "disruptive" approach model a robust sustainable innovation to the World, it will earn the vote of most citizens."
SUBMISSION TO THE REGION OF WATERLOO
SPECIAL PLANNING AND WORKS COMMITTEE MEETING

IN REGARDS TO THE RECOMMENDED PROCUREMENT AND
DELIVERY OPTION FOR STAGE 1 LIGHT RAIL TRANSIT

ON BEHALF OF THE NATIONAL AUTOMOBILE, AEROSPACE,
TRANSPORTATION AND GENERAL WORKERS UNION OF CANADA
(CAW-CANADA) AND ITS LOCAL 4304

February 7, 2012
REGION OF WATERLOO LIGHT RAIL TRANSIT

RE: DBFOM LRT PROCUREMENT OPTION
CAW LOCAL 4034 PRESENTATION

Councillors, fellow delegates, members of our community,

This evening we come before you to voice our opinion, our concern for our Region and concerns for the public transportation system in our community. Today the people of your community and the dedicated employees of your public transit service – the members of Canadian Auto Workers Local 4304 – will have a voice.

BACKGROUND OF CAW-CANADA AND LOCAL 4304
CAW Local 4304, represents some 550 regional employees at Grand River Transit, including conventional bus operators, specialized bus operators and dispatchers, mechanics and service personnel. While the majority of the 200,000 CAW members in Canada are employed in the private sector, the CAW also represents some 26,000 public sector workers in the health care, post-secondary education, municipal utility and public transit sectors providing needed quality service to the public. Some of the other transit properties the CAW represents include: Durham Region Transit, Oakville Transit and the Coast Mountain Bus Company in B.C.

The professional members of CAW Local 4304 have consistently provided dedicated service to ensure the delivery of quality public transportation to the citizens of the Region of Waterloo. Since its inception in 2000, our members have proudly served our community without any disruptions in service caused by labour disputes. CAW Local 4304 members have expertise in providing both public transit and quality customer service. We know the Region, we know the transit system and we know our customers that we are privileged to serve. Tonight we place before you why the operations and
maintenance portions of the proposal should remain in the control of the Region and not
given to a profit-driven third party.

Public transportation is essential to our social and economic well-being and must be
designed to serve public needs. The transportation needs of the citizens and our
community cannot be met by profit-driven private decision-making.

At the outset, while our Union has no issue with a private contractor designing or
building the Region’s Light Rail System, we do have issues, and believe wholeheartedly
that our members can operate, and maintain the system; we have proven it in our
relationship with the Region as it relates to transit to date.

The issue of the concept of a Public-Private-Partnership and its value has been
generally challenged around the world over the last number of years. We will not repeat
those general arguments in this particular forum except to emphasize the proposition of
promoting Canadian jobs by utilizing Canadian manufacturing processes. However, we
do want to speak specifically to the issue of the DBFOM Procurement Option proposed
for the Region’s Light Rail Transit line.

**SOME ISSUES RAISED FROM THE PROPOSED PROCUREMENT OPTION**
The report proposing the DBFOM Procurement Option before us is, in our opinion,
flawed. There are a number of issues that can be raised from the proposed
Procurement Option:

i. **PROJECT COSTS**
The report recognizes that as the private contractor, the consortium of
companies chosen to complete the Light Rail Project will have higher borrowing
costs than that of the Region. The Region, having recently had it’s AAA credit
rating reconfirmed by Moody’s can borrow the necessary funds to cover it’s share
of the project costs for less than that of a private contractor; this is stated in the
report. As stated in the Region’s own press release of January 18, 2012 “The Region’s AAA credit rating reflects sound and stable financial management, a low debt burden and a strong liquidity position.” The private sector simply cannot achieve the same low borrowing costs as the Region and therefore borrowing costs for the Light Rail Project will be higher. The Region has also consistently maintained that the project budget for the Light Rail System is realistic and achievable. If this is indeed the case, the ‘risk’ of the project going over budget or there being many unforeseen circumstances in its implementation should be low.

In addition, Appendix D of the report suggests that to reduce the ‘risk’ of service disruptions due to labour disputes, the Region could retain the ‘risk’ of setting labour rates directly or set an opening baseline wage rate that would mitigate the possibility that initial wage rate for the LRT employees would be artificially low. We believe it is more likely that the LRT employees will demand parity in compensation with their counterpart transit workers, who are currently employed at Grand River Transit, in respect to wages, benefits and working conditions. Again, if this is the case we believe it would be more advantageous for the Region to retain the operations and maintenance responsibilities of the LRT system and bargain with a known quantity such as CAW Local 4304 during contract negotiations, ensuring the objectives of reducing the potential for labour disputes.

ii. TRANSFER OF RISKS
The report also goes into great length to assign value to risks associated with the project and to state that risks are mitigated and the Region will save money if they are transferred to the private contractor. Ultimately the concept of ‘risk transfer’ is a misnomer; regardless of the circumstances or the number of ‘risks’ said to be transferred, the responsibility to cover any and all costs will always fall on the Region; the difference is that Region will be guaranteeing a private
consortium of companies a profit over the entire 30-year life-span of the DBFOM contract for the Light Rail Transit System.

If the risks transferred to the private sector do not result in the consequences of, for example, premature vehicle or infrastructure replacement, then the private contractor continues to improve their bottom line over the lifespan of the contract, money which the Region may have otherwise saved if they retained those so-called 'risks' themselves. If the transferred risks to the private contractor result in circumstances that cause them to default or go bankrupt, however unlikely, the Region will need to "pick up the bill" for the entire operation of the Light Rail System or find yet another private contractor to assume the responsibilities of the system. In actuality the transferring of risks to the private contractor does not really occur at all, since the Region will always, ultimately, be responsible for the entire project regardless of the circumstances.

iii. BENEFITS TO THE COMMUNITY

We are not convinced that having a private, profit-driven, contractor would provide the best benefits to our community. The public has a legitimate concern that a profit-driven consortium will deliver only the minimum contractual targets when it comes to customer service and community needs; the private contractor will likely be less responsive to community concerns and demands than a publicly operated system and would be less transparent, since delivering only bottom line requirements as required by their contract will increase their profits and keep their own investors happy.

The public has a desire that LRT employees have the same high standards and deliver the same high quality work as is expected by our present CAW Local 4304 members, which we strive to deliver at Grand River Transit every day. Continuity in the operations and maintenance of the Region's public transit services makes good sense and is paramount to achieving public buy-in for the local tax dollars invested in the Light Rail System. There is no compelling reason
for a private for-profit operator to exceed a bottom line target in terms of service; no compelling reason for the contractor to respond to public demands and community needs beyond the scope of their contract; these are simply not by-products of a for-profit private operation. Grand River Transit as a public operation is 100% responsive to the demands and needs of the community given the resources made available.

iv. REGIONAL EXPERIENCE IN LRT OPERATIONS AND MAINTENANCE

The report also identifies that a private contractor is more experienced in operating and maintaining a Light Rail System. While it is true they have more experience in doing so; newly hired and trained mechanics, operators and service personnel will be required regardless of who operates and maintains the system, this is not a benefit per say, of having a private contractor. The company that ultimately designs and builds the Light Rail System’s infrastructure and vehicles can provide training in operating and maintaining their products to anyone including public employees. There is no ‘pool’ of currently-available operators or mechanics for the private contractor to draw from and new hires will be needed regardless.

If the Region does not gain experience itself from operating and maintaining the Light Rail System from day 1, it likely never will. One only has to look at the history of the Grand River Transit system the Region operates to see how the Region can gain experience in a service it has never operated before. In 2000, the Region was handed the responsibility of providing public transit to the residents of our growing community. This was a daunting task in that the Region itself had little real working knowledge of how the system would operate effectively. The Region had the task of combining the three very different transit operations of Kitchener Transit, Cambridge Transit and Project Lift to form one. CAW Local 4304 was at the centre of that process as we responsibly negotiated with the Region to form a single agreement. Today, after completing several rounds of negotiations, all resulting in ratified collective agreements with no
labour disruptions, we see that the Grand River Transit system is a viable and well-utilized system.

The success that is Grand River Transit was in no small way made possible due to the administration of the system and the commitment by public Regional employees to provide the best transit service possible. The Region has proved it can run a transit system on its own with front line regional employee’s with the resources made available to them. Why run the extreme risk of taking that proven model of success and allowing third party contractors to not live up to the level of service that the consumer of public transit expects?

In addition, locking the Region into a 30-year Operating and Maintenance contract would be detrimental to the Region’s ability to expand the system into Cambridge in the foreseeable future. For that, among other reasons, it has been suggested in the report that the Region engage in 5-10 year O&M contracts for the Light Rail System. However, the likelihood that any other contractor than the consortium who originally designs, builds and finances the Light Rail System, including the Region, would be engaged to operate or maintain the Light Rail System after the initial 5-10 year contract, or any extension thereafter, is slim to none. The original contractor will still have 20-25 years of financing on the project which they would not want to lose stake in, and the Region could again claim they have no experience in operating and maintaining a Light Rail System; if the DBFOM Procurement Option is chosen, the contractor that is engaged to carry out the project from day 1 will likely have an effective monopoly over the Light Rail System for the foreseeable future, with all but assured profit that is fed from local tax dollars.

v. PUBLIC CONSULTATION

The type of transportation system we have in our Region is far too important to leave to private decision-making without the public’s input and oversight; this single meeting presents a lack of a transparent process that would require
availability of complete and accurate information, as well as clear and quantitative rationale as to why a this Public-Private-Partnership is preferred over traditional procurement options, including information that the Region has so far declined to release. Research, from scholars such as Matt Siemietycki (U of T) has shown for P3’s to be successful, the public must be meaningfully consulted, and have access to key project information during the process, something that the Region has yet to provide.

In the end what happens to shape the future of public transit in our community clearly will affect the way the entire Region grows and moves. However, given the nature of the Light Rail System and how our existing transit services will interact with it, the members of CAW Local 4304 will be the first and most directly impacted by it. Our members are not just Grand River Transit workers, we are citizens of this community who care about the society we live in, the health and direction of our local economy, the environmental legacy we leave for our children, social progress, and a fairer society.

Public service is vital for economic health; well-paying public service jobs are often lost to for-profit consortiums that mostly employ non-union, low-waged employees who likely will not have any vested interest in the community beyond their contractual obligations.

In closing, councillors, your decision is a monumental one; one that will have long term and far reaching effects on the constituents of the Region of Waterloo. As we have said earlier, while far from being supportive of a P3 proposal, we maintain the position, that our members remain the most consistent and known quantity of any equation. Our members make the Region move and they can continue that tradition by operating and maintaining the Light Rail Transit System. Your focus respectfully, should be on your constituents, and our community, not what is necessarily best for a budget line of the Regional Government itself.
Concerns of a 30-Year Operations Contract

• With the Region maintaining control over fares, fare integration, scheduling, etc. where is there room for innovation by the private sector?

• Will efficiencies in cost come at the expense of customer service quality or driver wages?

• In case of labour dispute, the region could still be on the hook for covering the wage gap (page 36)

• In case of contract terms not being met, the Region is forced into developing operating expertise at high cost over a very short period of time to maintain service quality.
Potential Benefits of DBFM vs DBFOM

- Retention of Financing benefits of DBFOM
  - Potential to lessen regional tax burden, or shift funds to faster implementation of RTMP
  - Region still protected from financial impact through LRT maintenance by withholding full payment.

- Region builds in-house expertise in operating surface Rapid Transit
  - Makes continued expansion of LRT easier
  - Expertise can be shared with other municipalities (Hamilton, Peel, Detroit, Toronto)
Potential Benefits of DBFM vs DBFOM (cont.)

• Existing use of GRT Labour Pool and Management
  • Larger potential labour pool; greater workforce flexibility
  • Cross-Training of drivers for Bus and LRT operation
  • No need to duplicate existing management functions at GRT

• Better Communication Between Operations
  • Quicker resolution of customer service and scheduling issues
Results of the PVFM

- 2% Difference in cost savings vs. DBB
  - $17M at cost of $818M
- $44M Difference in Risks Retained by Region
- Negligible difference in final cost of LRT system
Review of the VFM

• The Value For Money Assessment Will be Re-Run at the following times:
  • Prior to release of the Request for Qualifications;
  • Prior to release of the Request for Proposals;
  • Immediately prior to bid submission;
  • Prior to selecting a preferred bidder; and
  • Following financial close of the project.

• It is still quite early to be taking one direction on the procurement and delivery based on a preliminary report.
Recommendations

• Regional Council amend the motion to add DBFM as one of the procurement and delivery options for Stage 1 LRT

• Direct GRT to develop a bid for Operations

• DBFM and DBFOM bids will then be assessed and reviewed by regional council and a final partner selected as part of the bidding process.

• In this way, the Region ensures it is truly getting the best value in terms of not only cost, but service quality and operations flexibility as well.
February 7, 2012

Presentation by CUPE Locals 1883 and 1656 – Light Rail Transit

CUPE Locals 1883 and 1656 want to see the operation and maintenance of the light rail transit project stay within the Region of Waterloo.

CUPE Locals 1883 and 1656 have identified services which are already provided by the Region of Waterloo which can be expanded to serve the new light rail transit system. Regional services cover the following classifications:

- Electricians to deal with building facilities
- Signal technicians relating to traffic infrastructure
- Plumbers, carpenters and cabinet-makers
- Heating and air conditioning, millwrights for mechanical equipment repairs
- Signs and pavement markings for regional roads and facilities
- Design, produce, and install signs and information boards
- Mechanical upkeep of regional vehicles and airport equipment
- Grounds maintenance (grass cutting and snow ploughing)
- Emergency repairs, such as broken windows, doors, bathroom fixtures, cabinetry, etc.
- Planners
- Traffic technicians and analysts
- Administrative support
- Terminal Clerks
- Marketing Coordinator Transit, Transit Analyst, Transit Systems Analyst
- Engineering Technologist Traffic, Engineering Technologist Corridor Management
- Property Agent
- Other classifications for consideration would be custodial, finance assistants and lab support

The Region would be better served by using Regional employees as Regional employees provide superior knowledge, experience, and quality of service. By using an outside corporation many of the same duties completed by current Regional employees would be duplicated which will not necessarily provide value for service or allow for direct accountability.

Regional employees are dedicated, they are share holders with the Region, they live, contribute and participate in their communities and are proud to be Regional employees.
By utilizing Regional employees for the light rail system it will continue to keep good jobs in the communities and help our communities to grow.

In-house duties will provide cross training for ease of coverage by employees for vacation and leaves of absence between current bus transit and light rail transit. Ensure Regional standards and policies are met in areas such as codes of conduct, health and safety, and confidentiality.

The Region already has a reputation for quality service and maintains public trust. Regional employees as front line staff will continue to represent the Region in a trustworthy and respectful manner. The public knows it can take any concerns directly to the Region and the accountability stays with the Region. The community will recognize this as value for their tax dollars and appreciate the services provided.

The Region should have control over the labour force or it may result in consequences beyond their authority or control. If the Region provides staff for the LRT then they are assured that working conditions reflect Regional mandates and can ensure continued public services.

A 30 year partnership may be short sighted because there is no guarantee of what the product will look like at the end of 30 years. If you start with a quality product and the Region operates and maintains the LRT with Regional staff within Regional standards and is overseen and controlled by the Region then you are more likely to have a quality product at the end of 30 years with an expectation of continued long term use.

Toronto Air Link and the Evergreen Line in Vancouver both opted for models that ensured operations and maintenance services were not included as part of their partnership choice.

We are respectfully requesting that the committee and councillors when considering their vote on the partnership model take the time to fully explore options in relation to the operating and maintenance of the new light rail system. It is our opinion that operating and maintenance should not be part of a partnership model and that the committee and council should vote in favour of a design, build and finance option. If the committee and council cannot see their way at this time to exclude the operating and maintenance portion then we respectfully request that at a minimum you defer the operating and maintenance until such time as CUPE and any other employee groups have an opportunity to supply additional information.
Rapid Growth and Rapid Transit Procurement

Kevin Thomason
Presentation to Waterloo Regional Council  
Tuesday, February 7, 2012  
Light Rapid Transit Referendum Procurement Options

Honourable Mayors, Members of Council, and Guests,

My name is Kevin Thomason and I am the owner of Waterloo.

I would like to congratulate to everyone on the Rapid Transit progress so far! It is great to see all the hard work, dialog, and how well this significant project is progressing already. We must continue to press forward efficiently though given the tight timelines. Our Region continues to grow rapidly, adding almost a busload of people each day to our population and as our increasing congestion attests, we are already in need the benefits of Rapid Transit— and a 2017 launch is still rather distant.

We are all trying to learn and figure out what the best solutions for the LRT and our community may be. Most seem to agree that it makes sense to partner with the private sector to design and build the LRT. It is the ongoing operations over the coming decades where there seems to be the most current debate.

There are some who are calling for the entire LRT project to be privatized and outsourced, while others argue the opposite - stating that it should be managed and run by the Region.

**Current Success**

I believe that it is worth noting how successfully the Region already runs the Grand River Transit System. There are many who wonder why the Region wouldn’t just run the LRT system too. Surely, running a train down a fixed line to a small number of stations has got to be simpler than running hundreds of buses, along dozens of different bus routes, to a myriad of stops across the entire region.

Some of the public are quite against any sort of privatization or ongoing operations by a private company fearing that it will result in poorer levels of service, more bureaucracy, less flexibility, profit being taken out our community, and less control over key issues such as labour strikes like what York Region has been facing.

Please take the calls for Waterloo Region to run the LRT as a compliment based on the ongoing success and satisfaction with how well Grand River Transit already operates.

I have been lucky to experience many different transit systems around the world (some of the photos you are seeing were just taken last week as I had the chance to check out half a dozen Rapid Transit systems including the Vancouver SkyTrain, the Seattle CommunityLink, the San Francisco BART, and others).

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One Highly Integrated System
Regardless of the procurement model chosen here we need to ensure the system operates as one system with tight integration between LRT, BRT, and GRT bus routes. It can't feel that the LRT is run by a different company and is independent of Grand River Transit.

I was recently in Kuala Lumpur, Malaysia and spent time learning about their rapid transit system which is actually cited in this Staff report. The Malaysian government has gone too far though in privatizing their system though. They opened their public transit system up to private bidders and the result has been to have seven different private companies build seven different transit lines across the city. Some used trains, other companies built monorails, some systems are elevated, others run on the streets – none of it compatible with the other.

In the end, while it has been a great exercise in capitalism and the free market, it has been a disaster for the public and riders.

The system is chaos with seven lines randomly meeting, crossing and competing across the city. For several years it wasn't even possible to transfer from one system to another without having to pay again, although they have finally worked out a limited transfer system between the bickering companies that provides riders some ability to more easily get to where they need to be.

Kuala Lumpur was capitalism and the power of the free market at its finest, though it sure hasn't resulted in a better experience for the public.

We need to ensure that our systems here operate seamlessly as one network and that service delivery and rider experience is paramount to profit making. One of the major concerns is that the DBFOM model will lead to cutting corners and putting in the cheapest system possible to maximize profit.

Attracting Ridership
We need a world-class system here in Waterloo – not the cheapest possible system. We need to lure people from their cars. We want leading-edge innovation. We want to create the next Portland where for the coming decades people will be coming from around the world to see our community and infrastructure to learn from our success.

Cheap plastic seats aren't going to lure people from their plush comfy car seats – we need to ensure this system is somewhat upscale like some other visionary communities whose transit includes comfortable seating, fold down seat trays to do work, free onboard wifi, and other amenities not likely found in the cheapest possible bid.

Awarding to the cheapest bidder may not create the innovative electronic ticketing system integrated to Blackberries or other leading technology that could showcase
our community's innovation and technology prowess. This LRT will become one of the largest marketing vehicles of our Region and become one of the most significant symbols of our community be it good or bad.

We need to ensure that increasing ridership and attracting users is paramount over the cheapest construction or operating price. It may take some investment to get the quality and world-class system our community needs. However, like any successful investment, the returns recouped over time far exceed any initial capital outlay.

**Contract Length**
Certainly much of the feedback to this Stage 1 Procurement Report has been related to the length of the operating contract. Trying to anticipate needs or predict every possible variable 30 years in advance is almost impossible - and likely a recipe for disaster. Please hear these concerns and work towards far shorter terms of three to five years, perhaps a maximum of a ten years to allow our community the flexibility it will need in the future.

**Profit Sharing and Ongoing Incentives**
Also, we need to ensure a win-win for the operator if operations are outsourced. Too often in this Staff Report it refers to the Region keeping all of the fare box revenue. We need to ensure that this operational revenue is shared with the operator on a sliding scale and there is as much incentive as possible for them to want to see ridership increase.

Ironically, the fewer people using the system the cheaper it is for them to operate, the less wear and tear on equipment, etc. We need to ensure that they are working as a partner to increase ridership as much as possible and that it is in their best interest financially to see the highest possible ridership levels. This will not happen if the Region keeps all the fares and there is no incentive, performance bonus, or profit sharing for them.

Perhaps the procurement needs to be more of a joint venture than a contracted outsourcing where the Region gradually takes over the system in a series of stages and part of the role of the vendor is to train and equip the Region to operate the system in the future much like how Boeing delivers airplanes to new airlines working with them in every aspect to help get them up and running.

**Up-to-Date and Modern**
We need to ensure that our system remains modern and well maintained with continually refreshed rolling stock, new services and new innovations introduced. Too many systems that I see were obviously created from a large government investment back in 1986 or some earlier time and they have not seen a cent invested since – stations are falling apart, rolling stock ancient and in poor repair, everything worn and shabby.
Under a private for profit operation it is not in the operators interest to reinvest in the system – instead their profit is maximized by squeezing every last cent out of the existing system for as long as possible. We must set high standards to ensure our system remains up-to-date and modern which will be easy if it is successful and attracting strong ridership.

**Conclusion**
We need to ensure that privatization isn’t just happening to procure the cheapest cement or the least expensive wiring possible. We want innovative partners who will help us build a better community far beyond the scope of standard engineering contracts.

I believe that our community is creative and determined enough to create a system that is economical, compelling, innovative, and extremely successful – an LRT that will change the way that we travel, the shape and form of our community, improve our quality of life, reduce our carbon footprint, and countless other things that will help to ensure our future success.

We don’t have unlimited budgets, however the danger with privatization and profiteering is that too many corners are cut and only the bare minimum is delivered. We could suffer the fate of so many other communities with transit systems not living up to their potential.

We must do better. While nobody wants a system so cheap it is a “No Name” LRT, and we can’t afford a “Cadillac” LRT, I hope that we can at least strive to create a “President’s Choice” LRT that goes a step beyond and showcases our community, innovation, and sets the tone for decades to come.

This procurement decision will be the deciding factor in so much of our future success as an entire Region. Please take your time, learn from other communities, understand the fine print, ensure that the Region – not the vendors are driving the process, engage the community in a big way, and ensure that we are all working to build not an average, or below average LRT, but a leading, world-class system and community.

Thank you.
Kevin Thomason
February 7, 2012

Re: Report E-12-011, Recommended Procurement and Delivery Option for Stage 1 Light Rail Transit

Mr. Chair, Members of Council, Staff,

Thank you for the opportunity to address you tonight. As a tireless supporter of the Rapid Transit project, I would like to express my profound concern with the recommendation in front of you.

The recommendation for a long-term design-build-finance-operate-maintain (DBFOM) contract for the LRT system is a problematic one for several reasons, including expansion, legal loopholes, uncertainty over long-term impacts, and the construction timeline. I also have a fundamental concern that this would be a decision based on secret, unverifiable, and frankly questionable information. If Deloitte’s value-for-money analysis really represents standard assumptions and valid methods, then not releasing it shows disregard for a public decision-making process. Of course, without it being available for public scrutiny, neither we the public nor you our representatives can know whether that analysis really is valid and bias-free. I strongly suspect that it is not bias-free, and that incorporates assumptions that are not shared by local taxpayers and by Regional policy.

In this Region we have a reurbanization policy and a transportation master plan that are very strong in pushing for growth of urban centres and of non-automobile transportation. We’re growing rapidly. I believe that those factors help to ensure that LRT will exceed its ridership estimates quickly, as it has in other communities in a similar situation. It is absolutely clear to me that there will be strong demand to expand the system, first to Cambridge and then along other corridors. Except that with this DBFOM contract, you would be building in barriers to that expansion. There is no need to build a second and third maintenance facility for the extension and for other lines – the first one could certainly handle it. But your contracts will force the unnecessary cost of extra facilities into any expansion. The operating and maintenance contract for the first phase will make extension to Cambridge more difficult.

The problem is bigger that that. Instead of the Region learning how to do what certain Councillors have been claiming only the private sector knows how, the proposal would have us always dependent on outside expertise at a high mark-up. Instead of building up expertise – as Calgary did – to be able to cheaply and rapidly expand the system, we will find costs only growing. And ultimately, we will fail to build out an LRT network due to the higher costs of doing so.

Public-private partnerships (P3’s) are relatively new. Long-term P3’s for infrastructure especially so. There are many examples bandied about of P3’s that worked OK (with ones that failed miserably being conveniently ignored). But I haven’t heard of any examples of a long-term infrastructure P3’s that have lived up to their expectations at the end of those 30 years. It’s only theoretical. In practice, loopholes are found and exploited, and taxpayers regret the decisions made a decade earlier based on secret information and private sector assurances.

Of course, staff are aware of many known things that can go wrong and the complexity of a 30-year DBFOM contract. Writing the specifications will take a long time. It will take a long time for consortia to come up with their bids. It will then take time to vet all the bidders, select a winner, and finalize a contract. God forbid there are no qualified bidders in two years time.
With all of that, I want to thank this Council for its vision in adopting progressive policies and deciding to move forward with LRT. And I want to do that because if you adopt this recommendation, I will be sad to see you go in the 2014 elections. Because when things take a bit longer than planned in this DBFOM business (and with this complexity, they will), there will be nothing of substance built before then and a public angry with you for it. Regrettable decisions will be made, taxpayers will soon find themselves on the hook for expensive cancellation fees, and progress will stall for years. Just ask Ottawa.

Instead, I suggest that the Region proceed with a standard procurement model of design-bid-build. Private expertise is always available through industry consultants when necessary, such as through the Region's general engineering consultant. The Region would be able to do substantial construction by next year on portions of the line where the course of action is clear. It would be able to have seamless integration with GRT, and seamless extension of the system to Cambridge and beyond. This would be the only way to have serious planning for an LRT network of multiple lines, and for economies of scale of design work, construction, maintenance, and operation. The Region of Waterloo has proven itself more than capable of doing innovative projects on time and on budget.

I implore you to get started on the real work of building and operating LRT instead of on ever-imperfect specification documents and legal contracts. Thank you for your consideration.

Michael Druker
Good evening Councillors.

I am, tonight speaking as the Waterloo Regional Labour Council President but I am also speaking as a citizen and one of the people that pay the tax bill for the money that is spent by you for the benefit of people of our region. I would propose that those tax dollars are spent for efficient, quality, systems and programs as has the historically been done. I believe firmly that the proposal before you does not do that.

First let me say that by not employing the people that design, build, operate and maintain the proposed system, dollars will have to go to a profit margin.

If all of design, build, operate and maintain is outsourced to private enterprises then at the very least one dollar of every ten spent will go to put money in some one's pocket that doesn't work live or participate in Waterloo Region.

That's one dollar of every ten that doesn't help but instead hurts our economy, our people. We are talking about a tonne of "tens".

Think about the working people that provide the service... are they going to be loyal to the Region. NO. They are going to be loyal to their employer not to the Region or the Regions tax payers. They will cut corners and make savings for their employer. That may not be the best for our tax payers and our Region.

I am not against profit but there are just so many many P3s that have clearly worked against the communities where they exist.

In the packages that you have been given there are examples galore of those extra tax needs created by P3s from responsible individuals and organisations in Europe, B.C., Saskatchewan, Ontario and some closer to home.

What if, as happened in Vaughn your supplier goes out of business and you have to pick-up the sticks to fix the LRT.

Is some other organisation or government going to pick up the cost, or what if the outsourced employer and workers are in an industrial dispute.....and you have no bargaining position, you're not part of the enterprise, who is going to provide the service, (Like Vaughn where there was two months without proper services) or what if the company that you contract with is sold off shore like the situation with Highway 407 and the new owner in Spain wants to up the ante (profit), (Yes the rates are going up again) will you have anything to do but pickup the additional costs or pass them on to our community (transit riders) users.

My motivation for speaking up on this issue has more to do with a concern that the taxpayer dollars that the Region is going to spend on building and operating a Light Rail Transit system are spent wisely, and are used to deliver the best quality public transit service at the best value for taxpayers and our community.
The Labour Council and I don’t believe that the current “preferred procurement option” for the LRT will accomplish this objective.

Labour Movement has had a long history of monitoring Public-Private Partnerships in Canada and the world, and our analysis is that the experience has generally been negative for taxpayers and governments. And please remember that we represent all workers including those of the proposed LRT

Here is a brief summary of our analysis of P3s:

1. They use taxpayer dollars to pay a private corporation to deliver a public service, usually with the promise that the private sector can do it more cheaply or efficiently. However, they often end up costing governments more than if they had done it themselves, because:

2. the interest rates that private corporations must pay are always higher than what a government must pay on a loan (this is certainly the case for the Region, which has a triple-A credit rating);

3. the legal agreements governing P3s are so complex, involving lawyers for several different interested parties, that they themselves can cost millions of dollars including legal fees for the Region of who knows how much; and

4. the corporation has to build in its profit into the cost of doing business, something the government would not have to pay for if the project were done publicly.

5. They reduce public accountability from the delivery of a public service paid for with tax dollars.

6. They often deliver inferior levels of public service, since the incentive for the private partner in a P3 is to maximize profits, normally done by paying lower wages and benefits to its employees, or delivering inferior quality products and or services.

The staff proposal on front of you attempts to address some of the issues CUPE has with other P3s, e.g. proposing that the Region retain ownership of the LRT and control over its fares and schedules. The proposal promises to build in several contractual obligations and incentives to ensure that the private contractor delivers a public transit service to the expectations of the Region.

We are not confident that this is a strong enough protection against all the things that can go wrong with awarding a thirty-year contract to one company or consortium of companies.

Let me clarify that we are not against paying private companies to construct our Light Rail Transit system. We would not object to the Region using the traditional Design Build or
Design-Bid-Build process that it uses regularly to build buildings, pave roads, or water pipelines.

What we object to is handing over the operations and maintenance of the LRT to a private company.

We suspect that the predisposition to handing such work over to the private sector is based on an ideological assumption that the private sector is inherently more efficient than the public sector.

We object to this. A profit motive is not what is required to be able to operate and maintain an efficient transit system. What is required is a team of people who, in addition to possessing the necessary skills and qualifications, are dedicated to delivering quality public service. That dedication, Councillors, is what public employees have: there is a reason they are proud to call themselves public servants.

There are some sectors which do not lend themselves to free market competition, and public transit is one of them. The company which is selected to a 30-year contract has no competition once they’ve won the bid: their incentive at that point is to minimize costs in order to maximize profit.

When the Region hires a private company to build a road intersection, we have our own in-house Construction Technicians. The staff report argues for the need to give the company that builds the tracks the responsibility for operating and maintaining the system for a long period of time because that will give them the incentive to build a quality product in the first place. We would think that payment meant doing a good job and no other motivation should be necessary.

I don’t see why the Region can’t use the same kind of oversight that it uses for road construction for the LRT ensuring that the contractors are building it to our specifications.

If you just trust the providers you’re buying a pig in a poke.

Your employees can and should do the same for the LRT. If we don’t have the personnel who are qualified and experienced let’s hire them to work for the Region to oversee the project.

The same can be said of the personnel required to operate and maintain a light rail system. The staff reports on this procurement issue talk up the fact that the private sector has more experience in doing this work. Sure it does. But ultimately, people possess the experience, not corporations.

The Region can do exactly what a contractor is going to do, hire someone with the experience and qualifications to manage a project like this, and have that person hire and
train the appropriate people. The difference is that we could have these people work for the Region.

Keeping the Operations and Maintenance in-house gives the Region several benefits that contracting it out does not:

- The Region would maintain control over labour relations. A look at York Region's very recent experience with a two-month strike at its privately-run transit system should give us reason enough to consider trusting our transit system to a private operator.

- The Region would be directly responsible to the public for the system, with no public confusion (finger-pointing!) over who to talk to about complaints or suggestions.

- We could take advantage of efficiencies to be gained from using the same personnel who currently perform tasks like sign-making, vehicle cleaning, and mechanical maintenance for GRT vehicles and bus shelters to do the same for the LRT system.

Perhaps the biggest concern that Labour has with the proposal in front of Council today is the lack of supporting details to the claims that a DBFOM model would save 18% over a standard DBB procurement.

At last weeks council meeting Deloitte explained to you all kinds of details about the DBFOM option. Council spent a lot of time asking questions about the details of how this option would work, and none about any of the other procurement options.

Because of the claim that it will be 18% cheaper.

What justifies this claim?

*The Record* asked the Transportation Commissioner for the details of the Value For Money (VFM) calculations performed for the Region by Deloitte in a recent editorial.¹ U of T P3 expert Matti Siemiatycki encouraged full and open public discussions on P3s before entering into them.²

We have been told that these calculations cannot be released because the information is proprietary.

Do you, as elected Councillors, honestly want to make a decision about how to spend over a billion dollars without any supporting documentation?

Do you want to buy a pig in a poke.

¹ End secrecy on transit study, *The Record*, January 16, 2012
² Region warned about transit secrecy, *The Record*, January 7, 2012
Where is the 18% savings coming from? Once the extra costs of the complex procurement contracts are factored in, plus the higher rate of interest on borrowing that the private company must pay, and the profit that the company must build in for itself.

Surely those savings can’t all come from innovation and efficiency that’s only possible in the private sector.

One of the criticisms of P3s is the way these VFM’s are conducted. Auditor Generals in Ontario and BC have criticized the accounting, all too often after a government has spent far more than it thought by using a P3. Most of the VFM analyses done for P3s assign large value to the risk being transferred from the government to the private sector.

Don’t you want to know how much value was given to what risk being transferred?

Don’t you want to see those numbers and determine whether you agree with their assumptions?

If you make this decision today, you will be doing so without any of those important details.

_I don’t think it’s an overstatement to compare this situation to that of the City of Waterloo Councillors considering the MFP contract to finance RIM Park_,

Surely you should demand the details on which this billion dollar decision is being made.

I am aware that you have been thinking about this decision for a long time, and that some of you may want to make this decision today and get on with the job. I assume we’ve paid Deloitte a lot of money already for the advice they’ve given.

But I respectfully encourage you to defer this decision today and ask for more information from staff on the option of procuring the LRT without contracting out the operations and maintenance of the system.

Thank you for your attention.
P3s – The Wrong Prescription for Health Care March 2009

Earlier this year the Saskatoon Star-Phoenix revealed that the Saskatchewan Party government would be establishing a P3 secretariat to explore the possibility of using public-private partnerships for large-scale infrastructure projects, including health care facilities. According to an October 15, 2008 government briefing note, obtained through a freedom of information request, the Ministry of Government Services is also preparing the groundwork for a P3 hanger facility for the Air Ambulance program.

In addition, the Brad Wall government recently launched the Patient-First Review to examine the province’s health care system. Tony Dagnone, who is heading the review, has emphasized his commitment to publicly funded health care, but has stated repeatedly that he is not opposed to considering private delivery of health care. When the Dalton McGuinty government announced plans in 2005 to use Alternative Financing and Procurement (the Ontario Liberal government’s name for P3s) to finance a new children’s hospital in London, Dagnone, then CEO of the London Health Sciences Centre, called the announcement a “super day” for the London region.

The people of Saskatchewan, however, appear less enthusiastic about private delivery of health care. A Viewpoints Research poll commissioned by the CUPE Saskatchewan in November 2008 found that 65.6% of Saskatchewan residents were opposed to P3 hospital and health care facilities. Nearly three-quarters of respondents (73%) believed facilities like schools and hospitals should be publicly owned and controlled.

Saskatchewan citizens have good reason to be skeptical of P3 hospitals. The experience across Canada and in the United Kingdom clearly shows that P3s are the wrong prescription for the delivery of health care.

P3s – The Wrong Prescription for Health Care

Brampton Civic P3 Hospital

For several years, concerns about cost overruns, secrecy and the lack of public accountability have dogged Ontario’s P3 hospitals, which were initiated by the Conservative government in the late 1990s, but continued by the McGuinty Liberal government under the label AFP.

In December 2008, Ontario’s auditor general released a damning report on the Brampton Civic Hospital P3 project. Among other things, the auditor general found:

• The “value for money” report carried out by project consultants seriously inflated the cost estimates for the traditional public procurement approach by $634 million over the life of the project.

• The Brampton P3 hospital costs ballooned from an initial projection of $357 million to a final construction cost of $614 million, even though the building was significantly smaller than projected with fewer beds.
• The hospital could have been built publicly for $194 million (in 2003 dollars) less than the P3. An additional $200 million (or $107 million in 2004 dollars) could have been saved over the life of the 25-year lease if the project would have been financed with the province’s 5.45% cost of borrowing at the time instead of the higher rate paid by the private consortium.

• Between 2000 and 2007, $34 million was spent on legal, technical, financial and other advisors, of which $28 million was attributable to the P3 process. 5 Following the release of the auditor general’s report, the Ontario Health Coalition called for an immediate moratorium and re-evaluation of the government’s hospital P3 privatization policy. Calls have also been made for a similar audit of the Royal Ottawa P3 hospital, which opened two years ago with 54 major deficiencies, according to its current CEO.6

Abbotsford P3 Hospital

The Abbotsford Regional Hospital and Cancer Care Centre in British Columbia provides another cautionary tale about P3s.

For starters, the Abbotsford Hospital was plagued by delays. The originally announcement in 2001 anticipated a 2005 completion date. But cancellation of the public procurement plan led to a three-year process of preparations, bidding and contract negotiation for the P3 deal, which delayed the project delivery date until 2008.

Three of the four bidders withdrew, leaving only one vendor, Access Health Abbotsford, which seriously compromised the ability to ensure a competitive bidding process. This should have given the B.C. government reason to reconsider the P3 approach, but they charged ahead nonetheless. Coincidentally, the construction costs in Access Health Abbotsford’s final bid exceeded the Request for Proposals budget target.

P3s – The Wrong Prescription for Health Care

As for “risk transfer” – a key selling point for P3s – several operational risks remain with the public sector in the Abbotsford P3 project. These include: ongoing inflation risks, ongoing contract enforcement, risks associated with self-monitoring, risks related to technological evolution and infection control practices, risks of substandard service levels, changing labour costs, and risks associated with high patient demand due to a natural disaster.7

In a 2009 report, forensic chartered accountant Ron Parks and chartered accountant Rosanne Terhart evaluated four B.C. P3 projects, including the Abbotsford Hospital. Their analysis found that the nominal dollar cost of the Abbotsford P3 Hospital exceeded the public sector comparator by $328 million.8
Parks and Terhart also looked at another P3 health care initiative in B.C. – the Diamond Centre (formerly the Academic Ambulatory Care Centre), an 11-story facility on the site of the Vancouver General Hospital. They concluded that the Diamond Centre cost $114 million (or 130%) more over the life of the contract than if it had been built publicly.9

The U.K. PFI experience

In the 1990s, the United Kingdom pioneered the use of Private Finance Initiative (PFI), which has served as a model for Canada’s P3s. The U.K. has used PFIs extensively for hospital funding and expansion.

PFI hospitals have been criticized for construction delays, cost overruns, staff cuts, bed reductions and shoddy quality. At the PFI hospital in Carlisle, two ceilings collapsed and the sewage system overflowed into the operating theatre. The Edinburgh P3 hospital was built over an old mine, which has contributed to a serious rat problem.10

In 2002, the Association of Chartered Certified Accountants found that negotiations for PFI hospitals took an average of two extra years longer than traditional public procurement.11 Two years later, the Association of Chartered Accountants in London carried out a thorough evaluation of the operation of PFI hospital projects. They concluded:

• The annual capital costs of PFI hospitals were at least 100 million pounds more than they would have been with public financing.

• The PFI hospitals were considerably smaller than the public hospitals they replaced.

• A risk premium of 30% of total construction costs was paid to ensure PFI hospitals were built “on time and on budget.” This premium was much higher than the cost over-runs in publicly built hospitals.

P3s – The Wrong Prescription for Health Care

• Private consortia appeared to bear little effective risk during the term of the PFI contract.

• PFIs are an expensive method of financing public services and may result in cuts to public services and/or tax increases.12 More recently, a 2008 report by the U.K.’s largest public sector union bluntly stated, “The reality is that the Private Finance Initiative and Public Private Partnerships are costing the country a fortune. It is a case of buying one hospital for the price of two.13

P3s make no economic sense in the best of times, but the global financial meltdown has cast even more doubt on the U.K.’s PFI approach. A leaked memo to the Guardian
newspaper in January 2009 warned that hospital projects were at risk because of the PFI credit crisis. Health authorities were told to “expect a capital desert in 2010/2011.”


3 John Miner, “Hospital money sought; the government is looking to the private sector to finance London’s new children’s hospital,” The London Free Press, September 28, 2005.


9 Ibid., p. 3.


11 As cited in HEU Report on the Abbotsford Regional Hospital and Cancer Centre, p. 12

12 As cited in Ibid., p. 16.

13 http://www.unison.co.uk/asppresspack/pressrelease_view.asp?id=1251

14 As cited in David Hall, A crisis for public-private partnerships (PPPs)?, Public Services International Research Unit, January 2009, p. 3.
P3 Schools Fail to Make the Grade March 2009

Last fall it was revealed that the Saskatoon Public School Board was “exploring” the possibility of using a public-private partnership (P3) to construct a new school in Willowgrove and possibly other growing neighbourhoods. A subsequent freedom of information request discovered that the Lloydminster Roman Catholic Separate School Division had also approached Saskatchewan’s Ministry of Education regarding a possible P3 school.

The Ministry of Education itself is also conducting an internal review of P3 schools, a review that will be completed in 2009. Last November, Education Minister Ken Krawetz told the StarPhoenix that P3 schools were not imminent and “may not be the right fit for Saskatchewan’s school system.”1 However, a freedom of information request later revealed that the ministry had later contacted Partnerships B.C. to seek input into their review of P3 schools. The Gordon Campbell Liberal government set up Partnerships B.C. in 2002 to promote P3s.

A Viewpoints Research poll commissioned by the CUPE Saskatchewan in November 2008 found that 63.7% of Saskatchewan residents were opposed to P3 schools. Nearly three-quarters of respondents (73%) believed facilities like schools and hospitals should be publicly owned and controlled.2 Saskatchewan citizens have good reason to be skeptical of P3 schools given their track record in other parts of Canada and the United Kingdom.

P3 schools cost more than publicly owned and operated schools

Nova Scotia’s failed experiment with P3 schools that began in 1994 cost the province $32 million than if they had been built publicly, according to the auditor general.3 Likewise, New Brunswick’s provincial auditor found that the P3 Evergreen Park School in that province cost $900,000 more than it would have cost if built publicly.4 More recently, an analysis of Alberta’s plan to establish 18 P3 “cookie-cutter” schools by economist Hugh Mackenzie found that “for every two schools financed using the P3 model, an additional school could be built if they were all financed using conventional public sector financing.”5

P3 schools are more expensive because it is costs more for the private sector to borrow money than it does for governments. Borrowing rates are even higher for P3 projects because the lender generally only has recourse to the assets of the project corporation created solely for the purpose of developing and operating the single P3 project.

The Saskatchewan P3 Secretariat

There are also significant legal, accounting and financial analysis costs – about 4% of the project capital cost for each project partner – that result from the complex, time-consuming P3 negotiations and transactions.6
Finally, P3 costs are driven up in order to secure an acceptable profit margin for investors.

**P3 schools put profits ahead of the needs of students and communities**

Corporations that aim to maximize profits in our education system do so by cutting corners on construction, preventive maintenance and cleaning, and by cutting jobs, reducing staff salaries and benefits. Shoddy work at the P3 Hamptons Primary School in Calgary led to roof damage, which threatened the safety of students and staff. The Calgary Board of Education had to pay more than $100,000 in yearly maintenance and upgrade costs for its P3 school. At Ridgecliffe Middle School, a Halifax-area P3 school, the athletic field sat uncompleted and unusable after the school opened.

The United Kingdom has experienced similar problems with its Private Finance Initiative (PFI) schools, the U.K.’s name for P3 schools. In a 2003 comparison, the National Audit Commission found that the quality of traditionally built schools was superior to PFI schools, and the former had the best examples of innovation. Likewise, in 2006 the Commission for Architecture and the Built Environment (CABE) concluded that nine out of the ten worst built schools in the U.K. were PFI schools, prompting one commissioner to describe PFI schools as “little better than agricultural sheds with windows.”

**P3 schools result in a loss of public accountability**

Elected school trustees lose control over school construction and upkeep with P3 schools. In Nova Scotia, the auditor general found that the P3 consortia were not responsible for operating costs, capital improvements, repairs and technology upgrades. Under the terms of the contracts, the consortia were also exempted from financial penalties for faulty construction. Taxpayers are often left on the hook for costly repairs at the end of the P3 contract.

**P3 schools put profits ahead of community needs**

P3 projects put profits ahead of community needs and control. Despite a looming childcare crisis, the Alberta government announced last fall that preschools and daycares would not be allowed in the new Calgary P3 schools, because providing space for these services could “strain” the private partners ability to build and maintain the schools.

In the U.K. all of the problems with PFI schools and the overarching concern with profits have impacted day-to-day operations. The president of the Association of School and College Leaders (ASCL) recently observed that “Time and energy that should be spent on students’ education are having to be expended on continuing negotiations with contractors.” The litany of PFI issues are a “considerable burden to school leaders, very time consuming and energy sapping.”

The Saskatchewan P3 Secretariat

**P3 schools lead to higher user fees**
The drive for profits also leads P3 schools to establish or increase user fees for community use of schools. In September 2001, P3 school owner Scotia Learning Centres increased most of its rental fees for gymnasiums, audiovisual rooms and other facilities. For the Bedford minor basketball association, fees more than doubled from $20 an hour to $50 an hour.

1 James Wood, “P3 schools not imminent, Krawetz says; Province to study public-private partnerships used in other jurisdictions,” The Saskatoon StarPhoenix, November 13, 2008.

2 CUPE news release, “P3 schools fail to make the grade,” http://cupe.ca/public-private-partnerships/P3schools-fail-to-m


6 Ibid.


8 http://www.cabe.org.uk/AssetLibrary/8704.pdf


10 http://new.bbc.co.uk/1/hi/education/6647783.stm
P3s and the Financial Meltdown March 2009

Public-private partnerships make no economic sense in the best of times, but the current financial meltdown has eroded their credibility even further.

The current credit crisis is making it difficult for private-sector P3 partners to access capital and credit, which threatens to leave their public partners in the lurch. At the same time, the cost of government borrowing has declined, which has further increased the difference in public sector and private borrowing rates.

A December 2008 global review by PriceWaterhouseCoopers found that the credit crisis has led to a sharp increase in borrowing costs for infrastructure projects of about 1.5 to 2.0 percent above the lowest rates that governments can obtain. PWC summed up the situation for P3s: “The debt markets have all but dried up... The outlook for the near term remains grim. Few [P3] deals will close. Many have already been put on ice.... Bank debt is simply insufficient, and inefficient, as a source of long term finance.... It is a naïve notion to expect the markets to revert to the low pricing obtained in the first half of 2007. Such conditions are unlikely to be seen again.”

PriceWaterhouseCoopers also noted that the global recession and credit crisis has also created problems for existing P3s. First, the recession reduces income for some P3s, like toll roads, making it difficult to repay interest and loans. Second, many P3s increased short-term debts to launch their project with the expectation that it would be refinanced at lower interest rates when the project became operational. These P3 partners will now find difficult to get new loans without increasing the cost of interest payments. “They may face the double hit of worse than forecast debt terms and revenues, or even be unable to refinance at all.”

P3 projects wounded by economic crisis

In the United Kingdom, only 34 PFI projects were signed in 2008, the lowest number since 1997.

A January 2009 report by the U.K.’s National Audit Office warned that PFI waste management projects are already delayed and will face further delays and uncertainty
P3s and the Financial Meltdown

the financing markets.” A leaked memo to the Guardian newspaper in the same month warned that hospital projects were at risk because of the PF1 credit crisis. Health authorities were told to “expect a capital desert in 2010/2011.”

In January 2009, the Vancouver Sun published a story that detailed how the financiers of nine B.C.’s P3 projects were hard hit by the economic meltdown. Many of the P3 financial backers have seen their stock plummet and/or have received government bailouts.

The Golden Ears Bridge P3 project, for one, almost collapsed when its financiers nearly defaulted. Depfa Bank’s parent company, Hypo Real Estate Holding AG, required a bailout of $80 billion of credit from the German government and $50 billion of state guarantees. Another bailout is being negotiated. Dexia, the other financier of the P3 project, also needed a government bailout.

Depfa is not only involved with the Golden Ears Bridge project. The company is also helping to finance two other B.C. P3s: the Royal Jubilee Hospital being built in Victoria and Surrey’s new outpatient hospital.

In February, the $3.3 billion Port Mann Bridge project collapsed as a P3 after the government of British Columbia was unable to reach a funding deal with the private consortium. The consortium was led by Macquarie Group, an Australia-based toll-road operator and investor that saw its share price plunge 82 percent from May 2007 to February 2009. The provincial government will now proceed with the bridge project as a publicly funded design/build project.

Babcock & Brown, the parent company of Babcock & Brown Public Partnerships Ltd., which was contracted to build and operate Alberta’s 18 P3 schools, lost 98 per cent of its market value due to the credit crunch and temporarily halted the trading of its stock twice this year. Babcock & Brown Public Partnerships Ltd. recently laid off one-quarter of its staff. Babcock is also implicated in a number of P3 projects in B.C.

In Montreal, the global credit crisis has put the P3 financing for two mega-hospital projects in jeopardy. Partenariat CUSM is bidding on the $1.1 billion contract to build and manage the future hospital of the McGill University Health Centre, but the consortium lost John Laing Investments Ltd. last November, leaving Madrid-based Obrascon Hurarte Lain SA as the only major partner in the consortium. Meanwhile, the other hospital project, the Centre hospitalier de l’université de Montréal, is on shaky ground given that the consortium bidding on the project, Accès Santé CHUM, includes the troubled Babcock & Brown Infrastructure Group.

P3 proponents on the defensive
The financial crisis has put P3 proponents on the defensive, forcing them to advance new schemes that would see the public sector take on the risk of financing P3 projects.

**P3s and the Financial Meltdown**

For instance, the Canadian Council for Public-Private Partnerships published a commentary on their website “A Matter of Time: Will the Credit Crisis Impact Canadian P3s?” which concluded, “The lack of availability, together with the overall increase in the private finance cost, will require both the public and private sectors to reassess how they tackle funding. We believe that greater consideration will be given to the use of co-financings and other structures where the public sector acts as a liquidity provider on projects.”

In other words, the CCPPP is suggesting that private sector “partners” take advantage of the government’s lower cost of borrowing in order to make P3s viable. This begs the obvious question: why wouldn’t governments simply finance the infrastructure project themselves using the traditional public sector procurement process?

Unfortunately, ideology seems to trump common sense with most right-wing politicians.

B.C. Premier Gordon Campbell has said he is not concerned about the economic stability of his province’s privately funded P3 projects. “I have no doubt there are additional challenges. But I also believe these are exactly the kinds of projects that financial institutions look for . . . long-term returns that are secure in terms of their support.”

Nonetheless, last November the B.C. government raised its threshold for capital projects requiring a mandatory P3 review from $20 million in provincial funding to $50 million. The move was undertaken “as part of the government’s commitment to accelerate capital infrastructure projects” - an implicit admission of the red tape and delay involved with P3 projects.

When Prime Minister Stephen Harper was in Surrey earlier this year to support the South Fraser Perimeter Road P3 project, a reporter asked him if he was concerned about the financial stability of these projects given the credit crisis.

Harper responded, “I would say that projects like this, with the involvement of both levels of government and the private sector, are exactly the kind of thing our economy needs, and the private sector and our financial institutions need to bolster confidence. I think this is a great project at any time, but it’s a particularly great project at this time for the very reasons you’ve outlined.”

Indeed the Conservative federal government is proceeding with the establishment of PPP Canada, a Crown corporation that will promote the further development of Canada’s P3 market. Meanwhile, Canadians continue to wait for a real stimulus package that would fast-track several overdue public infrastructure projects.
1 As cited in David Hall, A crisis for public-private partnerships (PPPs)?, Public Services International Research Unit, January 2009,

2 Ibid. p. 2.

3 Ibid., p.3.


5 Lori Culbert, Private financing for new Port Mann project vaporizes,” Vancouver Sun, February 28, 2009.


More public rescues for more private finance failures
- a critique of the EC Communication on PPPs

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March 2010

A report commissioned by the European Federation of Public Service Unions (EPSU) www.epsu.org

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Preface by EPSU

The European Commission has over many years promoted Public-Private Partnerships. The Commission sees these as an efficient tool to spend public funding. With the financial crisis in full swing funding for PPPs dried up in 2008 and early 2009. PPPs ran into difficulties. To support private business the European Commission published a Communication “Developing Public Private Partnerships” in November 2009. It is a first class propaganda piece for private business rather than a balanced account of risk and advantages of public-private partnerships.

The risks of PPPs were highlighted when Aquiris, a subsidiary of French multinational Veolia Water, charged with treating waste water in Brussels, home of the European Commission, stopped doing so, 8 December 2009. Untreated water of 1.1 million citizens polluted the river Zenne during 10 days when the company was forced to start up operations again. Research of Corporate Europe Observatory revealed how the company was seeking more money of public authorities, could not fulfill its contract and had basically lied about its technology in its response to the tender;1 But more worrying is that Brussels is now lumbered with the contract. Pulling out will be extremely costly. CEO concludes its research:

“Behind these spectacular events is the story of how a private corporation used public money to develop a new technology which will be sold elsewhere for the company’s sole profit (Veolia Water used the Aquiris case extensively in its marketing, because a safe and more environmentally-friendly method to dispose of wastewater sludge is much in demand at the moment). Unfortunately this proved to be a riskier bet than originally envisaged, and the two “partners” of the costliest water Public Private Partnership (PPP) in Belgium now face mountains of sludge waiting to be treated, piles of debt and a brand new plant which has still not been shown as up to the job.”

When we learned that the forthcoming EU 2020 strategy would again seek to promote PPPs EPSU decided to ask Public Services International Research Unit to comment on the European Commission’s proposals in the earlier mentioned Communication. PSIRU has researched and published reports on PPPs in Europe and internationally over the last decade, carries out international studies like the EU-funded €1.5million Watertime project, and provides evidence and advice to public authorities and elected representatives at all levels.

This report makes clear that PPPs suck up public funding, increase risks to public finance and in general are a bad way to spend tax payers’ money. It also reveals the extent to which DG Internal Market is pursuing an ideological course to suit its core constituency: private business. And now BusinessEurope, the European organization for big corporations, wants more corporate welfare. It published its call for more public money for big business on 15 March 2010 in a report Combining fiscal consolidation with sustainable growth: A European action plan. It is a full scale attack on public service workers, on public pensions and health care. But guess what — BusinessEurope argues that private business should receive funding to run your health service, child care, drinking water and all other public services. And of course treat your waste water: one of the authors is a key Veolia representative. BusinessEurope does not shy away to push its agenda on your Ministers for Finance which met 16 March 2010 arguing that if they are not listened to Europe will grind to a halt. And to do so it propagates myths on PPPs. This new report of PSIRU debunks these myths.

Our conclusion is that the European Commission does not promote the public interest when coming out in force in support of PPPs. It should have a far more critical and balanced attitude on how private business operates PPPs. This balance can possibly only be restored if public procurement and PPPs are moved to the

1 http://www.corporateeurope.org/water-justice/content/2010/02/aquiris-veolias-lost-bet-brussels
European Commission's DG which deals with consumer protection. After all, with the Procurement directives in place, it is a matter of protecting the interests of citizens over those of capital. But you might disagree. You might have comments on the report. You might have done research that contradicts the findings. Please inform us. But equally, if you know of cases that confirm what is argued in the report please do not hesitate to send it to us. It will assist the workers in public and private companies and institutions delivering public services to citizens every day in often difficult and dangerous circumstances. Because in the end our members and you as tax payer have to share the burden of faulty public-private partnerships.

Jan Willem Goudriaan
EPSU Deputy General Secretary
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1. Introduction

In November 2009 the EC published a Communication on 'Developing Public Private Partnerships'.

The paper does not offer a balanced assessment of experience with PPPs, or trends in PPPs in Europe. In particular, it does not address the way that PPPs reduce the resources available for public services by absorbing a higher proportion of spending. The main purpose of the paper is rather a review of various policy instruments of the EU, focussed on the single overriding question of how these can be used to subsidise and create more PPPs than would otherwise be the case.

This report reviews and criticises the Communication in a number of respects:

- Its inadequate analysis of existing experience
- Its unbalanced attempt to maximise the use of public finance and public institutions to support PPPs, including in particular its use of 'innovative financial instruments'
- The emptiness of the role of PPPs in the 2020 economic strategy
- The wider problems of public authorities using 'innovative financial instruments'

This critique follows a number of other PSIRU reports on PPPs, which are listed in the bibliography at the end of this paper.

2. Assessing PPPs

2.1 Unbalanced and weak arguments

The section on 'the case for PPPs' is too superficial and one-sided. As the title suggests, it only sets out arguments in favour of PPPs, it does not offer a balanced assessment. A recent PSIRU paper set out an analysis of the risks and impact of PPPs, including a number of examples. The present Communication does not mention any such cases (although 7 years ago, a Commission briefing on PPPs did acknowledge these risks, and gave examples). These problem cases have continued to increase.

- The paper claims that PPPs are mainly on-time and on-budget, but fails to observe that this is because they are based on turnkey contracts, which require successful completion before payments are made - but at a cost which is 25% higher than normal procurement.

- It claims PPPs provide better value for money, and quotes the results of a PPPIAF study on water and energy which found evidence of higher efficiency - but (a) it fails to note that the PPPIAF study found no evidence at all of increased investment or lower prices, so none of the benefits of any efficiency gains go to the public sector, they only increase profits (b) the PPPIAF study is only one amongst many, the great majority of which find no significant differences in efficiency between public and private sectors. This is extremely damaging for the case for PPPs: as the IMF has observed, since their cost of capital is always higher, they would have to make major efficiency gains in operations to even match the public sector option.

- The claim that they 'spread the cost over the lifetime of an asset' is trivial - this is the effect of any borrowing by governments, not only through PPPs. The claim about risk-sharing also needs more hard evidence rather than an assertion - the many cases where services have been cut or taxes increased must be examined as part of a full assessment.

- The paper provides no evidence for its claim for innovation by PPPs, yet there is fresh evidence confirming that the private sector spends little or nothing on R&D in crucial sectors such as electricity (see below). The 2020 economic strategy paper also acknowledges that R&D spending in
Europe is too low compared with Japan and the USA "mainly as a result of lower levels of private investment."

- The final two points - that the private sector gets a central role in planning infrastructure, and gains experience that is useful for winning projects overseas - are true, but these are benefits to the private sector, not to the public interest. There is clear evidence, for example, from Italy and Estonia, that the private sector dominance in the evaluation process leads to highly distorted results. There is also much evidence that PPPs in developing countries, especially in sectors like water and electricity, do not produce economic or social benefits, and are strongly resisted by their publics. 8

- Finally, the claim that "PPPs offer capacity to leverage private funds...these benefits are of particular importance in the present economic conditions" is contradicted by the rest of the paper itself, which attempts the opposite - i.e. it tries to find ways for the public sector to raise funds for PPPs, precisely because the private sector is now unable to raise funds for PPPs at rates even close to the public sector. As the paper says in discussing TEnT projects: "PPPs...often face difficulties in attracting competitively priced private financing." 9

2.2 PPPs: consuming public finance

At the heart of the paper is the misleading idea that PPPs somehow bring additional private resources into public services or infrastructure. Thus the conclusion claims that: "Developing PPP as an instrument becomes critical as the financial and economic crisis is taking its toll on the ability of the public purse to raise adequate financial means and allocate resources to important policies and specific projects."

But the opposite is true. The great majority of PPPs rely on a stream of income from payments by government (for the hospital, school, railway, etc) - i.e. public spending. "The Communication itself says at the start that PPPs include "important safeguards for private investors, in particular the stability of long term cash-flows from public finances". PPPs do not supplement public spending - they absorb it.

In a context where there are political demands to cut public spending, the existence of PPPs creates greater threats to other spending on public services... This is because PPPs create long-term contractual rights to streams of income, and so governments are legally constrained from reducing payments to PPPs. That in turn means that reductions in spending are concentrated on non-PPP areas. This is made worse because PPP/PFI schemes have much longer contractual periods (25-30 years or more) than conventional service contracts e.g. for refuse collection, 3-5 years). The effect is thus larger than with ordinary outsourcing - switching public spending from direct employment to purchase from a private company.

The claims of PPPs are vigorously pursued by corporate lawyers. In healthcare, PPPs are being increasingly used for hospital and other construction, led by the PFI initiative in the UK. The transaction costs and risks of contract disputes are a further problem: "the development of quasi-markets has already led to a contractual culture...... the health sector is becoming increasingly more of a playground for lawyers and legal firms." 10

The contracts may even explicitly protect companies against the consequences of democracy. Contracts for private road schemes in the USA include clauses giving companies "the right to object to and receive compensation for legislative, administrative, and judicial decisions". Contracts have become standardised with as much as 70% of identical content, reflecting the cumulative expertise of corporate lawyers, whereas

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8 With the exception of true concessions, where the private company makes all the investment "at its own risk", expecting to get the necessary income from payments made by consumers (e.g. water charges or road tolls).
the public authorities with which they deal often have none. Public policy thus becomes subordinate to the imperatives of designing a commercially viable contract.

2.2.1 Transport in UK
These risks can be very clearly seen in the UK experiences in the transport sector - road, rail, bridges and tunnels - the sector in which the great majority of European PPPs have been set up. The collapse of the London underground Metronet PPP cost the UK's public finances between £170 million and £410 million. The continued operation of the remaining PPP, Tube Lines, has only been possible by forcing up the price of the service, despite the fact that it is already badly behind schedule. The mayor of London has commented that:

"We are being asked to write a blank cheque in order to prop up failing Tube Lines. In other countries this would be called looting, here it is called the PPP."\textsuperscript{13}

Apart from the PPPs in London, the UK Department of Transport is potentially liable for at least £27 billion, due to its implicit and explicit guarantees of other major PPP transport projects. A parliamentary committee has commented:

"the scale of the known liabilities, plus the possibility of further large unquantified liabilities, represents a significant financial risk that could impact upon the ability of the Department to perform its core functions".\textsuperscript{14}

Similar contingent liabilities arising from PPPs will overhang the transport budgets of governments throughout Europe. This problem of contingent liabilities in relation to PPPs is well known: it was pointed and discussed in some detail by the IMF in 2004, and conferences of European auditors and bankers have discussed the issue.\textsuperscript{15} The Commission’s paper, however, appears completely unaware of the problem of contingent liabilities, and equally ignorant of - or unwilling to mention - the scale of the economic and social costs incurred in failed PPPs.\textsuperscript{16}

2.2.2 PPPs in central and eastern Europe
A report based on actual experiences with PPPs in central and eastern Europe presented similar concerns.\textsuperscript{17} It warns that:

"there are wider and more systemic issues that have not been sufficiently taken into account by PPP advocates and governments, particularly in terms of the cumulative impacts of PPPs on public budgets during the coming decades...... not only are there an unacceptably high number of 'bad Apples' but that using a large number of PPPs in itself is likely to lead to affordability problems."

It gives a number of examples:

- "There are a range of cases - such as the Zagreb wastewater treatment plant and several motorway projects - where very little risk has been transferred, at great cost to the taxpayer."

- "The persistent over-estimation of traffic figures by CEE decision-makers not only leads to difficulties with the concessionaire's income or the public budget's expenditures, but also leads to attempts to increase the amount of traffic"

- "The South Bridge in Riga, Latvia, is already causing a scandal due to its constantly rising costs."

- "the attempted PPP [for the Trakia Highway, Bulgaria] only delayed the implementation of the project, and has involved spiralling costs that are causing an increased burden on the state budget."
3. Political and financial problems with PPPs

The case against using PPPs at all remains as strong as ever. But PPPs are now also finding it difficult to raise finance, and are faced with greater public resistance. There are a number of reasons why PPPs are now unable to support themselves without state aid from governments and the EU.18

The main attraction of PPPs – that they can be used to conceal government borrowing and debt, in order to evade the constraints of EU and national limits on borrowing and debt – has been undermined by new international accounting standards, and greater scepticism by some statistical authorities, so that many PPPs are now recorded ‘on the books’ (for example, only 3 out of 19 PFI projects in the UK since April 2009 were ‘off’ the books).19 This means that they are a less useful instrument for evading fiscal rules.

As the Communication acknowledges, far fewer PPPs are being set up. There is stronger public opposition to such schemes, especially in the light of damaging experiences with actual PPPs. To take again the example of the UK, PPPs are now seen as such an unpopular policy that the opposition Conservative party has promised that, if it wins the next general election, it will end the UK’s private finance initiative (PFI) – which has been held up as a model for the whole world.20

Most of all, the financial crisis has made it very difficult for any private companies to raise finance except at very high interest rates, which make PPPs prohibitively expensive, even for their greatest supporters. Although most countries have reduced official interest rates to very low levels, in order to stimulate the economy, banks are insisting that private companies pay much higher interest rates than governments, because of perceived risk and general economic uncertainty. Banks are also less willing to offer long-term loans. As a result, the difference between corporate and government interest rates has grown larger. By mid-2009 companies had to pay interest rates about 4% higher than governments. 21

In March 2010 this remains true:

“Rating agency Moody’s reckons companies need to consider the possibility of restricted access to all funding markets simultaneously: ‘The current turmoil in the capital markets will continue to make it harder for the more leveraged companies to refinance without some debt write-downs... Reduced access to capital markets would be one of the factors that could lead to a higher default rate’.” 22

As a result, existing PPPs face problems with refinancing debt that falls due for repayments. Proposed PPPs cannot find anyone prepared to lend money at rates even close to government interest rates.

The most obvious strategy for governments and the EU would be to take this opportunity of winding down PPPs, as a failed and dangerous model, and return to conventional public investment and operation of infrastructure and public services. Instead, the Commission and some countries are taking the bizarre approach of providing public guarantees and subsidies to enable PPPs to continue.

4. State rescues for PPPs

4.1 EU and Government support

The core objective of the Communication is well summarised by the heading of the central chapter: ‘The EU contribution to PPP projects’.

This approach extends to member states. The paper acknowledges that: “The ultimate decision to use PPPs lies with the Member States’ public authority”, which is at least a recognition of national and democratic sovereignty on the issue, but then immediately continues that “it is for the Member States to review the national framework as necessary to enable it”. There is no attempt to encourage a framework for objective analysis of whether or not PPPs are desirable: the Commission expects “Member States’ actions to remedy the obstacles to the development of PPPs and to promote their use”. The same approach runs through the specific proposals for actions.
For example, under the heading 'improve information and disseminate relevant expertise and know-how', the paper nowhere mentions the gathering of information on actual experiences to improve the ability to judge whether a particular investment programme would be better carried out conventionally or through PPPs. Instead, it sets out a series of exercises designed solely to promote the use of PPPs:

- "The Commission will issue guidance on the legal and methodological issues involved in combining EU funds with PPPs... in order to facilitate and increase the uptake of PPPs in structural funds."
- "Working with the European PPP Expertise Centre (EPEC) to identify means to deliver enhanced long term support to those Member States that seek to use PPP... EPEC should... act as a focal point for a European network of national bodies established to support PPPs."
- "Working with Member States to identify provisions in national legislation that prevent or hinder setting up PPPs..."\(^\text{23}\)

Member states are always able to carry out infrastructure investments through conventional means. But in the Commission's presentation, there is, literally, no alternative to PPPs.

This is better described as propaganda rather than an information service.

4.2 International Institutions lobby for PPPs

The Commission's attempt to provide state aid for PPPs is part of a wider drive by international institutions. In November 2009, the UN economic commission for Europe organised a meeting in Geneva to try and combine global and national institutions into a wider international pressure group to support PPPs, asking for donations and subscriptions.\(^\text{24}\) This initiative emerged following an international conference on PPPs in May 2009, involving the World Bank, ADB, UNECE and various Asian governments, which was presented with a lucidly expressed argument that PPPs were becoming dysfunctional and discredited because of the crisis.\(^\text{25}\)

"Discontent, even outright hostility, among the general public against the capitalist system has gained ground during the crisis... The 'system' is mistrusted, and confidence in capitalism and its future is low... The crisis appears to have had its roots in the era of deregulation and is replaced by the growing role of the state in managing financial capitalism and exercising accountability previously absent in the system;... PPPs are equated with the now discredited privatisation and financial liberalisation."

The same presentation also argued that the crisis also brought opportunities for potential PPPs because of the economic, social and environmental needs for public spending:

"The potential demand for social infrastructure such as public lighting, hospitals, and schools, is amplified in volatile times when financial and economic crisis negatively affect low-income people's life. The social infrastructure can not only serve as a safety net but also generate economic flow-on effects with increased human resource investment... There are ongoing needs to restore and replace much of the existing physical infrastructures, to accommodate population growth and to deal with the threats of global warming in response to the call for sustainable development".\(^\text{26}\)

The conclusion was that there was a need for "tools to bring back the banks and new institutions able to articulate a pro-PPP policy in the crisis (and those in the future)... a global advocate to spread support and the message around the globe: an alliance of PPP units."\(^\text{27}\)

Thus, the international financial institutions and national finance ministries – all public sector institutions sustained by public finance – combine to act as an international lobby group to protect PPPs and discourage a revival of direct public sector financing and provision of infrastructure.
4.3 Public sector guarantees, subsidies and loans

Apart from this lobbying, governments and international public sector bodies are supporting PPPs through substantial state aid, in the form of privileged access to government guarantees or public finance.

As the Communication notes, some national governments – including the UK, France, Germany, and Portugal - have already set up schemes which rescue PPPs through the simple device of providing government guarantees, or by government borrowing money at low rates and then lending it on to PPPs at similar rates, and then pretend that this ‘private finance’. The Spanish government has given similar general guarantees to transport PPPs. Internationally, the IFC has created an “infrastructure crisis fund”, aiming to use $1.2-10 billion of public finance from the IFC itself and donors to provide PPPs with the loans they cannot raise in the market.

At EU level also, various schemes, policies and institutions support and promote PPPs. The EC Communication lists all these, which are summarised in the table below. Every one of these is a public sector body or activity, financed by European citizens through taxation.

| Table 1 | EU: public assistance to PPPs |
| --- | --- | --- |
| **Category** | **Instrument** | **Mechanism** |
| Research funds | JTI | Public finance, private activity |
| Financial engineering | JASPERS | Administrative support for designing PPPs |
| | JESSICA | Channelling EU money via funds to PPPs |
| | JEREMIE | Money to SMEs |
| EIB | Public sector development bank | Low interest rates |
| TEN-T | Loan Guarantee Instrument for TEN-T Projects (LGTT), Construction cost grants, state equity investment. | ‘also an expression of a political commitment by the EU’ |
| R&D funding | Risk Sharing Finance Facility (RSFF), CIP | Loans out of public finance to PPPs ($4 billion via RSFF since July 2007) |

Source: EC Communication on PPPs, 2009

4.3.2 EIB: public interest rates for private companies

One of the most significant roles is played by the European Investment Bank (EIB). This is an EU-wide development bank, 100% owned and guaranteed by all the member states of the EU. It was created under the founding treaty of the EU, the Treaty of Rome, in 1958, with the objective “to contribute towards the integration, balanced development and economic and social cohesion of the EU Member States.” Thanks to its public sector ownership and guarantees, the EIB can raise funds at the lowest possible rates; because it does not try to maximise profits, it also lends at a rate very close to its own cost of borrowing.

No private sector institution can or would do this. Channelling more of this money into PPPs means that the private partners are benefitting from a much lower cost of capital than they could arrange for themselves. Since the credit crunch, the EIB has been a crucial source of finance for PPPs that are unable to raise funds from the private sector. The public sector’s commitment to development is being used to subsidise private ventures which would otherwise not be bankable. The EIB has lent €500m for motorway projects to the private Gavio Group in Italy, for example: the interest rate will certainly be considerably lower than the group could have obtained for itself from private banks.

4.3.3 Financial engineering to channel public money to private contractors

The Commission has already developed a number of ‘financial engineering’ instruments to help PPPs, by making it easier for them to use EU (public) money from the cohesion funds. The EU’s structural funds are subject to rules which restrict them being used to subsidise private companies, and this has made it difficult for member states to use these funds in areas where they have set up PPPs. The Czech republic, for example, has been unable to draw on EU cohesion funds for its numerous privatised water concessions.
because “the operational agreements in question were unbalanced and did not ensure the safeguard of the public interest”. A report by Transparency International estimated that the Czech republic had thereby lost access to €350m. in EU funds.33

One such instrument is the Jessica initiative, which can be understood as a kind of money-laundering device, which allows money from the structural funds to be fed into special Holding Funds, or Urban Development Funds, which can then be used to lend the money on to PPPs. The Czech region of Moravia-Silesia, for example, has established a €20m. fund, including €17m. from the structural funds.34

The TEN-T projects also include instruments using public finance to support PPPs that would otherwise not be economically viable, or would be less profitable.

For example, the construction cost grant reinforces the turnkey contract mechanism used in PPPs, by providing 30% of the costs after construction is complete.

The loan guarantee from the EU to private companies - "by making up shortfalls in revenue that result from lower than expected traffic growth in the early operational periods of projects" - is especially alarming since it gives private companies an increased incentive to win PPP contracts by exaggerating forecasts. This is already widespread through ‘systematic misrepresentation, i.e. lying’ by contractors, as demonstrated in comprehensive studies by Flyvbjerg and others. The Commission would do better to pay attention to their conclusion that: "The problem of misinformation is an issue of power and profit and must be dealt with as such, using the mechanisms of transparency and accountability."35

The TEN-T budget also allows for €80 million of public finance to be invested in PPPs as equity through a special ‘infrastructure fund’. This is a benefit to PPPs because they often cannot find sufficient private investors willing to risk investing either equity or debt. But this benefit comes by taking a risk with public money which the private sector is not prepared to take - which is a bad way of using public money, especially if the justification is in the form of a benefit to a private company, which creates obvious incentives for corruption. If the EU runs this facility like the private infrastructure funds created by Macquarie Bank and others, it is even more alarming. These were denounced by The Economist in 2008:

"Their entire business models now seem headed for the scrap heap... [Macquarie Investment Group's] long-standing practice of paying out more in distributions to shareholders than it received from the underlying investments worked when it was cheap to borrow money. It no longer is."36

Finally, the Communication also notes the ways in which the EU has promoted PPPs in other countries, including specific references in international trade agreements to open tendering for PPPs.

4.4 The ‘Key actions’ of the Communication37

The ‘5 key actions’ in the conclusions of the Communication should be substantially modified, or abandoned.

- any PPP group for ‘relevant stakeholders’ should include voices of those who are concerned about the effects of PPPs e.g. on employment and the environment. The group should thus include public sector trade unions, to address the impact of tens of thousands of employees; and civil society organisations such as Bankwatch, which have expressed strong concerns about the environmental impact of PPPs. The outputs of this group should not be restricted in advance to ‘reducing the administrative burden and delays’, otherwise it may be seen as an EC-financed lobby group for the interests of private companies, but should rather be expected to issue guidance on how employment, environmental and other public interest issues can be protected.

- Work with the EIB should not simply be concerned with increasing the funding available for PPPs. As argued above, there is no evidence to support such a policy. In any case, any discussions with the EIB should be firmly placed in the framework of the next point, namely the need to ensure that the EIB, like other Community institutions, is not discriminating in favour of private rather than public options. The EIB should be required to ensure that their allocation of public funds follows the
objective of social and economic optimisation of investment methods, and is not distorted by any
direct or indirect favouring of the PPP option.

- If the Commission wants to ensure that the allocation of public funds in general does not bias the
choice between public and private sector management, then it should ensure that PPPs are not
given any new privileged exemptions from EU procurement law, nor given any additional state aid.
The achievement of this objective means rejecting the preceding proposals, which are manifestly
aimed at favouring private sector participation.
- This proposal to encourage greater 'innovation' (presumably financial) and for the EU itself to
participate in private law bodies should be abandoned. As noted above, the economic crisis has
partly arisen from the spread of 'innovative' financial instruments, and the Commission should be
rather seeking ways to discourage all public sector bodies in the EU from placing public services at
risk from PPPs.
- The Commission has been proposing new legislation on concessions for many years now. Any new
legislation should avoid creating a discriminatory advantage for private concessions that somehow
makes them ‘easier’ than other public contracts. It is necessary to bring concessions fully under the
rules of the procurement directives, so that there can no longer be the possibility of awarding such
economic privileges without transparent public tendering. This would also confirm the direction in
which ECJ rulings have been moving, using the basic provisions of the treaty to infer a duty to
tender. Public authorities must of course retain the fundamental right to prefer inhouse operation
and not tender at all.

4.5 IMF warnings ignored

An IMF paper on PPPs and the crisis in July 2009 warned that any state aid for PPPs should be subject to
strict criteria: “intervention measures should be consistent with the wider fiscal policy stance, be
contingent on specific circumstances, and be adequately costed and budgeted. Governments should be
compensated for taking on additional risk.” The IMF paper also argues that support which is related to the
economic crisis should be temporary, and ‘switch off’ as economic recovery takes place.38

The Communication makes no reference to these warnings, and does not provide much evidence of such
specific conditions, costings, and compensation for risk, in the support already provided by the Commission
and some member states. State support for PPPs seems unconditional.

5. The role of PPPs in the economic strategy of Europe 2020

5.1 Economic and fiscal strategy

A ‘new economic strategy’ in Europe was published by the EC in March 2010, under the heading of ‘Europe
2020’.

In discussing the impact of the crisis on the ability of businesses and governments to finance investments,
the strategy states that Europe must “pursue new avenues in using a combination of private and public
finance and creating innovative instruments to finance the needed investments, including public-private
partnerships (PPPs)” 39

The immediate priority is described as “a credible exit strategy”, which means an exit from the current
levels of government financial deficits. These deficits have been crucial to countering the recession, but
have exposed the damaging limitations of the stability pact. The EC presents these deficits – which have
protected millions of jobs – as a damaging effect of the crisis on a par with the recession, and so deprecates
“two years of crisis erasing twenty years of fiscal consolidation”. The proposed strategy also gives the
objective of cutting government deficits and debt the same status as the resumption of economic growth,
so the EC says that it will help member states "return to sustainable growth and public finances". The link is
further cemented in the practical details: the EC will monitor this economic strategy “simultaneously” with
the stability pact monitoring of government finances, and “policy warnings could be issued in case of
inadequate response".
Since member states are unlikely to be ‘warned’ about excessive growth, or lack of it, effectively the only instrument in the strategy is warnings against breaches of the stability pact. Such a policy is increasingly out of touch with reality – it fails to curb irresponsible private sector debt, which caused the crisis, while attacking public sector deficits, which have been central to dealing with the consequences of the crisis. It is very likely to be counter-productive, by demanding reductions in economic stimulus before economies have recovered, and means that the Commission has no way of dealing with issues more directly concerned with EU-wide recovery, such as the need to increase consumption in countries with export surpluses, especially Germany. 40 This strongly echoes the policies demanded by European business lobbies, which are demanding cuts in public deficits, debt and spending, in such areas as pensions. 41

Enforcing the arbitrary, 12 year old limits negotiated in the stability pact also helps PPPs. While these limits remain at the heart of official policy, there will always be an incentive to use PPPs. As the IMF paper states: "In practice, PPPs have also been used to circumvent government accounting rules by moving borrowing off the public sector balance sheets". 42 So if governments want to increase infrastructure spending as a way of stimulating the economy, they will be forced to use PPPs to do so – as long as they can still be recorded ‘off-balance sheet’.

But the continued or increased use of PPPs will not ease pressures on public finance: rather, as noted above, they will capture a part of public spending that is then frozen by the rigidities of contractual obligations. Any cuts will be excessively concentrated on other public spending.

5.2 Private sector failures in infrastructure investment

PPPs are also a poor instrument for generating new investment. The strategy paper claims that “the crisis and severe constraints in public spending have made it more difficult for some Member States to provide sufficient funding for the basic infrastructure they need in areas such as transport and energy”. But the problem in these sectors is the failure of the private sector to invest. In transport, as noted above, PPPs have a bad record of creating risks, while continuing to require government guarantees which increase contingent liabilities and threaten transport budgets.

In energy, the paper itself notes the need for: “the development of necessary energy infrastructure where commercial interests provide insufficient investment incentives”. This is especially true for the investments needed in green energy. Even in the UK, which has been the most committed of EU countries to the liberalisation of the system, official bodies are recognising the need to introduce public finance and reduce the role of the market. In October 2009 the UK government’s official climate change committee advised that developing renewable energy resources requires a move away from liberalised markets. The committee pointed out that countries with a high proportion of non-carbon generation have built their capacity through large-scale government investment, not through markets, and concludes that: “we should not accept the significant risks and costs associated with the current market arrangements... changes to the current arrangements are both required and inevitable.” In February 2010 the UK regulator, OFGEM, acknowledged the same truth: "leaving the current arrangements unaltered is not in the interests of consumers". 43

Even within liberalised markets, it is only the state-owned companies which invest in R&D: the private sector does not invest in R&D:

“The last two decades have witnessed a staggering decline of R&D investment in the fields of energy and electricity. This paper contends that this widespread phenomenon is mainly ascribable to the processes of liberalisation and privatisation of electricity markets which have induced electric utilities to dramatically reduce R&D expenditures. However, a closer inspection to recent data concerned with ten major electric companies of the world shows that not all of them behaved in the same way. The drop of research expenditures was particularly strong among the private or newly privatised companies, while those that remained under public control did not reduce R&D efforts.” 44
The same is also true in telecoms, where private network operators are also reluctant to make sufficient investment in the fibre-optic networks which are crucial to greater use of the internet. Governments are having to provide public finance: in Portugal, for example, the state provided 85% of the financing for a €1 billion investment programme. The 2020 strategy paper demands more public finance, calling on governments: "To draw up operational high speed internet strategies, and target public funding, including structural funds, on areas not fully served by private investments".45


6.1 The cost to public authorities in Europe and the USA

The PPPs Communication claims that: “The interest of the public sector in innovative financing instruments has increased”. Many of the instruments used to support and subsidise PPPs, such as Jessica and Jaspers, are described by the EC as ‘Financial Engineering’, and DG Regio organised a conference about them in October 2009, under the title of ‘Innovative financial instruments in EU Cohesion Policy’.46

It is now widely known that the growth of ‘innovative financing instruments’, such as credit default swaps, has been at the heart of the financial crisis. According to Joseph Stiglitz, these instruments were allowed to create such damage was because key regulators were reluctant to “interfere with "innovation" in the financial system”.47 It is less well known that public authorities throughout the EU and North America have already suffered greatly as a result of using ‘innovative’ financial instruments. The impact on public finances is summarised below.

PPPs resemble these innovative financing mechanisms in at least two respects. Firstly, the main incentive for public authorities to adopt them is as a way of getting around fiscal rules. Countries such as Greece, and many municipalities, used debt swaps in order to reduce the apparent level of debt, in order to avoid breaching fiscal debt limits imposed by the EU or national governments; similarly, the greatest incentive for using PPPs is to reduce the apparent level of debt and deficits. Secondly, the promoters of these instruments insist that there is very little risk associated, but the impact has in many cases been disastrous for public finances and public services.

6.2 Greek debt swaps

These instruments were at the heart of the financial manipulations of former governments in Greece and elsewhere to avoid revealing the true scale of their debts. These are already the subject of investigations in the USA, both by Congress and by the Federal Reserve Bank, and in March 2010 EU countries started demanding curbs on the use of such derivatives, including action by the Commission.48

‘Angela Merkel, German chancellor, called on Tuesday for the “fastest possible” adoption of new rules to clamp down on the most speculative elements of derivatives trading.... “We are all agreed that we must put a stop to financial speculation.”...... Germany and France, working with Luxembourg and Greece, are planning a joint anti-speculation initiative to galvanise action by the European Commission to tighten regulation of derivatives trading, and in particular of credit default swaps (CDS) in the sovereign debt markets.’

As part of this, the Commission should stop encouraging public authorities to engage in ‘financial engineering’.

6.3 Financial havoc for European municipalities

The public finances of Europe have also been badly damaged at municipal level as a result of extensive sales of ‘innovative’ financial instruments to municipalities. The scale of this, in particular the damage done to the budgets of Italian municipalities, was set out by the Financial Times in March 2010, in an article worth quoting extensively:

“During the past decade, investment banks have sold complex derivatives to state authorities across the Continent, in countries such as Austria, Belgium and Portugal either with the aim of flattering their balance sheets or on the promise of high returns...."
“Between 2001 and 2008, 525 Italian local authorities entered into almost 1,000 interest rate swaps with an aggregate value of £35bn, according to Italy’s audit office and the central bank. This equates to almost one third of all of the debt owed by Italy’s regions, provinces and municipalities. Scores of these deals are now turning sour, dragging Italian banks such as BNL and global institutions such as Merrill Lynch, UBS, Deutsche Bank and JPMorgan, into court. Investigations by Italy’s finance police have led to raids, the seizure of assets and bankers being named in criminal cases. One prosecutor in south Italy has asked that Merrill Lynch be banned from doing business with municipalities for two years.

“Over time, however, local authorities found themselves inundated with approaches from investment banks offering inducements and schemes for managing debt. The structure of deals became increasingly complex. More importantly, the London offices of the major international investment banks jumped into the fray, lured by a new source of derivatives demand and the hope of fat fees. The roll call of those involved included Merrill Lynch, Deutsche, UBS, JPMorgan, Nomura International and Dexia of Belgium.

“In 2006, Taranto, one of the largest cities in south Italy, defaulted with an extensive exposure to derivatives. A few months later, in separate allegations related to a whistleblowing case in London, Piero Burragato claimed Nomura, his former employer, had levied illegally high fees and violated disclosure requirements in a €200m deal for Liguria’s regional government. The state banned local authorities from entering derivatives transactions in 2008. Then, the same year, the municipality of Milan lodged a legal case accusing banks that in 2005 underwrote a €1.8bn bond and swap financing transaction - Deutsche, JPMorgan, UBS and Depfa, a German state funding institution - of making €100m profit at the city’s expense. In a parallel criminal case, bankers, including Gaetano Bassolino of UBS, the son of a Naples politician Antonio Bassolino, were accused of aggravated fraud.

…….Senior Italian bankers say total losses, including sinking funds, could reach €10bn. Mario Ristuccia, chief prosecutor of Italy’s administrative court, last month said derivatives losses could "wring sacrifices from future generations for 20 or 30 years". In Baschi, Ms Dominici is angry and ready to fight, having filed a suit in the local town, Orvieto. "Derivatives must be banned - anywhere, everywhere - for all local authorities," she says, adding that she hopes her case will send a "message" to governments.

The example of the UK is instructive. Here, the market for selling derivatives products to local authorities closed in the early 1990s, when the House of Lords held that interest rate swap contracts entered into by the London council of Hammersmith and Fulham were null and void, and legally unenforceable."

(Financial Times March 9 2010An exposed position By Vincent Boland, Guy Dinmore, Rachel Sanderson and Gillian Tett http://www.ft.com/cms/s/0/0f1fe74a-2b1b-11df-93d8-00144feabdc0.html)

6.4 USA: public authorities, bribes, and innovative financial instruments

The same thing has happened in the USA. JPMorgan and other banks persuaded hundreds of public authorities to enter into "innovative" financing deals which turned poisonous. Jefferson County, the largest in Alabama, refinanced billions of dollars of debt (which it raised for a sewerage system) with innovative 'swaps' from JPMorgan. The securities firm which brokered the deal was convicted of paying $241,000 bribes to the mayor in order to get this business. The county was overcharged by $100 million for the fees

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ii The section owes its origins to information disseminated by Edward Sussex, Peter Rossman (IUF) and the Global Unions Forum on IFIs managed by Peter Bakvis.
alone, and in 2008 the interest rate on its swaps leapt from 3% to 10%. New York State lost $103m. when Lehman Brothers collapsed, because of innovative 'swap' deals they had entered into.

The criminal conviction in Alabama resulted from the bribe being paid to an individual. But JP Morgan systematically offered 'cash incentives' to municipalities, which had the same effect: "JPMorgan lured municipalities into derivative deals by offering upfront cash payments in exchange for a pledge by the local government to agree to enter interest-rate swaps with the bank at a future date ... these deals... were rarely put out for public competitive bidding". In New Castle, Pennsylvania, a school district was given $280,000 to put $9.7 billion into derivatives with JP Morgan; when the credit crunch arrived in 2008, the interest rates on this deal more than doubled to 10.6%. The bank then charged municipalities fees that were larger than the cash payment, thus getting their 'bribe' back as well: “In Erie, Pennsylvania, JPMorgan gave the school district $755,000 upfront and collected $1.2 million in fees.” JP Morgan managed to get some criminal charges dropped by agreeing to pay $75m. and waive $647m. in claimed fees.

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5 See Public-Private Partnerships (PPPs) in the EU - a critical appraisal November 2008

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FACT SHEET 1

The Saskatchewan P3 Secretariat March 2009

Saskatchewan has had little experience with public-private partnerships or P3s, but the Brad Wall government is hoping to change that. Earlier this year, the Saskatoon Star-Phoenix reported that the Saskatchewan Party government would be establishing a secretariat to “explore the possibility of private sector companies being involved in large-scale infrastructure projects such as roads, schools and health-care facilities.”1

The provincial government has yet to formally announce the establishment of the secretariat through a news release, but the recent budget allocated $650,000 to the secretariat, which will form a branch inside the Ministry of Government Services. Mike Shaw, a former bureaucrat in the ministry of health, became the head and first employee of the Saskatchewan P3 Secretariat on January 1, 2009.

The Saskatchewan P3 Secretariat will be charged with developing the criteria for assessing private sector proposals and will make recommendations to cabinet for approval. Any infrastructure project with a minimum total cost of $25 million will be screened by the secretariat for consideration as a P3. (It’s interesting to note that the B.C. government recently raised its threshold for capital projects requiring a mandatory P3 review from $20 million in provincial funding to $50 million to “accelerate capital infrastructure projects.”2)

Government Services Minister Dan D’Autremont told the Star-Phoenix that the province will proceed with caution when it comes to P3s. For instance, he specifically rejected toll roads as a possibility.
However, according to an October 15, 2008 government briefing note, obtained through a freedom of information request, “Any and all areas of traditional P3s (design, build, finance, own, and operate) will be considered for projects over $25 million with a term of at least 20 years that do not fit well within the traditional procurement approach. It is anticipated that Government will own the facilities, or have ownership transferred at the pre-determined time in the contract, that are procured using P3s.”
The Saskatchewan P3 Secretariat

While details are sketchy, the government briefing note puts forward the following guidelines or key messages for the Saskatchewan P3 Secretariat:

- Government Services will be conducting the necessary due diligence required before entering into any long-term P3 contracts.

- P3 contracts will be considered for various infrastructure projects in which government will benefit from sharing the risk with the private sector, and when it is in the best interest of the province and taxpayers.

- P3 contracts are an innovative procurement tool for building financial and operational infrastructure for the delivery of public services.

- P3 contracts will be considered when it can be demonstrated that a P3 can be cost effective (sic) as compared to traditional construction.

Partnerships B.C. and other P3 agencies

Saskatchewan is not the first provincial government to establish a formal body to promote public-private partnerships.

In 2002, the Gordon Campbell Liberal government established Partnerships B.C., a private
company owned by the Ministry of Finance, to promote P3s in British Columbia. Since then, Partnerships B.C. has overseen 25 P3 projects worth over $10 billion.5

Partnerships B.C. also provides advice to other provincial governments. The Nova Scotia government is paying the organization $200,000 to assess the viability of P3 projects for that province. According to freedom of information requests, Partnerships B.C. has also recently provided advice on P3s to at least one Saskatchewan government ministry - the Ministry of Highways and Infrastructure.

In Ontario, The Dalton McGuinty government established Infrastructure Ontario, an arm’s length Crown corporation that promotes P3s through the Alternative Financing and Procurement (AFP) model.

Québec (PPP Québec) was created in 2005 by the Jean Charest Liberal government to advise the government on any public-private partnership matter.

Most recently, the Stephen Harper federal government established PPP Canada, a crown corporation that will promote the further development of Canada’s P3 market and administer the government’s $1.25 billion P3 Fund, a key component of the Building Canada infrastructure plan established in the 2007 budget. The Building Canada plan also requires all projects seeking $50 million or more in federal funds to consider the P3 option.

The B.C. P3 experience

Minister D’Autremont’s favourable comments regarding B.C.’s Sea-to-Sky P3 highway
improvement project, the government’s recent communications with Partnerships B.C., and the October 15, 2008 government briefing note suggest that the Brad Wall government will be looking to B.C. for advice on its approach to P3s.

CUPE Research

2
The Saskatchewan P3 Secretariat

“P3’s have a history in B.C. and around the world of delivering on-time, on-budget and of the highest quality,” the briefing note claims.

However, a 2009 review of four high profile P3 projects in B.C. by forensic accountant Ronald Parks and chartered accountant Rosanne Terhart found that the nominal costs—the actual dollars spent over the life of the contract—exceeded those of the public sector comparator for the Abbotsford Hospital and Cancer Centre, the Canada Line Rapid Transit Project, the Diamond Health Care Centre and the Sea-to-Sky Highway P3 projects.

The Diamond Centre, for instance, cost $114 million (or 130%) more over the life of the contract than if it had been built publicly.7

The accountants examined the “Value For Money” reports, prepared by Partnerships B.C., which compared the estimated cost of the P3 project to the cost of traditional public procurement—referred to as the public sector comparator. The Value For Money process claims to estimate the value of risk transferred from the government to the private sector and uses a discount rate to determine net present value.

Parks and Terhart found that Partnerships B.C. used higher discount rates in the Value For Money assessments, which favoured the P3 option, instead of a discount rate that would approximate the province’s actual cost of borrowing. They concluded, “...if a more appropriate discount rate were used, public delivery of the project presented greater value for money than the P3.”8
Sea-to-Sky P3 more expensive

As for the Sea-to-Sky highway improvement project, which Minister D’Autremont has cited as a P3 success story, Simon Fraser University Professor Marvin Shaffer, estimated that the P3 project cost B.C. taxpayers $220 million more than a traditionally procured and financed project.9

Parks and Terhart corroborated Shaffer’s findings. Moreover, the accountants found the Value For Money report for this project was seriously flawed.

“Although the Value for Money report did not disclose a favourable cost savings in net present value terms, a risk factor of $42.9 million was added to the net present value of the Public Sector Comparator to account for additional risk of public procurement. This added risk factor is in addition to the risk factor inherently included in the discount rate of 7.5 percent used to calculate the net present value of the project. We find this methodology faulty as it double counts risk in this project.”10

Furthermore, the accountants found no explanation of how the $42.9 million risk factor was determined.

Flawed methodology was not restricted to the Sea-to-Sky assessment. Parks and Terhart found that the “value” of transferred risk was double-counted in the other Value For Money reports they analyzed.

CUPE Research 3
The Saskatchewan P3 Secretariat

Parks and Terhart bluntly concluded: “the methodology used by Partnerships B.C. to compare the P3 projects to the Public Sector Comparator is biased in favour of the P3 projects.” Further, they stated, “critical information and documentation in support of the Value for Money reports was for the most part denied in response to Freedom of Information requests. In our view this suggests a general lack of transparency and public accountability.”11

Biased Value for Money Reports

The manipulation and bias that is typically part and parcel of Value For Money reports has come under fire by others as well.

Jeremy Coleman, deputy controller and auditor general at the U.K.’s National Accounting Office, has harshly criticized the Value For Money process. He stated that many public sector comparators suffer from “spurious precision” while others involve “pseudo-scientific mumbo-jumbo where the financial modeling takes over from thinking...It becomes so complicated that no one, not even the experts, really understands what is going on.”12

Even Larry Bain, CEO of Partnerships B.C., has admitted, “Public sector comparators won’t do you much good anyways, because I can make the public sector comparator as bad as we want to, in order to make the private sector look good.”13

Stuart Murray, a researcher with the B.C. office of the Canadian Centre for Policy Alternatives,
has also identified the timing of the release of the Value For Money reports and the objectivity of the party producing the report as two other causes for concern.

“Ideally, Value For Money comparisons would be done early in projects, in order to determine if P3s are a better option,” Murray writes. “If reports were released to the public before the signing of the contract, there would be an opportunity for open and transparent debate about whether P3s are preferable to public procurement...However, the B.C. government has developed a practice of approving P3s, and releasing Value For Money reports only after the project is beyond the point of return. This is not a mistake; Partnerships B.C. recommends this process. Moreover, in practice there is little risk of Value for Money reports coming out against a P3, because the reports are typically prepared by those with vested interests in advancing P3s.”14

Partnerships B.C. usually produces the Value For Money reports in B.C. even though the promotion of P3s is central to its mandate. Furthermore, CEO Larry Bain is partly compensated with performance pay, which would provide even more disincentive to produce a negative Value For Money report of a P3 option.

The Value For Money report for the Abbotsford Hospital P3 project was actually prepared by Partnership B.C. after the contract was signed and construction had already begun. The decision to use a P3 for the Abbotsford hospital delayed the completion of the project by three years and cost B.C. taxpayers an additional $328 million.15

A more transparent P3 process?

The Wall government would do well to reconsider its decision to establish the P3 Secretariat in
light of the overwhelming evidence that shows P3s cost more, deliver less, and reduce public accountability.

CUPE Research 4
The Saskatchewan P3 Secretariat

At a minimum, the Saskatchewan Government should commit to a transparent, consistent, and objective approach to evaluating potential P3 projects. While a strong critic of P3s, Murray has made a number of suggestions that could mitigate some of the worst features of the Value For Money process, including:

- Value For Money reports should be completed and released publicly before any P3 project gets final approval.
- Value For Money reports should be conducted by an independent body such as the office of the Auditor General (the Provincial Auditor in Saskatchewan) and this office should be funded with the necessary resources.
- Value For Money reports should use a discount rate that is consistent, transparent and reviewed regularly. (The United Kingdom, for instance, now uses a standardized discount rate of 3.5 percent for projects up to 30 years duration.)
- In Value For Money reports, the costs associated with “risk transfer” should be separated from interest rates and discounting to ensure transparent, credible calculations (and to avoid double counting).
- Value For Money analysis must create a standard and acceptable method of evaluating
“risk transfer.”

It remains to be seen what methodology the Saskatchewan P3 Secretariat will use to ensure the “necessary due diligence” is undertaken when evaluating potential P3 projects. It’s clear though that Saskatchewan citizens would not be well served if the Wall government decided to model the P3 Secretariat after Partnerships B.C.

It’s also clear that Saskatchewan citizens have a deeply rooted commitment to public ownership and a well-placed suspicion of privatization. A Viewpoints Research poll commissioned by the CUPE Saskatchewan in December 2008 found strong opposition to public-private partnerships with 63.7% of Saskatchewan residents opposed to P3 schools and 65.6% against P3 hospitals and health care facilities. Almost three out of every four respondents (73%) believed facilities like schools and hospitals should be publicly owned and controlled.

Public opinion aside, the Saskatchewan Party government could not have picked a worse time to jump on the P3 bandwagon. The current credit crisis is making it difficult for private-sector P3 partners to access capital and credit, which threatens to leave their public partners in the lurch. Furthermore, private sector borrowing rates have become even more expensive than government borrowing rates.

GM/tlg.cope491


The Saskatchewan P3 Secretariat


4 Ibid.


6 “Gov’t explores public-private partnerships; New secretariat to evaluate proposals,” Saskatoon StarPhoenix, January 2, 2009.


8 Ibid., p. 3-4.


10 Blair Mackay Mynett Valuations Inc., p.13.

11 Ibid., p.5.


13 Kathy Corrigan, “To privatize or not: The case against,” Canadian Consulting Engineer, Jan/Feb 2005.


15 Blair Mackay Mynett Valuations Inc., p.10.

16 Murray, p. 53-54.

17 Viewpoints Research, poll conducted November 13 to 19, 2008,
FACT SHEET FACT SHEET

P3s – The Wrong Prescription for Health Care March 2009

Earlier this year the Saskatoon Star-Phoenix revealed that the Saskatchewan Party government would be establishing a P3 secretariat to explore the possibility of using public-private partnerships for large-scale infrastructure projects, including health care facilities.1 According to an October 15, 2008 government briefing note, obtained through a freedom of information request, the Ministry of Government Services is also preparing the groundwork for a P3 hanger facility for the Air Ambulance program.2

In addition, the Brad Wall government recently launched the Patient-First Review to examine the province’s health care system. Tony Dagnone, who is heading the review, has emphasized his commitment to publicly funded health care, but has stated repeatedly that he is not opposed to considering private delivery of health care. When the Dalton McGuinty government announced plans in 2005 to use Alternative Financing and Procurement (the Ontario Liberal government’s name for P3s) to finance a new children’s hospital in London, Dagnone, then CEO of the London Health Sciences Centre, called the announcement a “super day” for the London region.3 The people of Saskatchewan, however, appear less enthusiastic about private delivery of health care. A Viewpoints Research poll commissioned by the CUPE Saskatchewan in November 2008 found that 65.6% of Saskatchewan residents were opposed to P3 hospital and health care facilities. Nearly three-quarters of respondents (73%) believed facilities like schools and hospitals should be publicly owned and controlled.4

Saskatchewan citizens have good reason to be skeptical of P3 hospitals. The experience across Canada and in the United Kingdom clearly shows that P3s are the wrong prescription for the delivery of health care.

1 James Wood, “Gov’t explores public-private partnerships; New secretariat to evaluate proposals.” The
2 "Air Ambulance hangar could be Sask.'s first P3 project; D'Autremont lauds B.C. Sea-to-Sky Highway that reportedly cost taxpayers an extra $220 million," Owls and Roosters, February 16, 2009,


4 Viewpoints Research, poll conducted November 13 to 19, 2008,
http://cupe.ca/updir/Poll_by_Viewpoints%2C_December_8_release%5B1%5D.pdf
P3s – The Wrong Prescription for Health Care

Brampton Civic P3 Hospital

For several years, concerns about cost overruns, secrecy and the lack of public accountability have dogged Ontario’s P3 hospitals, which were initiated by the Conservative government in the late 1990s, but continued by the McGuinty Liberal government under the label AFP.

In December 2008, Ontario’s auditor general released a damning report on the Brampton Civic Hospital P3 project. Among other things, the auditor general found:

• The “value for money” report carried out by project consultants seriously inflated the cost estimates for the traditional public procurement approach by $634 million over the life of the project.

• The Brampton P3 hospital costs ballooned from an initial projection of $357 million to a final construction cost of $614 million, even though the building was significantly smaller than projected with fewer beds.

• The hospital could have been built publicly for $194 million (in 2003 dollars) less than the P3. An additional $200 million (or $107 million in 2004 dollars) could have been saved over the life of the 25-year lease if the project would have been financed with the province’s 5.45% cost of borrowing at the time instead of the higher rate paid by the private consortium.

• Between 2000 and 2007, $34 million was spent on legal, technical, financial and other
advisors, of which $28 million was attributable to the P3 process. 5

Following the release of the auditor general’s report, the Ontario Health Coalition called for an immediate moratorium and re-evaluation of the government’s hospital P3 privatization policy.

Calls have also been made for a similar audit of the Royal Ottawa P3 hospital, which opened two years ago with 54 major deficiencies, according to its current CEO.6

Abbotsford P3 Hospital

The Abbotsford Regional Hospital and Cancer Care Centre in British Columbia provides another cautionary tale about P3s.

For starters, the Abbotsford Hospital was plagued by delays. The originally announcement in 2001 anticipated a 2005 completion date. But cancellation of the public procurement plan led to a three-year process of preparations, bidding and contract negotiation for the P3 deal, which delayed the project delivery date until 2008.

Three of the four bidders withdrew, leaving only one vendor, Access Health Abbotsford, which seriously compromised the ability to ensure a competitive bidding process. This should have given the B.C. government reason to reconsider the P3 approach, but they charged ahead nonetheless. Coincidentally, the construction costs in Access Health Abbotsford’s final bid exceeded the Request for Proposals budget target.


P3s – The Wrong Prescription for Health Care

As for "risk transfer" – a key selling point for P3s – several operational risks remain with the public sector in the Abbotsford P3 project. These include: ongoing inflation risks, ongoing contract enforcement, risks associated with self-monitoring, risks related to technological evolution and infection control practices, risks of substandard service levels, changing labour costs, and risks associated with high patient demand due to a natural disaster.7

In a 2009 report, forensic chartered accountant Ron Parks and chartered accountant Rosanne Terhart evaluated four B.C. P3 projects, including the Abbotsford Hospital. Their analysis found that the nominal dollar cost of the Abbotsford P3 Hospital exceeded the public sector comparator by $328 million.8

Parks and Terhart also looked at another P3 health care initiative in B.C. – the Diamond Centre (formerly the Academic Ambulatory Care Centre), an 11-story facility on the site of the Vancouver General Hospital. They concluded that the Diamond Centre cost $114 million (or 130%) more over the life of the contract than if it had been built publicly.9

The U.K. PFI experience

In the 1990s, the United Kingdom pioneered the use of Private Finance Initiative (PFI), which has served as a model for Canada’s P3s. The U.K. has used PFIs extensively for hospital funding and expansion.

PFI hospitals have been criticized for construction delays, cost overruns, staff cuts, bed reductions and shoddy quality. At the PFI hospital in Carlisle, two ceilings collapsed and the sewage system overflowed into the operating theatre. The Edinborough P3 hospital was built over an old mine,
which has contributed to a serious rat problem.

In 2002, the Association of Chartered Certified Accountants found that negotiations for PFI hospitals took an average of two extra years longer than traditional public procurement. Two years later, the Association of Chartered Accountants in London carried out a thorough evaluation of the operation of PFI hospital projects. They concluded:

- The annual capital costs of PFI hospitals were at least 100 million pounds more than they would have been with public financing.
- The PFI hospitals were considerably smaller than the public hospitals they replaced.
- A risk premium of 30% of total construction costs was paid to ensure PFI hospitals were built “on time and on budget.” This premium was much higher than the cost over-runs in publicly built hospitals.


9 Ibid., p. 3.


11 As cited in HEU Report on the Abbotsford Regional Hospital and Cancer Centre, p. 12.
P3s – The Wrong Prescription for Health Care

- Private consortia appeared to bear little effective risk during the term of the PFI contract.

- PFIs are an expensive method of financing public services and may result in cuts to public services and/or tax increases.12

More recently, a 2008 report by the U.K.’s largest public sector union bluntly stated, "The reality is that the Private Finance Initiative and Public Private Partnerships are costing the country a fortune. It is a case of buying one hospital for the price of two.13

P3s make no economic sense in the best of times, but the global financial meltdown has cast even more doubt on the U.K.’s PFI approach. A leaked memo to the Guardian newspaper in January 2009 warned that hospital projects were at risk because of the PFI credit crisis. Health authorities were told to "expect a capital desert in 2010/2011."14

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12 As cited in Ibid., p. 16.
13 http://www.unison.co.uk/asppresspack/pressrelease_view.asp?id=1251
14 As cited in David Hall, A crisis for public-private partnerships (PPPs)?, Public Services International Research Unit, January 2009, p. 3.
Union waste collectors save Ottawa millions
Tuesday, February 8, 2011 | 4:17 PM ET CBC News

The City of Ottawa said using unionized garbage collectors in the downtown area saved the city almost $5 million over the last four years. (CBC).

The City of Ottawa said Tuesday it 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 company that previously covered the area.

"The myth is that the public sector cannot do it as well as the private sector, and that's totally wrong," Local 503 president Brian Madden told CBC News.

"We've shown today that there are millions of dollars in savings over the private sector."

Accounting firm Ernst & Young audited the garbage collection program and confirmed the city's statements. Garbage contracts up for renewal.

With garbage contracts up for renegotiation in the coming months, city councillors were cagey about what Tuesday's report means for private garbage collectors in the future.

"We have a fair competition process, and it would be up to the private sector when they bid on the contracts that are coming up," said Councillor. Maria McRae, who also chairs the city's environment committee.

"Maybe they can take some advice from today's meeting and have a look at what the numbers look like." Since 1999 the city has divided garbage collection into separate zones to foster competition between unionized employees and private companies.

While CUPE collects downtown garbage, four other areas of Ottawa all contract out garbage collection.
FLA\W\NC\E\D\N\ ABANDONED

100 P3s

Canadian &
International Evidence

By Natalie Mehra
Ontario Health Coalition

With research and support from:
BC Health Coalition
Canadian Health Coalition
Council of Canadians
Canadian Union of Public Employees
Friends of Medicare/Alberta
National Union of Public and General Employees

March 2005
Introduction

PUBLIC PRIVATE PARTNERSHIPS (P3s) are spreading across Canada. Yet the international and domestic evidence shows that the claims of P3 proponents deserve close and careful scrutiny. This report gives a brief overview of 100 projects from Canada and abroad. While P3 proponents claim that projects come in "on time" and "in budget", the evidence does not bear out these assertions. Many projects are late and serious cost overruns are frequent. The bifurcation of management or ownership of public services entailed in these deals leads to serious conflicts of interest between corporations that seek to maximize profits and public services that seek to meet community needs and contain budgets, leading to costly legal disputes and quality issues. Moreover, in the negotiation of P3 deals, the public sector has not been able to achieve P3 proponents' claims of value for money or risk transfer.

This report does not tell the whole story. P3s have also increased inequality, boosting salaries for executives and remuneration for expensive consultants and lawyers while decreasing pay and working conditions and reducing access to services. Democratic control has been sacrificed to commercial secrecy and private for-profit management. High costs have led to service cuts and diminished access. Long term commitment of large revenue streams to lease deals has an unmeasured impact on government flexibility and public policy decision making. All of these issues and more deserve closer study, but are beyond the scope of this report.

It is our hope that governments considering P3s will take the time to critically assess the claims put forward by the P3 lobby. At stake are billions of dollars in public money and democratic control of our public services.

Our research yields several critical themes and trends that governments considering P3 developments would do well to consider.
Key Issues

• **Cost Overruns**
  These often occur during the negotiation phase of the contract.
  Even after the contract is negotiated, increased transaction costs, legal and consultant costs, and costs incurred by environmental disasters, bankruptcies and other serious incidents are frequent.

• **Delays**
  These often occur during the negotiation phase of the contract. Even after the contract is negotiated serious delays occur in projects.

• **Design and Construction Flaws**
  Designs are created to meet the needs of the consortium, not necessarily the needs of the community.
  Poor design has plagued British P3 hospitals, including small and cramped spaces for public services in order to maximize potential for commercial development on the site, relocation of institutions to cheap land in order to maximize development potential in city centres, and inappropriate location of services within institutions.
  Poor construction causing mishaps and disasters has also been a factor in several projects.

• **Quality Problems**
  Inspection reports detailing serious quality problems, environmental disasters and serious accidents have occurred in several projects. In the worst cases, accidents have been fatal.

• **Legal Disputes**
  These are not uncommon and have proven costly for the public, compromising enforcement of contract provisions and risk transfer.

• **Failed Contracts, Bankruptcies**
  In several cases, governments and authorities have been forced to buy out contracts due to total failure or bankruptcy.

• **Service Cuts**
  The high costs of P3s have caused service cuts and a shrinking scope of services publicly covered. In several projects, the business cases for P3s have rested on unrealistic assumptions of productivity and exaggerated claims of value for money that have proven false. In several cases, the redirection of public funds into P3s has pushed further privatization and reduced access to services.
CANADIAN

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3. BC Medical Services Plan and PharmaCare P3. Flawed.
4. Bruce Nuclear P3, ON. Flawed.
5. Calgary Southeast Hospital P3, Alta. Abandoned.
9. Confederation Bridge P3, PEI. Flawed.
14. Foyer Saint-Charles Long Term Care Home P3, Quebec City, Que. Flawed.
15. Greater Vancouver Regional District Seymour Water Filtration Plant P3, BC. Abandoned.
21. Long term care facilities, 13,000 private beds, ON. Flawed.
55. PEI Hospital P3. Abandoned.
56. Port Alberni Civic Arena P3, BC. Abandoned.
57. Royal Ottawa Hospital P3, ON. Flawed.
58. Swan Hills Waste Management Facility, Alta. Abandoned.
60. Timmins and District Dialysis Centre P3, ON. Failed.
61. Vancouver Trade and Convention Centre P3, BC. Failed.
63. Welland Community Centre P3, ON. Failed.
64. William Osler Health Centre P3, Brampton, ON. Flawed.
INTERNATIONAL

65. Channel Tunnel Link, UK. Failed.
66. Cumberland Infirmary P3 in Carlisle, UK. Flawed.
67. Dartford and Gravesham (Darent Valley Hospital) P3 in Kent, UK. Flawed.
68. Edinburgh Royal Infirmary P3, Scotland, UK. Flawed.
70. Fife Council Schools P3, Scotland, UK. Failed.
71. Glasgow Schools P3, Scotland, UK. Flawed.
72. Hereford Hospital P3, UK. Flawed.
73. La Trobe Hospital P3 in Victoria, Australia. Failed.
74. Lister Hospital in Stevenage, UK. Flawed.
75. London Underground P3, UK. Flawed.
76. Modbury Hospital P3 in South Australia. Flawed.
77. Network Rail P3, UK. Failed.
78. Norfolk Schools P3, UK. Failed.
79. Norwich and Norfolk University Hospital P3, UK. Flawed.
81. Parc Prison P3, Wales, UK. Flawed.
82. Port Macquarie Base P3 Hospital in New South Wales, Australia. Flawed.
88. Princess Royal University Hospital P3 in Bromley, South London, UK. Flawed.
89. Princess Margaret Hospital P3 in Swindon, UK. Flawed.
90. Royal Calderdale Hospital P3 in Halifax, West Yorkshire, UK. Flawed.
91. Skye Bridge P3, Scotland, UK. Failed.
92. Tower Hamlet’s schools P3 project, UK. Failed.
93. Queen Elizabeth Hospital P3 in Greenwich, South London, UK. Flawed.
94. University Hospital P3 in North Durham, UK. Flawed.
96. Walsgrave Hospital P3 in Coventry, UK. Flawed.
97. West Midland Hospital P3. Flawed.
98. West Middlesex Hospital P3 in Isleworth, West London, UK. Flawed.
99. Whittington Hospital P3, UK. Flawed.
100. Worcestershire Infirmary P3. Worcestershire, UK. Flawed.
The Canadian Evidence
Abbottford Regional Hospital
and Cancer Centre P3, BC

Flawed:
cost overruns, delays.

To date the government has spent over $7 million in administrative costs to pursue projected savings that were initially estimated at $3 million over the length of the 30+ year contract. Construction costs have increased from $210 million to $355 million, and the annual operating lease for the private sector contractor has doubled from $20 million to $41 million. Legal and consultant costs for this deal are budgeted at $24.5 million which will be paid by the public.

Source

Accenture / Ministry of Social Services Business Transformation Project, P3, ON

Flawed:
cost overruns, technical problems, inflexible.

In 1997, the Ministry of Community and Social Services contracted with Anderson Consulting to revamp their outdated computer system.

Anderson — which changed its name to Accenture in 2001 — was to be given up to $180 million in savings projected from the contract. The cost rose to $284 million, according to the provincial auditor who noted that the deal gave Anderson Consulting a "disproportionately high rate to the disadvantage of the Ministry."

Despite the auditors warnings and serious technical glitches with the program, the province signed another deal for $32 million
with Accenture in 2002 to maintain the system that only they could run. Ultimately the system cost taxpayers $500 million with training costs and other expenditures.

In 2004, it was found that the system was unable to calculate a 3% welfare increase for recipients and would require another $10 million to fix and $7 million to test.

Source

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**3**

**BC Medical Services Plan and PharmaCare P3**

Flawed:
inadequate risk transfer, concerns over privacy of information.

The BC government contracted the administration of the Medical Services Plan & PharmaCare to Maximus Inc., a US company. Under the American Patriot Act, health records held by Maximus are subject to secret search and seizure by US Authorities. BC’s privacy commissioner warned the government of the risks of this private contract.

Source

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**4**

**Bruce Nuclear P3, ON**

Flawed:
high costs, poor risk transfer.

Bruce Power, a wholly owned subsidiary of British Energy, announced an agreement with Ontario Power Generation to lease and operate the Bruce “A” and “B” nuclear generating stations until 2018, with an option to lease for another 25 years.
Termed a “sweetheart deal” for British Energy at the time, the deal left OPG with the responsibility for the cost of nuclear waste management and disposal as well as plant decommissioning (estimated at $7.5 billion). Bruce Power’s initial lease payments were $625 million, and it has to pay annual rent based on its revenue (estimated at $150 million in 2002).

These represent a fraction of the profits the corporation was expected to reap. Once again, the government retained much of the risk and the corporation was given the right to walk away from the lease any time after 2006 if it isn’t making enough money.

Later that year, Cameco Corporation, from Saskatchewan, acquired a 15% stake in Bruce Power. In 2002, British Energy went bankrupt and sold their 82.4% stake in Bruce Power. TransCanada Pipelines and BPC Generation Infrastructure Trust (established by the Ontario Municipal Employees Retirement System -- OMERS) each acquired a 31.6% stake in Bruce Power and Cameco increased its stake to 31.6%.

5

Calgary Southeast Hospital P3, Alta

Abandoned.

P3 deal cancelled. Jack Davis, head of the Calgary Health Region, announced on August 8, 2004 that the new southeast hospital is moving forward, but not as a P3. Mr. Davis said the hospital is “much more complex than an office building” and that no one has more expertise than the health region to build this hospital.

Source

Calgary Courthouse P3, Alta

Failed:
costs up by 66%, design flaws.

When the cost for a one-stop super courthouse jumped 66%, to $500 million from $300 million, moves were made by the province to pull back from the P3 model. Justices complained that the design of the courthouse was flawed and filled the needs of the developer, not the court. After intense negotiations between the P3 consortium GWL Realty Advisors and the provincial government, the province decided to build the facility publicly.

Source


Charleswood Bridge P3,
Winnepeg, Man

Flawed:
high costs.

On a contract totalling $11.6 million, the Charleswood Bridge P3 was found to have cost taxpayers $1.4 million more than if the bridge was built publicly. Over 10% of the project cost was eaten up by the cost of preparing and evaluating the bids.

Source

John Loxley, Department of Economics, University of Manitoba.
Coquihalla Highway P3, BC

Abandoned:
high costs and poor accountability.

The provincial government cancelled its plans to privatize the interior toll highway under a 30 year P3 contract after it faced massive public opposition due to concerns of increased costs and lack of accountability.

Source
www.nupgc.ca/news_2003/n24jy03a.htm

Confederation Bridge P3, PEI

Flawed:
high costs.

Canada's Auditor General found that the bridge cost $45 million more than it would have had it been built publicly. The consortium, Strait Crossing Development Inc., will operate the bridge for 35 years paid through tolls and public lease payments. In the first year, tolls increased by $8 per car. The Auditor General found that the financial risks were born by the public and the public sector price comparator was inflated, making the P3 seem more cost effective than it is.

Source
Cranbrook Civic Arena P3, BC

Failed:
delays, cost overruns, legal disputes.

The P3 project officially failed five years after implementation, following lengthy construction delays, cost overruns and legal disputes. The private sector operator paid the City of Cranbrook $1.7 million to resume ownership and operation of the facility earlier this year.

Source
Vancouver Sun, 05 August 2004, pg 83.

Duke Point Hydro P3, Nanaimo, BC

Flawed:
high costs, inflexible.

The proposed deal requires BC Utilities Commission to make annual payments to Duke Point Power Ltd. plus a levy when natural gas power is used for the length of the 25 year contract.

According to Dan Potts, Executive Director of the Joint Industry Electricity Steering Committee representing major industrial users of purchased electric power in BC, the deal, "raises the real possibility that high fuel costs and low utilization will make the power from this plant horrendously expensive."

He concludes, "Better options must be developed if BC Hydro is serious about supplying reliable low-cost power for generations."

BCUC rejected a previous similar proposal in 2003.

Source
Edmonton Grocery Store High School P3, Alta

Failed:
disputes over regulation.

In 2002, the Catholic school board forged an agreement with Sobey’s grocery store to jointly build a new school in Callingwood. The board was to contribute the $12.6 million it had received from the province for the project and the grocery chain would contribute $3.2 million, leasing space in the building from the school board. City officials objected to the plan because the land was never intended for commercial development.

The project developers violated a requirement that developers hand over 10 per cent of the land in any new housing project for future schools and parks.

Other businesses were upset because Sobey’s got the school board deal without any tendering process. Ultimately the deal failed.

Source


Evergreen Park School P3, NB

Flawed:
high costs.

The New Brunswick Provincial Auditor found the school cost almost $1 million more, on a $14.7 million project, than if the school was built publicly.

Source

Foyer Saint-Charles Long Term Care Home P3, Quebec City, Que

Flawed:
high costs.

A government-commissioned study found that the proposed P3 long term care facility would cost $14 million more than it would to build the facility publicly and $110,000 more per bed than it would to manage the facility publicly over the 25 year duration of the proposed contract.

The study by Mallette Services-consells was kept quiet by the government, but was released after a successful Freedom of Information request.

Source


Greater Vancouver Regional District Seymour Water Filtration Plant P3, BC

Abandoned:
high costs and poor accountability.

The GVRD cancelled plans for a P3 to build and operate a new water filtration plant after more than 1,000 community members attended consultations raising concerns over the cost and accountability of the project. Primary concerns included the threat of NAFTA Chapter 11 State-Investor Clause trade suits.

Source

GVRD water decision a "great public victory" says CUPE (CUPE News, June 29).
Greater Vancouver Transit Authority Rapid Transit P3, BC

Flawed:
high costs, inadequate risk transfer.

On May 7, 2004 the GVTA voted against a planned P3 rapid transit project citing high costs and public risk. In retribution, the provincial government threatened to cancel all provincial funding and the business community called for the GVTA to be dissolved. A second vote was taken, this time resulting in a tie. Pressure was intensified on the GVTA. Finally, on a third vote, the P3 was pushed through in June 2004.

The deal includes a guarantee to the private consortium that they will be paid on the basis of 100,000 rides per day even though there are currently only 40,000 riders on the three parallel bus routes that serve Richmond - Vancouver.

Bids have come in significantly over the budget. A review by the Underhill Company for Vancouver City Council found the P3 does not transfer substantial risk to the private sector.

Source
Vancouver Sun, "RAV strategy moves control away from local authorities", Editorial by Murray Dobbin. Tuesday 27 April 2004, pg A13.

Hamilton Entertainment & Convention Facility Inc. P3, ON

Abandoned:
inflexible, reduced community access.

The City of Hamilton solicited expressions of interest for a P3 at the convention facility. It also commissioned a report from KPMG on the governance and operations of the public non-profit facility. After reviewing the KPMG report and the expressions of interest,
City Council abandoned the P3 proposal as it would reduce access to the facility for community groups and would be too inflexible, according to City Councillors.

Source


Hamilton-Wentworth Water & Wastewater Treatment P3, ON

Abandoned: maintenance problems, legal disputes, high costs, poor risk transfer.

The P3 deal was signed in 1994 under a 10 year, $187 million contract to Philip Utilities Management Corp. That company has since changed ownership four times, ultimately leaving Hamilton's water in the hands of American Water Services Canada Corp. In 2004, the contract came up. All of the private sector bids were higher than the cost of running the facilities in-house.

This P3 has been plagued by environmental disaster and malfunctioning equipment. In the mid-1990s, the P3 was the site of the largest ever sewage spill in Lake Ontario. The full cost of clean up fell to the City of Hamilton. The full cost of the cleanup and details of the City's attempt to hold the corporation responsible have been kept secret.

As of January 1, the P3 was abandoned and the water and wastewater systems were re-publicized.

Source

The Hamilton Spectator, Pg A1 "City eyes takeover of water, sewer operations" Tuesday, August 31, 2004.
Halifax School P3, NS

Flawed:
legal disputes, high costs, poor risk transfer.

After arsenic was found in the school water, the school board and the consortium were embroiled in legal wrangling for over a year to determine which would pay the costs of fixing the water system. Pupils and teachers were forced to drink bottled water paid for by the school board.

Source

Highway 407 P3, ON

Flawed:
high costs, legal disputes, loss of public control.

A 99 year lease, signed by the Ontario government in 1999 has been plagued with legal wrangling over toll hikes and control. The consortium and the current government are in a legal dispute over toll increases that the province is trying to control.

Tolls have increased by 350% since 1997 for off-peak car drivers and by about 50% for car drivers in peak hours.

Source
Long term care facilities, 13,000 private beds, ON

Flawed:
high, costs, public ownership lost.

In three rounds of bidding from 1998-2000, the Ontario government contracted with for-profit companies to build over 13,000 long term care beds as profit-seeking ventures. For the first time, taxpayers are paying for beds to be owned and operated by for-profit companies. In contracts that span 20 years, the province will pay $10.35 per bed per day for 20 years for the capital portion of the costs. At the end of the deal, Ontarians will have paid over $900 million for beds which the companies will own and can convert for their own uses. The end of the deals, at approximately 2020, coincides with the time period in which the biggest crest of baby boomers will reach age 80. Ontarians will then have to pay again for beds for which they have already paid, or build new ones.

Source
From Paul McKay series on long term care facility deals in Ontario, printed in the Ottawa Citizen.

Maple Ridge Downtown Redevelopment (leisure centre, youth & arts centre, library, parking garage, office tower and hotel) P3, BC

Abandoned:
high costs, legal disputes.

The BC Supreme court ruled that the 50 year downtown redevelopment P3 deal signed by the District of Maple Ridge was illegal. A subsequent forensic audit found that the proposed deal was flawed and was deliberately designed to favour the P3 over traditional public procurement. Extra costs incurred by the P3 contract resulted in the District of Maple Ridge resuming control and ownership of the complex in 2004, after the community voted
in favour of dissolving the P3 contract. The move to public ownership has saved taxpayers between $9 and $11 million according to a forensic audit commissioned by the district council.

Source

Nelson Recreation Complex P3, BC

Abandoned:
high costs.

The city of Nelson decided against pursuing a $19 million P3 project after receiving proposals from 3 private sector operators. Instead, the city borrowed the money from the Municipal Finance Authority at lower costs than could be secured by any of the proposed P3 consortiums.

Nova Scotia Schools (30) P3

Program cancelled:
high costs, insufficient risk transfer, poorly negotiated deal, public scandal.

In 1994 the Nova Scotia government committed itself to the most extensive experiment in P3 schools anywhere in Canada. The Nova Scotia auditor found that the P3 schools cost $32 million more than if they had been built publicly.

The audit found that the P3 consortia were not responsible for operating costs, capital improvements (including repairs) or technology upgrading. The contracts exempted the consortia from financial penalty for faulty construction. At the end of the deals, the public will have to pay again to buy back the schools after paying 20 - 35 year leases on them. Schools were relocated out of urban centres to maximize land development opportunities.
for the consortia. The schools are plagued with scandal and problems. After 6 years, the Nova Scotia government cancelled the P3 program. However, 30 school deals lasting up to 35 years had been signed.

Source

55

PEI Hospital P3

Abandoned:
high costs.

The PEI government abandoned plans for a P3 hospital after public outcry and a report that the privatization would cost more than if the hospital was to be built publicly.

Source
Charlottetown Guardian, "Hospital project may be put to tender", Saturday, June 2, 2001, pg A1.

56

Port Alberni Civic Arena P3, BC

Abandoned:
high costs.

The City rejected a proposed P3 deal after the realization that taxpayers would only achieve peripheral benefits from the contract, and opted for traditional financing/public procurement instead.

Source
Royal Ottawa Hospital P3, ON

Flawed:
high costs, secrecy, bed cuts.

This P3 deal hands over the public lands surrounding the hospital to the private developers for 66 years. The deal covering the new hospital will last for 20 years. Over the negotiation of the lease agreement, costs for the hospital increased from $100 - $120 million. Despite the costs, the new hospital will have fewer beds than the hospital it replaces. There has been no public accounting for what services will replace those cut.

Source
ROH website and planning documents.

Swan Hills Waste Management Facility, Alta

Abandoned:
high costs, contamination, poor risk transfer.

Bovar Inc., which ran the plant for more than a dozen years, returned it to the province in 2001 after taxpayers poured $440 million into the operation. It will cost taxpayers millions more to clean up the heavily contaminated site.

Source
St. Albert recreational facility
P3, Alta

Abandoned:
high costs.

City council abandoned a P3 recreation facility because, “We inherited a P3 scheme that we found was good for the developer but not for the city’s pocketbook,” according to Mayor Richard Plain.

Source

Timmins and District Dialysis Centre P3, ON

Failed:
no bidders interested.

Project abandoned, no bidders interested. It is speculated that the market that would provide additional revenue streams for the private sector is too small in this northern community to be attractive to the for-profit companies.

Vancouver Trade and Convention Centre P3, BC

Failed:
inadequate risk transfer.

Plans for a P3 expansion to the Vancouver Trade and Convention Centre were cancelled after the provincial government was unable to secure adequate protection (‘risk transfer’) for its investment.
Victoria Arena & Entertainment Complex P3, BC

Flawed:
cost overruns, behind schedule.

The completion date was originally set for August 28, 2004, then rescheduled for November 15, 2004. Now the facility is supposed to be completed in early 2005. The net cost to the city for the six month delay is approximately $780,000.

Source


Welland Community Centre P3, ON

Failed:
project deemed “not viable in the P3 format”, secrecy.

A site-selection committee was set up to review a P3 proposal for the community centre. Details of the project were secret, the committee was compelled to sign confidentiality agreements and to conduct negotiations entirely in private. After examining the P3 proposal, the committee recommended to city council that the P3 proposal be rejected. The council agreed, stating that “it was not a viable option in this format”.

Source

Welland Tribune “No to private community centre”, Wednesday 16, February, 2005, pg 2. Interviews with committee/council members.
William Osler Health Centre P3, Brampton, ON

Flawed:
cost overruns, delays, secrecy.

Costs for the P3 hospital deal grew from $350 million to over $550 million during the lease negotiation. In this period, the size of the planned hospital was reduced and the new hospital is now to be opened in stages. The higher private borrowing rate and premium on equity mean that capital costs are $174 million more than they would be if the hospital was built publicly. All other financial information pertaining to the service privatization regime is considered a "commercial secret" shrouded from scrutiny by taxpayers, along with the Value for Money report and many other documents. Ultimately, the deal was over a year late.

Source
Schedule 8, Project Agreement, William Osler Health Centre and The Health Infrastructure Company of Canada.
International Evidence
Channel Tunnel Link, UK

Failed:
cost overruns, eventual government bail out.

The link would have cost 1 billion pounds if it had been publicly procured. Instead, the private consortium was given 5.7 billion pounds worth of land and public money to cover its costs. Later, the government agreed to bail out the consortium by underwriting a 3.7 billion pound loan to the consortium as part of a 5.8 billion pound re-financing deal.

Source
George Monbiot, "Captive State".

Cumberland Infirmary P3 in Carlisle, UK

Flawed:
poor design, poor risk transfer, poorly negotiated deal, higher costs.

Design problems and shoddy construction have plagued the hospital as follows: two ceilings have collapsed because of cheap plastic joints in piping and other plumbing faults, one joint narrowly missed patients in the maternity unit; the sewage system could not cope with the number of users and flooded the operating theatre; clerical and laundry staff cannot work in their offices because they are too small; expensive bespoke trolleys had to be commissioned because those supplied don’t fit between the beds; the transparent roof means that on sunny days the temperature reaches over 33C, the hospital has no air conditioning; and two windows have blown out of their frames, one showering a consultant and a nurse with glass.

One of the risks supposedly transferred to the P3 consortium was the risk that targets for clinical cost savings would not be met, and the cost of this risk was estimated at 5 million pounds.
The consortium, however, faced no penalty if these savings were not made. Therefore 5 million pounds of value was spuriously attributed to the P3 scheme. The higher cost of private finance added an average of 39% to the total capital costs of the projects in North Durham, Carlisle and Worcester.

Source


Cumberland Infirmary P3 in Carlisle, UK continued

Flawed:
poor labour relations, poor management, design flaws.

An inspection report by the commission for health improvement (CHI) criticized the hospital severely for its poor labour relations, information technology and risk management. The report noted that there is insufficient space on cramped wards to walk three abreast, noting this is particularly important when caring for elderly patients. The lack of storage space means that shower rooms and patient areas have been converted into storage spaces. Lack of beds and frequent ward closures due to infections led to cancelled operations. Staff were stressed by unreasonable workloads.

Source


Dartford and Gravesham (Darent Valley Hospital) P3 in Kent, UK

Flawed:
high costs, poor inspections, cuts to services.

Inisfree refinanced the hospital and made 33 million pounds in profit. One of the companies, Carillion (the same company that
has won the bid to privatize the Brampton, Ontario hospital P3) made 11 million pounds in profit. The hospital failed inspections for basic standards in hygiene, trolley waits, cancelled operations and breast cancer referrals. The CEO was fired. Community health spending has been reduced to fund the additional costs of the acute sector. Funding for the provision of services shifted to the community - mental health and learning difficulties, and community nursing - was withdrawn. In order to increase funding for the P3 by 2 million pounds per year, funding for a child resource centre, relocation physical disability services, and relocation mental health services were cut entirely. Community nursing and community hospital services were reduced.

Source


Edinburgh Royal Infirmary P3, Scotland, UK

Flawed:
design flaws, land deal scandal, poorly negotiated deal, high costs, poor value for money calculation, cuts to services.

The hospital was built without operating theatre lights. The hospital lands in town were sold off in a scandal-ridden land deal and the hospital was moved to a greenspace outside of town. The land is over an old mine and rats climb to the surface and infest the hospital when it rains. The high costs of the P3 have been born by reducing beds in a false estimation of faster patient “throughput”.

Beds have been reduced by 24% across the health district and community services have also been cut. Further reductions in community care and beds may be necessary to meet the financial deficit, primarily due to the high costs of the P3s in the health district. The workforce plans for the new P3 show that the projected clinical staff budget was 17% less than in the former public hospital. The new P3 hospital was planned to have 18% less staff.
Capital costs as a proportion of total income rose from 7% to 14% under the P3. The head of the Accident and Emergency Department, Keith Little, resigned in 1999 on the grounds that the shortage of beds had made his job impossible. One of the ways that figures have been adjusted to indicate that the P3 provides greater value for money was the assumption that the building life would be 45 rather than the usual 60 years.

Source

East London and City Mental Health Trust P3, East London

Failed:
long delays, serious design and construction problems, problems in relationship between public and private sector.

A leaked report from consultants Hornagold & Hills noted the following problems: the bidding and negotiating went on for 2 years beyond deadline, even after which the contract did not adequately specify the obligations of the private companies; the architects were not paid, did not inspect works or certify completion and there are no drawings of the final buildings; the original design provided no office space at all, a redesign to squeeze in offices is extremely poor; gender segregation in the wards is impossible due to design flaws; the water supply totally failed upon the building opening; a number of toilets were not connected to drains leading to "obvious problems"; floor coverings are defective; alarm and call systems unreliable; emergency systems non-functional; staff were ill-informed and alienated; and the contractor was deemed uncooperative and adversarial.

Source
**Fife Council Schools P3, Scotland, UK**

Failed:
company went bankrupt.

After delay and uncertainty due to a collapse of P3 corporation Jarvis' finances and shares, the Fife council cancelled the 176 million pound P3 schools deal and had to begin to renegotiate the deal with other bidders.

*Source*

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**Glasgow Schools P3, Scotland, UK**

Flawed:
high costs, design flaws.

29 schools involved in the country's biggest education P3 contract with Amey and Mitel is worth 160 million pounds. The deal has resulted in the loss of six swimming pools, smaller and fewer classrooms, science laboratory benches facing walls instead of teachers and fewer game halls.

*Source*
The Observer "Britain on the road to a very private revolution" Sunday May 27, 2001.
Hereford Hospital P3, UK

Flawed:
high costs, cuts to services.

The P3 business case planned a reduction of 50% in acute beds and required increased funding and accommodation of 14,000 bed days in community settings. However, the extra non-acute resources were not identified in the business case.

Source

La Trobe Hospital P3 in Victoria, Australia

Failed:
company sued government for inadequate profits, government bought back the hospital.

The Victoria government contracted with consortia to develop three major P3 hospitals in the mid-90s. Under the terms of the contract, the consortia had to accept public medicare patients without extra-billing. The consortia agreed to provide services at 96% of the cost for public hospitals. The government had to buy back the hospital from Australian Hospital Care in October 2000 after the consortium lost $10 million on the La Trobe Hospital and announced it was suing the government.

Source
Lister Hospital in Stevenage, UK

Flawed:
legal disputes.

"Patients are facing potentially dangerous delays in receiving test results following the end of a P3 in pathology, according to the British Medical Association. The problems follow the end of a private sector contract and return of pathology services at the Lister Hospital in Stevenage to the public sector. The trust and private provider OmniLabs could not agree on a formula which would have allowed the hospital to continue to use OmniLabs computers for a changeover period. There have been delays while data is transferred from one computer system to another, and problems tracking specimens. It is said that neither side would enter such a similar contract again."

Source

Publicnet - www.publicnet.co.uk Friday, 14 December 2001.

London Underground P3, UK

Flawed:
high costs, delays.

The cost of private finance has added 455 million pounds to the cost of the project, to be financed by ratepayers and London taxpayers. A report by the National Audit Office found that the sell-off provided private engineering companies with profits of 18-20%, a third higher than the norm. The NAO found that the costs for the contracts rose by 590 million pounds through the negotiation period. The project was more than two years behind schedule. The government agreed to cover bidders’ costs amounting to 250 million pounds. The costs for the public side’s consultant fees were 109 million pounds.

Source

The Guardian. "Auditors say tube sale was bad deal” Thursday June 17, 2004. also see The Observer “Britain on the road to a very private revolution” Sunday May 27, 2001.
Modbury Hospital P3 in South Australia

Flawed:
legal disputes.

The South Australian government had to increase its payments above the contracted amount under threat of default by the consortium.

Network Rail P3, UK

Failed:
fatal train crash, quality problems, high costs, service re-publicized.

17.6 million pounds was paid to Carillion, when railway maintenance was re-publicized following a spate of quality problems and high costs. It was expected that Balrour Beatty, Amey, Amec and First Engineering would also be paid out to terminate the contracts. The re-publicization of rail maintenance is estimated to save 100 million pounds per year. In Thames Valley, the first major area to be taken in-house, delays caused by infrastructure faults have fallen in the region by 32% over six months. Potters Bar rail crash in 2002 killed seven people and injured 76. A train derailed at 100 mph. The cause was a maintenance failure on the track for which P3 company Jarvis was responsible. Jarvis and Network Rail were in a series of disputes over rail maintenance work for six years.

Source
Norfolk Schools P3, UK

Failed:
deal cancelled, delays, risk.

P3 contract for 6 schools in Norfolk collapsed as P3 company Jarvis, facing financial difficulties, was 26 months behind schedule and was unable to find a local subcontractor.

Source

Norwich and Norfolk University Hospital P3, UK

Flawed:
legal disputes, high costs.

Two "containment rooms" that should use a system of negative pressure to seal in lethal viruses were found to be defective.

A nurse lifted the ceiling tiles in the hallway and found that the ducting had never been connected. Thirteen patients had been treated in this ward for tuberculosis. The hospital trust launched an inquiry and the National Audit Office investigated.

It emerged that the management had known about the problem for more than two years. The director of public health complained to Octagon Healthcare, the consortium that built and runs the hospital. The consortium admitted they knew the rooms were not working and that staff were told to use "tried and true" methods to prevent contamination.

The hospital trust has spent 80,000 pounds to ensure that the rooms now work. They are in a dispute with the consortium over who is responsible to pay the bill.

In December 2003, Octagon (made up of Innisfree, Laing and Serco) refinanced the project and received a 100 million pound
windfall. It was intended that the hospital would receive at least 30% of "refinancing" payouts but the companies demanded their profits in a lump sum, while the hospital trust was awarded a reduction in rental costs of 1 million pounds per year for the next thirty years (this falls short of the 30%).

The hospital is in serious financial deficit and the CEO resigned in May 2004.

Source

Norwich and Norfolk University
Hospital P3, UK continued

Flawed:
high costs, service cuts, poor value for money estimation.

The business case for the P3 assumed a decrease in inpatient caseloads and a diversion of 8% of the caseload into the community. This did not occur. To meet financial constraints, five community hospitals across the health district and 1/3 of the hospital beds were closed. The economic case for the P3 was made on an exaggerated estimation of inefficiency in public sector procurement. The public sector comparator, used to make the P3 case make financial sense, used an assumption of 34% cost overruns in the equivalent public sector case. In fact, the National Audit Office reported that cost overruns in the public sector averaged between 6.3 and 8.4%.

Source
Paddington Health Campus P3, London, UK

Flawed:
cost overruns from 360 million to 800 million pounds, delays.

Initial estimates by the Department of Health costed the P3 development and relocation of three London hospitals onto one site at 360 million pounds when it was approved. Redesign was forced on the consortium because the wards were too small. Costs escalated to 800 million pounds and were expected to increase by another 200 million. Critics note that the hospital costs four times that of Portsmouth hospital redevelopment which has 100 more beds.

Source


Parc Prison P3, Wales, UK

Flawed:
riots, poor management, poor design, labour relations problems.

Even before the prison was officially opened, it suffered eight major riots and two suicides. The Prisons Minister, Joyce Quinn, admitted that it lacked adequate work and training, drugs testing and visitor facilities. According to the Prison Reform Trust, by five months after the prison had been opened, it had thirty fewer guards than it needed due to "an unexpectedly high turnover of staff". Prisoners had to be transferred to a publicly-run prison. Within a year of opening, the consortium Securicor was fined 105 thousand pounds for a series of offenses.

Source

George Monbiot "Captive State".
Port Macquarie Base P3 Hospital in New South Wales, Australia

Flawed:
high costs.

The State Auditor found that the new hospital would cost $143 million for capital alone—almost three times what it would have cost to procure in the public sector. After 20 years, the government would have paid for the hospital more than twice over—yet it wouldn’t own it.

Source

Princess Royal University Hospital P3 in Bromley, South London, UK

Flawed:
design/construction problems, costs.

Innisfree Group refinanced the hospital less than 12 months after it opened. Innisfree and building group Taylor Woodrow pocketed 43 million in profits from the deal. The hospital has suffered several power blackouts and has problems with its telephone systems.

Source
Observer, Sunday, July 4, 2004
Princess Margaret Hospital P3 in Swindon, UK

Flawed:
design problems, unnecessarily large deal to attract bidders, high costs, poor land deal.

Poor design means that the recovery room is located 80 metres from the operating theatre.

The original hospital redevelopment plan included a refurbishment of existing facilities and a partial new build. In order to make the scheme more attractive for P3 bidders, the plan was transformed into an entirely new build on a greenfield site out of town, releasing the city centre site for development by the P3 consortium.

Source

Royal Calderdale Hospital P3 in Halifax, West Yorkshire, UK

Flawed:
financial problems, design/construction problems.

Bovis and Lendlease were the developers behind the P3. While the hospital is facing financial problems, the firms made a 12 million pound profit from a refinancing deal. The hospital has been beset with problems including power cuts, exploding glass awnings and rodent infestations.

Source
Observer, Sunday July 4, 2004  Ibid.
Skye Bridge P3, Scotland, UK

Failed:
government bought back the bridge, cost overruns, scandal.

The toll bridge is a P3 project linking the Isle of Skye and features the highest tolls in the UK.

After 9 of the 33 year contract, the private consortium had made a profit of 33 million pounds.

In addition, before the bridge was built, the government paid 6 million to build approach roads, 3 million on consultants and land, 4 million as “compensation” for construction delays (risk supposed to be taken on by the private sector). The government paid a further 7.6 million pounds to subsidize high tolls for island residents.

Ultimately the contract was cancelled and the government paid 27 million pounds to buy back the bridge from the consortium.

All told, the scheme cost the public 93.6 million pounds, for a bridge that cost the consortium 25 million pounds to build. Details of the contract remained shielded from public scrutiny by “commercial confidentiality”.

Source

Tower Hamlet's schools P3 project, UK

Failed:
company went bankrupt.

Financiers Abbey National pulled out of the deal in June 2004 following the failure of the building company Ballast plc. Half-
finished schools are now the public's problem as parents scrambled to move their children to other school rolls.

Source
The Guardian Allyson Pollock and David Price, "We are left footing the bill: the public pays the price when contractors pull out of projects", Tuesday July 27, 2004.

Queen Elizabeth Hospital P3 in Greenwich, South London, UK

Flawed:
high costs, financial problems.

Four years after the 93 million pound hospital was built, it had to close a ward to save money towards its 6 million pound deficit, adding 600 more patients to waiting lists.

Source

University Hospital P3 in North Durham, UK

Flawed:
high costs, design flaws, financial problems.

A contract disagreement between the public hospital and the private consortium featured the consortium claiming that its contractual responsibilities did not include portering. An ambulance had to be called to move a patient 400 yards to a ward. The hospital was built on a business case that was geared to making the P3 affordable and cut beds. The new hospital faced a serious bed shortage within the first few weeks of opening - in the middle of summer.

The hospital has been plagued with serious design flaws, shoddy construction disasters and equipment failures including: the respiratory ward is extremely hot; the generator failed plunging
operating theatres, intensive care and casualty into darkness; a
flood of sewage broke through the ceiling flooding the pathology
department; the sluice area design means that staff have to cart
could linen and waste through ward areas that are meant to be
clean; the pharmacy has been squeezed in next to the mortuary
without a waiting area so those queuing have to contemplate the
bodies going by; the kitchen areas are unbearably hot; the
ambulance bay is too small and gets blocked if four ambulances
arrive at one time; large parts of the hospital have no drinking
water as the cold water taps run hot.

The projected workforce clinical budget under the P3 was 22%
less than in the former public hospital. The new P3 hospital was
planned to have 14% fewer RNs. Cost of capital as a proportion
of total hospital income rose, under the P3 plan from 8% to 18%.

Source
Guardian Unlimited, "Crisis-hit hospital finds that private finance for NHS comes at a
Ibid.

University Hospital P3 in North
Durham, UK, continued

Flawed:
high costs, design flaws, financial problems.

The higher cost of private finance added an average of 38% to
the total capital costs of the projects in North Durham, Carlisle
and Worcester.

Distressed about the bed shortages, Ian Hawthorn, lead surgeon
wrote to the CEO, "The bed model dreamed up to fit into the PFI
budget was based on [a] model which as we know has proved
unsound...In essence the bed model is based entirely on numbers
dreamed up to fit a budget...This is as serious a situation as this
trust has had to face. We are trapped in a PFI web, the problem is
a country-wide one and secrecy has no place at this stage...The
PFI project as its stands fails the people of North Durham for the
foreseeable future."

The P3 architects pushed the hospital into a corner of the site to
maximize land development opportunity for the consortium.

Source
Pollock et al, British Medical Association Journal. "Private finance and 'value for
Guardian Unlimited, "Crisis-hit hospital finds that private finance for NHS comes at a
University College London Hospitals P3, Central London, UK

Flawed/failed:
high costs, poor design, project may be cancelled.

The higher cost of private finance added an average of 39% to the total capital costs of the projects in North Durham, Carlisle and Worcester.

Jon Rouse, chief executive of the Commission for Architecture and the Built Environment described the plans as “cramped and overdeveloped. What concerns us is the functionality of the building in delivering the best possible medical services and patient environment.”

CABE’s report said the design “recreates mistakes made in the 1960s...If it were put forward as an office project, it is extremely difficult to imagine it being given planning permission....We have little sense that the project proposes more than compliance with the building regulations in terms of energy usage.”

The consortium had failed to act on the government’s planning advice. The design was criticized for having too many rooms with no windows, the blocks appeared jumbled and ad hoc and patients would be confused by the complex layout. It concluded, “The standard of the design, in our view, falls a long way short of what ought to be expected of one of the largest public sector building projects in the country.”

As of August 2004, London mayor Ken Livingstone is set to veto the P3 megahospital.

Source
Walsgrave Hospital P3 in Coventry, UK

Flawed:
high costs, poor land deal, service cuts.

The town, built on a ring road with the public transit system designed accordingly, faced a P3 plan that would see the city centre hospital property sold and the new hospital constructed on a site just outside the town’s ring road. The town council opposed the plan which endangered plans to regenerate the city centre. It offered 20 million and nine acres of property to the hospital trust to change its mind. The offer was refused. A confidential report by economists and public health experts found that the affordability of the P3 project was based on a bed cut of 25% and a staff cut of 20%. No analysis had been done of the potential for redevelopment as opposed to a new build. The scheme, concluded the authors, was designed to meet the needs of the private investors rather than the residents of Coventry. Costs for the hospital increased from 174 million pounds to 311 million over the negotiation of the deal.

Source
Monbiot, George, “Captive State”. Ibid.

West Midland Hospital P3

Flawed:
high costs.

Under the new accounting rules that, in response to a spate of P3 problems, reduce the amount of risk allowed to be reported as transferred to the private consortia, the hospital P3 is 22 million pounds more expensive than its public sector alternative.

Source
British Medical Association Journal. Letters to the Editor.
West Middlesex Hospital P3 in Isleworth, West London, UK

Flawed: financial problems, service cuts.

According to the BMJ, the project was calculated using a discount rate of 6%, but according to the revised treasury guidelines of Sept 2003, 3.5% was the correct rate to use. As in other P3s, the financial model used, overstated the risk transfer to the private sector. Using the corrected rate, the P3 was 22 million pounds more expensive than its public sector comparator. The hospital is closing a ward to save 2.5 million towards its deficit.

Source


Whittington Hospital P3, UK

Flawed: company in financial difficulties, delays, company paid no compensation.

The hospital redevelopment was left half built when Jarvis ran into financial trouble. The company abandoned the project and will not pay any compensation for leaving the project incomplete. The redevelopment will be a year late. A new deal has been negotiated with a new company.

Source

Worcestershire Infirmary P3, Worcestershire, UK

Flawed:
high costs, service cuts, poor risk transfer.

The higher cost of private finance added an average of 39% to
the total capital costs of the projects in North Durham, Carlisle
and Worcestershire. The cost of the Worcestershire P3 increased
by 118% over the negotiations for the deal, leading to the closure
of neighbouring Kidderminster Hospital's intensive therapy and
maternity wards and laminar-flow theatre which had been
opened just three years prior. The hospital trust was forced to
pay a penalty clause of 200,000 pounds per year to the consortium
Catalyst due to bed occupancy over 90%.

Source
The Observer "Trampled Underfoot: The Government's passion for PFI is basically a
Chair Wideman, members of council:

Thank you for deciding to hold this public meeting. I am here today in my capacity as spokesperson for the Tri-Cities’ Transport Action Group, or TriTAG. TriTAG believes that it is always a privilege to hear, and be part of, our democratic process.

We've said this before, we'll say it again: We understand the need to ensure that the LRT built for us doesn't fall apart.

This is a noble goal, but we need to be aware of what we are and are not getting under a full DBFOM arrangement:

We are not getting staff who will have the experience to design or build a system extension to Cambridge, nor will they have the expertise to design system expansion along Victoria Street, University Avenue or Coronation Boulevard. When the buses on these corridors become overwhelmed and need replacing with LRT, we will need to either find another private partner or hire staff with this expertise later.

We are getting a private partner who will need to be kept on a short leash. Thankfully, the recommendation in front of you is cognizant of that. Shorter operations contracts keep the private-sector partner always competing for our business. If you're absolutely bent on going fully private, shorter operating periods are preferable.

We are getting the experience of a private-sector company who has built LRT before, and all of the staff they employ. We are also getting higher interest costs, however, because our community has access to better interest rates than any company in the private sector, and money for this project will need to be borrowed over a 20 to 30 year term. It remains to be seen whether the cost-cutting experience of the private sector staff will outweigh the fact that the private-sector mortgage rate will be higher.

For the next 30 years, we will be getting whatever deal the region’s lawyers think to draw up in the next two. It will be crucial that the region sets up a deal where we get a high quality of service for our tax money, even 27 years after opening day. Contracts have been abandoned before because the private-sector partner has stopped seeing value in continued operation of a contract.

The Tri-Cities Transport Action Group has worked hard within our community to explain the reasoning behind our LRT project.

We're at a loss to explain why the community would limit its procurement options at this time to only one.

When you ask a matchmaker to find you a suitor, do you ask for only one kind?
No.

So it should also be that when you go to Infrastructure Ontario for help with your LRT project, you should ask for several kinds of bid.

Then, when the price and features of each kind of bid comes back to you, you can make a truly informed decision.

Today, you have in front of you a recommendation that tells you that we can eat our cake and then have it: labour peace, private-sector risk-management, public-sector fare setting and service planning.

We can even have 10 and 5 year operating contracts, which is, admittedly, the best approach if you're insistent on going private, and the only reasonable approach if you're serious about prompt expansion to Cambridge.

So if all of this is possible, are there still savings?

Forget the Deloitte report, which you're not allowed to see, and according to news reports some don't even want to see. Why not put the operations and maintenance out for separate tender, and let the private sector tell you exactly just how much each level of risk is worth to them?

After all, it's our community's money. We are the customer. And our community has a right to a full airing of exactly what our options are.

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