

Submission

by the

Ontario Federation of Labour

in Response to the

**Discussion Paper on Infrastructure
Financing and Procurement – Building
a Better Tomorrow: Investing in
Ontario's Infrastructure to Deliver
Real, Positive Change**

May 2004

Introduction

The Ontario Federation of Labour (OFL) is a province-wide federation of affiliated unions representing approximately 650,000 members. Our members include hundreds of occupations from public sector employees, to construction workers, from teachers to manufacturing workers, plus a growing number of private service sector employees.

For all of our affiliated members Ontario's infrastructure provides the basis for our communities. For our public sector members it is also their workplace. The issues concerned are therefore vital to us.

The OFL appreciates the opportunity to contribute to this important discussion on long-term planning of Ontario's infrastructure financing and procurement. We wish we could be more positive in our response to your discussion paper *Building a Better Tomorrow: Investing in Ontario's Infrastructure to Deliver Real, Positive Change* (BBT), but we are compelled to disagree with its general directions, particularly those models of financing that are associated with Public-Private Partnerships and lease-backs commonly referred to as P3s.

In this submission we explain our perspective on the critical importance of public financing for public infrastructure. It is our position that only publicly-financed, publicly-owned, publicly-delivered services can meet the needs of the people of Ontario and the guidelines established by Minister Caplan in the consultation paper presented by the Ministry of Public Infrastructure Renewal.

We intend to show that models of infrastructure funding which involve private financing, ownership and delivery of services offer poorer service to Ontario's citizens, increased costs, reduced accountability and low quality jobs. We review the experience and evidence that demonstrates that publicly funded infrastructure is best for the province's taxpayers and communities. At the same time, we present alternative suggestions for financing infrastructure.

1. The Importance of Public Infrastructure

The Ministry of Public Infrastructure Renewal's discussion paper properly identifies the importance of public infrastructure where it states that "a modern and efficient public infrastructure is essential to delivering outstanding public services such as clean, safe drinking water, quality health care, and excellent education."

The commitment to public infrastructure renewal is particularly appreciated at a time when there has been a deliberate downsizing and withdrawal from economic intervention and the provision of services by government and state institutions. As Lewis Auerbach, Arthur Donner, Douglas Peters, Monica Townsend and Armine Yalnizyan state in their paper *Funding Hospital Infrastructure: Why P3s Don't Work, and What Will:*

Unfortunately, Canada, as is the case for many countries, suffers from a retreat by the state from its traditional role and functions - including the provision of infrastructure. From the mid-1970s, as neo-liberal policies and a dedication to "free markets" took hold, government spending was regarded with increasing suspicion. Preoccupation with debt and deficits dominated public policy discussions in Canada and elsewhere since the 1980s.¹

The result today is that Ontario faces a crisis in public infrastructure. The province has not been building new public infrastructure at a pace that keeps up with need. Ontario has not built a single unit of social housing, for example, in nearly ten years.

Governments provide infrastructure and services not because of some historical accident, but rather such infrastructure and services are necessary in order to ensure economic growth and provide a better quality of life for citizens. Services were brought into the public domain to better meet human needs such as education and health care. The private sector either would not or could not do this at the same cost, quality, and efficiency, far less provide full coverage.

For many years this important role for government was taken as “a given.” The need for government provision of services and infrastructure was historically discussed, debated in the legislatures of the land and then implemented with the necessary modifications. Despite success, this “common sense” is today under critical scrutiny. The “less government more market” ideas of neo-liberals have been dominant. Yet, despite the support of many of Ontario’s elites and their considerable money, they have not proved as successful as they had hoped. Two problems stand in their way. First, the growing unpopularity of their views with the public and second, the evidence on the role of government.

Statistics Canada, for example, has recently reported on two recent studies, *Public Infrastructure in Canada: Where Do We Stand?* and *Public Capital and its Contribution to the Productivity Performance of the Canadian Business Sector*, that assist us in determining whether or not maintaining a publicly owned infrastructure is still relevant and cost efficient or conversely whether the job of providing infrastructure should be handed over to the private sector.

In general, the studies find that Canada’s substantial publicly-owned infrastructure, meaning schools, mass transit, water supplies, roads, hospitals and so on, has a positive tangible impact on productivity and economic performance. Public infrastructure lowers the costs of producing a given level of output in virtually every industry in Canada.

Statistics Canada, *The Daily*, in reporting on these two studies, noted that “gains in infrastructure have had a modest, but direct, impact on productivity, which represents the output for every unit of labour and capital employed in production.” The studies demonstrated that “within the business sector as a whole each \$1 increase in net capital stock, or infrastructure, between 1961 and 2000 generated on average 17 cents of cost savings each year.”²

Public infrastructure is also a factor in the improvement of living standards. This growth in living standards reflects a number of factors, two of which are suggested by the

studies noted above, namely “public infrastructure capital productivity and the extent to which public infrastructure capital keeps up with the growth of the Canadian population.”³

In the 1990s public infrastructure per person was only .87%, which was only about one-half of the 1.7% rate of growth of the 1970s, reflecting the reality that public infrastructure fell short of the population increase. Expressed another way, the share of GDP invested in public infrastructure has declined over the last decades – particularly the share of the provincial government.

We can therefore agree with the BBT Discussion Paper when it says “Too many of Ontario’s roads, hospitals, schools, water and public transit systems have been neglected in recent years and need renewal or expansion.” The Statistics Canada studies provide strong empirical evidence for the position that publicly owned infrastructure has a positive impact and that it must be maintained.

2. Infrastructure Financing Models

The issue of how best to finance Ontario’s infrastructure is of vital importance as Ontario’s public infrastructure is valued at \$240 billion, according to Statistics Canada. Just to maintain this large capital stock in a state of good repair is estimated to cost 3% of the value of the stock. This amounts to about \$6 billion per year.

In his “Message from the Minister” section of the BBT Discussion Paper the Minister sets out clear guidelines for financing and procuring public infrastructure. With the same revision as the Canadian Union of Public Employees (CUPE), the OFL supports these guidelines:

- ? the public interest is paramount;
- ? value for money must be demonstrable;
- ? public control/ownership must be preserved;⁴

? accountability must be maintained; and

? the processes must be fair, transparent and efficient.

We have deleted the word “appropriate” in the third guideline as maintaining it could well open the door to private models of financing and operation which we oppose. Financing models which include private ownership and delivery, or public-private-partnerships, will in our opinion not meet the public interest or the principles noted above.

Before proceeding, it is valuable to clarify what is meant by a public system and a private for-profit system of health care. We need to clarify the basis upon which one determines whether a particular institution or service is public or private. A number of consultants argue that only outright ownership of assets is privatization. According to this view the nature of the service deliverer, be they public or private, is not a part of the equation in determining whether a service is public or private. This argument is specious in our view. Services delivered privately are delivered primarily for profit and hence include the additional costs or fees. They are not transparent, they are not accountable nor is the public interest paramount.

The current thinking of the Liberal Government on P3s has been problematic in this regard. In claiming that P3 hospitals will be publicly-owned, but still having the financial arrangements otherwise identical to the lease-back arrangement established by the former Tory government, and continuing to have health care provided by for-profit operators, is not maintaining a public not-for-profit health care system which about 75% of Canadians want.⁵

To distinguish public private differences in this way does not mean there is no role for the private sector. There has always been examples of collaboration with the private sector in public infrastructure projects wherein the public both owned and operated the service or facility.

This form of financing is termed the “traditional model” in the BBT Discussion paper. Here, government usually financed the projects, owned the asset and operates the service. The private sector could also play a key role in designing and building the infrastructure. The Ontario Federation of Labour maintains that this “traditional model” remains the best way to finance projects. This approach has brought Ontario high quality and accessible public services. It matches the principles outlined by the Minister and noted above, including putting the public interest first rather than profit and having a higher level of transparency and accountability than the private sector. This model also provides the best value.

The cost of borrowing is significantly higher for the private sector, from 0.5% to 2%, than for the provincial government. The Government of Ontario is able to borrow money at cheaper rates than any other player whether they be a developer, a business, a municipality or an individual hospital. The provincial government has an economy of scale that others don't. The larger the volume, the less expensive the individual cost.

Public financing also facilitates the long term planning that the Discussion Paper so correctly notes has been lacking in Ontario as it not only keeps financing costs lower, but its more open, transparent and accountable character enables government to more clearly see how the system works and what needs to change so as to better serve the needs of the population.

The other financing models put forward by the Ministry more or less involve a move to private sector operation and a for-profit model. They go under a number of names in the BBT Discussion Paper (16), such as Operation/Maintenance Service/License, Lease-Backs, Design-Build-Operate, Design-Build-Finance-Operate, Design-Build-Own-Operate.

With the pervasive neo-liberal ideology of the 1990s of smaller government, less taxes, balanced budgets at all costs and the mistaken belief in the infallibility of the market, politicians have looked to P3s as an acceptable political solution and as a way of moving infrastructure costs off the government's books. That there are substantial transaction costs associated with tendering and negotiating P3 contracts is not

included in the discussion. The Royal Ottawa Hospital, for example, says that it spent \$8 million prior to any formal approval on planning and negotiating a P3 deal.⁶ That there will be dramatically less transparency and accountability is not mentioned. That it will cost more at a time when costs are a major issue becomes a vital fact to be avoided.

3. The Problem with Public-Private Partnerships

The Ontario Alternative Budget (OAB) 2004, offers five key differences between traditional public sector capital investment and so-called public-private-partnerships.

First, the private sector developer generally retains some degree of control of the asset for a considerable period of time, often as the exclusive operator.

Second, the private sector developer expects to earn a profit over and above normal borrowing costs, and that expectation is built into the financing structure for the project.

Third, the private sector developer, as the borrower of the capital needed to fund the project, will pay interest based on its credit rating, which will generally be lower than that of any government-backed agency. The higher interest will be built into the financing structure for the project.

Fourth, in some cases income is generated for the project through user fees.

Fifth, the cost of the project will not appear on the government's books. Instead, the costs will appear on the books spread out over time as the payments are made under the contract.⁷

It is our view that three of these differences are obviously negative. Whether one examines P3 schools in Nova Scotia or Highway 407 in Ontario the pattern is similar.

In the 1990's the Liberal Government of Nova Scotia decided that all new schools had to be P3 schools. Private companies were to build and own the schools and the province then lease them. When the leases expired the government was required to buy back the schools.

Following the election of a Conservative Government in 1999 the concept of P3s was re-examined. The provincial auditor found that the 38 schools that had been contracted out, had cost the taxpayers \$32 million more than if they had been built by the government using the "traditional" approach. With growing public pressure the new Conservative Government totally abandoned the P3 scheme.

As for Highway 407 the debate concerning high tolls, the lack of transparency and the lack of public control has been in the public sphere to the point where Premier McGuinty has been obliged to counter the private owners. To date it is not at all clear that elected government can stop the toll hikes of a private consortium with a ninety-nine year lease.

The cold hard reality of P3s is that they have not been found to reduce costs but rather to inflate them, reduce transparency and accountability.

The fourth difference noted above, while economically neutral, has significant policy/political ramifications. Politically, it would seem that governments supporting P3s believe that the public is more willing to accept user fees levied by a private operator than one levied by government. Perhaps it is because the average working person already pays the government sufficient taxes that they shouldn't have to pay a user fee. The Ontario Alternative Budget 2004, outlines how additional revenue for capital investment could be allocated, despite the tax breaks the upper middle class received under the former Conservative government which took needed revenue from the public purse.

The fifth difference concerns the politics of accounting. As opposed to accounting systems in the private sector and for P3s, which spread the costs out over the life of a project, until 2001 Ontario's capital spending was counted as a cost in the year the

investment was made. Even under the new accounting rules for government, capital spending, funding for municipalities, school boards, universities and hospitals are still accounted for as a cash cost in the year the funding was allocated. In an era of neo-liberalism with its mantra of cutting costs, smaller deficits and “balanced budgets” such accounting leaves a government politically vulnerable.

Rather than turning to P3s where financing costs, despite being higher, can be spread out over the life of the asset, a better alternative would be to change the accounting practices of government. As Auerbach et al note, “public sector capital spending should be accounted for on an accrual rather than a cash basis so the costs of acquiring an asset like a public hospital can be spread over its useful life.” They continue noting that “the virtues of this approach have been acknowledged by the Federal government, which has recently converted to full accrual accounting.”⁸ With accounting practices moved to an accrual basis the “traditional approach,” or what might better be termed the Democratic-Community Ownership Model, to funding public infrastructure would be both economically sound and politically more acceptable to all but the most ardent neo-liberal.

Conclusion

In the Discussion Paper on *Building a Better Tomorrow: Infrastructure Financing and Procurement*, criteria for infrastructure funding that is acceptable to the Liberal Government of Ontario is laid out for discussion. In this response we have outlined our view of what is best for Ontario. We have presented evidence that publicly-financed, publicly-owned, publicly-delivered services can best meet the province’s needs and indeed the guidelines in the Discussion Paper. There is much more evidence and experience on privatization of public infrastructure that could be marshalled from New Brunswick to Toronto, to Vancouver and from the British Treasury.⁹ Much of this is already known. Much of this has already been submitted to you by concerned citizens and community groups.

The findings, with all their unique features, make the same keypoints we have outlined. In addition to the evidence from other jurisdictions showing the P3 model as usually

more costly, largely due to the need to make a profit, there is a consequent need to cut costs – primarily labour costs in the form of staff cuts. As such costs are cut in order to make a profit there is not only a significant negative impact on the workers involved, but also a reduction of the extent and quality of service to the public.

Ontarians voted for change on October 2, 2003. They did not vote to privatize hospitals, schools or other public infrastructure. Such policy directions were not discussed in the election. In fact, quite the opposite is the case as the Liberals promised to reverse the two P3 hospitals (Brampton and Ottawa) initiated by the previous Conservative government. According to the *Ottawa Citizen* of May 28, 2003, Mr. McGuinty said, “What I take issue with is the mechanism. We believe in public ownership and public financing (of health care). I will take these hospitals and bring them back into the public sector.” The Ontario Federation of Labour calls upon the government, in all good conscience, to live up to its promises.

We agree with the Minister’s message in the BBT Discussion Paper that “Modern and efficient public infrastructure is essential to delivering quality public services, stimulating economic growth, creating jobs, and improving the quality of life” We look forward to working with the Government to rebuild strong communities and public infrastructure in Ontario. But we are compelled to remind the government that the “public infrastructure deficit” spoken of in the Discussion Paper did not occur by accident. It was the result of a past government obsessed by a philosophy and practice of smaller government, service cutbacks, deregulation, privatization and tax cuts for the wealthy. The results are seen in Walkerton, Highway 407, and the deterioration of health care and education.

We call upon the Government of Ontario to reverse this trend, to keep their electoral promises and keep public infrastructure public.

Respectfully submitted,

Ontario Federation of Labour

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ENDNOTES

1. Lewis Auerbach, Arthur Donner, Douglas Peters, Monica Townson and Armine Yalnizyan. *Funding Hospital Infrastructure: Why P3s Don't Work, and What Will*. November 2003, Ottawa: Canadian Centre For Policy Alternatives.
2. *Public Infrastructure and the Performance of the Canadian Economy, 1961-2000*, pages 1 and 2. See Statistics Canada web-site: www.statcan.ca
3. Ibid., page 3.
4. *Re-Building Strong Communities With Public Infrastructure*. April 2004, Canadian Union of Public Employees - Ontario Division, page 5. www.cupe.ca
5. IPSOS Reid poll. April 8, 2004. See www.cupe.ca/updir.FACTUM.PDF
6. Cited in Auerbach et. al. page 3.
7. *The Ontario Alternative Budget 2004*. May 2004, Canadian Centre For Policy Alternatives. see www.policyalternatives.ca
8. Auerbach et. al. page 5.
9. For further examples of the problems with P3 projects see: Auditor General of New Brunswick, *Special Report for the Public Accounts committee: Evergreen and Wackenhut Leases*, 1998. Jack Lakey, "Inquiry begins into MFP lease deal; Probe will call 35 witnesses, including top city staff who plugged company," *The Toronto Star*, Monday, September 30, 2002, page B05. Sherry Peters, "Public/private partnerships pitched to NVD," *North Shore News*, Wednesday, October 2, 2002, page 3. HM Treasury, "Public Private Partnerships - Draft Value for Money Appraised Guide," February, 2004, page 23.