

**Presentation to
The Standing Committee on
Government Agencies
Infrastructure Ontario
Agency Review**

by the

Ontario Federation of Labour

September 17, 2008

Introduction

The Ontario Federation of Labour (OFL) represents over 700,000 workers who belong to 1,500 affiliated local unions in Ontario. Our members work in hundreds of occupations -- from government employees to construction workers; from nurses to manufacturing workers.

The collective strength of all of the members of all the affiliated unions stands behind each of our members. The OFL is the collective voice of union members on issues relevant to working people – from labour relations to health care to economic policy.

The OFL is pleased that the Committee on Government Agencies is conducting an agency review of Infrastructure Ontario. The terms of reference for this Committee include improving the accountability of agencies and revising the mandate and role of agencies ¹. We hope that this Committee will thoroughly examine both Infrastructure Ontario's accountability to the public with respect to its program of Alternative Financing and Procurement, and its mandate to use this method of financing and procurement.

Background

Infrastructure Ontario has responsibility for the Province's program of P3 investments in public infrastructure. In the lead up to the 2003 election, Premier Dalton McGuinty promised to bring the previous government's P3 hospital projects, Royal Ottawa Hospital and William Osler Health Centre in Brampton, into the public system. Shortly after the government was elected, it announced that the projects in Brampton and Ottawa would proceed. The contracts were modified, but only to provide for public ownership.

The Ontario government then announced the alternative financing and procurement (AFP) program for public infrastructure. It says that AFPs are not P3s because they will remain publicly-owned and controlled. However, they are privately financed, and many will be bundled with lengthy complex service agreements. Maintaining public ownership doesn't address fundamental problems with P3s that result from private financing and operations.

These AFP arrangements reduce public ownership and public policy control. They drive a wedge between public services and their delivery by shifting administrative control to private sector providers. The clash between for-profit delivery and good quality public services is clear. The

¹ Standing Committee on Government Agencies, Terms of Reference http://www.ontla.on.ca/web/Committee-proceedings/Committees_detail.do?locale=en&detailPage=mandate&ID=142

experience in British hospitals after cleaning services were privatized is only one example. Research draws links between contracting out of cleaning services, decreases in hospital cleanliness, and increases in hospital-acquired patient infection rates.² There are many other examples closer to home. The Hamilton-Wentworth water and waste water treatment plant P3 was plagued by environmental disaster and malfunctioning equipment until it was brought back into the public sector.³

The evidence clearly shows that the costs of P3s are higher than traditional government financing.^{4 5 6 7 8} The high costs of the P3 financing schemes in hospitals are borne by cutting clinical and support staff budgets, and by reducing community health services. The rigorous analysis of the P3 in North Durham in Britain shows that the P3 scheme led to cuts that fell mainly on the nursing staff, reducing the number of nurses by 12 per cent. The Queen Elizabeth, a P3 hospital in London, became technically insolvent late in 2005. A report by Price Waterhouse Cooper stated that problems were particularly severe at this hospital because of the high costs associated with its P3 agreement. The hospital estimated that this method of financing increased costs by £9m a year, or 150 per cent, compared to the costs to an equivalent hospital built with money borrowed from the government.⁹ The report states that without the added costs associated with the P3 financing, the hospital would be more efficient than others of similar size and nature.

As a result of these problems, the OFL has had long-standing opposition to P3s; it included resolutions from the 2003 and 2005 policy conventions, a study tour to the UK, and the 2005 convention policy document *Public-Private-Partnerships and the Transformation of Government*.¹⁰

² Davies, Steve (2005). *Hospital Contract Cleaning and Infection Control*, UNISON.

³ Mehra, Natalie. (2005). *Flawed, Failed and Abandoned*. 100 P3s Canadian and International Evidence. Ontario Health Coalition: Toronto.

⁴ Pollock, A. M., Shaoul, J., & Vickers, N. (2002). Private finance and “value for money” in NHS hospitals: A policy in search of a rationale? *British Medical Journal*, 324, 1205-1209.

⁵ Pollock, A. M., Player, S., & Godden, S. (2001). How private finance is moving primary care into corporate ownership. *British Medical Journal*, 322, 960-963.

⁶ Gaffney, D., Pollock, A. M., Price, D., & Shaoul, J. (1999). A four-part series called: The Private Finance Initiative: NHS capital expenditure and the private finance initiative – expansion or contraction? *British Medical Journal*, 319, 48-51.

⁷ Auerbach, L., Donner, A., Peters, D., Townson, M., & Yalnizyan, A. (2003). *Funding Hospital Infrastructure: Why P3s Don't Work, and What Will*. Ottawa: Canadian Centre for Policy Alternatives.

⁸ *Report of the Auditor General*. (1998). New Brunswick: Author.

⁹ Price Waterhouse Cooper (2005). *Queen Elizabeth Hospital NHS Trust Public Interest Report*.

¹⁰ Ontario Federation of Labour (2005). *Public-Private Partnerships and Transformation of Government 2005 Convention Policy Paper* Toronto: Author

Infrastructure Ontario's Lack of Accountability and Transparency

The government claims that AFPs are marked by transparency and openness, and that this is demonstrated by the fact that contracts, project agreements, and value for money assessments are publicly available.¹¹ So much critical information is missing from the publicly available documents, that there is, in fact, no transparency. An example is the 695 pages of the North Bay project agreement. The publicly available document includes only one number – an annual project payment before unspecified adjustments appears. The word “redacted,” which means that information has been removed, appears 359 times.¹²

The value for money assessments also lack accountability and transparency. The initial value for money assessments that determines whether the government will proceed with AFP financing are kept secret.¹³ As a result, the public has no information about why the decision was made to enter into a P3. So little information about financing costs, methodology, and assumptions is provided, that it is impossible to evaluate the Infrastructure Ontario's claims about the value for money of each P3 project. Finally, even the accounting firms that are conducting the value for money assessments are not providing sufficient oversight. For example, the audit letter in the St. Joseph's Healthcare value for money assessment reads:

We did not audit or attempt to independently verify the accuracy or completeness of the information or assumptions underlying the PSC, which were provided by IO, and/or the successful proponent's final offer, nor have we audited or reviewed the successful proponent's financial model.¹⁴

There is no basis for the government's claim that Infrastructure Ontario's AFP program is transparent and accountable. We urge the Committee to recommend that Ontarians be provided with sufficient information to find out the real value for money of these projects.

¹¹ Ministry of Public Infrastructure Renewal, *Ontario Using Alternative Financing and Procurement Approach to Protect Public Interest*. May 9, 2009.

¹² Mackenzie, Hugh, Memo to Ontario Health Coalition Assessment of material disclosed by the government of Ontario regarding the North Bay Regional Health Centre Project. June 6, 2007, p.2
<http://www.web.net/ohc/P3s/HughMackenzieFinal.pdf>

¹³ *Infrastructure Ontario: Assessing Value for Money A Guide to Infrastructure Ontario's Methodology*, Queen's Printer for Ontario, 2007, p.4.

Value for Money of P3s

Advocates of P3 financing have argued that they have a number of benefits: they allow governments to invest without incurring debt; they provide access to capital that would not otherwise be available; they are a low cost method of public borrowing, and they improve outcomes by bringing private-sector expertise to public projects. The evidence is clear that markets and auditors generally recognize that P3s are just a different form of public debt; that borrowing costs are higher for P3s; and, that there are much less expensive ways in which to bring private sector expertise to government infrastructure projects.¹⁵ Proponents of P3s now are relying on risk transfer to make the case for P3s. The British experience, where P3s have been in use for much longer, show that the risk transfer is both illusory and increases costs by about 30 per cent.¹⁶

Using the data from Infrastructure Ontario assessments, alternative estimates of value for money for Ontario's hospital projects came to vastly different conclusions than the government.¹⁷ Working only from Infrastructure Ontario information, and using very conservative assumptions, these estimates found the AFP hospital projects could increase costs of these projects by \$585 million. This is sharply different than Infrastructure Ontario's optimistic estimate that the province will save \$341 million. Instead of Infrastructure Ontario's estimated 16 per cent saving from using AFP, these estimates show a 27 per cent increase in costs.

Recommendations

This Committee's terms of reference provide for it to review government agencies accountability to the public and mandate. It is clear that the government's AFP program is not accountable to the public. The available evidence in Ontario and from elsewhere clearly points to this method of financing being more expensive than traditional government financing, and providing lower quality public services. This calls for a change in the mandate of Infrastructure Ontario.

Infrastructure Ontario expects the government will expand its mandate into other sectors such as transit, transportation, water, energy and educational institutions.¹⁸ We are asking this Committee to recommend

¹⁵ Mackenzie, Hugh (2007), *Doing the Math. Why P3s for Alberta Schools Don't Add Up*, CUPE Alberta. Alberta: CUPE Ont.

¹⁶ Association of Chartered Certified Accountants, "Evaluating the Operation of PFI in Roads and Hospitals", Research Report No. 184, 2004.

¹⁷ Block, Sheila, (2008). *From P3s to AFPs New Branding but the Same Bad Deals*, Ontario Alternative Budget, Technical Paper #5, Canadian Centre for Policy Alternatives and Registered Nurses' Association of Ontario.

¹⁸ Infrastructure Ontario (2008). *2008-2011 Business Plan*. Toronto: Author

changing Infrastructure Ontario's mandate to stop this expensive and dangerous way of financing public infrastructure.

We would ask that the Committee have the Ministry of Energy and Infrastructure provide the following information:

- The number and cost of all change orders in all of the AFP projects that are underway;
- The number and time lines for all delays in all AFP projects;
- Will the AFP program be expanded into transit, transportation, water, energy, and educational institutions?

We would ask that the Committee make the following recommendations to the House on the alternative financing and procurement mandate of Infrastructure Ontario:

- Establish an immediate and indefinite moratorium on Infrastructure Ontario's AFP projects;
- Do not approve or announce any additional AFP projects for which contracts have not been signed;
- For projects where contracts have already been signed, provide total disclosure of all financial aspects of these agreements;
- For projects where AFP contracts have not been signed, the financing method should be shifted to traditional government financing;
- Ask the Provincial Auditor for an immediate review of the value-for-money assessment of AFP projects. This is essential to provide the government, and the public, with a complete and accurate assessment. The review should:
 - include auditing and independent verification of the accuracy and completeness, as well as the underlying assumptions, of the public sector comparator, and the successful proponent's final offer and their financial model; and
 - assess the risk transfer to the private sector. This review should include an assessment of whether AFP shifts only the timing of project cost increases and delays, and the value for money of the risk transfer.