

## 4.3 Privatization, Contracting-Out, and P3s

The Conservative government is embarking on an aggressive campaign to privatize public services. This agenda includes:

- *Sale of public buildings and assets owned by Canadians.* Seven federal buildings have already been sold for \$350 million less than what they are worth.<sup>1</sup>
- This was part of a deal where the federal government also committed to pay over \$3 billion to lease the buildings back over 25 years, about \$2 billion more than it would cost the federal government to operate the buildings over that period.
- More bad deals for the public are on the way: the sale of at least 31 more buildings are planned. The major beneficiaries of these deals are the private investors and the investment banks that get a portion of each deal.
- *Pushing P3s on other levels of government.* The Harper government is also using federal spending powers to force other levels of government to privatize public services. The 2007 Budget announced that:
  - municipalities and provinces will have to consider “public-private partnerships” (P3s) as a condition of any large infrastructure projects under the Building Canada Fund and the borders and infrastructure fund;
  - \$1.25 billion of the public’s money will be put into a P3 Fund to subsidize the privatization of public services at all levels of government; and
  - a federal P3 office will be set up to both promote and assess P3s.
- Subsequent to the 2007 budget, the Harper government announced that the Portrait Gallery of Canada would be a P3 initiative. In November it released a Request for Proposals asking for bids from private sector developers in nine predetermined cities for the development of the Portrait Gallery of Canada. Already commentators are estimating that this will cost more than the plans for a public portrait gallery in Ottawa would have.
- *Outright privatization.* The Conservatives are actively considering privatization of Crown corporations such as Canada

Mortgage and Housing Corporation (CMHC) and the Atomic Energy of Canada Ltd (AECL).

- *Increased contracting-out.* The federal government will spend about \$10.4 billion on contracting-out this year, costs that have increased by about 48% (or 7% a year) since 2000–01.
- *Accountability loopholes promote privatization.* Tight accountability and expenditure control on public program spending, but weakened accountability over lucrative contracts for the private sector will spur more privatization.
- *Trade deals that undermine public services.* The federal government is strongly promoting the Trade, Investment and Labour Mobility Agreements (TILMA) or a significant overhaul of the existing Agreement on Internal Trade between provinces. Currently, internal trade is not a significant problem, but these NAFTA-like agreements will severely limit the ability of provincial and local governments to introduce new public programs, enact positive regulations, and provide public services.
- *Increased commercialization and privatization of higher education, training, and federal research and development facilities.*
- The Conservative government has also shown support for greater involvement of for-profit clinics and surgeries as part of the health care system.

These measures will further undermine our capacity to provide the kind of services, programs, and protections that Canadians want and need. Increased privatization, P3s, and contracting-out lead to:

### P3 Sale Leaseback Schemes Cost the Public Money

Last summer, the Harper government sold seven publicly-owned federal buildings to the private sector while guaranteeing the purchaser that it will guarantee full occupancy for the duration of the lease.

The sale of these seven buildings is the tip of the iceberg. The government has tentative plans to sell 31 additional real property holdings, many of which are heritage properties.<sup>7</sup> Canadian embassy properties all over the world are also slated to be sold.<sup>8</sup> The Fraser Institute has recommended privatizing National Parks and Heritage Sites, as well.<sup>9</sup>

Informetrica analyzed the sale of the first seven buildings and estimated that they were sold for at least \$350 million below what they would actually be worth at the end of the 25-year lease.<sup>10</sup>

Informetrica also found that the Canadian public is still responsible for paying for about 30% of the capital costs associated with these seven buildings, as well as any unanticipated and operational costs, millions in capital improvements and maintenance for properties the public no longer owns.

The recommendation to sell the properties neglected to account for contract management costs, which Informetrica estimates to be ordinarily 10% of total contract costs, or in this case about \$165 million.<sup>11</sup> The study that recommended selling these properties incorrectly forecast 20% savings from private management even though the management of the buildings had already been contracted to the private sector.

The costs associated with the sale of these buildings is a good example of why privatization doesn't make sense. Real estate experts recommend that federal properties can be maintained for a re-investment price tag of 2-to-3% of a capital costs per year should governments have the political will to do so.<sup>12</sup> The Alternative Federal Budget will direct Public Works Government Services Canada to create a long-range re-investment plan for the properties the public owns and that the funds be set aside to ensure that that the capital re-investment occurs on a regular basis.

### Contracting-out hurts young workers

Currently, the Federal Government spends about \$220 million a year on temporary staffing services.<sup>13</sup>

Workers hired through this mechanism, mostly young people and women, receive lower wages than workers who are directly employed by the government, while often the agency itself is paid more. Temporary workers encounter a “mark-up” where portions of their wages go as fees to the temporary help agency. They also have limited access to extended benefits compared to those directly employed by the federal government.<sup>14</sup>

The 2006–07 Public Service Commission report focuses on the problem of temporary staffing in the Federal Public Service. The PSC recommended that departments and agencies reduce temporary hiring and user permanent employment recruitment to better address the long-term needs of Canadians and their government.<sup>15</sup> Although reporting on temporary staffing overall, the PSC is concerned about the over-use of temporary staffing agencies because they aren’t covered by the Public Service Employment Act, and as such are less accountable.<sup>16</sup>

The AFB contends that the federal government has both the capacity and the obligation to promote high employment standards through its own staffing practices. Re-allocating funds to allow the government to hire its own employees instead of resorting to temporary staffing solutions will help make the federal government an employer of choice, and be more accountable to the public, while potentially eliminating substantial consultant costs.<sup>17</sup>

Most importantly, it will help young workers entering the workforce take home more money that they can use for furthering their education and starting families.

- higher costs for governments and taxpayers through contracting-out, sale and lease-back deals, P3s, and privatized health care;
- cuts to public services as a result of the higher costs associated with privatization;

- higher costs for the public in the form of user fees;
- compromised access to services because of increased costs and cutbacks; and
- little or no democratic accountability or transparency through privatized services and contracts.

Public delivery of public services generally always provides more efficient, less expensive, higher-quality, and more accountable services than privatized delivery. What’s more, decent public services ensure that everyone, regardless of their level of income, has an opportunity to benefit, thereby reducing inequality and improving the economy. High-quality public services increase our overall and collective economic, social, and environmental security.

The federal November 2007 mini-budget put in place another \$60 billion in tax cuts over the next five years. Most of the benefit of this latest round of tax cuts will ultimately go to corporations through much lower corporate income tax rates. These latest tax cuts also threaten to turn federal government surpluses into deficits if the Canadian economy slows down even moderately.<sup>2</sup>

The Harper government will no doubt use any such downturn as an opportunity to cut public services, which will thereby open up new lucrative markets for corporations seeking to benefit from the privatization of public services.

Not only do contracting-out, privatization and P3s cost more, but they don’t stack up in other areas, either.

Numerous studies of P3s have shown large cost overruns and problems with lack of control.<sup>3</sup> Independent analysis has also concluded that benefits are often outweighed by higher costs.<sup>4</sup> Even promoters of P3s have acknowledged that the costs are higher.<sup>5</sup> Governments face ongoing problems by giving up control to private corporations, which have frequently increased

user fees for the public and ignored public policy objectives.

Virtually all the details of private-sector contracts with federal, provincial, and municipal governments are kept secret from the public, not covered by Access to Information laws, and shielded from review by the Auditor-General.

The highly promoted Federal Accountability Act left gaping loopholes in accountability for government contracts and other privatization deals. Contracts are almost all excluded from stronger disclosure, access to information, and review by the Auditor-General.<sup>6</sup> This is resulting in reduced overall accountability for government spending and a corrosive trend towards private contracts and away from funding for public agencies and non-profits.

The lack of accountability associated with private contracts makes it difficult to accurately estimate the extent of the waste. However, based on the limited financial information that is available, if a review of federal government contracting was to be undertaken, it seems very likely that significant savings can be found by keeping services in the public realm (*see “Contracting-out in the federal public service” sidebar*).

The federal government has still not implemented full cost accrual accounting for its spending and estimates process — 10 years after it promised to do so. This type of accounting, urged by auditors and accountants, would show the true annual cost of capital spending consistent with generally accepted accounting principles. It would also put a stop to the false “savings” being claimed from asset sales, P3s, and privatization.

The Alternative Federal Budget will:

- halt the sale of public assets, saving the federal government billions in annual savings from lease payments and transactions costs;

### Contracting-out in the federal public service

The federal government has been relying more and more on contracting-out as a way to deliver federal public services. In the 2006–07 year, the federal government spent about \$10 billion on contracting-out (\$10.4 billion).<sup>18</sup> In 2007–08, it estimates it will spend only a fraction less than in the previous year (\$10.1 billion). This is still about 48% more than the government spent in 2000–01 (about \$5.8 billion).

Contracting-out is often wasteful and unaccountable. In 2006, the Defence Department’s chief of review services published one of the only analyses of the Canadian program responsible for defence contracts in Afghanistan. The review raised questions such as confusion over contract terms, lack of flexibility compared with military operations, and a shortage of well-trained military personnel to oversee the program.

The report estimated that hiring contractors costs roughly 10 times more than using regular soldiers as support staff, accounting for slightly more than 22% of the military’s total cost of operations. The government has neglected to conduct thorough public audits of the use of private contractors. In the cases where contractors are audited, there is no requirement that the results be shared with the public. The Defence Department has blocked requests under Access to Information to release its contracts, saying that the mountain of information associated with the contracts are so vast that it would take 210 working days to respond.

The AFB will require that a transparent and comprehensive ongoing review of all contracting-out costs be undertaken and compared to the costs of public delivery. We anticipate that a review of existing contracting-out will generate significant future savings, as well as more accountable and citizen-centred public services.

- turn the proposed federal P3 office into a Public Assets office (*see Cities and Communities Chapter*);
- eliminate the federal P3 Fund, saving \$1.25 billion over the next eight years, and establish a long-term plan to use part of the

savings to re-invest 2% of the capital cost of federal real estate for ongoing maintenance (see sidebar and footnote 11).

- stop forcing municipalities, provinces, and territories to use P3s for their infrastructure projects;
- redirect federal funding to support public services, instead of privatized services;
- revitalize the federal public service, and commission a comprehensive review of federal government contracting-out to reduce its use in those areas where it enhances the broader public good to do so;
- introduce full disclosure and accountability for government contracts and P3s;
- implement full cost accrual accounting through the federal government estimates and procurement process;
- strengthen or re-establish social support, cultural and scientific programs that have been eliminated or weakened as a result of the federal program review;
- require full review of the cost-effectiveness of tax incentives, contracting-out, and P3s in comparison with public delivery, and reverse these where appropriate; and
- make the budgetary process much more transparent, accountable, and democratic instead of the narrowly secretive and politically controlled process it is now. (One element of this reform will include full analysis by an independent Parliamentary Budget Office of the broad financial, economic, environmental and social impacts of proposed budget measures — including analysis of the gender impact.

## Notes

1 Michael McCracken, Informetrica, Testimony to the Standing Committee on Government Operations and Estimates, December 5, 2007

2 Marc Lee, 2008. *How Resilient is the Federal Budget to an Economic Downturn?* AFB Technical Paper #2, January 2008. <http://www.policyalternatives.ca/Reports/2008/01/ReportsStudies1800/index.cfm?pa=BB736455>

3 Blair Redlin, 2007. Less ideology, more case studies : some real world results. [http://www.cupe.ca/updir/P3s\\_-\\_CUPE\\_presentation\\_to\\_Canadian\\_Institute\\_Nov\\_07.ppt](http://www.cupe.ca/updir/P3s_-_CUPE_presentation_to_Canadian_Institute_Nov_07.ppt); Natalie Mehra 2005. *Failed, Flawed, Abandoned: 100 P3s Canadiana and International Evidence*. Ontario Health Coalition. <http://www.cupe.ca/www/privatization/15959>); <http://www.cupe.ca/p3s>;

4 “Public-Private Partnerships in Canada: Theory and Evidence”, Aiden Vining and Anthony Boardman, Saunder School of Business, University of British Columbia, December 2006. [http://csgb.ubc.ca/p3\\_workingpapers.html](http://csgb.ubc.ca/p3_workingpapers.html)

5 TD Economics, 2006. Creating the Winning Conditions for Public-Private Partnerships (P3s) in Canada. [http://www.td.com/economics/special/dbo606\\_p3s.pdf](http://www.td.com/economics/special/dbo606_p3s.pdf)

6 CUPE proposes changes to federal accountability act. [http://www.cupe.ca/government/CUPE\\_proposes\\_change](http://www.cupe.ca/government/CUPE_proposes_change)

7 *Interim Report, Real Estate Study*, prepared for PWGSC by BMO Capital Markets & RBC Capital Markets Real Estate Group November 2006

8 *The Great Embassy Selloff* Pat Dare Ottawa Citizen October 20, 2007

9 *Can Markets Save Canada's National Parks*, Sylvia LeRoy, Kenneth Green, Fraser Institute April 2005

10 Michael McCracken, Informetrica, Testimony to the Standing Committee on Government Operations and Estimates, December 5, 2007

11 Informetrica derived this percentage by using an internationally respected source, the Brookings Institute which recommends that contract management

costs should ordinarily be costed at about 10%. In-  
formetrica . Michael McCracken, Infrometrica, Tes-  
timony to the Standing Committee on Government  
Operations and Estimates, December 5, 2007

12 James McKellar, Professor of Real Property, Aca-  
demic Director, Real Property Program, Schulich  
School of Business, York University, in testimony to  
the Standing Committee on Government Operations  
and Estimates May 1, 2007

13 *Temporary Help Services Post-Consultation Re-  
port*, Conference Board of Canada, November 24,  
2006 p.2

14 General Statistics on temp workers from *The Vul-  
nerable Worker, Is Work Working: Work Laws that  
Do a Better Job*, The Law Commission of Canada  
[http://www.lcc.gc.ca/research\\_project/er/tvw/dp/  
chap2-en.asp](http://www.lcc.gc.ca/research_project/er/tvw/dp/chap2-en.asp))

15 [http://www.psc-cfp.gc.ca/arp-rpa/2007/index-  
eng.htm](http://www.psc-cfp.gc.ca/arp-rpa/2007/index-eng.htm)

16 *Hiring Spree Will Help Wean PS Off Reliance On  
Giving Temps Full-Time Jobs: Watchdog*, Kathryn May,  
The Ottawa Citizen, Wednesday January 2, 2008

17 Office of the Auditor General of Ontario, Chapter  
3.14 Temporary Help Services The audit found that  
“overall, the temporary agency staff that we reviewed  
were paid more—sometimes substantially more—  
than comparable government employees. For exam-

#### **GENDER ANALYSIS** Privatization, Contracting Out and P3s

Cuts to public services; increased user fees and compromised  
access have a negative impact on women.

Lower income individuals, many of whom are women, typi-  
cally rely on public services for support. The average earn-  
ings of employed women are lower than those of men, even  
when employed full-time. In 2003, women working full-time,  
full year had average earnings of \$36,500 or 71% of what their  
male counterparts earned.<sup>19</sup>

ple, one temporary help employee was paid \$125 per  
hour when a comparable government employee would  
have received only \$60 per hour.” p. 276.

18 The government estimates that the major areas  
where contracting for services in the federal public  
services occur are in Professional, Special, Purchased,  
Repair, Maintenance and Information Services. This  
is based on information from the Main Estimates and  
utilizing a formula to identify contracting out costs  
formerly employed by the Federal Treasury Board.  
See *Contracting for Services: An Overview*, TBS Can-  
ada, April 11 1994.

19 [http://www.statcan.ca/bsolc/english/bsolc?  
catno=89-503-X](http://www.statcan.ca/bsolc/english/bsolc?catno=89-503-X)