

# Privatization

## Public services

A recent *CCPA* study shows that public services make a significant and unparalleled contribution to Canadians' standard of living.<sup>1</sup> The study found that Canadian families benefit from public services by an average of about \$41,000 or 63% of their income. Even households which earn between \$80,000 and \$90,000 a year receive a benefit from public services that is equivalent to about half of their income. As one of the study's authors, *CCPA* research associate Hugh McKenzie, reminds us, "It's the best deal we're ever going to get." He calls it Canada's "quiet bargain."

In this chapter, as in others, the *AFB* argues that strong and effective public services are essential to addressing the historic economic and environmental challenges that we face. Privatization and contracting-out are neoliberal mechanisms designed to undermine that public sector capacity.

Public services are not under attack because the private sector can deliver them better, although that is the mantra repeated by market ideologues. Public Services are under attack precisely because they are a great deal. Why provide

them at relatively low cost on a non-profit basis when there is a potential to make huge profits from them?

When services and infrastructure are publicly owned and operated, they are more efficient, less expensive, of higher quality, and more accountable than when they are privatized. Public control is necessary to ensure that all Canadians benefit equally. Public services reduce inequality, promote stability, and promote economic, social, and environmental security. If unregulated market forces and private sector incursion into the public sector was as effective as its proponents contend, the public sector would not have been the called upon to manage and organize every major challenge of the last 100 years, from the Great Depression to Second World War mobilization, to post-war reconstruction, to the public "stimulus" measures provided to mitigate the effects of the current recession.

## Privatization and Private-Public Partnerships (P3s)

### **Infrastructure spending**

While far from the only form of privatization, Private-Public Partnerships (P3s) are the form that is seen as the easiest to get support for from the public. P3s are multi-decade contracts (usually 25 or 30 years in length) that include private sector financing, construction, management, and ownership or operation of vital public services or infrastructure. The main supporters of P3s are investment banks, law firms that organize P3 constortiums, and governments that hope to get re-elected by appearing to look like good fiscal managers. They are not. P3s result in higher costs, lower quality, and loss of public control.

### **Hidden long-term debt**

The long-term financial obligations inherent in P3s are a form of debt which governments try to hide from the public. Government's claim that P3s enable them to build badly needed infrastructure without incurring more debt. This is untrue. The latest year-end Public Accounts published by the B.C. Finance Department, for example, calculates that government's contingencies and contractual obligations to its P3 partners to be more than \$50 billion.<sup>2</sup> Although technically the government didn't have to borrow that money, it's still debt. The taxpayers of B.C. still have to pay the P3 provider from public revenue.

The key differences are twofold.

First, P3 consortiums have to borrow money from international investment banks at higher interest rates than the province or the federal government; so, over the 25-to-30-year average span of a P3 contract, it will cost the public much more than it would have had the government borrowed the money directly to finance a traditional design/build contract.<sup>3</sup>

Second, by privatizing debt, governments erode public accountability. The details of private sector contracts with government are kept

secret because they become the property of the contractor, not the public. Citizens are not allowed to view the books of their P3 partner, even though they are ultimately obligated to pay for the project. So it is extremely difficult to estimate how much money contracting-out and privatization are actually costing Canadians.

The long term outcomes of privatized, hidden long term debt erode future public policy flexibility. The more P3s that are approved, the more the public service bargain is undermined and the more policy options are straightjacketed. Future governments will inevitably have less flexibility in the provision of public services.

Experience shows that governments ultimately remain accountable to deliver services, regardless of whether P3 projects or their funders meet their obligations. Government is obligated to provide public services. Business is obligated to make money for its shareholders and its investors, and, as recent experience has shown, won't hesitate to take quick action, including bankruptcy and liquidation, to protect some or all of their investors' finances.

The public always bears a high degree of risk from P3s. There are numerous cases every year where P3s have failed and where the public has been left holding the bag.<sup>4</sup>

### **Federal government support for P3s**

The federal government has supported P3s for over a decade. The current Conservative government has boosted that support, largely through the words and action of federal Finance Minister Jim Flaherty. Flaherty promised that he would set up a Federal P3 organization, PPP Canada, along with funding and policies to encourage provinces and municipalities to adopt P3 solutions for government infrastructure renewal and management — and he has done so.

Greg Melchin, chair of PPP Canada, says the federal government's support for P3s is a tremendous opportunity for private contractors.

PPP Canada intends to reach out to federal departments and lobby for more federal P3 activity.

The Alternate Federal Budget will abolish PPP Canada and replace it with a Canadian organization that will transparently plan and support federal, provincial, and municipal infrastructure development, and will be motivated by the long-term interests of all Canadians, not those of a select group of investors.

#### Sell-off of government assets

The 2009 Federal Budget re-committed to an ongoing review of its corporate assets. These include federal properties which the government believes could be developed by the private sector, Crown corporations which the government believes compete with the private sector, and other holdings where the government believes that it competes directly with private enterprises, earns income from a property, or performs a commercial activity. The criteria for this review is whether the initial rationale for government ownership is still relevant to what the Harper government believes should be its core responsibilities, their market value, their effectiveness, and the sustainability of their business plans.

Seven government buildings have already been sold, and there are tentative plans to sell 31 more. Canadian embassy buildings are also on the list to be sold. Although the government realized a short-term profit from the sale of the seven buildings, an Informetrica analysis found that they were sold for at least \$350 million less than they will actually be worth at the end of the 25-year lease. This is in addition to the 30% of capital costs and contract management costs for which the Canadian public is still responsible, totalling about \$165 million.<sup>5</sup>

The government has also put its Atomic Energy of Canada Limited (AECL) CANDU reactor division up for sale to the highest bidder, ensuring the price will be low by publicly calling it a “sinkhole.”<sup>6</sup>

The same ideological assumptions that drive P3s also underscore the sale of federal assets. Profits generated by the sales are hailed while the long-term costs for the public are underplayed, misidentified, and hidden.

#### Privatization by review: Current expenditure review processes

All recent federal governments have undertaken both program and expenditure reviews which include criteria that eliminate public capacity. The 2009 federal Budget included the requirement for on-going Strategic Reviews. According to the government, the (very subjective) criteria for making cuts though this review is whether programs are achieving their intended results, are efficiently managed and are aligned with the priorities of Canadians.

Because the Strategic Review is not done transparently, however, Canadians have no way of knowing if the program cuts that are identified will be in their best interests or not. In the past the Conservatives have made cuts to important areas of environmental enforcement, food inspection, maintenance for arts, and human rights-based programs like the Court Challenges program and the Status of Women. The decision to cut these programs was entirely arbitrary. In its 2009 Budget, the Conservative government used the expenditure review argument to eliminate pay equity in the federal public service.

#### Privatization of regulatory oversight and enforcement

A poll conducted in the spring of 2009 found that 90% of Canadians believed the Canadian government should do much more to protect the environment and public health and safety. A large majority (83%) of the respondents believed that the people who actually inspect and regulate industries in Canada should work for

government agencies, and not for the industries being regulated.<sup>7</sup>

Canadians understand that industry needs to be able to compete, but they believe that safety should come before profits. Putting corporations in charge of public safety is like “putting the fox in charge of the henhouse.” It’s not a good idea. In order to protect the public interest, Canadians expect their government to enforce strong regulations and standards. Although the Harper government has said it is committed to providing increased regulatory oversight, it is instead systematically reducing and privatizing regulatory oversight. This is not what Canadians want.

For example, in the summer of 2008, the government unveiled a plan to transfer key food inspection functions to companies and downgrade the Canadian Food Inspection Agency to “an oversight role, which would allow industry to implement food safety control programs and manage key risks.” Leading food experts say that the plan is a recipe for disaster.<sup>8</sup> Although there are more than 1,000 meat-processing facilities, and thousands of produce, cheese, and other food production facilities, the CFIA employs only about 1,100 food inspectors.<sup>9</sup> The number of food safety scientists has also been falling.<sup>10</sup>

In 1999, rail safety regulations were handed over to the railway companies to monitor themselves through Safety Management Systems (SMS). Since then, rail accident rates have increased.<sup>11</sup> Changes to Canada’s air safety regime are following the same pattern.

In 2005, Transport Canada cancelled its air safety national audit program and handed off enforcement and investigation to the airline companies. As long as airline companies have an SMS program where they record the details of their self-regulation measures, government enforcement investigations no longer take place. An Act to institutionalize this relaxed enforcement system has been working its way slowly through Parliament.<sup>12</sup>

The Auditor-General reported that there are not enough trained staff to properly monitor airline SMS reporting.<sup>13</sup> Recent studies show that fewer inspectors, combined with the pressure that airline companies now feel to keep costs low, is a recipe for disaster.<sup>14</sup>

#### Contracting-Out, marginal jobs and temporary staffing agencies

Since the mid-1990s, the government has also been privatizing both its staffing operations and growing numbers of its staff. Using temporary staffing agencies, the government is increasingly depending on a marginalized temporary workforce. At the same time, it is sidestepping legislated obligations around official languages and equitable hiring practices, sending a message to thousands of potential new public sector recruits that they are regarded as nothing more than replaceable parts of a machine, deserving no expectation of job security or career advancement.<sup>15</sup> Workers don’t benefit from contracting-out. They receive less pay and benefits, if any at all.

We estimate that in 2009–10 the government plans to spend as much as 11.3 billion for contracted-out work and services.<sup>16</sup> Almost \$7.9 billion is earmarked for professional and special services alone. Last year, departments and agencies spent \$7.5 billion on professional and special services, mostly in the National Capital Region. This includes both multinational consulting firms like Deloitte, CGI, and IBM, as well as over 100 temp help agencies and over 200 IT firms.<sup>17</sup>

The privatization of Internet technology support services is especially severe. An examination of federal public sector computer services outsourcing in the summer of 2009 showed that “The value of contracts signed for CS outsourcing has risen dramatically from \$250 million a year in 2005–06 up 93% to \$482 million only three years later. Actual spending on contracts has also jumped substantially from a lower pla-

teau of \$520 million before 2006 to a new higher plateau of \$700 million afterwards.”<sup>18</sup>

#### AFB budget actions

The AFB is committed to upholding Canada’s “quiet bargain” between its citizens and its public services. The following steps will help restore balance to that bargain, and ensure that Canadians continue to receive the “best deal they are ever going to get.”

1. PPP Canada, the Crown corporation created to promote P3s in the municipal, provincial and federal sectors, will be converted into a Public Assets Office which will:

- be dedicated to assisting in the creation of good green jobs, training and infrastructure, and immediately stop forcing municipalities, provinces, and territories to use P3s for their infrastructure projects;
- have a governance structure which reflects the diversity of the Canadian public and is accountable to the public through Parliament; and
- work internally with departments and agencies and externally with other levels of government to examine infrastructure priorities, green infrastructure practices, and comprehensive investment strategies; and
- immediately cancel all planned federal P3 projects.

2. A transparent Program Review Process will be set up that will:

- explore how programs can be improved to reduce poverty, create good green jobs, training and infrastructure, and support enforceable regulations that protect people;
- examine the costs of program improvements and recommend the

amount and kind of tax and other revenue collection initiatives and changes that might be undertaken to meet the identified need;

- seriously examine the staffing, training and retention strategies required to meet program goals;
- examine the growing costs for federal government contracting-out and compare them to the costs of public delivery;
- ensure that Canadian workers employed by the federal government are treated equally, and that temporary staffing agencies are used only for short-term unanticipated work;
- enact legislation similar or superior to recent Ontario legislation so as to protect all temporary workers employed by the federal government;
- ensure that the budgetary process is transparent, accountable, and democratic, and that the Auditor-General, the Parliamentary Budget Officer, and the people of Canada understand the relationship between the programs that are wanted and needed and the revenues that the government receives; and
- implement full-cost-accrual accounting through the federal government estimates and procurement process that will reflect the value of government assets on public books and the long-term costs of leasing properties to show the actual deficit.

It is anticipated that a review of existing contracting-out practices will result in generating significant future savings, as well as more accountable and citizen-centred public services. Those savings can then be redirected into programs and projects that are in the broader public interest.

3. The AFB supports strong public regulatory oversight and enforcement. To that end, it will:

- review Canada’s regulatory regime and ensure that it protects the interests of Canadians and adheres to the precautionary principle; and
- ensure that human and support resources are in place for pro-active and precautionary monitoring and enforcement of federal regulations by public officials.

## Notes

<sup>1</sup> McKenzie Hugh, Shillington Richard *A Quiet Bargain: Who Benefits from Public Spending*, CCPA April 2009

<sup>2</sup> \$1 billion of this is for the Sea to Sky Highway alone not to mention other B.C. P3 obligations, McInnis Craig, *P3 financing wins favour by limiting political risk*, Vancouver Sun October 28, 2009).

<sup>3</sup> The Sea to Sky Highway would have cost taxpayers \$300 million less over the life of the 25 year contract if the government had chosen the traditional contracting method as opposed to a P3. McInnis Craig, *P3 financing wins favour by limiting political risk*, Vancouver Sun, October 28, 2009)

<sup>4</sup> Mehra Natalie, *Flawed, Failed and Abandoned*, Ontario Health Coalition March 2005

<sup>5</sup> McCracken Michael, Informetrica, Testimony to the Standing Committee on Government Operation and Estimates, December 5, 2007

<sup>6</sup> Cheadle Bruce Federal Government Formally Offers AECL Reactor Division to Bidders, Canadian Press Dec 17, 2009

<sup>7</sup> The question was: “Please tell me if you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with each of the following statements about government regulation of business. “The Canadian government needs to do much more to protect our environment, health and safety” and “The people who actually inspect and regulate industries in Canada should work for government agencies, NOT for the industries themselves.”

<sup>8</sup> Schmidt Sarah, Allowing food industry to police itself dangerous, experts say, Ottawa Citizen July 12 2008 Michael Hanson a senior scientist with Consumers Union and publisher of Consumer Reports said that “They’re moving towards the U.S. model, where the inspectors don’t actually do the inspection, they just oversee and the companies actually do the inspection. That’s a really dangerous thing.”

<sup>9</sup> Kingston Bob, Spread too thin, Citizen Special, Ottawa Citizen Sept 18, 2008

<sup>10</sup> The blueprint includes a plan to shift away from a “full-time presence” of veterinarians at abattoirs to an “oversight role, allowing industry to implement food safety control programs and to manage key risks,” outlined in a November, 2007 cabinet document obtained last July by Canwest News Service. in Schmidt Sarah, Science Union Calls for Quick Action on Food Inspection Services, Montreal Gazette, Nov 02, 08”)

<sup>11</sup> (One indicator of rail transportation safety in Canada is the main-track accident rate. This rate increased from 2.6 accidents per million main-track train-miles in 2006 to 3.2 in 2007. Transportation Safety Board Annual Report to Parliament 2007 2008 pg 17)

<sup>12</sup> An Act to amend the Aeronautics Act and to make consequential amendments to other acts

<sup>13</sup> “Human resources planning is particularly critical given that the number of employees has decreased by 8 percent in the past five years (Exhibit 3.7). Departing employees take with them the highly specialized knowledge, skills, and abilities they gained on the job. Hiring, however, has not increased. Some regions submitted estimates showing increased resource requirements when small air operators and related maintenance organizations begin implementing SMS.... We noted that about 15 percent of inspectors and engineers had not completed the required recurrent training; moreover, we noted that another 15 percent had not completed their initial training. These staff, therefore, do not meet the requirements for exercising all their job responsibilities, thus contravening the Department’s own training policies.” (Report of the Auditor General of Canada to the House of Commons, Chapter 3, *Oversight of Air Transportation Safety—Transport Canada*, May 2008

<sup>14</sup> The study has just been completed by Linda Duxbury of the Sprott School of Business at Carleton University. The survey interviewed 276 pilots working as inspectors at Transport Canada and the Transportation Safety Board of Canada. Schmidt Sarah, Forecast shortage of inspectors puts flying public at risk, December 1, 2008. also “TCASMS has very different features and approached than that recommended by ICAO and being implemented by other developed countries. Canada’s approach delegates more to industry and places more oversight and enforcement powers in the hands of industry than any other jurisdiction in the world.” Implementation of the Transport Canada Aviation Safety Management System : What’s Not Right and Why Change is Necessary, Union of Canadian Transport Employees, September 28, 2009

<sup>15</sup> “The government became reliant on temp agencies after the downsizing of public service in the 1990s when more than

50,000 jobs were cut, but the work wasn't. A key attraction is the cost of temp workers. Departments can get workers fast, try them and get rid of them if they don't work out or the work dries up. Most importantly, government doesn't have to pay pensions and benefits." Kathryn May Ontario law rewrites rules for temp firms, *The Ottawa Citizen* November 6, 2009

**16** 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. In 2007–08 this spending

amounted to \$11.3 B. This amount is based on information from the Main Estimates; utilizing a formula formerly employed by the Federal Treasury Board that identifies Contracting Out costs see *Contracting for Services An Overview* TBS Canada April 11, 1994.

**17** Kathryn May Ontario law rewrites rules for temp firms, *The Ottawa Citizen* November 6, 2009

**18** MacDonald David Increasing Cost of CS Outsourcing at the Federal Government, Professional Institute of the Public Service of Canada, Sept 2009