

BACKGROUNDER

WHAT IS A P3?

On September 25, Regina citizens will vote in a referendum to decide how Regina's new waste water treatment plant will be built: through a Design Bid Build (DBB) model or through a public-private partnership (P3) model.

This backgrounder provides information on P3s, or public-private partnerships.

What is a P3?

- P3 stands for public-private partnership.
- Public private partnerships are a new form of privatization of public infrastructure pioneered in the United Kingdom in the 1990s as Private Finance Initiatives (PFIs).
- In Canada public-private partnerships began to be promoted in the late 1990s and early 2000.

What are the key features of P3s?

- In a P3 deal, the government gives private corporations a greater role in the financing, operation and/or maintenance of public infrastructure projects.
- A key feature of P3s is their reliance on private sector borrowing to finance the development of public infrastructure projects.
- There are different kinds of P3s, which range from design-build-finance to complete private ownership of the infrastructure. The model Regina is considering for its waste water treatment plant is the design-build-finance-operate-maintain (DBFOM) model.ⁱ
- P3s are being used to build public infrastructure projects like public hospitals, roads, bridges, courthouses, schools, water and waste water systems.

Why do P3s cost more?

- P3s cost more because it is more expensive for the private sector to borrow money than it is for government. Interest rates are 30% to 50% higher for P3 projects than the rates for conventional public borrowing.ⁱⁱ
- In Regina's case, the city could borrow at an interest rate of 3.82% while private sector would be paying an estimated 5.8% to 6.7% interest rates. The city has not released their assumptions of what private borrowing costs would be.
- There are also significant legal, accounting and financial analysis costs incurred as a result of the complex, time-consuming procurement and contract negotiations
- Costs for P3 projects also have to include an acceptable profit margin for investors.

How are P3s profitable for private ‘partners’?

- P3s have to generate a profit for the private sector partner to be involved. PPP Canada estimates profit rates for the private sector to be 14% in P3 arrangements. In the UK, profit rates have reached as high as 53%.ⁱⁱⁱ
- P3s are made profitable through higher project costs, and/or by cutting the costs of project operations.^{iv}
- P3 companies also make money by selling their investment in the project, often after only 5 years. Most of the risk for the project is during construction and start up. Once the infrastructure is built and the company has a stable investment with guaranteed cash flows from the public sector, it can easily sell its investment to another corporation.

Are P3s typically used for waste water treatment plants?

- No. Water and waste water treatment has important environmental and social impacts, which is why the majority of communities across North America have chosen to keep the service publicly controlled and operated.^v
- Communities across Canada and North America are using innovative and new technologies in the upgrading of waste water treatment facilities through public financing and control. Examples include Whistler, Vancouver, San Diego, Los Angeles, San Bernardino, and Boulder.^{vi}

Does the city’s P3 model give away local control of the plant?

- Yes. The city of Regina wants to hand over existing waste water treatment assets and staff to the successful P3 proponent. We will lose internal expertise in waste water treatment and become completely reliant on the private corporation.
- The city claims it will set utility rates but the rates will have to be negotiated with a company who will expect the rates to cover their profit margin and payment of debt servicing charges. The details of these costs will be secret.
- A complicated contract that spans 30 years will have to be negotiated with sophisticated lawyers who work for multinational corporations. Will the contract be able to cover off for all unforeseen circumstances and protect the public interest?
- There will be a loss of accountability with a P3. The corporation will be accountable to its shareholders and not to the public.

Are P3s more likely to be on time and on budget?

- No. Many P3 projects have gone well over budget. The Brampton P3 hospital in Ontario rose in cost from about \$350 million to over \$600 million^{vii}. The Québec Auditor General found that the capital cost estimates of Montréal’s University Health Centre P3 were over by at least \$108.4 million the earlier \$5.2 billion estimate.^{viii}
- Sometimes P3 companies charge a premium to “guarantee” that projects finish on time. The public sector could negotiate such a provision through a conventional procurement model.

- Typically, a P3 converts the initial costs associated with a project into a flow of payments over time. Rather than paying the costs up front, we will pay more over the long term of the contract.
- From a budgetary perspective, this means that governments can spread their accounting for major capital expenditures over an extended period of time, burying the financing costs in the annual operating payments to the P3 operator.^{ix}

What is the federal government's role in municipal infrastructure projects?

The federal government has historically helped fund local infrastructure like roads, highways, sewers, bridges, water systems and recreation centers. The city of Yorkton recently built a new award-winning water treatment plant with one-third funding from the federal government and one-third from the province.

- The federal government is now using its funding to promote privatization of public infrastructure through the PPP Canada Fund. The Federation of Canadian Municipalities opposes this and recently passed a resolution calling on federal funding for infrastructure projects that is not tied to the P3 model.
- The federal funding from the *P3 Canada Fund* the City chose to access is conditional on the City adopting the Design Build Finance Operate Maintain model (DBFOM).^x
- Infrastructure funding from *PPP Canada Inc.* requires that the project be based on a private source of financing and provide for private operation post-construction.

What or who is PPP Canada?^{xi}

- *PPP Canada Inc.* is a federal government crown corporation that works with the private sector to promote and assess P3 projects.
- *PPP Canada Inc.* manages and invests the Government of Canada's *P3 Canada Fund*, a federal infrastructure program designed to invest in P3s^{xii}
- Among the members of the appointed board are:
 - CEO, John McBride, who helped arrange the Confederation Bridge that cost \$45 million more than it would have, had it been built through traditional public procurement.
 - Former and current high level players from SNC-Lavalin, BMO Financial Group, and the firm KPMG. All of these companies are active players in P3s and stand to profit from them.^{xiii}

On Sept 25
Keep water public!

Vote YES!

Pledge to vote YES: Text "YES" to 306-988-1754
or text INFO for more information

 Regina Water Watch ReginaWaterWatch.ca

ⁱ John Loxley, *Public Service, Private Profits: The Political Economy of Public-Private Partnerships in Canada*, Fernwood Publishing, 2010, pp. 9-15.

ⁱⁱ Hugh Mackenzie, *Doing the Math: Why P3s for Alberta Schools Don't Add Up, A Case Study of the Alberta Government's plan to privatize financing and long term maintenance of new schools for Calgary and Edmonton*, prepared for CUPE Alberta, December 2007, p. 4.

ⁱⁱⁱ "Private Finance Initiative: where did all go wrong?" *The Daily Telegraph*, September 22, 2011.

^{iv} P2 *Private Public Partnerships for Winnipeg's Water are Not the Answer* by Jesse Hajer, November 26, 2008

<http://www.policyalternatives.ca/publications/reports/fast-facts-private-public-partnerships-winnipegs-water-are-not-answer>

^v http://www.cupe.bc.ca/sites/default/files/Public_Resource_Recovery_CUPE-BN-Jan2010.pdf

^{vi} http://www.cupe.bc.ca/sites/default/files/Public_Resource_Recovery_CUPE-BN-Jan2010.pdf

^{vii} Loxley, p.107

^{viii} Auditor General of Québec. (2010, June). "Report of the Auditor General of Québec to the National Assembly for 2010-2011: Special report dealing with the watch over the projects to modernize Montréal's University Health Centers: Highlights."

^{ix} P 4 *Financing Canada's Hospitals: Public Alternatives to P3s*. Hugh Mackenzie, October 2004.

^x P 4 *Financial Analysis of the City of Regina Waste Water Treatment Plant Expansion and Upgrade*. Hugh Mackenzie, May 6, 2013.

^{xi} For more information on PPP Canada, see <http://cupe.ca/privatization-watch-october-09/september-2009--ppp-canada-inc>

^{xii} <http://www.appointments-nominations.gc.ca/prflOrg.asp?OrgID=PPPC&lang=eng>

^{xiii} <http://www.appointments-nominations.gc.ca/prflOrg.asp?OrgID=PPPC&lang=eng>