



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Transport, Infrastructure and Communities

TRAN • NUMBER 068 • 1st SESSION • 41st PARLIAMENT

EVIDENCE

Thursday, April 25, 2013

—
Chair

Mr. Larry Miller

Standing Committee on Transport, Infrastructure and Communities

Thursday, April 25, 2013

• (1545)

[English]

The Chair (Mr. Larry Miller (Bruce—Grey—Owen Sound, CPC)): We'll call our meeting to order.

I'd like to welcome our witnesses here today.

Mr. Moist and Mr. Stoney, with no further ado, we'll turn it over to you for 10 minutes or less.

Mr. Paul Moist (National President, Canadian Union of Public Employees): Thank you very much, Mr. Chairman and members of the committee.

My name is Paul Moist. I'm the president of the Canadian Union of Public Employees. We're very happy to appear in front of you and spend a few moments talking about infrastructure and its financing.

We work alongside the Federation of Canadian Municipalities. We have tens of thousands of municipal members and a total of just over 600,000 members across Canada. I was pleased to interface to some degree with the government as part of the FCM's municipal infrastructure forum.

We're going to focus today largely on public-private partnerships vis-à-vis infrastructure financing. I guess we approach it from a public policy point of view. Our overriding concern is with public finances and the delivery of services, but we don't question for a moment the historical partnership between the private sector and the public sector.

You folks are all familiar with that traditional procurement and the issuance of tenders for design and for building. For the most part, that served Canada for decades. The public sector provides financing usually, historically, because it can borrow at a lower rate, and the public sector in Canada generally delivers the services in structures that are built by the private sector.

This new realm that we're in, the so-called P3s, or public-private partnerships, sees many different functions coming open for debate and discussion now. It continues to be used as a form of, at times, off-book financing and is quite controversial in many quarters. The notion that you can spend more and do more infrastructure with little money down is one that you should examine really closely.

In our presentation, at the bottom of page 1, we talk a little bit about the United Kingdom. We note that the health minister of the current government in the U.K. talks about the health system being brought to the "brink of financial collapse" by their version of public finance initiatives. One of the witnesses who appeared before the Standing Committee on Government Operations and Estimates,

Professor Siemiatycki, called the U.K. experience a kind of "an accounting mirage". We don't want to replicate that experience in Canada, at least in CUPE's view. The price tag in the U.K. for outstanding PFI liabilities is just over £300 billion, which is almost \$500 billion in Canadian dollars, or about \$20,000 per family in the United Kingdom. It rests with the public realm now to deal with this level of debt.

In comparative terms, Canada is where the U.K. was before their P3 bubble burst. We're nowhere near as exposed as they are, but I guess what we say to you, Mr. Chairman and committee members, is to take a close look at what's going around.

In the last week, the Auditor General here in Ontario gave his preliminary results on the Mississauga gas plant. That was a form of P3 to deliver energy services in southern Ontario. It cost almost four times the actual construction cost to get out of that deal. Fourteen per cent interest rates to hedge funds based in the United States and the Cayman Islands. We're nowhere near the bottom of this one yet. In my opinion, this brought down the premier of Ontario. It's a P3.

In Quebec, the provincial auditor has found the McGill University Health Centre P3 much more costly than the public option. The auditors have not finished their work yet. Just two years ago, this project received the gold award in project financing from the Canadian Council for Public-Private Partnerships. Today, warrants have been issued for the arrest of the former McGill University Health Centre CEO. SNC-Lavalin has been charged with fraud related to this project. You're all aware that the World Bank decided last week that SNC-Lavalin is in the penalty box for 10 years. The Government of Quebec has announced that there will be no more P3 hospitals in Quebec. The last chapter has not been written on the McGill health centre.

The U.K. Conservative government has moved towards restricting operations and maintenance as part of future P3s, as well as increasing transparency. We're kind of moving in the opposite direction, with PPP Canada effectively stating that operations and maintenance must be part of P3s that receive financing through the P3 Canada fund.

• (1550)

I met a month ago with the mayor of Regina. They're applying to the P3 Canada fund, as they've been advised it's the only way to access 25% financing of their \$200 million waste water treatment plant. The mayor's in the Regina *Leader-Post* saying it's not his preferred option but it's the only way to access federal money.

Federal and provincial P3 agencies—not all provinces, but certainly Partnerships BC, and New Brunswick has an agency—are charged with the impossible task to promote P3s and to assess P3s. There's a conflict there. I'm not sure how you do both.

We know, when the truth comes out and the evidence comes out, that Brampton P3 hospital should have been built privately—of course—but it should not have been financed privately. The Auditor General delivered to Mr. McGuinty, when he assumed office in, I guess, 2004, the second year of his mandate, that he could have saved \$200 million just by financing the Brampton hospital through conventional means, through the public realm.

I want to be clear that there's no question about who builds these things. There's no question about things being built well. There's no question about things being built on time.

Mr. McGuinty entered his premiership in 2003 questioning a very successful P3, one that's been written about, and that's Highway 407. It's a good highway. It functions very well. It's well built. It was built on time. It was a good investment for some investors. Mr. McGuinty thought the 99-year deal was a terrible investment for Ontarians. He wanted, in the public interest, to get at that 99-year deal. He went to court in his first six months in office, and was told that the deal was bulletproof from the point of view of the private consortium. It's a very good highway, built properly, built on time, and very good for certain investors, including some pension funds. But is it in the public interest for the amount of money the citizens of Ontario are paying for a highway that many don't drive on?

Lastly, Mr. Chairman—because time is running out—the committee is considering red tape reduction as well as P3s. We've read with interest Minister Clement's comments about reducing regulations and getting the burden off of businesses doing business with government. We kind of find that ironic, because more red tape is being added to the trade union movement. Bill C-377, which is still before the Senate, adds an extraordinary level of bureaucracy at a time when downsizing is occurring within the federal realm.

The initial transaction costs for P3s, in terms of red tape, are more than double the estimated transaction costs for traditional procurement. I know that many smaller municipalities have petitioned all levels of government that they can't afford to compete even in bidding for P3s. They don't have the capacity. If red tape is part of your considerations here, there's a lot of red tape associated with just the consideration of the P3 process.

Local governments have to put their own money forward, and they're ultimately responsible for these services. We think they know what works best. Some opt for P3s; many don't. Some feel like they're being forced to right now.

Lastly, you're to consider as well increased private sector infrastructure—the private sector investing in itself. This is not our

area of expertise, but as trade union leaders we do get to meet with the Governor of the Bank of Canada on a yearly basis. He's been very open to meeting with us. We asked him about his comments earlier this year about the private sector sitting on over \$500 billion in capital and not reinvesting in and retooling their physical plants. Some people have been critical of Mr. Carney for making those comments, but we think your government, and governments prior to you, have tried to create an environment for business to flourish in Canada, including cutting their taxes.

When they're sitting on hundreds of millions of dollars in capital, and there isn't really an evident labour force development strategy in the country—what's happening in the country is very controversial, including the temporary foreign worker program—we think that businesses, when you're helping their bottom line, have a responsibility to reinvest in Canada. We kind of agree with Governor Carney. Most of our comments were about P3s.

• (1555)

Last, Mr. Chairman, one witness who couldn't be here today is Professor John Loxley, and we've tabled, in both languages, a piece of work that we commissioned Professor Loxley to do. It's simply a guide on what questions municipalities should ask regarding P3s. We've distributed this to all local governments in Canada, and I commend that to you. I wish John were here. The value for money, the risk transference, the illusion of that is sometimes more than the reality.

We're very supportive of the Government of Manitoba bringing forward legislation to force more transparency at the front end of these infrastructure decisions.

The Chair: Thank you very much. Your time has expired.

Mr. Larose, you have seven minutes.

[*Translation*]

Mr. Jean-François Larose (Repentigny, NDP): Thank you, Mr. Chair.

I also wish to thank our guests for being here with us today.

[*English*]

The Chair: My apologies, Mr. Larose.

I had it in my mind that you were both from the same organization, and you're not.

Mr. Stoney, you have 10 minutes, please.

Mr. Toby Heaps (Chief Executive Officer and Co-Founder, Corporate Knights Inc.): Thank you, Mr. Chairman.

Thank you kindly for having me here today. I have one minor clarification for the record. I am Toby Heaps. I am not Mr. Stoney, contrary to what my name tag states.

I head up a group called Corporate Knights, and I oversee our media, investment research, and advocacy divisions. Our mission is to empower markets to make the world a better place, and we specialize in quantifying the financial implications of sustainable business.

On the advocacy side, we coordinate the Council for Clean Capitalism. This is a CEO member group that is focused on bridging market gaps to enable Canada to be a more holistically prosperous nation. The council is comprised of nine CEO members, including the CEOs of Catalyst Paper, the Co-operators Group, Hewlett-Packard Canada, Interface, Mountain Equipment Co-op, Teck Resources—

Mr. Jeff Watson (Essex, CPC): I have a point of order, Mr. Chair.

The Chair: Yes, Mr. Watson.

Mr. Jeff Watson: I don't see the name of the witness on the orders of the day.

The Chair: Mr. Heaps, are you with the Canadian Union of Public Employees?

Mr. Toby Heaps: I'm with Corporate Knights.

The Chair: With whom?

Mr. Toby Heaps: I'm with Corporate Knights—knights with a *k*.

I was invited by Rémi, the clerk.

The Clerk of the Committee (Mr. Jean-François Pagé): Oh, no. You have the wrong committee.

Some hon. members: Oh, oh!

The Clerk: It is on the second floor.

Mr. Toby Heaps: Well, it was nice to meet you all.

Thank you.

Some hon. members: Oh, oh!

The Chair: Well, we appreciate your coming to see us.

Some hon. members: Oh, oh!

The Chair: Sir, are you Mr. Stoney?

A voice: This is Mr. Stoney. He was late, Mr. Chair.

The Chair: Mr. Stoney, I wish you had spoken up. It would have saved us both the embarrassment.

Mr. Stoney, if you're ready, you have 10 minutes.

Dr. Christopher Stoney (Associate Professor, School of Public Policy and Administration, Carleton University, As an Individual): Thank you, Mr. Chair.

Thank you for inviting me. My apologies for being late. I actually thought we were over in the Parliament Buildings, so a comedy of errors. But anyway, all's well that ends well.

I speak to you today, really, as an individual. I'm an academic in the School of Public Policy and Administration at Carleton University. I have also run the Centre for Urban Research and Education, which focuses, amongst other things, on areas of infrastructure investment, particularly municipal infrastructure, and

obviously, the way that relates to the federal role as well. We also deal with issues of procurement. I saw that some of the questions that the committee is dealing with would be relevant to that as well, so, if I can, I'd be happy to contribute to the discussion on that.

Recently, a colleague and I were in the process of writing a report on this very topic of infrastructure investment, and in particular with a focus on the federal role. I didn't get time to write detailed talking points, but I'm happy to send in the points that I've managed to put together.

Here are a couple of things just to clarify the assumptions.

When it comes to tackling the issue of what's the best way to invest in infrastructure, it really is a question of trade-offs between different criteria. Some of the criteria that we identified were efficiency, accountability, transparency, autonomy and flexibility at the local level, equity, ease of administration, financial sustainability—the stability of that funding, that is—the risk of politicization, displacement risk, in terms of certainly private-sector investments, and environmental sensitivity as well. Those are just some of the criteria that we're dealing with when we look at infrastructure.

In terms of a definition, I listened in the other day to the discussion. One of the questions was, “What do you mean by infrastructure?” I generally use this definition: the basic facility, services, and installations needed for the functioning of a community or society, such as transportation and communication systems, water and power lines, and public institutions, including schools, post offices, and prisons. Of course, there are other definitions that include other things as well, but certainly I wouldn't at this stage include social infrastructure, cultural infrastructure, even sports infrastructure, those kinds of things.

The first question we were asked to address was red tape reduction. I think the problem here that you're facing and that we're facing is that one person's red tape is another person's due diligence. As we all know, at the moment we're seeing the evidence come out of the Charbonneau commission. Sponsorship and other similar cases are still in the public mind as well. There's always, I think, the increased focus on trying to ensure value for money.

As well, if we want to think seriously about red tape reduction, then I, along with many others, would argue the best way to do that is to actually decentralize the system rather than centralize it, either at the provincial or in this case at the federal level. I'll get to this in my recommendations, but particularly for large cities, ideally I would like to see the federal government make increased tax room for municipalities for income tax or perhaps tax sharing. That would reduce transaction costs—so oversight and audit—which we find with all transfers between governments, and certainly it would increase local accountability. It would, in a sense, reduce the tendency for the politicization of infrastructure funding.

Also it would reduce municipal dependence on what is sometimes called “free money”, and has recently been described as the sort of crack cocaine of municipal governments. They keep reaching to other levels of government for a hit of financing, but it's temporary and wears off and it's never quite enough. So I really do think we have a problem in developing a dependency culture between the governments.

• (1600)

I know my colleague has spoken about P3s in depth so I'll spend a little bit more time just talking about the politicization issue. The KPMG report “The Changing Face of Infrastructure” from 2010 said that the politicization of stimulus spending presents a fundamental challenge for future programs, and that in a recent international survey undertaken by KPMG, senior public leaders identified government's tendency to view infrastructure too often through a political lens as the main barrier to sustained strategic investment in infrastructure. Significantly, they also identified increased transparency in project selection as the single-most important factor in depoliticizing government spending on infrastructure.

Here's another quote. I'll just give you one more by Lafleur that actually, I think, captures this idea quite well.

Instead of attempting to craft a national transit strategy, which will inevitably entail picking winners and losers, the federal government should download fiscal capacity. That is, after all, the crux of the problem. It is hard to imagine the federal government making better local infrastructure decisions than municipal politicians. But they can alleviate the revenue problem faced by virtually every municipality by transferring the entirety of fuel taxes to the municipalities on a per-capita basis. This would give cities access to a stable additional source of revenue. It would also end the ad hoc, hyper-politicized funding agreements that often cause municipalities to make inefficient transit decisions.

I think the key issue here is the extent to which you feel that the remit can go and how realistic it is to transform that. We do know of course that the Constitution is an issue, but on the other hand, municipalities, as you know, had their income tax powers taken away by the federal government and they were never returned. They were returned to the provinces, but not to municipalities. I would say that if you're seriously looking at the costs of these transactions, they are considerable, particularly if you're going to ensure oversight. As a default position, I would ask whether you need to be in this position of funding and whether you can decentralize this or devolve powers locally. The municipalities do have tools to do that. If they need further tools, those options can be explored further.

Regarding the specifics of red tape reduction, this is a serious problem, I know, particularly for smaller contractors who cannot bid for too many things until they know the results of competitions currently under way. The complaints I hear specifically have to do with there being a lot of screening and clearance needed from several government departments. So one wonders whether that is the issue that could be centralized.

When we did the research on the gas tax, they also pointed out that quite often there were delays in putting shovels in the ground in order to allow for ministerial or MP visits and photo opportunities. I think again those issues—the politicization and the efficiency—in a sense need to be seen together. In terms of ensuring increased competition, certainly a place to begin is with notification and perhaps the time and outreach that allow companies to know what is out there.

The second issue we hear about is the unbundling of contracts. As you know, particularly with P3s, there's a tendency to bundle the whole kit and caboodle together, which in a sense makes it less attractive or less feasible for smaller companies to bid, and we're left with the sort of usual suspects in terms of some of the key players in infrastructure and particularly P3s internationally.

The other concern we hear is with umbrella contracts that favour incumbents for future work. So for those of you who are familiar with that, there is something called an umbrella agreement, one of the disadvantages of which is that umbrella agreements can be used as guidelines to any future contractual choices. Umbrella agreements are not usually concerned with immediate contract terms and conditions but with those that may occur in the future. The guidelines will act as the principal rules when it comes to setting out future contracts.

• (1605)

If that's an issue I think it's been raised certainly at the municipal level.

The Chair: Thank you, your time is up. I'm sure you'll be able to add more in questions.

With that, Mr. Larose, you have seven minutes.

[*Translation*]

Mr. Jean-François Larose: Thank you, Mr. Chair.

Are any other witnesses scheduled to appear?

[*English*]

I was just joking.

[*Translation*]

I thank our witnesses for being here. I am very happy to meet you.

I had the privilege of sitting on the Standing Committee on Government Operations and Estimates. In fact, our report was released recently. We did a study on public-private partnerships, and I see now that the same questions are coming up again. Unfortunately, the solutions we proposed were not taken into account.

One of the points raised was transparency. People also said that we had to consider P3s as a solution because there was a lack of expertise. That was one of the points that was raised. However, if we go off in every direction with P3s, the result is that we lose our expertise completely and have no more control over everything that happens in the field.

Mr. Moist, can you give us some further details about the situation in the United Kingdom? I find this interesting because at the Standing Committee on Government Operations and Estimates, we made some comparisons. We were told that the P3s in Canada were something completely new, but that we had learned our lesson and were not going to find ourselves in the same situation. However, I am under the impression that the United Kingdom is still used as an example. Can you give us some further details?

•(1610)

[English]

Mr. Paul Moist: Thank you. Through the chair, the United Kingdom's a crystal clear example of what the lack of transparency or open discussion at the front end can lead to. When you build a hospital and you can't afford to run it, whether you're a provincial government or a U.K. government, the only way to reduce costs in a hospital is to close wards and close beds. Most of the private finance initiative hospitals in the United Kingdom are operating with less than 60% of the space in the hospital being used because they can't afford to run them.

You must make the leasing payments to the consortium and there's no money left to run the health-care system. When a Conservative health minister says they're on the brink of financial collapse, and they're not entering into any more arrangements of the kind that were entered into 10 to 15 years ago, there's a lesson to be learned there.

One of the witnesses before the Standing Committee on Government Operations and Estimates—I can't say his last name—Matti Siemiatycki, a professor from the University of Toronto, told your committee that this is a bit of an accounting mirage. There's so much evidence since 2008 around the world that if people tell you it's too complicated for you to understand, that's when you should be asking more questions.

Mr. Jean-François Larose: We end up a little bit in the situation where I am a little worried about what's to come. I don't have the feeling the right questions are being asked, and when we have the right witnesses, bringing up the red flags, nothing's being done per se.

If we were to do a projection with the direction we're taking right now with the P3s and the obligation it seems we're putting on the municipalities to go in that direction, where they have no say, what would the projection be? Are we going towards the same bubble as what happened in the U.K.? Is that the feeling?

Mr. Paul Moist: Time will tell. I think it's a very imperfect way to deal with.... The history of Canada is to try government cooperation. There's not going to be a constitutional...as Professor Stoney says. I don't see a solution to the real grievance of municipalities. We're stuck with one another to cooperate, to come up with federal, provincial, municipal arrangements to build infrastructure.

What I hope we don't see is what we saw in Abbotsford in 2011. The community needed \$65 million to do water treatment. Some money would be available from the federal government if it came from the P3 Canada fund. An election was fought over the issue and in B.C. you can put a plebiscite question before the people. The people of Abbotsford were given a question: do you want a P3 water treatment plant? And 75% voted no. They kicked out the mayor who had been in office for two terms. The issue was water.

So that's not a good way to do infrastructure in Abbotsford. They need the support of the federal government. They need the support of the B.C. government. The mayors we talked to are not ideological on the question, they're quite prepared to consider forms of P3s. There are forms of P3 that CUPE has no issue with.

Marrying together design and build makes a lot of sense, instead of having separate companies, where one does the design, the other does the build. That's a P3.

[Translation]

Mr. Jean-François Larose: The solutions that were proposed at the Standing Committee on Government Operations and Estimates concerned the need for an audit body that would oversee contracts and ensure that things were done properly. But we are still talking about solutions.

Thank you, Mr. Stoney. Unfortunately, you were not with us at the committee, but I find some of the points you have raised interesting. They constitute potential solutions. Do you have any others to suggest to us? I think that is what we are looking for.

We aren't against P3s, but we realize there are some problems that remain to be solved in that area. Unfortunately, they have been cropping up for several years. There are a lot of examples throughout the world that show that these problems are quite real.

Mr. Stoney, do you have any other comments to make on this topic?

[English]

Dr. Christopher Stoney: I do. My position on P3s is that they're not inherently bad by any means. I think the rules of engagement are key. If you can have the framework for engagement play to a degree of transparency, then that's a huge start.

If you look on our own doorstep, we recently had the Lansdowne development in which public engagement was legitimate and yet it was essentially cut short to push something through that was sole-sourced and was also unsolicited. It seems to me that if we enter into projects like that, then the mistrust of P3s will continue. Of course a degree of commercial confidentiality is required, but we're putting in agreements here that go on for 20 or 30 years and don't come up for renewal every four years at the electoral cycle. I couldn't believe that we allowed something like Lansdowne to go ahead in a capital city that is supposedly in one of the best countries in terms of governance. Yet we've allowed that to go through.

I was looking for a quote. This is something that—if I can find it. It's essentially the Asian investment bank that says under no circumstances.... This is advice given to Pakistan and Afghanistan, that on no account should you allow a sole-sourced public-private partnership. They are absolutely *streng verboten*, yet that's exactly what we've allowed to happen.

I was pleased to see there are lots of examples whereby provincial governments are trying to firm up this framework so that P3s can be seen as trustworthy, transparent, and so on. With legislation, they've asked for clear and concise transparency from P3s and accountability-focused situations. In particular they ask the P3 to conduct a detailed risk and value for money analysis to determine if a P3 arrangement provides the best value for money, again something that was not done here in the city.

Consult with the public prior to initiating the bidding process. That's the key—not after the bidding process. Appoint an independent, external fairness monitor to oversee and review the bidding process. Publicly report the terms of the P3 contract. Obviously we shouldn't have to say these things, yet we do.

• (1615)

The Chair: I have to cut you off, Mr. Stoney. The time allowed is for the question and the answer. I've been very generous.

Mr. Coderre, you have seven minutes.

Hon. Denis Coderre (Bourassa, Lib.): Does that mean you'll be generous with me too? Thank you.

The Chair: I'm always generous with you, Mr. Mayor.

Hon. Denis Coderre: I feel great.

[Translation]

Good afternoon, gentlemen.

[English]

Mr. Stoney, I always have problems when we talk about politicizing. To govern is to choose, that's part of our democratic institution. That's part of the accountability. I'd like your reaction to that because in a way you don't want to depend on the system, but you don't want the system depending on you. The issue is more a matter of the attitude of individuals instead of the system itself. If we had the right checks and balances—maybe it's obvious to say that—don't we think that's how we should work, instead of saying we should depoliticize. If I go to my riding, my city, or my province and say it's important to have that bridge. If you don't have the political will to do it, it won't grow by itself. How can you manage what you've been saying versus what I've just said?

Dr. Christopher Stoney: I actually think probably the hybrid framework of the gas tax comes pretty close to that because it does allow some degree of local autonomy. They essentially get to decide, within some constraints, what kinds of projects they want locally, rather than circumventing local priorities, which is what I think happened under stimulus. We know that stimulus was in place for a different set of criteria. This is not a criticism of that. But I think the gas-tax system, if we are going to have funds flowing from federal to local, is a damn good policy, actually. Certainly, the municipalities like it. The oversight is good and essentially now that it's in place it's less of a burden for them.

I'm not going to pull any punches here. One of the problems for a federal government is to ask how we can get our political capital out of the money that's going there. I understand that governments need to show value for money or presence around these projects, but I think that's different. Signage and so on I think is a legitimate thing to do. But I think you have to draw the line at direct political

intervention into what the local priorities are that will be funded. I think that's what I mean and what these guys mean.

• (1620)

Hon. Denis Coderre: So it is a kind of localization: think global, act local.

Dr. Christopher Stoney: Yes, I think that's right. Once the terms of the funding are made clear, then I don't think those boundaries should be crossed with undue political—

Hon. Denis Coderre: So should we talk about coherence? We don't necessarily all the time have to decentralize because you don't want to create all those little kingdoms, and then after that you cannot govern at all. Where's the balance?

Dr. Christopher Stoney: Again, that's a question of perspective. From my point of view, again, I think that the best kind of accountability is local accountability. I have a huge problem with the issue of free money where one level of government is spending money that it has not raised. All the problems of attribution and shared accountability, they're classic in terms of the problems that we see.

Hon. Denis Coderre: So we agree we need more due diligence, we need more checks and balances, and we need less red tape, of course. Can we manage that through smart regulations?

Dr. Christopher Stoney: Yes, and again, this is where the tension is. The efficiency and the speed at which these things go through is obviously crucial. By “red tape” I mean bureaucracy that adds very little to the process.

Hon. Denis Coderre: Or it might be the right hand that doesn't know what the left hand—

Dr. Christopher Stoney: What the left hand is doing. But let me use the example of Lansdowne again, because I think we're all familiar with it in this room. The Lansdowne process did completely away with due diligence. It went against its own procurement policies. It went against the actual law that's set out. It was essentially a flagrant abuse of the system, and that was done in the name of expediency with the developers saying, if there's a competition here, we walk. That should send up red flags. Cutting that kind of due diligence I think is really a mistake.

Hon. Denis Coderre: Mr. Moist, frankly, and I'll be honest, when I hear you it's a bit dogmatic. Do you believe that public is good and private is bad, or we can have a pragmatic approach? The issue is not that P3 is bad. The issue is with whom you're dealing and if you don't have the checks and balances. But, of course, it's always the same pocket that's paying. Is there a way where it's acceptable?

Mr. Paul Moist: I don't think we can be dogmatic on these things. The private sector builds public sector infrastructure, almost universally across Canada. It is not a role for the public sector to build a hospital or build a superhighway. Public employees are in a maintenance function when it comes to highways and roads. The capital works are done by the private sector.

Where we get into trouble is when we're trying to stretch dollars. We have a multibillion-dollar infrastructure deficit and we want to do more projects, so we're mortgaging debt. This is where I believe governments, maybe municipal governments, get a little too exuberant. I think you have to separate the P3 proponents from the sober, independent assessment of P3s. It can't be in the same office. I'm not saying people aren't honest and don't work hard, but you have to separate those functions.

I think Manitoba may be onto something right with its legislation, which is not dogmatic. It requires independent objective analysis up front, and it requires transparency. There is also a public hearing requirement, something absent from Lansdowne.

• (1625)

Hon. Denis Coderre: Gentlemen, here's my last question. I know that I only have about 25 seconds. Do we believe that for public policy matters we should have dedicated funds instead of putting everything in the same pot? If we want to make sure where the money is going, should we have, from now on, those dedicated funds instead of putting everything in the same pot? If you have transport, the way that the federal government should partner with the other—

Mr. Paul Moist: I won't speak for the FCM, but apparently they're coming here, and I think they would say that we need a transportation plan, that we need a number of different...that it's not all one pot. I think they are very appreciative of a former federal government giving them an exemption on GST purchases, then the introduction of the gas tax, and then the current government indexing the gas tax. These are incrementally very positive moves.

Where things fall apart is when junior levels of government are directed, "Thou shalt do it this way". That's a decision to be made at the local level, between the residents of Moncton and their council.

The Chair: Thank you. Your clock is running much more slowly than my clerk's.

Voices: Oh, oh!

The Chair: Mr. Poilievre, you have seven minutes.

Mr. Pierre Poilievre (Nepean—Carleton, CPC): Mr. Moist, you mentioned that certain pension funds are profiting off the 407. Can you name any of them?

Mr. Paul Moist: I can't directly, no. I know that one of the major investors is a Spanish consortium, but I'd be surprised if there weren't pension investment in the 407. It may not be Canadian pension investment.

Mr. Pierre Poilievre: Could you guess what the biggest pension investment is in that project?

Mr. Paul Moist: It wouldn't surprise me if Teachers' doesn't have some skin in that game, but I don't know that for a fact. I couldn't testify to that.

Mr. Pierre Poilievre: Is the Canada Pension Plan?

Mr. Paul Moist: Yes.

Mr. Pierre Poilievre: It owns 40% of the 407 now. Therefore, 40% of the dividends from that highway are owned by the Canada Pension Plan, which I believe your organization has called for an expansion of.

Mr. Paul Moist: Absolutely.

Mr. Pierre Poilievre: The Canada Pension Plan also owns profitable banks and oil companies across the country and relies on the profits of those corporations for its income. Of course, those profits are only available after tax, but you spoke out today against reductions in taxes for Canadian business.

If the Canada Pension Plan should not be profiting from the 407, and if it should not be profiting from businesses like banks and oil companies, how do you expect it to gain the returns on investment that it requires to pay out benefits to its recipients?

Mr. Paul Moist: Through the chair, there may be a conflict of public pursuits here, because I do think that it's in the interests of the Canada Pension Plan to make rates of return and deliver pensions to Canadians.

The other public test, though, is this: is the 407 in the interests of the ratepayers of Ontario, who are underwriting it for 90 or 99 years? I'll say 90. Mr. McGuinty ran for office saying, "When I'm premier, I'm going to get to the bottom of this deal and I want some of those profits for the people of Ontario." He was told by the courts to forget it.

So it may be a great highway for institutional investors like CPP. Mr. McGuinty, at least for one person—I agree with him on this—thought it was a bad decision by the Harris government for the people of Ontario. There's a convergence of different public issues here.

Mr. Pierre Poilievre: It is so bad that he's expanded the decision and is lengthening the 407 under the same P3 model that predated his premiership.

In British Columbia, we have the Canada Line, which is one-third funded by private sector investors. One of them is a pension as well. It's the Caisse de dépôt. We have Quebec pensioners funding public transit in British Columbia, and British Columbians paying returns back to Quebec pensioners through their fares.

I'm sorry, but I'm having a hard time finding what's wrong with that. Can you tell me?

Mr. Paul Moist: From the point of view of institutional investors or pension fund investors, there may be nothing wrong with it. Are these—

• (1630)

Mr. Pierre Poilievre: But from the point of view of passengers...?

Mr. Paul Moist: Are these good deals for the province of British Columbia?

Mr. Pierre Poilievre: According to the British Columbian government, the project came in tens of millions of dollars below what a traditional public tender would have done. It came online three months ahead of schedule, on budget, and ridership numbers have vastly exceeded expectations. So I'm still having a hard time understanding the problem.

Mr. Paul Moist: We've never seen the details of that deal, whether it's a good deal in the interests of the taxpayers or the citizens of British Columbia.

Mr. Pierre Poilievre: It's the biggest capital project in British Columbia history. I have not heard anything negative said about it, but if you can point me to something, then I'd be glad to hear it.

I think we all agree the gas plant was a boondoggle. I think even the provincial Liberal government that executed this decision would agree with that now.

Can you tell me which private sector entity caused the loss of \$250 million, and what they did to cause it?

Mr. Paul Moist: I don't know of any private sector entity that caused \$200 million to have to be paid. The devil's in the details, and we find out that somebody on behalf of the people of Ontario negotiated that the private sector put up \$50 million to \$60 million. *The Globe* has used both figures. To get out of this deal, we're now at \$240 million.

So somebody in the public realm on behalf of the people of Ontario negotiated that level of risk exposure for the citizens of Ontario. I think it cost somebody his career.

Mr. Pierre Poilievre: If the government were to contract anyone to build a plant, wouldn't you presume the contractor would want a penalty if the government suddenly cancelled its own contract?

Mr. Paul Moist: Through the chair, I negotiate for a living and I think the private consortium did a good job of negotiating for themselves here, and the Government of Ontario will have to face the people at some point.

Mr. Pierre Poilievre: You don't think any blame is attributable to the government that first decided on the plant and then changed its mind after signing the deal?

Mr. Paul Moist: The politics of it are well established. I wouldn't disagree with you on that.

Mr. Pierre Poilievre: I think the politics are the whole issue. My point is that if P3s are a problem, in this case the P3 that caused the problem was public. The government made the decision and conducted itself in a way that cost the money, not the private sector. Perhaps you're making a good case for less central planning in the procurement of power, rather than more government control in its production.

Mr. Paul Moist: Through the chair, I expect government at all levels to mind the public interest, and it isn't in the public interest to sole source or to have this lack of transparency.

My colleague who's sitting behind me, our chief economist, appeared before the other committee that has met on this subject. Years after certain P3s, seven auditors general, including the Auditor General of Canada, said they don't appear to have transferred much risk and they've been more expensive in the way you chose.

Don't get me wrong. There's nothing wrong with the Confederation Bridge between P.E.I. and New Brunswick. It was well built, on time. Your Auditor General, not CUPE, said it cost \$45 million more than the public option. Tolls have increased faster than government was warned, so the devil's in the details here. Your auditors general are telling you the devil's in the details.

Mr. Pierre Poilievre: The next question is for Mr. Stoney. You talked about the issue of free money and your preference for transferring tax room to the municipalities. But municipalities are not short of money, they've had a spectacular growth in revenues, probably bigger than any other level of government. Municipal revenues were up 71% between 2001 and 2011—

Mr. Mike Sullivan (York South—Weston, NDP): Mr. Chairman, he's well past seven minutes.

The Chair: Yes, and your colleague was over nine minutes.

I'm going to cut him off. I try to be generous with everybody.

Mr. Pierre Poilievre: —and population growth and inflation combined have been 30%. We continue to see revenues to the municipalities. When they receive these revenues, they demand matching funds for individual projects on top of them.

Isn't it really the case that no matter how much tax room and dollar figures we transfer to municipal governments, they will take that and then they'll expect the federal government to match it anyway?

• (1635)

The Chair: That's your time, but I'll let him respond.

Dr. Christopher Stoney: I think there is a dependency culture we've created. I think you're absolutely right. I think it would be good if the cities, certainly the larger cities, had their own means for using income tax as I think they grow with wealth better than relying on property taxes. They do have the financial wherewithal to raise the money they need, but wouldn't you as a politician rather get money from another level of government, let them raise it rather than raise it yourself? That's the idea of free money.

It doesn't mean to say the federal government has to keep responding to that demand. Like a petulant child, I think you say sorry but you have to raise more of that yourself.

The Chair: Thank you.

Mr. Watson, you have seven minutes.

Mr. Jeff Watson: Thank you, Mr. Chair. Thank you very much to our witnesses for appearing here today.

I'll start with you, Mr. Moist. On page 2 of your presentation you bring up the U.K.'s experience with its public finance initiative. You conclude the top bullet point by saying, "The Conservative health minister said it helped bring the health system to the 'brink of financial collapse'."

To the best of your knowledge are all of the 60-plus health trusts in the National Health Service in the U.K. on the "brink of financial collapse"?

Mr. Paul Moist: Through the chair, I don't know that all of them are, but I know the way many of these new hospitals manage the debt problem is by closing wards and beds, and most of them are closed.

Mr. Jeff Watson: In fact, it's about a third of the health trusts that are struggling with respect to their payments.

If you had read the article perhaps, what the Conservative minister had said was that it parts of the national health system were on the brink of financial collapse. Of the remaining 40 or so health trusts, a number of them were built as part of the public finance initiative and they're not on the brink of collapse. Is it the PFI that's the problem then? Can we conclude that PFI is the reason the health system is truly on the brink of collapse?

If as many are doing well financially.... In fact, John Appleby, who is an independent economist, says that many hospitals remain "perfectly healthy financially", despite being financed under the PFI.

Isn't it more correct to say the reasons that health trusts in the U.K. are struggling are complex and not necessarily or singularly related to the PFI?

Mr. Paul Moist: Through the chair, that could be a true statement, but the overall amount of debt is what rests with the U.K. government, and it's large.

Mr. Jeff Watson: I'm simply dealing with the accuracy of your statement. Your statement is inaccurate.

Mr. Paul Moist: Well \$300 billion is a significant chunk of change, and that's attributable to the health care system, a big chunk of which was built by PFI. Not all of them. You're right.

Mr. Jeff Watson: By the way the Conservative minister you quote didn't actually say specifically it was the PFI. I'm going to get to the quote on the brink of financial collapse. He actually blamed the Labour Party for bringing parts of the system to the brink of financial collapse. I'm quoting an article from the *The Guardian* in the U.K. in terms of the policy of PFI.

I think the statistical point is that when you have hospitals, and it's many that are not on the brink of financial collapse, PFI is not in and of itself the problem.

I want to ask most pointedly, Mr. Moist—because one of your previous answers wasn't as clear as I thought it should be—is there any P3 model that is workable and that you would recommend?

Mr. Paul Moist: As Mr. Stoney said, there's a range of different P3 definitions out there. He read one. Marrying together design and build. I'm not an engineer, but I believe it's actually efficient, and it helps save money. Design-build-transfer is a form of P3.

As you will see, Dr. Loxley doesn't use rhetoric in his book. He canvasses a number of different types of P3s. The historical partnership of separately tendering design and build is a form of partnership. One form of P3s the fellow that appeared from P3 Canada with the previous committee, the Standing Committee on Government Operations and Estimates, talked about.... He talked about the range of P3s and them not being appropriate for all infrastructure.

CUPE has no issue personally with design-build-transfer. Design-build-finance-operate and transfer in 35 years is where I think we get into trouble.

● (1640)

Mr. Jeff Watson: You did table Mr. Loxley's book. Isn't the point of his book that municipalities retreat from P3s entirely and focus only on conventional delivery? That's on page 31 of his book.

Is that your position as well?

Mr. Paul Moist: No.

That might be what Dr. Loxley's position is, but he canvassed the City of Moncton. They decided on a P3 for waste water treatment. Unsolicited, a private sector company said they could do a better deal for the city's whole water system, and the council said no. These are the problems you get into with sole sourcing.

Dr. Loxley canvasses a range of issues in his book, and I think in a very fair and non-ideological way.

Mr. Jeff Watson: Our government is proposing that a new international crossing between Windsor and Detroit will be a P3 project, design-build-finance-operate-maintain.

Are you principally against that being done for the project?

Mr. Paul Moist: No. I wouldn't be principally against that. I don't know anything about it.

We canvassed one bridge story from Winnipeg. It was much smaller. It was a beautifully built bridge. It was not an issue of CUPE jobs or anything. But when we finally got our hands on the information four years after the bridge was built, the City of Winnipeg was paying about twice as much as they could have paid by building it through tendering with the city financing it. The city could borrow at half the rate of the private sector.

The devil will be in the details for the Windsor crossing, but I wouldn't enter that debate. I'd just say let's not borrow more expensively than we need to.

Mr. Jeff Watson: Mr. Stoney, one of the things I'm hoping will come out of a report like this would be some very practical, manageable types of steps with respect to removing red tape.

Do you have any succinct recommendations for the federal government as we handle infrastructure projects, for example, where we could make a significant difference in accelerating the ability to carry out infrastructure projects without harming due diligence?

Dr. Christopher Stoney: In a sense, that's difficult to say without knowing exactly what's in place. It's a case of saying, does this activity add to the oversight, the due diligence, the accountability? If it doesn't, then why not consider taking it out?

As I mentioned, I think there are ways we tend to get caught, particularly with the P3s, by saying that if they are made more or less transparent then we will get a quicker process. So it tends to become more of a backroom type of operation.

I don't think that's always the case. Again, one only needs to look...and this is what the Asian investment bank predicted in their report. The public will become suspicious. There's a lack of trust and opposition to P3s, as we saw with Lansdowne, which ultimately slowed it down.

In terms of the steps—

Mr. Jeff Watson: I was asking more generally, not specifically to P3s but in any federal infrastructure program.

The Chair: Your time has expired.

Could you answer very briefly, Mr. Stoney?

Dr. Christopher Stoney: I did take part in the red tape reduction project. I actually wrote a long paper for that, which I'd be happy to resubmit to this committee because there were some specifics around that.

•(1645)

The Chair: Thank you very much.

Mr. Sullivan, you have five minutes.

Mr. Mike Sullivan: Thank you.

Mr. Moist, earlier you gave us the Regina example. At this committee when we've talked about trying to create strategies to deal with infrastructure and transit. The other side has repeatedly said they do not want to tell municipalities how to do business, that it's not their job, and that municipalities should be independent. Yet we hear from you that some municipalities are being told exactly how to do business, which is one of the concerns we have about being forced into a P3 regimen in order to receive funding.

Can you comment a little further on that?

Mr. Paul Moist: After reading the Regina *Leader-Post*, the new mayor of Regina spoke at our convention this spring. I went up and introduced myself and asked him if he was quoted correctly in the Regina *Leader-Post*, that he has philosophical issues but that they need the 25%, the \$57 million. He said he wasn't misquoted. It was

pre-budget. The P3 Canada fund was the only pool of money available.

I said, "Well, okay, design-build-transfer is a P3". He said, "No. It had to be design-build-finance-operate, and it will transfer to the city in 35 years." I said I didn't think he had to accept that. He told me he had no choice, that the citizens of Regina expected him to access federal money.

You'll have to ask the mayor of Regina, but he has been told that the only pathway to money is design-build-finance-operate. For the first time in the history of the city of Regina, a piece of the water system will be operated by a private entity, which was not the first choice by that council.

Mr. Mike Sullivan: Mr. Stoney, you talked about inappropriate transit choices, or inefficient transit decisions I think were the words you used. We've seen some of that when our city of Toronto went back and forth over whether or not to build the subway, some of it driven by provincial politicians, some by municipal politicians, but we've also had federal politicians put their oars in the water.

My counterpart on the other side talked about the Canada Line. As I remember the story, the Canada Line has just recently been found guilty of not paying their workers enough when they had Costa Rican and Ecuadorian workers in Canada being paid \$3.57 an hour to build the Canada Line. On this side of the House, we don't want a P3 that is finally paying its workers the right amount of money 11 years later, and only those they could find. They were temporary foreign workers and they're back in their countries. It's only through the actions of one of the unions out there that they managed to get a multimillion-dollar settlement for these individuals.

We're concerned that P3 is a euphemism for cheap labour, and we're not in favour of reducing the Canadian standard of living by using cheap labour. Is that what P3s really mean?

That question is for either of you.

Mr. Paul Moist: They can mean that, and I hope they don't.

Dr. Loxley quotes Larry Blain, the former head of Partnerships BC. They only get funding for Partnerships BC—and they helped to consider the Canada Line—if they get P3s. That's how they get their funding, so it's not an arm's-length, sober second look. Larry Blain said that public sector comparators won't do you much good anyway because by playing with discount rates and so-called risk transfers he can make the public sector as bad as he wants to, to make the private sector look good.

Through the chair, as the bottom line, I would recommend that any member of this committee go to the FCM convention where there are 2,000 local councillors and mayors, folks from across Canada. We're there every year, and we're not big players there. We have a booth. We have people coming up to talk to us. These politicians are under immense pressure to fix up their towns and cities, and they're quite open to a collaborative way to do that. They don't want to be told how to do it but that's the way many are feeling, way beyond the city of Regina.

Mr. Mike Sullivan: You mentioned 35 years is the deal in Regina, but Highway 407 was 99 years. I believe the deal with the Canada Line with SNC-Lavalin is between 35 years and 50 years, plus the deal is not transparent. Nobody knows what the risk to the public sector will be if the ridership numbers aren't met. There is a guarantee of ridership. If the operators don't meet that ridership they will be given more money from the public purse for that 50 years.

The building of the air-rail link in Toronto was originally to have been a completely private sector operation, with no public money at all. Mr. Collenette said not one nickel would be spent from the public purse. We are now up to \$2.5 billion of public money in something that will take 12 people per rail car to and from downtown. It seems like an awfully strange way to spend public money on what started out to be a P1. That private operation is now not even a P3.

• (1650)

Mr. Paul Moist: Risk invariably ends up in the public realm. The City of Hamilton got out of private operation of their waste water treatment system. In 10 years the consortium changed ownership three times, then they walked away. Hamilton city council can't walk away from providing water treatment services, so who is left holding the bag? It is the citizens of the city of Hamilton.

This is not to say there isn't a proper, historic, completely appropriate role for the private sector to make a profit building infrastructure. Mortgaging debt is never a good thing. Surely to God we have learned that, as a people.

Senior levels shouldn't be prescribing to junior levels of government how they should operate their public businesses.

The Chair: Thank you.

Mr. Holder, you have five minutes.

Mr. Ed Holder (London West, CPC): Thank you, Chair.

I would like to thank our guests for being here today.

It is rather interesting. When you imagine the gap in public infrastructure across our country today, it's a pretty significant number. I have a number from the Library of Parliament, but if either of you could hazard a guess, would you comment on what you think it is?

Mr. Stoney, do you know that number? I can share it with you, but I wonder if you have a sense of that.

Dr. Christopher Stoney: I think the last calculation I saw was about \$140 billion.

Mr. Ed Holder: Mr. Moist, do you have a thought?

Mr. Paul Moist: Just the municipal and transportation debt is, according to the FCM, \$178 billion.

Mr. Ed Holder: You'd better give some guidance to the Library of Parliament, because they've estimated that Canada's gap in infrastructure is somewhere between \$44 billion and \$125 billion. Regardless, it's a fairly significant number, and I think we would all accept that.

I share that with you because you'd like to think that every city has its financial act together. I recall us having, in my city of London, Ontario—which is the tenth largest city in Canada—a sinkhole in one of the core parts of the city. It seemed the maintenance that was required was not being done. I recall that at the time, because we are going back some years, it was quite significant and the municipality was looking to see if they could get some extra financial support.

It reminded me of something that my Cape Breton mom once said to me at a point when I was struggling financially and I went to her. She said, don't let your bad planning be my emergency. I then went to my dad, who didn't help either, by the way.

If you imagine the infrastructure gap, the question is: is it necessary? I don't think anybody would disagree on who's responsibility it is.

What I haven't heard anybody talk about is what role the provinces play in this. Municipalities are creatures of the province, but somehow we as a federal government, whether it's for potential political gain or whatever other rational reason, get involved in this and then all of a sudden the federal government—not withstanding that it has a responsibility in certain jurisdictions—starts to own the problem. To me that's where I'm trying to understand that focus.

Mr. Moist, you made a really important point when you talked about the fact that it was our government that introduced the gas tax, and then doubled it. Actually I'm going to tell you we doubled it. I didn't hear that from you, but you did mention that it got indexed. In my city, that's worth \$21 million a year. It's not a Toronto, it's not a Montreal, but \$21 million indexed is not an insignificant amount. So if my city of London had a \$100 million project, we have some confidence that over several years we will know where the money is going to come from.

Mr. Moist, did CUPE take a position on the indexing of the gas tax? Is it bad, good, or otherwise?

•(1655)

Mr. Paul Moist: Yes, it's on our web page in response to budget 2013 that this was one good move made by the federal government. The gas tax was actually initially introduced by Mr. Martin.

Mr. Ed Holder: I need to ask you a very clear question, because we're talking about making it permanent. Do you think that the moneys raised out of gas tax should be used for sewers and gutters—what I would call maintenance—versus major projects? Have you taken an opinion on that at this point?

Mr. Paul Moist: No, because that hasn't been put into the public realm.

I think the mayors and councillors across Canada appreciate the unencumbered money, and Mr. Stoney spoke about that.

We do need to trust that local government will make the right decisions. It's not prescribed. It hasn't been prescribed historically, and we've taken no position on that. But we did give accolades where they're deserved for your indexation of it, which was a good move, and you ought to be commended for it.

Mr. Ed Holder: I actually polled my constituents who are readers of my weekly e-mail, and significantly most of them thought that it should go to major infrastructure projects.

Mr. Stoney do you have an opinion on that? I'm just curious about whether that matters to you particularly.

Dr. Christopher Stoney: Actually, I do think that the original intention was to put it into green infrastructure, sustainable development-type projects, and we had the ICSPs and so on. We found when we researched that across the country, several provinces were really quite willing to comply with some of the oversight and some of the conditions. Some provinces, one in particular, which shall be nameless, refused to play the game at all, and just said, give us the money, now buzz off. So that—

Mr. Ed Holder: I apologize for interrupting, but I am going to run out of time.

I would like your thoughts on this, please.

Where should the province's role be in infrastructure funding? I'd like to understand that.

The Chair: You're out of time.

Mr. Ed Holder: Then I'll stop and say thank you.

Dr. Christopher Stoney: It should be absolutely front and centre. There's no doubt in my mind that it is their responsibility.

It's a problem when the federal government tries to make tax room for the provincial governments to step into, and they essentially will take the opportunity to not pass it on. Essentially, I think it's a huge problem.

Mr. Ed Holder: Thank you very much.

That's very helpful.

The Chair: Mr. Holder, to one of your comments, there was a news bulletin today that the city of Owen Sound has actually passed the city of London in terms of size, to the tenth largest—

Mr. Ed Holder: Owen Sound?

The Chair: Sorry to burst your bubble.

Mr. Ed Holder: Oh my God.

The Chair: Mr. Aubin, you have five minutes.

[*Translation*]

Mr. Robert Aubin (Trois-Rivières, NDP): Thank you, Mr. Chair.

Thank you, distinguished guests, for being with us this afternoon. The clarifications you have made are very useful. However, I always have a lot of trouble deciding between the pros and the cons. And so I would like to go back to basics and ask you a two-part question.

Mr. Stoney, in the definition you gave at the beginning of your statement, you excluded investments in cultural infrastructure programs, even though municipalities are clamouring for them. Do you think it would be a winning solution to finance a certain category of infrastructure projects through public-private partnerships, and another through public investments?

If that is the case, will the situation be the same if we are talking about a large city such as Montreal, or other, smaller municipalities? I am raising the question because terms are being used here as though they were a given, whereas the population of municipalities in Canada ranges between 300 inhabitants and 3 million.

[*English*]

Dr. Christopher Stoney: Through the Chair, thank you. That's actually a very good question.

One of the issues we found when we studied the gas tax over three years, in five provinces, was the different problems that arise for municipalities. Some of them were saying they had 300 different types of funding, from either provincial, federal—various sources. Certainly for some of the smaller municipalities, this was a problem. Also, because it was really directed—again, probably a political decision—at the smaller cities or smaller communities, you had some communities receiving cheques for \$3,000, which really isn't going to do much in terms of infrastructure. We felt that the biggest bang for the buck was actually in the big cities in terms of infrastructure projects.

Where would a P3 be useful? There are certain areas that lend themselves to P3s. Obviously a road is one because you can install tolls and generate revenue. They're fairly non-controversial compared with other areas.

If I could flip the question around very quickly, in our paper we actually came up with five areas where you wouldn't want to consider public-private partnerships. One is that if you have an unsolicited sole-sourced contract then you shouldn't consider it at all. I think that more or less goes without saying, but we do see it.

The other one is that I don't think public-private partnerships should be used where the use of public space is involved and it's highly controversial. Obviously, Lansdowne would fall into that, as well as the Eaton Centre in Toronto. This is where public participation is crucial. They may not be interested in a road between two cities, but they would be interested in the use of public land. Therefore, I think it's unfair to use commercial confidentiality.

Where councillors are actually funded by the private partner in the proposed P3 model in the agreement, that seems to me to go against the very notion of good governance. At least, the optics are shocking. When there's insufficient municipal capacity, very often our municipal people, as well as federal and provincial, get bamboozled by these large international corporations that have lawyers who do nothing else but come up with these deals.

The last one, and it's an important one, is sports. I don't think you should involve it in sports. Sports tends to become too emotional. It dominates the issue around sports, as opposed to the real cost-benefit analysis.

● (1700)

[Translation]

Mr. Robert Aubin: Thank you.

Mr. Moist, would you have any comments to make on that same issue?

[English]

Mr. Paul Moist: I would commend Dr. Loxley's work to you. He describes forms of P3s, he gives you some examples of sizes, and he canvasses Mr. Holder's question about the amount of infrastructure deficit we have in Canada. As well, in five pages of this 35-page report he mentions six pointed questions to ask municipal councillors, one of them being is risk being transferred and do you understand the value-for-money alleged savings being indicated to you?

This was written for elected officials, not for me. As a decision-maker, if you don't understand the answer to those questions, you have to keep asking. This is the transparency the decision-makers need to know, that the value for money really is real, the risk doesn't rest with the public sector, and are we getting ourselves into an area where we're mortgaging debt and it would be cheaper....

I think the public can handle the conversation about debt and fixing up infrastructure. But don't mortgage debt under the illusion that you can do more projects more quickly, because auditors general across Canada have said this can't be off your balance sheet. It's an expense.

The Chair: Thank you.

Mr. Toet, you have five minutes.

Mr. Lawrence Toet (Elmwood—Transcona, CPC): Thank you, Mr. Chair.

Thank you to our guests here today.

Mr. Stoney, I want to talk about a couple of other items that you brought up in your introductory remarks that I found quite interesting and intriguing. One of the things you brought up was decentralization versus centralization. We hear a lot of talk about requiring a national strategy for transit, for almost anything you can think of. You talked very succinctly about the idea that municipal governments and towns should have the ability to make their own decisions as to their priorities and needs. I'm wondering if you could quickly expand on that for us.

● (1705)

Dr. Christopher Stoney: Again, it's really a question of subsidiarity, as the Europeans would call it, that people at the ground level understand the local situations. That's not to say there aren't projects that require federal intervention and oversight. Clearly, going back to the construction of the railways, interprovincial bridges, those kinds of things, it seems to make a deal of sense to have some national thinking. It needn't necessarily be with cash on a project basis, but I think certainly the federal government should have a role. If it's not thinking about it already, we should be thinking about what we are going to do when the next stimulus is required. Are there high-speed connections we can put in place between different cities?

Mr. Lawrence Toet: You're talking about connectors and things like that—

Dr. Christopher Stoney: Yes, I am.

Mr. Lawrence Toet: —but I'm talking about individual towns being told this is their money and they have to spend it on this. You were really saying their priorities may be very different and very varied from region to region. We have a large country with very different weather conditions, so we're going to see a real variance. I think it's important that we bear that in mind, so I'm glad you brought that forward.

I wanted to quickly correct a little of the idea that the government, when it gives infrastructure funding, is saying these are the projects you must do. I know in Manitoba we work very closely with the province and the city to make sure their priorities are addressed. We don't always agree with their priorities. As a local person, I'm not really happy with where that funding has gone, but they have their priorities and we allow them the autonomy to do that. I think there's a bit of a myth to what you were bringing forward.

You talked about unbundling these contracts so all sizes of companies could compete. Obviously, you see a need for everybody to be able to do contracts. Do you see any need for any type of contracts where any type of company should be excluded from being able to be part of that bidding process? As long as they have the ability to perform the scope of the work, that would obviously be a given, is there any other reason why they should be excluded?

Dr. Christopher Stoney: Occasionally, you can see conflicts of interest arise, but I think maybe what you're driving at is this. If you have a company or a couple of companies that effectively almost have a monopoly over contracts is that anti-competitive? At that point would we put a percentage and say you're only allowed to get 50% of the contracts, and then the other 50% has to be opened up to other companies? I think it becomes a lazy relationship when there are big contractors in town. A couple of big companies in this town seem to get at least 80% of city business. Maybe they offer the best deal, but I think there's a certain amount of familiarity there, and sometimes I wonder how much genuine competition is out there. Under those circumstances, we might consider that. I know the EU does.

Mr. Lawrence Toet: I can give you an example. In Manitoba there are consortiums of companies, smaller construction companies, that have come forward. As a group they will have bid on some of these contracts. They have been shut out, essentially being told that you can't bid for certain reasons. The reasons have absolutely nothing to do with capability, ability, and being able to compete on an even playing field. In fact, they're not even allowed to put their price in so nobody even knows where their price is at.

Would you find that to be a very strange way of opening up competitiveness and getting the best bang for our public funding?

Dr. Christopher Stoney: Yes. I am absolutely for competition. It's in the public interest to have a competitive process. I would need a lot of convincing that it's worthwhile preventing that kind of competition.

When I refer to these umbrella contracts, that's one of the things the umbrella contracts do, they actually preclude companies that are not in the initial stage from entering later on when things might change. That's the danger with the umbrella contract agreements.

The Chair: Your time has expired.

Mr. Larose and Mr. Sullivan are splitting their time.

You have five minutes.

• (1710)

Mr. Jean-François Larose: Thank you, Mr. Chair.

I would like to start by apologizing to Mr. Stoney. I mismentioned your name earlier and didn't do it on purpose. I really apologize for that.

Dr. Christopher Stoney: Somebody tried to impersonate me earlier.

[Translation]

Mr. Jean-François Larose: I would like to begin by saying that I heard the government's position earlier, and I must admit that it made me feel somewhat sick.

When I sat on the Standing Committee on Government Operations and Estimates, the government at least had the decency to say that the study showed that there was indeed a problem and that the P3s were not applicable in every circumstance. Today, I am hearing that that is not the case. Whatever the consequences, some people will profit, and so it is fine to implement P3s.

We have heard about the United Kingdom, where there are consequences on the debt and on hospital services. I see some red flags. Soon the Champlain Bridge is going to be built in Quebec. There was also the construction of the A-25. I think that at a given point, we have to think about the position we adopt carefully.

When the government imposes its will by specifying that funds will be allocated to transfers on condition that P3s be in place, and doesn't even have the decency and openness needed to acknowledge the problems, there will be consequences.

In my municipality, we are talking about millions of dollars for infrastructure, and we don't have the means to make these improvements. However, now we are told that there could be funds, and that there is no problem insofar as we implement P3s despite the

consequences, since no one seems to be taking them into account anymore. There is a problem. On our side, we are favourable to P3s, but we need to see some evolution. All the better if our society can evolve.

I am wondering if the witnesses have any brief comments to make regarding the consequences.

[English]

Mr. Paul Moist: Very quickly, through the chair, the member mentions the Standing Committee on Government Operations and Estimates. I've read the recommendations and I can tell you that if Professor Loxley was here he would agree with many of the recommendations from that committee. They said: "hat the calculation of the risk premiums should be supported by verifiable figures based on empirical evidence for federal P3 projects."

This came from the standing committee.

I'll just mention one more:

The Committee further recommends that value-for-money analysis methodology for federal P3 projects should be readily available and accurate, and comprehensive information should always be made available on the detailed value-for-money calculations.

Professor Loxley is urging municipalities to take that same test. There's been some decent work done around here. These recommendations—and I know there are others that aren't in there that we'd like to see—are very valuable pieces of work done at this committee and should be incorporated into this committee's recommendations.

[Translation]

Mr. Jean-François Larose: Thank you.

[English]

Dr. Christopher Stoney: Through the chair, this is an excellent question and an excellent point.

I am neither ideologically for or against P3s. I'm a pragmatist. If I think they are a better tool in a certain situation to spread costs, or whatever the reasons may be, I'm quite happy to see the government funding those. Again, I come back to the issue that the government is also the regulator. Somebody has to regulate these deals. In the Lansdowne case there was no value-for-money audit done.

[Translation]

Mr. Jean-François Larose: Thank you.

[English]

Mr. Mike Sullivan: The actual title of this study is how competition can make infrastructure dollars go further. I want to come back to the title of the study and suggest that if we create a system in which the only way that a project can get built is if it's P3 with operations and whatnot at the end, we've actually lessened competition. This is because we no longer have available to us, in terms of the design and build of the operation, the full range of potential partners, because that's what they are in the private sector, who could build it.

We are actually reducing competition by creating this mythological beast called the P3 that will design-build-operate-maintain. The operate and maintain may not be something that is able to be done by all of the potential partners. Is that in fact reducing competition and making things more expensive?

Mr. Paul Moist: I'll just say very quickly that Mr. Toet's question about bundling or unbundling was a good one.

Here's an Alberta example, and it's nothing to do with the federal government. The Alberta government said it wanted to build a package of 10 schools under a P3. A gentleman came up to me at the FCM convention. He runs a small construction company in Lethbridge, and he's built schools before. He cannot build 10 schools. He can't bid on it. He knows how to build schools and he runs a construction company. He has no union bias because he came up to the CUPE table. He's really angry that the Government of Alberta has bundled up 10 schools and taken him out of the game. He could have built the two schools they want in Lethbridge.

There's an unintended consequence. I expect the Government of Alberta, if they were sitting here, would say, "Well, this will be cheaper. This is better. We have to pay for these schools, and the P3 is the way to go." They haven't read the Auditor General of Nova Scotia's report on that.

I would say in that example that there's less competition at play in Alberta to build schools. That's in nobody's interest. We have a collective responsibility to support local entrepreneurs who run small construction companies. You can cut them out by the way you structure these things.

• (1715)

The Chair: Thank you, Mr. Moist.

You made a comment earlier, probably halfway through, and I believe the topic of questioning was on gas plants. You made a comment about how it probably cost him his job.

For clarification, and I don't like to be presumptuous, but were you meaning former Premier McGuinty?

Mr. Paul Moist: I was, yes.

On the Friday before the Monday, when he surprisingly resigned, or stated his intention to resign, the second cadre of redacted information was brought forward. It was 20,000 pages.

The Chair: I'm quite aware of all that.

I just wanted to clarify that he was who you meant.

Mr. Paul Moist: That's who I was talking about.

The Chair: Mr. Holder.

Mr. Ed Holder: Thank you, Chair.

Again, thank you for the opportunity to speak for a moment.

As you were speaking, Mr. Moist, I was trying to get a sense of the flavour of Mr. Loxley's book.

It certainly has a slant; I'll grant it that. Some of the wordsmithing is rather interesting. It is for municipal politicians, as you indicate. With some of the advice that it gives and the warnings...I think any politician needs to be wary.

It's interesting. I'm not sure how objective it is. To be fair, I've only just looked at it, but I'll look at it with a more critical eye as I go through it.

The Chair: Mr. Holder, the bells just started.

I'll let you finish your question and then I think we should go.

Mr. Ed Holder: I was going to ask two questions, but I won't.

You talked about the gas plant issue. I was going to say not to confuse bad policy with the mismanagement of this whole gas plant issue. It may well have cost the premier his position, and others as well, and that's just a tragedy.

My question would be to Mr. Stoney, if I could. You say you're a pragmatist and I accept that totally at face value. I would like to ask where you think P3s make practical sense to be put in place.

I'm done, Chair, and I'll say thank you.

Dr. Christopher Stoney: Basically, I think it's when they can pass the test of a value-for-money audit. If it shows that there are significant savings over doing this in-house or through the public service, then I think they should be considered.

As I said, it's also if they don't contravene any of the areas that I specified earlier. In particular, if it's sole-sourced, under no circumstances should we ever get into that again. That's your job, and that's where councillors come in, and the provinces have to regulate these things. We know they need a degree of commercial confidentiality, but there has to be good governance around them or the public won't accept them.

The Chair: Thank you very much, Mr. Stoney and Mr. Moist.

With the witness we had here today, that's the first time we've experienced that.

Thanks for coming.

Have a good weekend, everyone.

The meeting is adjourned.

Published under the authority of the Speaker of
the House of Commons

SPEAKER'S PERMISSION

Reproduction of the proceedings of the House of Commons and its Committees, in whole or in part and in any medium, is hereby permitted provided that the reproduction is accurate and is not presented as official. This permission does not extend to reproduction, distribution or use for commercial purpose of financial gain. Reproduction or use outside this permission or without authorization may be treated as copyright infringement in accordance with the *Copyright Act*. Authorization may be obtained on written application to the Office of the Speaker of the House of Commons.

Reproduction in accordance with this permission does not constitute publication under the authority of the House of Commons. The absolute privilege that applies to the proceedings of the House of Commons does not extend to these permitted reproductions. Where a reproduction includes briefs to a Committee of the House of Commons, authorization for reproduction may be required from the authors in accordance with the *Copyright Act*.

Nothing in this permission abrogates or derogates from the privileges, powers, immunities and rights of the House of Commons and its Committees. For greater certainty, this permission does not affect the prohibition against impeaching or questioning the proceedings of the House of Commons in courts or otherwise. The House of Commons retains the right and privilege to find users in contempt of Parliament if a reproduction or use is not in accordance with this permission.

Also available on the Parliament of Canada Web Site at the following address: <http://www.parl.gc.ca>

Publié en conformité de l'autorité
du Président de la Chambre des communes

PERMISSION DU PRÉSIDENT

Il est permis de reproduire les délibérations de la Chambre et de ses comités, en tout ou en partie, sur n'importe quel support, pourvu que la reproduction soit exacte et qu'elle ne soit pas présentée comme version officielle. Il n'est toutefois pas permis de reproduire, de distribuer ou d'utiliser les délibérations à des fins commerciales visant la réalisation d'un profit financier. Toute reproduction ou utilisation non permise ou non formellement autorisée peut être considérée comme une violation du droit d'auteur aux termes de la *Loi sur le droit d'auteur*. Une autorisation formelle peut être obtenue sur présentation d'une demande écrite au Bureau du Président de la Chambre.

La reproduction conforme à la présente permission ne constitue pas une publication sous l'autorité de la Chambre. Le privilège absolu qui s'applique aux délibérations de la Chambre ne s'étend pas aux reproductions permises. Lorsqu'une reproduction comprend des mémoires présentés à un comité de la Chambre, il peut être nécessaire d'obtenir de leurs auteurs l'autorisation de les reproduire, conformément à la *Loi sur le droit d'auteur*.

La présente permission ne porte pas atteinte aux privilèges, pouvoirs, immunités et droits de la Chambre et de ses comités. Il est entendu que cette permission ne touche pas l'interdiction de contester ou de mettre en cause les délibérations de la Chambre devant les tribunaux ou autrement. La Chambre conserve le droit et le privilège de déclarer l'utilisateur coupable d'outrage au Parlement lorsque la reproduction ou l'utilisation n'est pas conforme à la présente permission.

Aussi disponible sur le site Web du Parlement du Canada à l'adresse suivante : <http://www.parl.gc.ca>