

PRESENTATION TO GENERAL ISSUES COMMITTEE, CITY OF HAMILTON, 17 April 2024, by Stephen McBride

Madam Mayor and members of the General Issues Committee, my name is Stephen McBride, I'm a Professor of Political Science at McMaster University, but speaking here in my capacity as a resident of Ward 1.

In my presentation I'm going to be making some general points about P3s and subcontracting to private sector partners. The evidence and references for these statements are provided in a background report, prepared by my research associate at McMaster, Ms. Joy Schnittker, which I supplied to the City Clerk's office.

Here I will link some general points to the options outlined for the committee in two staff reports on the LRT Operations Models .

Looking at the evidence from other examples and at the staff reports presented to this committee leads me to the conclusion that the City would be better served by **Option 4** than by Option 2 (which is the option recommended in the January 29 report).

Why is this?

I'll just mention **3 reasons** .

First:

Costs

Despite claims made on behalf of P3 / subcontracting arrangements that they produce cost savings, there is lots of evidence that they cost more in the long-run. Often there is the appearance of cost savings up front, but if lifetime costs are factored in, all that is happening is a transfer of financial obligations from the current generation of taxpayers to a subsequent one. The staff reports don't sufficiently distinguish between front-end and long-term costs of the various models and while Option 2 receives a high grade on p. 12 of the January 29th report for cost certainty, influencing the overall scoring, the conclusion on the next page that the option is "likely to be one of the lowest cost options for the city" seems quite tentative.

With intergenerational transfer of costs goes a loss of accountability. Future decision makers (and citizens) inherit costs they had no part in incurring.

To the extent that cost savings are realised they come from wages and salaries. Such savings have corresponding costs: the loss of a general community benefit that comes from having well paid employees spending their wages and salaries in the city and contributing to community prosperity;

And, to the extent that wages and salaries would have been targeted at acquiring or developing existing in-house expertise on LRT operations, future expertise is lost.

Second:

Risk Transfer?

One of the most common arguments for P3 type arrangements is that risks are transferred from the public partner to the private operator.

There are a number of problems with this.

Risk transfer is priced into the contract.

If the price is accurate there is no benefit to the city. If the price is too high (it will be in the interests of the private operator to maximize the risks involved and get as high a price as possible for assuming them) the public partner loses money, and the private operator maximizes their profit.

Moreover, numerous studies, including one by the Auditor General of Ontario, show that quantifying risk is notoriously difficult – it is very hard to know if the public partner is getting value for money or if it is paying too high a premium.

Further, there are many examples where transferred risks end up coming back to public sector which must pay for them again or see a catastrophic loss of public services. When this happens the public pays twice – once to have the risk transferred; and again to bail out the system when the private partner is unable to keep their part of the deal.

It is notable that in the scoring system which produced a recommendation for Option 2 – risk transfer “Risks and Liabilities” (weighted at 25 percent of the total package on page 12 in the January 29th report) was scored at 9 (highly beneficial for the city) and Option 4 at 5.

As noted above the “scientific basis” for this scoring is dubious. It is a highly subjective exercise that, in this case, favoured option 2 over option 4.

Third:

Finally, but not least, Customer experience

In option 2 the City retains responsibility for interface with the LRT’s passengers & customers. It is accountable to the public for the operations of a system it does not operate or control. It’s the public face of a system it pays for but does not control.

If customer experiences are negative what then? It’s a bad idea to separate accountability from control of operations.

If operations and customer experience were combined, complaints could be addressed properly because the City would have control over the operating branch.

Reviewing the evidence and options it seems Option 4 is a much better option for the citizens and taxpayers of Hamilton.