PUBLIC-PRIVATE PARTNERSHIPS

The true cost of P3s

Let's imagine that you have a car – a nice one, but a few years old and in need of some repairs. You're short of cash, so you ask for a small bank loan to cover the repairs. The bank manager says, sorry, if you want a car that works, these are the rules. You may not repair, you may not buy, you may only lease. You cannot lease a small sedan, it has to be a brand new SUV. Don't worry, he says, in the long run it will be cheaper, and you'll really like that SUV feeling. Vroom vroom.

So you sign on the dotted line, although you'll only be told the amount of the payments later. Then you discover that the lease allows you to use the vehicle only during certain hours of certain days of certain months, and lets somebody else drive it the rest of the time, even though you are still paying the full amount of the lease, and you're paying for all the gas. Then you discover you'll have to pick up hitchhikers whether you like them or not. The wheels fall off your brand new SUV just as you leave the dealership, and the transmission seizes, but the fine print says the dealer has no responsibility for shoddy manufacturing or repairs.

When you do the math, you find out you'll be paying 90 per cent of the cost of a new SUV through leasing fees, but at the end of the lease, you'll have to buy it all over again. Your neighbour needs a new car, and realizes what a terrible deal you got. But when she goes to the dealership, ready to pay the full price up front, she discovers that the government has passed legislation making it impossible to acquire a car except through leasing. Strangely, the price of leases has gone up dramatically, and SUV dealers are looking very, very happy.

Well, substitute Nova Scotia's P3 schools for SUVs, and you have the story of that province's experiment with public-private partnerships. The experiment crashed by 2000, but the harmful legacy of P3 schools – for kids and communities, and for the provincial budget – will continue for decades to come.

Not all P3 deals are as obviously one-sided as those for Nova Scotia schools, but fundamental problems with the P3 model remain. As P3 proposals continue to crop up in school, hospital and infrastructure projects across the country, it is important that we learn from experiences so far – and from those in countries like the U.S. and the United Kingdom – to avoid private profiteering at the expense of the public interest.

With thanks to Heather-Jane Robertson.

See page 4 for more about the lessons learned in Nova Scotia.

APRIL 2003

the REAL bottom line

A SERIES OF PRIMERS ON ECONOMIC AND SOCIAL ISSUES FROM THE CANADIAN CENTRE FOR POLICY ALTERNATIVES

Beginner's guide to P3s

The concept of public-private partnerships is not new. The term simply refers to any arrangement made between a private interest (an individual or a corporation) and a public interest (such as our schools, hospitals or parks). Historically, these arrangements allowed some private companies to profit by providing construction, or limited goods or services, to public institutions.

P3s – the new generation of public-private partnerships, are an entirely different affair. P3s can involve the wholesale takeover of public institutions by private companies. While the form of P3 arrangements vary, they can allow private parties to plan, finance, build, and/or operate public facilities – usually at a much higher total cost.

Many governments see P3s as a way to provide new infrastructure without the full costs appearing on the government's books. Through these schemes, politicians can announce new facilities or infrastructure, but put off paying the full cost until much later. Unfortunately, such buy-now, pay-later schemes can lock the public into complex, decades-long contracts that are all too often not in the public's interest.

A huge range of public facilities and infrastructure is now threatened with being "P3ed." Schools and hospitals are the biggest and most visible, but private corporations are working on deals for everything from water filtration and garbage pick-up, to community centres and public pools, to passport or driver's license offices. Even city halls.

Here's how they do it

Despite a lot of talk about "new management" efficiencies, increased productivity, and the entrepreneurial spirit, when private companies take over a public service with a promise to provide it at a lower cost, they generally do so in four ways:

STAFF PAY CUTS AND LAYOFFS: Directly, or indirectly through contracting out, corporations use their "ingenuity" to lay off staff and hire them back at lower wages and benefits, usually without the union that used to represent them.

SERVICE CUTS: Providing less of a service, but at the same – or higher – cost to the public.

USER FEES: Claiming "there is no alternative," corporations can bring in user fees, making services more expensive for many people, and inaccessible for others.

LOWER QUALITY: Cutting corners to keep up profits, corporate players can use cheaper materials or construction techniques. The long-term effects of these choices are left for the public to deal with.

Here's what else it costs us

MORE MONEY: In P3 schemes, the public pays for the service *and* the profits that must be paid to shareholders. Because of higher interest rates, projects that use private-sector borrowing also inevitably cost more than they would with public financing. P3s also tend to involve astronomical consultant and legal fees not seen with services and facilities in the public domain.

THE BIG PICTURE

RECLAIMING PUBLIC SPACE

This primer focuses on the transfer of public space and services (whether a hospital, classroom or playground) into private hands.

Running counter to the drive to privatize is a growing fight to *expand* public space. This movement is not simply about clinging to what is already in the public domain – it's about reclaiming, expanding and democratizing public space to better protect and serve communities, health and the environment.

In Canada and globally, citizens are mobilizing to protect public space, refusing to hand it over for private profit. Urban spaces are being claimed for parks or community gardens in many Canadian cities and towns. Unoccupied buildings are being claimed to ease homelessness – such as the Woodwards building in Vancouver's Downtown Eastside. These movements are also connected to rising media democracy – claiming space in print, radio and on the Internet. In many ways, challenges to P3 schemes are part of that bigger, global picture.

LESS ACCOUNTABILITY: Democratically accountable and publicly controlled agencies are replaced with investor-controlled private corporations, accountable to their owners and shareholders. Deals are shrouded in secrecy and specifics are held under a cloak of "commercial confidentiality." Accountability and public involvement are severely eroded.

PUBLIC HOLDS THE RISK: Not only do most P3 schemes involve government backing of risk, but if a P3 fails, the government must step in to provide the service. When a private company takes on more of the risk, the price they charge rises accordingly.

WEAKENED PUBLIC SECTOR CAPACITY: When in-house expertise is lost, public sector capacity to deliver the service is lost – now and in the future. This makes us vulnerable to company demands for more money or other concessions – and to more P3 schemes.

CREATION OF PRIVATE SECTOR MONOPOLIES: Because normally only large companies can afford to put together successful P3 bids, we promote and become dependent on private sector monopolies.

CORPORATE INSTABILITY: Private companies can be bought and sold, and so can their holdings. For example, in the U.K. all 12 electricity distribution companies created under a privatization scheme were taken over by multinational companies, most based in the U.S. or other European countries.

"My concern then was that if we went ahead and dismantled our sanitation department, we could be held ransom by whoever won the contract."
—former Vancouver mayor Philip Owen

LOST PUBLIC ASSETS: Once an asset is handed over to the private sector, the public still pays for it, but often doesn't own it. Investment in our own future is lost.

continued on page 4

The public-private continuum

Most public institutions – particularly those in education and health care – are still entirely in the public domain. Others have been privatized, in part or in full. Many are at risk of being P3ed. Here's what the continuum looks like.

FULLY PUBLIC

The people own and have stewardship over a public asset, through their local, provincial or federal governments.

A Citizens have a say in determining how the facility or service is built, funded, operated and made accountable.

W Workers are usually unionized and paid family-sustaining wages.

$ No profit made by the private sector.

E Most existing Canadian schools, hospitals and public works facilities.

CONTRACTED OUT

Components of a public asset or service are handed to a private party, who operates the service for a profit.

A Private partner accountability is limited to meeting its contractual obligations. The private partner is not accountable to the public.

W Workers are less likely to be unionized or paid a family-sustaining wage.

$ Some public money goes to private profit.

E Services like janitorial, laundry or payroll.

P3s

Government agrees to pay a private partner to fund, build and/or operate a facility or service that would normally have been in the public domain.

A Accountability of the private partner is limited to meeting its contractual obligations. The private partner is not accountable to the public.

W Workers risk being shifted into non-union or low-paying variations of their old jobs.

$ Profits to the private sector are often guaranteed.

E A growing number of new schools, hospitals and public works facilities.

PRIVATIZED

Governments sell a public institution to the private sector for its own use and profit.

A Private owners are not accountable to the public except through laws, the courts, etc.

W Vast disparity between low-waged workers and corporate CEOs.

$ Unlimited.

E Some facilities or services that were formerly Crown Corporations or otherwise in the public domain, such as BC Gas, Air Canada, CN Rail, some health services in Alberta, and so on.

A Accountability
W Workers and wages
$ Profit potential
E Examples

LOWER CORPORATE TAXES: Corporations get tax breaks on public assets they own; individual taxpayers are forced to make up for the lost tax revenue.

MONEY LEAVES THE COMMUNITY: And sometimes the country. Profits often head overseas, while local suppliers lose contracts. Lower wages and lost jobs mean less money spent in local communities.

PROFITS BEFORE SERVICE AND SAFETY: Profit is a strong incentive to cut costs – even when service or safety are compromised. When a problem arises, the company often blames the politicians.

INTERNATIONAL TRADE AGREEMENT VULNERABILITY: P3s open the door to serious trade consequences under NAFTA and other trade deals, risking complex lawsuits and massive fines for the Canadian public.

PRIORITIES ARE CHANGED: Decision-making on where to build schools, bridges or hospitals may become focused on profit potential, rather than public need.

NO ESCAPE CLAUSE: Communities can find themselves stuck with unacceptable arrangements for decades.

CASE STUDY

THE TRUE COST OF P3 SCHOOLS IN NOVA SCOTIA

The Real Bottom Line *opened with a fictional analogy of wanting to repair your car, and instead being forced into a lease arrangement for a new SUV. Here's how things really worked out in Nova Scotia.*

In 1994, the Nova Scotia government contracted the construction of 30 P3 schools to a local consortium. So much went wrong that all future P3 construction has now been cancelled. But Nova Scotia is still left with contracts for as long as 35 years. The experiment will cost $32 million more than traditional building would have. Here's some of the ways in which the public lost out.

- The corporation, not local preferences, determined where schools would be built. Schools were constructed on land already owned by a member of the consortium, or in upper-income subdivisions with lower land costs, rather than in urban centres where they were needed.
- Some P3 mega-schools have all the bells and whistles – an orchard, amphitheatre, air conditioning, two sets of shades for the windows – while schools in low-income neighbourhoods hold bake sales to pay for basic needs.
- Students and the community have very limited access to P3 schools outside of school hours, when the corporation profits by renting out the facility and its technology.
- The owners are guaranteed to earn back 89 per cent of their costs through leasing. The government will then have to buy the land and buildings, regardless of whether they are still needed.
- The contract exempts the owners and builders from liability for poor construction, or even faulty wiring or plumbing. This was an enormous incentive to use cheap labour and low-quality materials. In one school, students and staff were still drinking bottled water a year after arsenic was found in the school's well water. A water-filtration system had been installed, but the board and the school's corporate owner couldn't agree on who was responsible for its operation.
- Nova Scotia's provincial auditor testified that, in his opinion, the motive behind the government's P3 initiatives was entirely political, designed to keep the cost of the new schools off the province's books to reduce the apparent size of the province's debt.

What we've learned so far

While P3s are proving to be all the rage for governments looking for an easy solution to complex problems, the trend is still relatively new. There is mounting evidence, however, that P3s are not turning out to be as great as they look on paper. As the old adage goes, if it sounds too good to be true, it probably is.

P3s in health care

Canadian health care was developed on a set of visionary principles, the first of which is that health care is a right – not a commodity to be bought and sold for profit. P3s are a dangerous leap in the wrong direction.

- In December 2001, Ontario announced it would create two P3 hospitals in Brampton and Ottawa. Early calculations anticipate that they will cost millions of dollars more per hospital than they would have in the public domain.
- In PEI, the government pulled out of its P3 hospital project after it realized it would cost far more than if the hospital were kept public.
- A forensic accounting review of a planned P3 hospital in Abbotsford, BC warns that the government's consulting firm relied on data that should not be used as a basis for a government decision. The project is still moving forward.
- Also in BC, plans move forward for a new P3 scheme for a clinic at Vancouver General Hospital, despite the facility's disastrous experience with a P3 information system, which promised to save $82 million, but will actually cost an additional $72 million.

P3s in education

This primer began with the P3 experience in Nova Scotia schools (pages 1 and 4). Activists there hope that we can learn from their experience – and from P3s in other jurisdictions.

- The New Brunswick Auditor General recently concluded that the province's first P3, a school in Moncton, would have cost $775,000 less if the province had done the work. Interest rates alone were $400,000 more than if the province had borrowed the money.
- The Alberta government's "model" P3 school, The Hamptons Elementary in Calgary, was plagued with expensive and hazardous problems just six months after it opened. Critics expect high deterioration of the building, which they say was constructed with residential-grade, rather than industrial-grade, materials. The resulting high maintenance costs are to be paid by the school district.
- In Abbotsford, BC's first P3 school was bought outright by the district after the parties could not agree on a complicated 49 year lease. BC's deputy minister of education has since advised school trustees across the province to look at P3s for new school construction.

THE INTERNATIONAL EXPERIENCE

Growing concern about P3s is not unique to Canada. Around the globe, nations are discovering the many downsides. Here are a few examples.

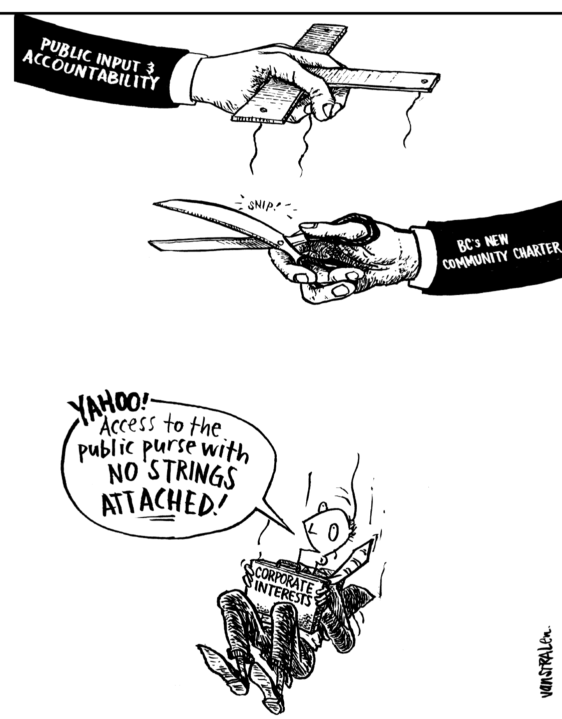
- In Britain, P3s have failed to solve problems in the public health care system, and have led to declines in service. According to the British Medical Journal, P3 projects for hospital construction were 18 to 60 percent more expensive than traditional government-funded capital projects. The Labour government is now backing away from P3s.
- In Australia, a state auditor found that, at the end of a lease-back arrangement for a P3 hospital, the government will have paid for the hospital more than twice over – yet still won't own it.
- In Sweden, a brief foray by a county council into P3s led to numerous problems and public outrage. The county council was voted out of office. Backed by strong public opinion, Sweden has now placed a moratorium on further hospital privatizations.
- In the U.S., years of privately-run prisons have shown that, contrary to claims by private operators, they are not cheaper, better, safer or more effective. Wages in P3 prisons are some of the lowest in the U.S.

P3s in community infrastructure

- Maple Ridge, BC entered into a P3 for an arts-library-office-community centre facility. The district gave the developers the land and agreed to lease it back for $2.8 million a year for 25 years – with the option to then buy it at market value. An independent review of the deal found that this leasing option would cost $9 to $11 million more than if the district had simply built or bought a new facility up-front. The review also found that the district chose the monthly leasing option despite legal advice that it could not be done under the existing *Municipal Act* without public input via a counter-petition or referendum process. It appears the district did not think the project would survive this public process, and decided to go ahead without it. A legal challenge later found that the lease agreement was illegal and that the district had side-stepped the *Municipal Act* by not giving taxpayers a say.
- The company operating the Ontario 407 toll highway has been unresponsive to complaints over thousands of disputed tickets. Drivers are left unable to renew their licenses, turning the government into a collection agency for the Spain-based multinational.
- For Winnipeg's Charleswood Bridge, a P3 deal cost taxpayers $1.2 million more than had it been publicly financed.
- When 180 million litres of sewage backed up into homes and businesses in Hamilton, Ontario, the regional government was stuck with the legal and cleanup costs, instead of the private operator of the waste water treatment plant (which had compromised safety by laying off up to 40 per cent of staff). Legal costs alone are estimated at $400,000.
- The Confederation Bridge between New Brunswick and PEI will cost the public an extra $45 million. The private consortium that built and is currently operating the bridge is 85 per cent foreign-owned.
- For a section of the trans-Canada highway between Moncton and Fredricton built under a P3 deal, the New Brunswick government will pay almost $5 million more to a private company for maintenance than had it done the work with its own crews.
- Greater Vancouver's regional transit authority, TransLink, is currently seeking a controversial P3 deal to build a bridge and highway project linking Maple Ridge and Langley across the Fraser River.
- In Port Alberni, BC, the municipality looked at several options for private sector financing and operation of a new arena. After careful study, the council decided it would be cheaper for the municipality to finance and operate the arena itself.

PROVINCIAL PROFILE

BC TO LEGISLATE P3 SECRECY



In March, 2003, the BC government tabled a new Community Charter, a key component of which makes it legal for municipalities to push through P3 schemes without making details available to local citizens.

This ties into the government's strong promotion of P3s, including the newly-created Partnerships BC office, which the finance minister has said represents "a clean break" from previous government capital initiatives.

Under the old legislation, municipalities had to identify the parties, the terms, and how much the P3 would cost. If the Charter passes, voters will be entitled to vote only on the "concept." The municipality can then proceed with the P3 without accountability on project specifics.

The Charter also takes steps to reduce democratic checks and balances, including fewer referenda (with signatures required raised from 5 per cent to 10), fewer counter-petitions, more closed meetings, and "consequences" for councillors who speak out of turn.

Protecting the public interest

PROPONENTS ARE PUTTING A GREAT DEAL OF EFFORT into convincing the public that P3s are good for us. Their confidence shows they believe there is very little opposition to the idea that all public policy challenges can be solved by the private sector. But there is mounting evidence that P3s cost more, threaten levels of service, and siphon off critical public dollars into private pockets. Here are some of the ways citizens can stay informed and protect the public interest.

Stay informed

This primer sets out some very basic information about the pitfalls of P3 schemes. Listings on the back provide links to a growing body of research and resources.

Ask the right questions

There are great resources to help citizens evaluate the wisdom of P3 proposals. Good questions include:

- Is the process open and transparent?
- Who is providing the information? Do "independent" sources stand to benefit in any way? Are public servants given the expertise and resources to properly evaluate the proposal?
- Has the public authority compared the cost of proceeding privately versus publicly? If so, who did the evaluation, and where is it?
- Are there claims to deliver the same quality for less? How? Are these claims reasonable?
- What is the history of the company involved? What is its record on P3s? On labour relations?
- Is private financing to be used? At what cost? Is this debt guaranteed by the public?
- Are profits guaranteed? Who is liable for deficiencies or cost over-runs?
- Are proponents knowledgeable and responsive about public concerns? About all components of the contract?
- Will the ongoing operations be accountable?
- Do elected officials have the public support – or the legal authority – to lock the public into this deal?
- Has the public authority considered the risk of loss of control due to trade agreements?

Democratize public services

A string of corporate debacles have lifted the veil on the supposedly hyper-efficient private sector so revered in the 1990s. There is an increasing recognition that we need a vibrant public sector that meets the needs of local people, not the demands for higher profits from distant shareholders.

"Concerned citizens and activist groups are claiming victory following the announcement last Friday that the Greater Vancouver Regional District has cancelled its controversial plans to hire a private company to design, build and operate the proposed Seymour water filtration plant."
— Media report after 800 people opposed to the plan overflowed a June 2002 meeting.

P3s are the wrong way to deal with challenges in the public sector. Instead, we need to democratize services – increasing their responsiveness to citizens, and considering the insights and experiences of front line workers and users to improve effectiveness.

Get involved

A growing number of P3 schemes are being abandoned because of public outcry. Work with others locally and nationally. Make it clear to municipal, provincial and federal politicians that we expect them to act as guardians, not destroyers, of our public institutions. Celebrate victories and let others know what worked.

IT'S A QUESTION OF POLITICAL WILL

"The argument that there are no government funds available for capital investments, so that P3s are the only way these facilities can be built, is bogus and disingenuous. The absence of capital funds for publicly-owned hospitals is a completely self-imposed constraint."
— Lewis Auerbach, a former Director in the Audit Operations Branch for the Auditor General of Canada, in his report "Issues raised by Public Private Partnerships in Ontario's Hospital Sector."

You can tell when a P3 proponent is losing the argument – they'll say "Without this P3 we couldn't even *have* a new hospital/school/city hall/water filtration system." Given that sentiment, it's a wonder this country has been able to put together public services at all.

When a politician says "There is no alternative" or "It cannot be done" they usually mean they don't *want* to do it. The truth is, P3s allow politicians to cut the ribbon on public facilities, while keeping the real cost off the books. Those elected to serve the public good should do better.

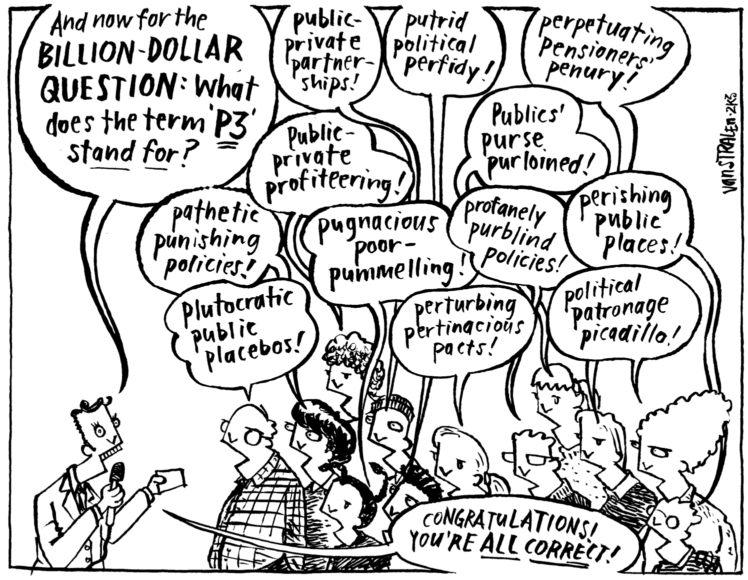
Resources and contacts

CCPA In addition to this primer and *Assessing the Record of Public-Private Partnerships*, proceedings of a CCPA–BC forum on P3s, the Centre has a growing body of research and resources on P3s and public services. CCPA staff and research associates are available for speaking engagements or workshops. **www.policyalternatives.ca**

CUPE The Canadian Union of Public Employees is a leading watchdog of P3s in Canada. Check out research and resources in the P3/Privatization section of the CUPE website. **www.cupe.ca**

INTERNET A growing body of P3 information is available on the Internet from progressive sources, such as **www.creativeresistance.ca**, the Ontario Health Coalition **www.web.net/ohc/** or the Canadian Teachers' Federation **www.ctf-fce.ca**

You might also want to check out pro-P3 organizations **www.pppcouncil.ca** and their provincial counterparts, such as Partnerships BC **www.partnershipsbc.ca**. Watch too for conservative thinkers, who are increasingly questioning the fiscal responsibility and multi-layered contractual obligations of P3 schemes.



IN PRINT Many current publications provide broad analysis of P3 arrangements. Here is a brief sampling:

- Articles in the *British Medical Journal* critiquing the U.K. experience **www.bmj.com** (search "PFI" – the U.K. term for P3s)
- *Captive State: The Corporate Takeover of Britain*, by George Moubiot, published by MacMillan U.K. February 2002.
- *The Drive to Privatize: Why Public is better for our communities...and for local business.* A research brief to the municipalities and school boards of British Columbia. CUPE BC. September 2002.
- *Issues raised by Public Private Partnerships in Ontario's Hospital Sector*. CUPE. December 2002.
- *Principles for P3 schools* from the Nova Scotia Teachers' Union **www.nstu.ns.ca**
- *Corporation of the District of Maple Ridge Core Project Review.* Kroll Lindquist Avey. January 2003.

CANADIAN CENTRE FOR POLICY ALTERNATIVES. THINK AGAIN.

The Canadian Centre for Policy Alternatives offers an alternative to the message that we have no choice about the policies that affect our lives. The CCPA produces and promotes research on issues of social and economic justice. We publish reports, books, opinion pieces, fact sheets and other publications, including *The Monitor*, a monthly magazine. The CCPA is a non-partisan, non-profit national organization.

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