



Just the Facts: Public-Private Partnerships

PUBLIC-PRIVATE PARTNERSHIPS (P3s/PPP) ARE BEING PROMOTED AS THE CHEAPEST, BEST, OR EVEN THE ONLY WAY TO GET NEW INFRASTRUCTURE – DEBUNKING THE MYTH

P3s are being aggressively promoted

- P3s are becoming more common over the past 20 years in Canada (& UK, USA)
 - federal and provincial governments are both promoting P3s - examples include:
 - Federal - PPP Canada Fund (an initiative promoting P3s)
 - Saskatchewan – SaskBuilds
 - Sask Party’s “Plan for Growth”: addressing the infrastructure needs of Saskatchewan’s growing cities “will not be achieved through conventional means in a timely manner...It will require the innovation that only SaskBuilds and partnerships can bring”
 - Some governments won’t fund projects unless they are P3s
 - New and influential lobby groups are forming:
 - Construction, legal, accounting firms lobby groups pressuring P3 investment

Why should we learn about P3s? All workers need to understand P3s because:

1. Knowledge of P3s increases the ability to participate in debates and inform others
2. P3s affect their interests as workers and citizens
3. Union advocacy can work: the Alberta Federation of Labour helped scrap P3 schools
4. P3s increase private involvement & influence over public services and assets
5. *P3s are designed to soften up opposition to more general privatization*
6. Governments so badly want P3 to work, they cannot be trusted to keep P3 processes open and transparent so the public can ensure money is not wasted or harming communities
7. Mainstream media in Saskatchewan has been uncritical or even supportive of P3s, without fully understanding them

But getting an understanding of P3s can be difficult

- P3s are very complex legal and accounting arrangements
- There is a lack of transparency: the details of these arrangements (contracts, evaluations) are considered private commercial secrets or cabinet secrets

So what is a P3?

- Not every “partnership” between a public and a private sector body is a P3, and not every case of “privatization” or contracting out is a P3
- **P3s are a way of building and maintaining expensive infrastructure that is meant to last a long time (bridge, school, hospital, etc.)**
- Traditional way to obtain (also called “procure”) infrastructure:

- Public body (provincial or city government, school board, health region) arranges financing, using taxes, grants from other levels of government, bank loans & bonds; hires architects & construction companies to design & build; takes ownership of the completed asset; operates and maintains it (out of tax revenues and/or user fees)
- P3s method: Public body signs long-term contract (20-30+ years) with private, for-profit company/group
 - The private company usually arranges some/all of the financing (stocks, bonds, bank loans); does design, construction; takes ownership of the completed asset, and leases it back to the public body; maintains & operates
 - The private company gets ongoing payments from public body and/or the right to charge user fees e.g. tolls
- Example in Saskatchewan - SaskBuilds:
 - It is a Crown Corporation created by the Wall government in 2012
 - The Board of Directors has 3 Cabinet ministers + 2 government MLAs
 - The mandate is to identify Saskatchewan's main infrastructure needs; recommend best ways to advance infrastructure projects; develop & manage large (\$100M+) infrastructure projects; "drive innovation in infrastructure financing, design and delivery, including public-private partnerships"
 - SaskBuilds projects include private finance, design, construction & maintenance
 - But if these carefully-chosen projects "succeed" by SaskBuilds'/Sask Party's carefully chosen (and non-transparent) standards, push will be to expand into private control of day-to-day operations
- There are 8 ongoing P3 projects in Saskatchewan (most with private maintenance)
 - SaskBuilds projects:
 - Swift Current Long Term Care Facility; Regina Highway Bypass (PPP-Canada also involved); North Battleford Hospital/Corrections Facility; Joint Schools Project broken into 2 bundles (9 combined public-separate school facilities - 3 schools in Regina, 6 in Saskatoon & area) to attract enough (and hopefully local) bidders
 - Municipal projects with PPP-Canada involvement:
 - Regina Wastewater Treatment Plant (citizen-led, CUPE-supported effort to block P3 defeated in referendum, Sept. 2013 - anti-P3 forces were heavily outspent by pro-P3 government & business/construction interests); Saskatoon Transit & Snow Management facility; Saskatoon Commuter bridges
 - Municipal, no SaskBuilds or PPP-Canada involvement:
 - Regina Football Stadium
- Benefits of P3s, according to SaskBuilds:
 - projects are more likely to be completed on-time and on-budget; "increased scope for innovation in the delivery of public infrastructure"; "improved long-term maintenance of assets"

P3s are not necessarily cheaper/better than traditional ways of building and funding projects:

1. Governments can borrow money at much lower interest rates than private companies; higher cost of private borrowing adds to the overall cost of P3s, which is passed on to taxpayers
2. P3s, because of their complexity, generate large costs in lawyers' and accountants' fees
3. The private partner/investors expect profits from P3s; this profit adds to the overall cost
- These costs are ultimately paid by the users of the facilities (reduced services, user fees):

- The company leading the Swift Current Long-Term Care P3 project boasts of their company's ability to "unlock the potential inherent in a project for generating ancillary revenue streams that can be use to offset core project costs"
- P3 projects are so large and complex that only a few companies (large, often multinational) are qualified to bid— there is not enough competition to drive down price:
 - This is what happened in Alberta, where only 1 company bid on a P3 of 19 schools, leading the government to abandon the P3 - there is a risk that a pro-P3 government would artificially "sweeten the pot" with subsidies to attract more bidders - two unsuccessful bidders for the Regina Wastewater project were paid \$250,000 each

Can we trust P3s?

- SaskBuilds is in a conflict of interest because of its mandate to promote the use of P3s - it cannot be trusted to impartially evaluate P3 projects
- Most of any alleged cost savings of P3s come not from technological innovation but from cutting labour costs: layoffs, fewer workers, non-union workers, poor working conditions & cutting other corners, e.g. environmental standards
- P3s' track record in Canada is mixed at best—they are too new, and too few, to tell if they've really delivered over the full life of their (long) contracts
 - Parkridge Centre in Saskatoon, now facing \$68.5M worth of repairs (85% of cost of rebuilding it new), was built as a P3 by Devine government in 1980s
- P3 proponents claim that P3s are innovative because they are "performance-based agreements" - SaskBuilds claims that its P3s will include "high quality agreement standards" and that the private partners will get paid "only for services that meet those standards"
 - In reality, **all** contracts are performance based agreements- non-P3 building and services contracts often include insurance, performance bonds, penalty clauses, warranties to ensure the contract is properly performed
- P3 supporters underestimate the ability of private corporations to avoid or change their obligations under a P3 (e.g. if not profitable enough) by taking advantage of the public's dependence on the bridge, hospital, etc. or using tactics like declaring bankruptcy, dragging things out in court, claiming that non-performance was not their fault, etc.
- Supporters of P3s insist that most risks of P3 projects are transferred to the private partners
 - Yet some of those same private partners reassure their shareholders that P3 projects are great investments because the projects are ultimately "secured by government"
- P3s will be subject to interprovincial and international free trade agreements, like NAFTA and the New West Partnership, which limits the ability of future Saskatchewan governments to modify the terms of a P3 (e.g. to increase standards)
- In response to concerns that P3s are not transparent, the Saskatchewan government says it has appointed "expert independent Fairness Advisors" who will "make sure public dollars are safeguarded" - yet is it doubtful how independent/effective these Fairness Advisors will be:
 - They are hired by SaskBuilds for each project, and report to SaskBuilds and the only FA reports made public have been vague and focused more on bidders' interests
 - A better approach would be to have the Provincial Auditor report to the legislature on P3 projects (as proposed by the opposition NDP, but rejected by the Sask Party government)
- **P3s are highly political**, especially in Saskatchewan as SaskBuilds's Board of Directors consists of three cabinet ministers and two government MLAs

- It is highly unusual for the Boards of Saskatchewan Crowns to consist entirely of government politicians
- It is also not in accordance with national best practices in P3s: none of SaskBuild's counterpart agencies at the federal/provincial levels have ministers on their board
- **Dec. 2014: Auditor General of Ontario (former Auditor of Saskatchewan) reports that 74 P3s in Ontario were not cheaper than traditional procurement, saw frequent delays, and did not effectively transfer risk to private partner**

WHAT CAN YOU DO?

Take action! Use this information to write your MLA, Minister of Health/Labour and/or any other person in power that you think can take action in ensuring that the protection of public services becomes a priority. Get out in the community! Public service activists can always use more support! Spread this information to everyone you know – communication and awareness is highly effective in building more support.

For further information about this topic, including the sources of this fact sheet, please contact Karman Kawchuk, Research Officer, SEIU-West by email karman.kawchuk@seiuwest.ca