



The three Ps are not like the three Rs. There's a great deal less consensus on their value and they even seem to mean different things to different people. Public-private partnerships (P3s or PPPs) are not new – some would even say the construction of the grand old CPR was a P3 – but most track the current controversies back to the policies of former British Prime Minister Dame Thatcher.

In his study of P3s, Finn Poschmann, at the C.D Howe Institute, provides the background in a concise, clear fashion – a rarity that I commend to you most heartily. We are pleased to have him participate here with some of the ideas from his study. We also benefit from the views of CUPE National President Paul Moist, whose experience as a city worker in Winnipeg and as a local and national labour leader certainly qualify him to comment on P3s. Based on their studies of P3s in Canada and around the world, CUPE is a fierce critic of P3s. And we welcome recently appointed Parliamentary Secretary John McKay, whose responsibilities are specifically targeted to P3s. McKay is a Liberal MP from Scarborough, and his appointment is part of Prime Minister Martin's approach to political governance, which focuses on issues. Interesting that P3s are one of the few issues chosen by the PM for special emphasis – procurement reform is another, evidenced by the Walt Lastewka interview later in this issue of *Summit*.

But, I digress. Let's chat!

Take your mark

Poschmann: [P3s] have centre stage in current plans to build public infrastructure and, in some cases, restructure public service delivery. P3s are often controversial – from one perspective being seen as

P3 controversies

part of an anti-labour privatization agenda, from another as unleashed corporatism – and taxpayers are often wary. Governments choose P3s so that private financial means can be put to use in achieving public ends. The public aim is not, however, solely to attract the money. When private investors put their own resources at risk, they bring incentives to properly manage project costs in pursuit of good returns on their investment. Hence the private sector brings money, managerial tools and powerful incentives to deliver successful projects sooner and at lower cost than when delivered by the public sector alone.

Moist: In our experience, the benefits of P3s are largely theoretical while the costs are all too real. For all the spin about efficiencies, innovation and transferring risk, the cold hard reality is that P3s inflate costs, reduce service and confound accountability. The latest example is the Abbotsford hospital P3. There an independent forensic accountant and a former director with the Auditor General have found that the costs of the project have skyrocketed, the risk transfer is dubious and accountability is weak – this for a project for which there is now only one bidder.

McKay: There is considerable significance to the fact that the Prime Minister of Canada has appointed a Parliamentary Secretary to look especially into public-private partnerships. I do not see myself as an advocate for P3s. I think there are certain areas where P3s are inappropriate – for example, justice and policy areas that are clearly primarily public interest in nature – but otherwise they are an option that needs to be explored.

Sit down, take a deep breath, sip a beverage, open your mind and stay awhile while we chat with:



Hon. John McKay
MP for Scarborough East
Parliamentary Secretary for
Public-Private Partnerships



Paul Moist
National President
Canadian Union of Public
Employees



Finn Poschmann
Associate Director of
Research
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So what's the big deal?

McKay: It is very clear that the "state" will not be able to fulfill its commitments to all its citizens. A wonderful example of a successful P3 in a very sensitive area has been brought to my attention – that is the University Health Network (UHN) in Toronto. The government of the day said it could not afford the capital requirements for the Princess Margaret Hospital, Toronto General Hospital and Toronto Western Hospital. [Made up of these three hospitals, the UHN is a teaching hospital for the University of Toronto.] So, in 1995 the UHN went to the bond market and raised approximately \$280 million and sold land worth \$70 million. With that funding they refurbished their physical structures and now have 22 state-of-the-art operating theatres.

Poschmann: Governments must wrestle with competing demands for available resources. As a result, the decisions about whether and when to proceed [with infrastructure projects], and at what scale, are inevitably political ones. Elaborate cost-benefit analyses can establish the economic merit of a project, but cannot resolve the political merits of one choice over another. [An infrastructure project] might be economically justifiable; however, whether to

build it this year or next, or launch a different project first, can be answered only through political calculus and negotiation.

Moist: Whether we look at the sorry history of P3 schools in Nova Scotia, the current tussle around tolls for the 407 or the looming nightmare of P3 hospitals, we see the same pattern. Capital costs rise because of sharply higher borrowing costs and because the private sector makes more money from frills. Even the most basic facility is conflated into an architectural wonder as the views of those who know how to deliver a service fall victim to those who know how to generate a profit. Buck-passing is endemic, corruption is an increasing concern and international trade and investment agreements lock in bad P3s.

Why do fools fall in love?

Poschmann: Western government [procure] goods and services from outside parties under various evolving arrangements. In a conventional procurement, the desired product or commodity is specified – perhaps in exhaustive detail. From the bids received, the public agency chooses the lowest-cost bid that meets tender specifications. In another procurement, the public agency might publish a request for proposals (RFP) that describes in general terms the required output with little specific concern for the details of how the product or system is assembled. The winning bid meets overall requirements at the least cost over the life of the project. In this RFP scenario, bid evaluation is necessarily more complex [because] the potential longevity of the project and the uncertain future demands on the contracting parties introduce an element of partnership between them. The outside contractor, who may have to agree to fixed terms for continuing maintenance and upgrades, for example, effectively takes on some part of the financial risk of the project. As a result, a procurement arrangement may be thought of as a partnership if it involves formally shifting some degree of finan-

cial risk and responsibility to the private contractors.

Moist: The people who know best how to deliver public services in Canada are those who have been doing so. And their goal should be assuring quality and safety, not dodging risk. With P3s, decent jobs paying a living wage are replaced by low-wage, casual labour as funding intended for front-line services is diverted to overhead and profits. Lawyers and accountants pocket princely sums negotiating [complex] contracts that are not open to scrutiny by the public, legislators or the press, each clause intended to ensure the [public retains] the risk while corporations can maximize profits – and walk away from the deal when it suits them. In Hamilton, five different companies have owned the water services contract over the past ten years, making accountability for costs and environmental spills more difficult.

McKay: The provinces will run a collective deficit of about \$8.2 billion this year. The federal government surplus will be less significant than it has been recently and we are still running a \$510 billion debt that [must be] addressed. The cities are not in bad financial shape relatively speaking, but are reluctant to go into debt. So, the public sector fiscal planning horizon is pretty grim. Risk sharing [becomes] an increasingly attractive concept to governments who don't have much collective maneuvering room. Demographics will also be drivers. Health care will consume government budgets with little likelihood of any real relief in the short or medium term. We have about a five year period [with] some planning room, but when the baby boomers age there will be no room to do anything but maintenance.

What to do, what to do

Moist: With interest rates low and the need high, public bonds are a cost-effective way to fund public infrastructure. The ratio of debt to GDP is low and falling at the federal and provincial levels. Debt

as a portion of local government ratios has dropped since 1998. There is no reason to turn to private investors to fund public infrastructure directly when their borrowing costs are consistently higher. And, post-Enron, no one is going to be fooled that long-term lease obligations are anything other than debt. We enjoy a high quality of life in Canada because of our public services. We owe it to the next generation to renew and strengthen them, not serve them up as investment opportunities for speculative capital.

McKay: I think the possibility of a P3 will be a question that everybody asks whenever they undertake an initiative at any level of government. Before initiating any given project they will do a P3 analysis on it. The burden will be on the proponent of a project to demonstrate that a P3 is inappropriate.

Poschmann: A successful partnership requires careful sharing of the financial risks and rewards associated with uncertain outcomes. Private partners should be fully compensated, but no more, for the share of risk they [assume]. As well, public services delivered on a for-profit basis are often political targets, so the public needs reassurance that the net benefits they receive are commensurate with the returns paid to the private partner. To that end, contractual agreements must be available for scrutiny wherever possible and private rewards readily attributable to having successfully achieved the contracted for goals. In sum, a [P3] needs to be well designed and to be seen by an informed public as a cost-effective arrangement. Otherwise, public opposition will sideline future P3 initiatives, with the loss of potentially great opportunities for social gain.

Next chatroom

Pinning down
"best value"