



Quality vs. savings

Snow plowing doesn't make a profit but it shouldn't make a profit. You get a better job when you aren't basing the work on profit. Private contractors aren't there for the service. They're there to make money. - **Bruce Cramton, a city worker in Nelson, B.C. (Local 339)**

Costs savings from a public/private partnership?

The Campbell government has put school districts and health regions in a desperate situation. In real terms, for school districts in particular, funding has been cut. But with these cuts has come the new “flexibility” to manage differently. As part of that flexibility, P3s are being pushed as a way of saving money. The savings, the government states bluntly in its leaked Health Ministry document, will come from slashing wages and benefits for people working in the institutions.

Savings have also been promised from using private sector money to build schools, hospitals and post-secondary institutions.

These solutions are flawed.

The private sector cannot borrow money to build public facilities more cheaply than the public sector. One of the most important reasons is the cost of borrowing.

With the exception of Vancouver, all B.C. municipalities belong to the Municipal Financing Authority of British Columbia (MFA). As the MFA notes on its web site:

“The Municipal Finance Authority of British Columbia (MFA) is the central borrowing agency for the municipalities and regional districts in the Province of British Columbia. MFA was created by provincial legislation in 1970. Its members include virtually all municipalities in the Province, including those on the Lower Mainland. The sole exception is the City of Vancouver, which operates under its own charter and handles the capital financing needs of its population on its own.

The establishment of the Municipal Finance Authority was a recognition that it made economic sense for individual municipalities and regional districts to borrow together as a group and to guarantee each others' credit. The pooling of their borrowing would also produce great economies of scale.

The MFA borrows at an AAA bond rating – higher even than the province and much higher than any private company. The province, because of the security offered lenders by its ability to tax, also has a much better credit rating than any private company. These higher ratings lead to lower borrowing costs that cannot be matched by companies investing in schools and hospitals.

James Craven, former executive director of the MFA, made the following point.

“The results the MFA has achieved in low-cost interest rates has made private sector financing too expensive by comparison. Even with tax-driven savings, the private sector cannot provide comparable rates.”

“A Canadian model for public-private partnerships will have to evolve before municipal governments are able to consider it the panacea the private sector alleges it is.”

Borrowing is not the only factor that can lead to higher costs.

In June 2000, Nova Scotia’s Conservative government scrapped its P3 program for new school construction, citing additional costs as the primary reason. The 33 schools built under the P3 arrangement cost taxpayers \$32 million more than the original estimate of \$350 million. The government attributed the extra costs to lax building standards, lack of accountability, last-minute design changes and unmanaged site development costs.

With that extra \$32 million, the province stated it could have built three additional schools. N.S. Finance Minister Neil LeBlanc said, “the PPP school program was an expensive experiment that cost Nova Scotians dearly.” In short, Nova Scotia views P3 school construction as an all-out failure.

Savings in labour costs have also been overrated. Academic writers studying privatization note that the cost of negotiating and managing contracts is high and it is often ignored when doing cost comparisons.

“In the decision to privatize, governments often fail to include the costs of contracting and monitoring which can average over 20% of the total project costs (Prager 1994, Pack 1989).”

Eliot Sclar notes the following:

“Presumably, a public administrative structure [must] remain for contract supervision, maintenance of the contracting process, and enforcement of the policy mandates governing the provision of a public service. U.S. transit experience suggests that, even when the direct service is contracted out, overhead costs remain substantial, ranging from 16 percent to one-third of total costs, depending on the system size and complexity.”

Frequently it is more expensive to contract work out even if contract management costs are not taken into consideration.

A study that looked at contracting out practices in municipalities in Canada and the United States found that work was being brought back in-house as fast as it was being contracted out. Economic concerns were frequently stated for bringing the work back in-house.

These studies reflect the findings of an Edmonton report independently prepared for the Edmonton Board of Education and CUPE Local 474. The study found four out of five custodial contractors charging the school district more for services than if they were done in-house.

Quality - You get what you pay for

There are only two ways that the private sector can provide services more cheaply than the public sector. Either they slash jobs, wages and benefits (which will be discussed later) or they slash the quality of service. Frequently they do both.

Sodexo was criticised recently when a Glasgow Evening Times reported on the quality of its custodial work in Glasgow's largest hospital. The newspaper reported that, "A joint management and union inspection team found filthy conditions throughout Glasgow Royal Infirmary in areas used by patients and staff."

The report continued, "Bloody surgical 'scrubs' from an operating theatre are dumped in a lift used to carry patients' meals. Staff say the area is infested with cockroaches. Workers say tunnels below the Victorian-built hospital have been turned into firetraps by piles of waste."

This was not the first time Sodexo had been criticised for the quality of its work in British hospitals. In April 2001 the company was cited as having been put on "special measures because of the quality of its work in National Health Service Hospitals.

"Four of the trusts, all of which were put on special measures, use the following private contractors: Royal Liverpool and Broadgreen University Hospitals NHS trust (Broadgreen Hospital) subcontracts its cleaning services to Sodexo." ¹⁶

In the U.S., several school districts have brought work back in-house because of quality concerns. In DeKalb County, GA, school officials tried to save money and improve maintenance by privatizing their custodial services. Unsatisfactory results forced the school board to terminate the contract in June 1999.

After paying ServiceMaster \$75,083 to provide janitors at five district schools, they found that neither their maintenance services nor their staff relations improved. In addition, the contract had drawn criticism from the Organization of DeKalb Educators as well as school board members who saw that the private contract took jobs away from the community.

"For both private sector and government, timeliness, dependability and quality often are more important than cost efficiency. In a study of local government restructuring in New York State, quality concerns were highest among those governments that contracted out more because they no longer held internal control over service delivery."

These findings were reflected in a 1997 report prepared for the Edmonton School Board. In 1994 board trustees voted to privatize custodial services in up to 30 per cent of the board's schools. The process began as a pilot project limited to five schools. To evaluate the project the board and CUPE Local 474 agreed to a joint evaluation process. Independent evaluators did the work. The findings were significant:

- Deficient skill levels due to high turnover in the contracted out schools;
- Greater involvement in contracted out schools by school officials and staff regarding custodial deficiencies;
- A much higher level of commitment to the institution by in-house custodians;
- Complaints lessened over time in contracted-out schools. This was attributed to people getting tired of complaining and giving up;
- Statistical studies showing in-house custodians exceeded the performance of contracted out custodians by 18 per cent;
- Four of the five contractors charged the school board 10 per cent more than in-house service.

Subsequently, all the work in Edmonton has been returned in-house.

In the U.S. many school districts are regretting decisions to hand over management of schools to private companies like Edison Schools. In Dallas, Texas, the school superintendent has recommended ending the district's contract with Edison Schools for financial reasons and because of lacklustre results. The U.S. Department of Education is now investigating how the company obtained its latest and largest contract managing 20 schools in Philadelphia.

Managing and cleaning in a school or a hospital is not the same as working in a private place. Standards and skills must be higher. A low-bidder approach doesn't work.

Accountability

P3s are inherently risky. One of the greatest risks is the loss of accountability and transparency as to how public bodies operate.

Once again, the provincial government has acknowledged this in its PPP guide, which says,

“Public private partnerships that involve significant investments and risks by the private partners often provide for greater involvement of the private party in decisions concerning how services are delivered and priced. This often leads to concerns about who controls the delivery of services.”

And, “Certain local governments are more sensitive than others in terms of public demand for accountability and responsiveness. With public private partnerships, the lines of accountability for the provision of services are less clear to the public than under conventional service delivery. This may result in public criticism of the partnership arrangement and the private partner, or require increased involvement of the local government in ensuring compliance and responding to public demands.”

This lack of accountability is, perhaps, the most disturbing element about P3s. Private companies are not required to be transparent about their financial situation.

Once a private corporation takes hold of a long-term P3 contract, that service contract can become an obstacle to addressing problems such as inferior work, damage to property or accessibility. Unexpected problems are dragged out as the government and the corporation negotiate over who is responsible. In some cases, the process completely shuts down. Canadians witnessed this first-hand when a contract dispute with the private sector forced the Canadian military to take over a ship loaded with military hardware.

Huge and expensive issues can also arise as to who is responsible for what. A classic example of this was seen in Hamilton, the home of one of Canada's first P3 sewage treatment facilities. In December 1995, the Regional Municipality of Hamilton-Wentworth signed a 10-year, \$180-million contract with the new, one-year-old Philips Utilities Management (PUMC). The contract transferred responsibility for the operation, management and maintenance of the region's water and sewage system to PUMC.

In January 1996, an accident at the Hamilton treatment plant managed by Philips Services caused the worst spill in its history. About 180 million litres spilled into the harbour. Over 70 homes and businesses reported excessive damage after their basements were filled with raw sewage. More than a year after this catastrophe, the region and Philips were still wrangling over who was responsible for the cleanup. Sorting out the responsibility is estimated to have cost the municipality \$400,000 in legal, staff and consulting fees.

There is also the question of availability of basic information to the public. B.C.'s P3 guide says,

"Electors must be given sufficient information to make an informed decision when voting or petitioning on the content of a partnering agreement, prior to the vote or during the counter petition period. Section 177 of the Municipal Act requires the disclosure of the agreement and records relating to the agreement to the extent that these documents would be available under the Freedom of Information and Protection of Privacy Act."

This caveat – "to the extent that these documents would be available under the Freedom of Information and Protection of Privacy Act" – opens up an enormous loophole that will keep information out of the hands of the public.

Risk transfer - Who takes on the real costs?

One of the major reasons cited for Public Private Partnerships is that it allows risk to be shared between a public and private partner. There is little evidence from other projects that this has been the case. And where it does happen, the public partner pays a premium for it.

Once again, the government's P3 guide notes:

“The degree of risk to be transferred to the private partner will determine the extent of the return or reward required by the private partner. The more risk, the higher the expected return. The private sector will not be interested in opportunities in which the local government is unable or unwilling to offer rewards that are commensurate with the risks the private sector may be required to accept. Proposals for public private partnerships that do not balance risks and rewards between the prospective partners have limited prospects for proceeding. The issue of balance to the private sector is based on market conditions and other opportunities for investment.”

In other words, the public pays a premium price for any risk the private sector decides it wants to absorb. Who then is really carrying the risk?

The principal risk transferred to the private sector in P3s are those met during the construction phase of an infrastructure project, risks that disappear at an early stage in the life of the project.

In practice the risk to the private sector is limited. The public sector increasingly bears the risks of P3 projects. The ultimate risk is that if a project collapses, it will remain the responsibility of the public sector. Most services provided under P3s are effectively public monopolies, so the risks stay in the public sector. If the service fails, or is of poor quality, the public sector cannot go elsewhere.

What happens if a custodial contractor walks away from a school or a hospital or a municipal service? The service must still be done and the hospital, school board or municipality will have to make sure it happens. That ultimate risk resides with the public body.

Loss of public control

According to school officials at Chicago Public Schools, private custodial crews have stolen computer equipment and one firm, now barred from future contracts, hired convicted felons to perform cleaning work. In addition, a \$35 million cleaning contract originally bid in the summer of 1999 had to be rebid at a later date because the board of education was concerned that the firms had been talking to each other about pricing.²¹

When work is contracted out to a private partner the public body loses this level of control in the workplace.