

## Why privatization doesn't work

### Useful research and analysis about public-private partnerships

There is a growing body of research and analysis that provide concrete critiques of privatization and public-private partnership arrangements, including issues related to business case evaluation of public/private partnerships and the so-called “public sector comparator”.

This document provides a brief synopsis of some key documents with links to the documents. Please be patient with downloading, as some documents are large.

[Review of Partnerships BC's Methodology for Quantitative Procurement Options](#) by Dr. Marvin Shaffer, Adjunct Professor, SFU Public Policy Program, Canadian Centre for Policy Alternatives, Vancouver, November 2009

In this review, Dr. Shaffer assesses the methodology used by Partnerships BC in its analysis of public private partnerships versus more traditional financing and procurement. The findings indicate that the methodology “*is fundamentally flawed, providing no justification for selecting P3s over more traditional procured publicly-financed projects.*” Dr. Shaffer specifies three key problems with current assessment model:

- It ignores the lower cost of public financing;
- It does not give appropriate consideration to the long term lease obligations in P3 projects by undervaluing future costs; and
- It incorrectly assumes risk transfer is not possible with public procurement methods

Available at: <http://www.cupe.bc.ca/sites/default/files/shaffer.pdf>

[Evaluation of Public Private Partnerships: Costing and Evaluation Methodology](#) by Ron Parks and Rosanne Terhart, Blair Mackay Mynett Valuations Inc.

In this report forensic accountants Ron Parks and Roseanne Terhart use material accessed under Freedom of Information (FOI) provisions to comment on the methodology used for four P3 projects: the Abbotsford Regional Hospital and Cancer Centre, the Sea-to-Sky Highway Improvement, the Academic Ambulatory Care Centre (Diamond Centre) and the Canada Line. Parks and Terhart find that Partnerships BC's methodology biases assessment in favour of P3s by applying unjustifiably high discount rates to private projects, mis-representing the amortization of the costs of financing in public and private projects and double-counting risk in private sector comparators. The result is that in all four projects the P3 option cost substantially more than if the project had been procured publicly – in one case 130% more. Parks and Terhart also conclude that P3s lack unaccountability and sufficient transparency to enable the public to properly assess their real value.

Available at: <http://www.cupe.bc.ca/sites/default/files/bw-final-report.pdf>

[Annual Report of the Auditor General of Ontario on the Brampton Civic Hospital Public-Private Partnership Project, Chapter 3.03, 2008](#)

In this report the Auditor General of Ontario reviews the William Osler Health Centre (WOHC) and raises numerous concerns regarding the high cost of P3s and the manner in which procurement decisions are made. Accordingly, the Auditor found that WOHC value for money analysis overvalued the risk transferred to the private sector, which assumed a grossly exaggerated 13% cost overrun if the project was procured publicly. The review also finds that the assessment included costs in the public sector model that were left out of the P3 model and that the WOHC ignored the lower costs of public sector financing. The Auditor concludes, *“the all-in cost could well have been lower had the hospital and the related non-clinical services been procured under the traditional approach, rather than the P3 approach implemented in this case.”*

Available at: [http://www.cupe.bc.ca/sites/default/files/ontario\\_ag\\_on\\_brampton\\_hospital-nov2008.pdf](http://www.cupe.bc.ca/sites/default/files/ontario_ag_on_brampton_hospital-nov2008.pdf)

[Report of the Quebec Auditor General to the National Assembly, 2008-2009 – Review of Hospital P3s](#)

In November 2009 Quebec’s Auditor General published his report on Montreal’s University Health Centres public private partnership. The Quebec AG concluded “We don’t believe that these analyses support the conclusion that delivering these projects via PPP is preferable to a traditional approach by the public sector.” He questioned the methodology used to determine that a PPP was the preferred option and also said that Quebec’s PPP agency, “cannot exercise the role of independent critic while being so closely involved in the preparation of value-added analyses.”

Available at:

<http://www.cupe.bc.ca/sites/default/files/Quebec%20Auditor%20General%20review%20of%20hospital%20P3s%202009.pdf>

[The Real Cost of the Sea-to-Sky P3: A Critical Review of Partnership B.C.'s Value for Money Assessment by Dr. Marvin Shaffer, Adjunct Professor, SFU Public Policy Program, Canadian Centre for Policy Alternatives, Vancouver, September 2006](#)

This report examines the Value for Money report developed by Partnerships B.C. for the Sea-to-Sky highway P3 to assess whether the Partnerships B.C. report fairly and accurately shows the difference in costs between P3s and traditional financing and procurement. The conclusion is that it does not. Dr. Shaffer’s report finds “...the Sea-to-Sky P3 will cost taxpayers over \$220 million more than a traditionally procured and financed project.” Available at: <http://www.policyalternatives.ca/publications/reports/real-cost-sea-sky-p3>

HM Treasury: Tendering and benchmarking in PFI by the U.K. House of Commons Committee of Public Accounts. London, November 27, 2007

This report reviews the experience with tendering and procurement of over 800 public/private partnerships in the U.K. and raises significant concerns about high contractor prices and service quality reductions as a result of poor procurement practices.

Available at:

<http://www.publications.parliament.uk/pa/cm200607/cmselect/cm Pubacc/754/754.pdf>

Public-Private Partnerships in Canada: Theory and Evidence by Aiden R. Vining and Anthony Boardman, UBC P3 Project, Sauder School of Business, University of British Columbia, Vancouver, December 5, 2006

This working paper examines case studies of ten Canadian P3 projects. Amongst other things, the authors find that: “The case studies indicate that the potential benefits of P3s are often outweighed by high contracting costs and opportunism.” “...contract negotiations associated with attempts to shift risk were extremely costly”; and “...the willingness of private sector firms to bear user risk declines with the level of user risk. Private sector firms will not participate in a P3 if it bears cost risk and large revenue risk.”

Available at: [http://csqb.ubc.ca/files/p3/2006\\_04\\_vining.pdf](http://csqb.ubc.ca/files/p3/2006_04_vining.pdf)

Public-Private Partnerships (P3s) and Municipalities: Beyond Principles, a Brief Overview of Practices by Dr. Pierre J. Hamel of Universite du Quebec INRS – Urbanisation, Culture et Societe for the Federation of Canadian Municipalities. Montreal, 2007

This report was prepared at the request of the Federation of Canadian Municipalities. Amongst other things, the report finds that: “There is no evidence to suggest that P3s consistently cost less or provide better services than traditional public projects.”; and “Long-term P3 arrangements, which often keep proprietary information out of the public domain and put the day-to-day management of public services in private hands for periods of 20 to 30 years, can reduce flexibility, transparency and accountability for local governments.”

Available at: <http://www.uqc.inrs.ca/pdf/PPPMunEn.pdf>

Public Private Partnerships: Understanding the Challenge. A Resource Guide Columbia Institute Centre for Civic Governance, Vancouver, 2009

This report is a resource guide for local governments. It provides comprehensive background and information on P3s for a municipal audience. It is particularly useful for B.C. municipalities as it examines P3s from a British Columbian perspective.

Available at: [http://www.civicgovernance.ca/files/uploads/columbiap3\\_eng\\_v8-webpdf.pdf](http://www.civicgovernance.ca/files/uploads/columbiap3_eng_v8-webpdf.pdf)

[Value for Money? Cautionary Lessons about P3s from British Columbia by Stuart Murray. Canadian Centre for Policy Alternatives, Vancouver. June 2006](#)

This report provides a comprehensive analysis of the experience with P3s in British Columbia so far and includes helpful explanations of value for money and public sector comparators. The report includes case studies of the Canada Line, Abbotsford Hospital and Maple Ridge downtown redevelopment P3s.

Available at:

[http://www.policyalternatives.org/sites/default/files/uploads/publications/BC\\_Office\\_Pubs/bc\\_2006/P3\\_value\\_for\\_money.pdf](http://www.policyalternatives.org/sites/default/files/uploads/publications/BC_Office_Pubs/bc_2006/P3_value_for_money.pdf)

Secret and Illegal: An investigative report into the public private partnership gone wrong in Maple Ridge, B.C. Canadian Union of Public Employees, October 2002. This report is a comprehensive investigation into the Maple Ridge downtown redevelopment P3 which had such poor process for assent of electors that it was eventually ruled illegal by the B.C. Court of Appeal.

[Report of the House of Commons Transportation Committee](#) on the Metronet Collapse, January 25, 2008.

This British government inquiry into a P3 to upgrade London's subway system concludes the scheme was a "spectacular failure". The report by the House of Commons Transportation Committee reviews the collapse of the P3 deal tube firm Metronet after the corporation overspent by CND \$4 billion and failed to carry out work on time. Prior to the collapse, Metronet had only delivered 40 per cent of the upgrades it was contracted to do in the first three years. Committee members also pointed out the public was liable for 95 per cent of the company's debt. The report warns "circumstances surrounding Metronet's failure showed the private sector would not take on substantial risk without ensuring it was proportionately, if not generously rewarded. Ultimately the taxpayer pays the price."

Available at:

<http://www.publications.parliament.uk/pa/cm200708/cmselect/cmtran/45/4502.htm>

[How to Make the Public Sector Advantage Disappear](#)

This powerpoint presentation to a March 2007 meeting of the Municipal Finance Authority by CUPE Research Representative Keith Reynolds is a thorough explanation of how inappropriate decisions around factors like discount rates can skew the findings of value for money processes so as to create an inaccurate advantage for the private sector.

Available at: <http://www.cupe.bc.ca/sites/default/files/pres%20MFA%202007.pdf>

[Evaluating the Operation of PFI in Roads and Hospitals \(executive summary\) by Pam Edwards, Jean Shaoul, Anne Stafford and Lorna Arblaster. Research Report 84 published by the Association of Chartered Certified Accountants, 2004.](#)

This report which was published by the Association of Chartered Certified Accountants in the U.K. is a critique of the experience with P3s in the U.K. Amongst other findings, the report concludes that "...our analysis suggests that the PFI is an expensive way of financing and delivering public services that may, where public expenditure is constrained, lead to cuts in public services and/or tax rises..." and "...the chief beneficiaries are the providers of finance and some of, but not necessarily all the private sector service providers, rather than the public sector."

Available at:

<http://www.accaglobal.com/general/activities/research/reports/accountability/rr-084>

[When Public Relations Trump Public Accountability: The evolution of cost overruns, service cuts and cover up in the Brampton Hospital P3](#)

This report was released by the Ontario Health Coalition on January 7, 2008. It is a thorough and substantiated review of what has gone wrong with the Brampton Hospital P3 in Ontario. The report has generated considerable controversy in Ontario over the last week as well as supportive editorials and columns in both the Toronto Star and the Globe and Mail.

Available at: <http://www.web.net/~ohc/jan08report%20summary%20final.pdf>

[Less ideology, more case studies: some real world results](#)

A powerpoint presentation delivered to a Canadian Institute conference on P3s in Vancouver in November 2007.

Available at: [http://cupe.ca/updir/P3s\\_-](http://cupe.ca/updir/P3s_-)

[\\_CUPE presentation to Canadian Institute Nov 07.ppt](#)