Private-Public-Partnerships (P3s) and the Transformation of Government

SUMMARY

Politically, small "l" liberal governments like the Blair Government in Britain and the McGuinty Government in Ontario see public-private-partnerships as an opportunity to have it both ways: expanding public services and reducing the size of the public sector at the same time.

This, in turn, allows them to appeal simultaneously to three quite different constituencies: pro-gressives who want to see public services renewed after lengthy periods of cut-backs; right-leaning populists whose view of government ranges from a lack of confidence to outright hostility; and the core big-business constituency of the neo-conservatives, for whom Thatcherite privatization was less an ideological obsession than another opportunity to make money.

In budgetary terms, they provide the opportunity to expand capital spending at a time when there is a consensus that we face an infrastructure crisis, without appearing to be spending more. P3s play the same role as "off book" accounting and other mechanisms have played in the past in keeping capital spending out of annual spending budgets.

P3s are touted by their advocates as a way to bring private sector expertise and money to the construction and operation of public facilities.

Industry Canada identifies seven major functions of P3s: design, building, financing, operation and maintenance, leaseback, transfer and ownership.

This list of P3 elements is instructive in understanding what is really new about P3s.

The fundamental question is "What do P3s bring to the table, for public capital, that other forms of public sector engagement with the private sector do not?"

Let's go down the list. Most public capital projects are designed and built by the private sector. So that is not new.

Governments claim they need P3s to get access to private capital. That is just plain silly.

Where do these people think the money comes from to buy the government bonds used to pay for traditional public sector capital projects?

The simple fact of engagement of the private sector in the financing of public infrastructure through P3s does not, in and of itself, give the government access to any “new” money.

At root, P3s are a way to borrow money for public capital projects. So the critical question is: how does the cost of borrowing money through a P3 compare with that of the alternative – direct public borrowing through the bond market.

The answer should be obvious. Governments have the lowest cost of borrowing in our economy. It will always cost the government less to borrow any given amount of money than it would cost a private corporation. So what is actually going on with P3s is that government pays a private corporation to go out and borrow on the government’s behalf, at a cost of borrowing that is substantially higher than the government’s own direct borrowing cost.

Even if you ignore the profits made by a P3 for borrowing the money, the interest rate spread between what the government can borrow for and what a P3 has to pay is significant and has a substantial impact on our ability to pay for public capital.

For example, at current interest rates, a 1.5% spread increases the cost of a capital project by 25%.

That cannot make any sense, even for Liberals, so there has got to be something else going on. And there is. The real action with P3s is with the rest of that list of P3 functions: operation, maintenance, leaseback, transfer and ownership.

P3s are not just an expensive way for governments to borrow money. Like outright privatization, they change the control of public services. And like contracting out, they change the way public services are delivered.

But what distinguishes P3s from measures like asset sales or contracting out is that they have a long-term effect on both policy and service delivery. P3s typically involve both of these features. They shift administrative and public policy control to a third party. And they compromise ownership rights.

In essence, what a P3 does is drive a wedge between public services and their delivery, creating a category of services that are still public services, but which are privately delivered.

In attempting to distinguish its approach from the Canadian P3 record, the McGuinty Government has invented a new name for its P3 model: Alternative Financing and Procurement (AFP), complete with five bumper-sticker size principles which, it argues, sets AFP apart from other models: protection of the public interest; value for money; appropriate Public Control/ Ownership; accountability; and fair, transparent and efficient processes.

The critical “principle” – the only one that is more than an obvious piece of political rhetoric – concerns public control and ownership.

Even if this "principle" is respected, however, the fact that legal title to P3 assets may revert to the public at the end of an agreement is irrelevant. What matters is how these schemes affect rights of ownership and public policy control during the life of a P3 agreement, and what it costs the public over the life of the agreement for both the assets and the services provided using them.

The wedge that P3s drive between public services and their delivery is the real long-term threat to public services in Ontario.

We already have plenty of examples of the problems created when public services are delivered privately – in Highway 407, in privatized operation of sewer and water services in many Ontario communities and in the contracting out and privatization that has emerged in literally every area of public service in the province, from social services to colleges and universities; from highway maintenance to ambulance services. Even the last defence of public services – the regulatory system – is being eroded as the Ontario Government sloughs off its regulatory responsibilities on to other bodies.

But those problems are nothing compared with what could be coming. We need only look to Britain for a sobering example of what can happen when P3s are allowed to run rampant.

The OFL's study tour of Britain was told that, by 2007 one fifth of public services in the UK, valued at £60 billion, will be delivered in the private and voluntary sectors.

Public services in the UK are indeed being "transformed" – into private for profit businesses financed entirely from the public purse. And in the process, the public interest is being converted into food for private sector parasites.

The lesson for Ontario is clear. Once P3s get a foothold, they are very difficult to dislodge. And once P3s are established, their scope keeps expanding. That means the public response to Ontario's version of P3s, Alternative Financing and Procurement, must be both quick and aggressive.

At this stage, the government is most vulnerable on cost issues. Having been forced onto the defensive on issues of ownership and control, the government has been reduced to claiming that without P3s, it will be unable to raise the capital needed to rebuild our infrastructure. And that claim leads directly to the issue of the cost of borrowing.

The government has the lowest cost of borrowing in our economy. It is not possible for private financing to undercut the government's cost. The math just does not work.

Once the facts are out there about the economics of these schemes, the facts make the case against P3s. The task is to bring those facts to light, and to make the public aware of them.

In doing that, labour and its allies face three challenges.

First, governments have responded to the evident weakness of the economic case for P3s by withholding information about P3 deals. In the UK, details about the economics of P3s have been hard to come by because the government has classified those details as commercial secrets and has refused to disclose them. Here in Ontario, most of what we know about the details of the finances of P3 projects has come from documents that have been produced under court order. And despite its "transparency" principle, the government is fighting every step of the way in court to keep the relevant deals of its P3 schemes secret.

Second, the very complexity of P3 deals makes it difficult to communicate what's at stake to the public. Even when the courts force relatively complete disclosure, as in the case of Highway 407 and the Brampton P3 hospital project, the costs and public-private risk sharing involved are not immediately obvious. Since neither the government nor the private sector has an interest in making those costs apparent, that becomes the job of P3 opponents.

Third, the Ontario Government is so deeply committed to P3 schemes that it is already adopting the true believer's "don't confuse me with facts" stance with which Ontarians became so familiar during the Harris era. Only well-informed public pressure is going to deflect the government now.

That suggests three key elements of a strategy to combat the spread of P3s in Ontario:

- A concerted effort, in the media and in the courts if necessary, to force disclosure of the details of P3 agreements.
- A consistent, sophisticated and cogent analysis of the cost and other implications of every P3 deal.
- Targeted campaigns to build public awareness of those implications.

Public-Private-Partnerships (P3s)

and the

Transformation of Government

The idea of the public-private-partnership has its origins in the reinvigorated conservativism of the last quarter of the 20th Century. It is associated with the right wing governments that were elected during that period and should be seen in the context of their ideological imperative to limit the role of the state in the economy.

At first blush, therefore, it seems ironic that this quintessentially neo-conservative idea has become a signature policy direction for many of the small "l" liberal governments elected to replace those conservative governments.

Seen in context, however, this apparent paradox is not nearly as unlikely as it first appears.

For conservatives, establishing public-private-partnerships was never a core goal. The core goal was to reduce the size and the role of the state in the economy – to shift areas of economic activity out of the public sector entirely. Anti-government zealots like Thatcher and Harris saw public-private-partnerships as compromising that objective. Margaret Thatcher simply transferred sewer and water infrastructure, or the railway system, to the private sector as *private* services. Not for her the by-the-back-door approach of inviting the private sector to profit from the financing and delivery of *public* services.

Similarly, in Ontario, Mike Harris was much more interested in creating fiscal space for tax cuts and policy space for private elementary and secondary schooling or facilitating the establishment of a second tier of private health care services, than in the interim step of private delivery of public services.

Indeed, although Highway 407 is often cited as a public-private-partnership in action, it is more properly seen as a Thatcherite sale of a public asset – on terms notably unfair to the public – rather than as a public-private-partnership. Just how limited the "partnership" involved really is, has become painfully clear to the McGuinty Government as it wrestles with the tolls issue.

The Brampton and Ottawa hospital P3 projects initiated by the Harris Government are best seen not as the cutting edge of a signature initiative, but as a fall-back position from the abject failure of the government's efforts to undermine support for public medicare and create the groundwork for a purely private parallel system.

For small "l" liberal governments, public-private-partnerships have come to play a much more important role. Politically, they offer the potential of having it both ways: expanding public services and reducing the size of the public sector at the same time. This allows them to appeal simultaneously to three quite different constituencies: progressives who want to see public services renewed after lengthy periods of cut-backs; right-leaning populists whose view of government ranges from a lack of confidence to outright hostility; and the core big-business constituency of the neo-conservatives, for whom Thatcherite privatization was less an ideological obsession than another opportunity to make money.

In budgetary terms, they provide the opportunity to expand capital spending at a time when there is a consensus that we face an infrastructure crisis, without appearing to be spending more. P3s play the same role as "off book" accounting and other mechanisms have played in the past in keeping capital spending out of annual spending budgets.

All of these themes are being played out in the spiritual home of public-private-partnerships, Tony Blair's Britain, as an OFL team learned in an intensive study tour of Britain this past September.

In Britain, public services are expanding – most notably in health and education – at the same time as the government is striving to limit the role and power of the public sector. In rebuilding the National Health Service and the state school system, Blair speaks to progressives grateful for relief from the ravages of Thatcherism. But in repeating incessantly his belief that the public sector is inherently wasteful and inefficient and cannot be the sole vehicle for rebuilding public services, he speaks to an anti-government constituency.

The British example is also helpful in putting public-private-partnerships into a broader context. Because P3s in Britain are much further advanced, and because they emerged politically as New Labour's answer to Thatcherism, they offer us a glimpse down the road along which the P3 zealots in the McGuinty Government are attempting to lead Ontario post-Harris.

What is a P3?

In the hands of a provincial government that campaigned against P3 hospitals in Brampton and Ottawa; allowed them to go ahead after minor changes which, it claimed, fundamentally changed them; proceeded to adopt the P3 model as the centerpiece of its capital financing strategy; and then proclaimed that its model really was not a P3 at all, the concept of the public-private-partnership for capital projects has become somewhat slippery.

In the framework of the McGuinty Liberals, a project is not a P3 if ownership of underlying asset is not transferred permanently to the private sector. According to the Minister, David Caplan, if ownership doesn't change hands, it isn't a P3.

Earlier in the debate over P3s, the Public-Private-Partnerships Office (Industry Canada) had a somewhat more inclusive view of what constitutes a P3. It sets out seven major functions of P3s: financing, design, building, operation and maintenance, leaseback, transfer and ownership.

This list of P3 elements is instructive in understanding what is really new about P3s, as well as in appreciating the context within which P3s developed in Britain.

The fundamental question is "what do P3s bring to the table, for public capital, that other forms of public sector engagement with the private sector do not?"

Let's go down the list. The first three functions have been commonplace in the Canadian public sector for decades. Most public capital projects are designed, built and (at least indirectly) financed by the private sector.

Design

Private sector involvement in the design of public infrastructure is common. Indeed, it is the exception rather than the rule for government agencies to do their own design work "in-house".

Construction

Private sector involvement in the building of public infrastructure is also the rule, rather than the exception. Most construction work on public infrastructure projects is performed under contract by private enterprises.

Financing

Private sector involvement in the financing of public infrastructure is not unusual, nor is it unique to P3s. All public debt financing involves the sale of debt instruments – usually government bonds – to private holders of capital. The market for securities issued by governments at all levels in Canada is extremely well developed, and there is no suggestion that the market for such securities is exhausted.

With respect to financing specifically, what P3s offer to governments is a range of mechanisms to alter the timing of payments or revenue flows from infrastructure projects. Normally, a P3 converts the initial cost associated with a project into a flow of payments over time. From a budgetary perspective, this means that governments can spread their accounting for major capital expenditures over an extended period of time, burying the financing costs in annual operating payments to the P3 operator.

Indeed, the primary economic function of P3s is to structure capital financing to avoid political and budgetary obstacles to conventional debt financing of public capital.

Occasionally, the P3 concept is used in reverse, to convert a flow of future revenue into a current lump sum by capitalizing the future revenue flow from a project into the sale price of the asset.

The most notable example of this approach was the sale in 1999 by the Government of Ontario of its Highway 407 toll highway. By selling the asset, together with the right to future toll revenue, the government was able to generate sufficient revenue to avoid a budgetary deficit.

This is one of the approaches that has been discussed by the provincial government with respect to the privatization of the LCBO.

The simple fact of engagement of the private sector in the financing of public infrastructure through P3s does not, in and of itself, give the government access to any "new" money. It delivers private money, as a conventional government bond would, but through a mechanism that alters the timing, for accounting purposes, of the government's financial obligations.[1]

For advocates of P3s, the principal challenge they face with respect to these first three functions is in distinguishing them from the way governments in Canada have always gone about the design, construction and financing of capital projects.

With respect to the remaining four – operations and maintenance, lease-back, transfer and ownership – the principal political task of P3 advocates is to distinguish them from outright privatization or contracting out of public services.

Indeed, while the Ontario Government struggles to defend its narrow view of what constitutes a P3, Industry Canada now classifies virtually every point of engagement between the private sector and government as a P3. Its list of P3 success stories includes everything from the sale of Air Canada to contracting out of public services to contracts to design and build public buildings.[2]

Although P3 projects are typically presented in such a way that it is difficult to separate the initial financing element from the on-going operations element, it is important in understanding and communicating the impact of P3s to distinguish between these two elements.

[1] P3s generate "new" money only to the extent that they can generate a revenue stream from a source other than the government that would not otherwise be available to the government. For example, a private hospital operator might be able to generate revenue by offering medical services for sale that are not covered by medicare. Similarly, it may be that Highway 407 was worth more to the successful bidder, 407 International, because it expected to be able to charge higher tolls to highway users than the government would be able to get away with politically. Far from supporting the argument for P3s as a source of "new" money, however, these examples highlight the broader public policy accountability issues raised by P3s. The fact that P3s can in principle be used as a way to employ public assets for purposes that the public would not support or to generate revenue at levels that the public would not support is hardly a justification for the concept.

[2] "The Canadian Experience" The Public-Private-Partnerships (P3) Office, Industry Canada, 2005.

P3s as financing vehicles

In essence, a P3 is a mechanism for borrowing money for public capital projects. Reducing what are often extremely complex transactions to their essentials, the government is paying a P3 to borrow money on its behalf in return for a flow of payments and/or other rights in the future that will be sufficient to enable the P3 to repay the debt and realize a profit on the transaction.

Even without considering the questions of ownership, control and profit, P3s are an expensive way for governments to borrow money.

Because of the assurances government can provide to lenders with respect to repayment, governments are able to borrow at substantially lower rates of interest than private corporations.

The difference between the borrowing rate for a P3 and the borrowing rate for government represents the premium demanded by lenders to offset the risk of default. It also constitutes the first-level incremental cost of using P3s as a financing vehicle for public infrastructure.

Because these financing vehicles typically cover relatively long time periods, the difference in borrowing costs can be quite substantial for apparently minor differences in interest rates.

The spread in yield (effective interest rate) between high-grade corporate bonds and government bonds with the same maturity ranges between 0.5% and 1.5% depending on the maturity of the bond, the borrowing government and market conditions.

In current markets, long-term bond spreads are approximately 1% between high-grade corporate bonds and Ontario Government bonds, and a further 0.25% between Ontario Government bonds and Government of Canada bonds.

For long-term borrowing, that suggests a cost penalty associated with borrowing through a P3 of approximately 1.25% compared with federal financing, and 1% compared with provincial financing.

For a loan with a 40-year term, a 1% interest rate premium would add a total of $40 million to the total cost of servicing a $100 million debt. At an assumed Ontario long-term bond rate of 5.75%, this translates to a cost increase over the life of the investment of 12%. The present value of the additional cost, discounted at the 5.75% Ontario long-term interest rate, would be $15.5 million. This means that, valued in today's discounted dollars, a government would pay a premium of $15.5 million to borrow $100 million – an additional cost of 15.5%.[3]

[3] The relative impacts are sensitive to both the discount rate used and the size of the interest rate differential. Using a discount rate higher than the long-term government bond rate would produce higher estimates of the relative cost disadvantage associated with borrowing through P3s. A lower borrowing cost differential results in a lower estimate of the P3 cost disadvantage. For example, with a differential of 0.75%, total servicing costs over the life of the investment increase by 9% and the net present value of the debt servicing costs increases by 11%.

The borrowing cost differential alone makes the P3 an expensive way for governments to borrow money. But P3s are typically structured with an equity-financing component. From the perspective of the institutions that are putting up money, the equity portion of a P3 is considered to be in a class similar to venture investments – investments that are expected to generate returns substantially in excess of corporate long-term borrowing rates, and that give rise to substantial investment management fees that add another layer of cost to the transaction.

For example, in a June 2004 news story, the CEO of the Ontario Municipal Employees' Retirement System (OMERS) was quoted as indicating that OMERS expected returns on its P3 investments (debt and equity combined) to be in the 10% range.[4]

That means that, rather than borrowing costs in the 6% range for corporate bonds, P3s are expected to generate revenue sufficient to provide a substantially higher return. The P3 revenue required to generate this return is a total of $166 million higher, over the life of the project, than the cost of direct government borrowing. That's higher by nearly 52%. The present value of the difference is $63 million. In other words, in present value terms, we would be paying $163 million to borrow $100 million as opposed to the government bond alternative, which costs $100 million in present value terms.

[4] James Daw, "OMERS chief mulls new investment model", Business, Money Talk, Toronto Star, 12 June 2004

To put it differently, P3s do not give governments access to new money that they could not obtain in any other way. P3s give governments access to money on terms that avoid the budgetary and political problems associated with direct, up-front borrowing.

Through P3s, governments are able to incur debts that do not appear on their books, and whose servicing costs are spread out over time and buried in the fees paid to the P3 operator. [5]

It is clear that P3s are a very expensive way for governments to borrow money. And the higher cost makes the economics of P3s, once disclosed, very difficult to sell politically to the public.

The disgracefully bad economics of financing capital projects through P3s provides opponents of P3s with a very valuable first line of defence. Valuable, because governments

[5] It is rare for sufficient information to be made available about the details of a P3 arrangement to isolate financing from operating costs as outlined above in the Osler Health Centre (Brampton) example. Frankly, it is not hard to see why. Isolating the financing costs from the operating costs makes it clear just how expensive P3s are as vehicles for borrowing money for public capital projects.

Just how vulnerable the P3 concept is to the exposure of high embedded borrowing costs is illustrated by a recent example of in a P3 request for proposals for a courthouse in Alberta. Following a review of the successful proposal (from an Ontario public sector pension fund), the government opted to accept the proposal as it related to design and construction, but to provide the financing at its own (substantially lower) borrowing costs, effectively cutting the pension plan out of the deal.

generally base their case for P3s on a shortage of funding, and because unmasking the finances of P3s makes the other objectives being pursued by governments through P3s transparent.

P3s and privatization

The disgracefully unfavourable economics aside (at least from the perspective of the public), the principal effect of a P3 is to alter the method of production of public services. In that respect, a P3 is similar to both outright privatization and contracting out.

Like outright privatization, delivery of a service through a P3 transfers control of the production of the service to a private, for-profit organization. And, as with contracting out, a P3 results in all or part of a public service being delivered by employees of a private provider rather than by public employees.

There are important differences that distinguish a P3 from either outright privatization on one hand or simple contracting out on the other.

In contrast with outright privatization, the service delivered by a P3 is still characterized as a public service. Indeed, in general, it is intended that P3 services be indistinguishable from and seamlessly integrated with publicly delivered services. And, in contrast with simple contracting out, a P3 generally provides for private control of the method of delivery of the service.

Organizations like Industry Canada and the various P3 lobby groups have been unconsciously helpful in locating P3s in the context of privatization through their adoption of a very broad definition of P3s.

In their efforts to claim lengthy lists of examples of P3s, and to demonstrate that P3s are neither new nor threatening, advocates have expanded the concept to include asset sales and contracting out to private providers.

The breadth of the definition that has been adopted by Industry Canada and others, highlights the fact that P3s are part of an array of government policies which, taken together, seek to reduce the size of the public sector, increase opportunities for private profit in the provision of public services, and reduce both the pay and benefits of the workers who perform those services and the influence of the unions that represent them.

While the adoption of a broad definition of a P3 helps in locating P3s in the context of pressures on public services, it also fudges two critical public policy issues which are raised by the archetypical P3 but not by other measures captured by the broad definition: public policy control and asset ownership.

What distinguishes P3s from measures like asset sales or contracting out is that they have a long-term effect on the administrative and public policy context within which a public asset is held or a public service is delivered.

After a straight asset sale, the service provided is no longer a public service. So with the sale of Air Canada, for example, air transportation ceased to be a public service.

And with traditional contracting out, there is relatively little impact on either administrative or public policy control. So, for example, when cleaning services in a hospital are contracted out, overall public policy control is not affected. Standards of cleanliness may be affected if the contract is deficient, but the context within which the public service is delivered is not affected. Furthermore, traditional contracting out typically does not involve a change in rights of ownership with respect to public assets.

Classic P3s typically involve both of these features. They shift administrative and public policy control to a third party. And they compromise ownership rights.

In essence, what a P3 does is drive a wedge between public services and their delivery, creating a category of services that are still public services, but which are privately delivered.

Where does Ontario's Alternative Financing and Procurement fit in?

In its effort to bridge the gap between the McGuinty Liberals' campaign promise to oppose P3 projects and its decision once in office to embrace the Tony Blair model for public service delivery, the Ontario Government has adopted Alternative Financing and Procurement (AFP) as the buzz-word for its P3 strategy.

In attempting to distinguish AFP from the Canadian P3 record, the Government has adopted five principles which, it argues, sets AFP apart from other models:

- Protection of the Public Interest
- Value for Money
- Appropriate Public Control/ Ownership
- Accountability, and
- Fair, Transparent and Efficient Processes.

The critical "principle" – the only one that is more than an obvious piece of political rhetoric – concerns public control and ownership.

Indeed, Public Infrastructure Renewal Minister David Caplan has built his defence of Ontario's massive P3 hospital program against the Ontario Health Coalition's campaign around public ownership. Caplan has argued that the fact the hospitals to be built under this program will be publicly owned at the end of the agreement period makes them indistinguishable from conventionally financed public hospitals.

The fact that legal title to the properties will be public at the end of the agreement period, however, is a meaningless technicality. What matters is how these schemes affect rights of ownership and public policy control during the life of the agreement, and what it costs the public over the life of the agreement for the assets to be turned over at the end of the agreement, and for the services to be provided using those assets.[6]

It is in this wedge between public services and their delivery that the real long-term threat to public services in Ontario really lies.

The slippery slope of P3s

The Ontario Government is embracing P3s on a basis that is quite similar to the basis on which the concept got its start in Britain. Here in Ontario, the government is arguing that the scale of the investment in public infrastructure that is required to rebuild our public infrastructure after decades of neglect is beyond the government's ability to pay, and that "new" sources of private capital are required to fill the gap.

In Britain, the basic story was similar, with the further claim – ludicrous in the Ontario context – that P3s are the only way to bring the private sector into the design and construction of public facilities.

The problem is that a P3 cannot just be a financing vehicle. As pure financing vehicles, P3 projects will always be far more expensive to government than the alternative of direct government borrowing. P3s can only be economically viable if that increased cost can be disguised by adding more into the package than pure financing.

We already have a clear example in Ontario with the Highway 407 P3. In that arrangement, higher borrowing costs and even higher equity returns to the operator were covered off by giving the operator free rein in the setting of tolls.

In another sphere, the terms, under which operation of local water and sewer treatment facilities in Ontario has been turned over to private corporations, undermine municipal control over fees and will potentially hamper efforts to improve environmental standards.

And even without a close inspection of the terms under which Ontario's P3 hospital building program will operate, it is obvious that the existence of P3 hospitals will make it much more difficult for the Government of Ontario to allocate resources within the health care system.

As ominous as these and other threats to public services are in Ontario, what is happening further down the P3 path in Britain is much more so.

Under the guise of public-private-partnerships, contracting out has

[6] Even taking the Government's position at face value, its ultimate public ownership criterion is not exactly restrictive. Under that criterion, Highway 407 would qualify – it involves a 99-year lease – and the hospital P3s inherited by the Government from its predecessor would have qualified in their original form.

reached epic proportions. In one British town, all of the public services have been contracted out to a single private operator. In another, administrative services have been contracted out, and are being provided from another location in Britain entirely.

The UK government has created an entire new school system, the City Academy, which is part of the state school system, but all of the facilities are privately operated.

Competitive contracting for public services, introduced by Margaret Thatcher, has continued under the Blair government.

Public employees are forced to compete against private operators for the right to deliver public services. And as it has played out in practice, competitive contracting is a one-way street. Once delivery of a service leaves the public sector, it does not come back.

The overwhelming majority of public capital projects in Britain are carried out as P3s, or as Public Finance Initiative (PFI) projects as they are called in the UK. The political message is clear: if you want a capital improvement, it will have to be provided as a PFI project. And PFI projects almost invariably dilute public control and public delivery of public services.

The OFL's study tour of Britain was told that, by 2007 one fifth of public services in the UK, valued at £60 billion, will be delivered in the private and voluntary sectors.

These services are public services, governed by broad public policies and paid for with public funds but delivered and to varying degrees controlled by private operators.

Public services in the UK are indeed being "transformed" – into private for profit businesses financed entirely from the public purse. And in the process, the public interest is being converted into food for private sector parasites.

Fighting back

As the report from the OFL study group makes clear, unions in Britain are fighting back against this transformation of public services. UNISON, the largest of the public sector unions, has taken on the government's various schemes to separate public services from public delivery through its "Positively Public" campaign. But as aggressive as their campaign may be, it is clearly a rearguard action. Large holes have been drilled in public services delivery in Britain, and the momentum is still with the government.

The lesson for Ontario is clear. Once P3s get a foothold, they are very difficult to dislodge. And once P3s are established, their scope keeps expanding. That means the public response to Ontario's version of P3s, Alternative Financing and Procurement, must be both quick and aggressive.

Already, campaigns against Ontario's P3s in the hospital sector have had an impact. The government is clearly on the defensive on the question of public ownership and control. That makes it clearly vulnerable to attack on the basis of slippery slope arguments.

But at this stage, the government is most vulnerable on cost issues. Having been forced onto the defensive on issues of ownership and control, the government has been reduced to claiming that without P3s, it will be unable to raise the capital needed to rebuild our infrastructure. And that claim leads directly to the issue of the cost of borrowing.

The government has the lowest cost of borrowing in our economy. It is not possible for private financing to undercut the government's cost. The math just does not work. Once the facts are out there about the economics of these schemes, the facts make the case against P3s. The task is to bring those facts to light, and to make the public aware of them.

In doing that, labour and its allies face three challenges. First, governments have responded to the evident weakness of the economic case for P3s by withholding information about P3 deals. In the UK, details about the economics of P3s have been hard to come by because the government has classified those details as commercial secrets and has refused to disclose them. Here in Ontario, most of what we know about the details of the finances of P3 projects has come from documents that have been produced under court order. It will clearly be a fight to get the information about these deals into the public domain.

Second, the very complexity of P3 deals makes it difficult to communicate what is at stake to the public. Even when the courts force relatively complete disclosure, as in the case of Highway 407 and the Brampton P3 hospital project, the costs and public-private risk sharing involved are not immediately obvious. Since neither the government nor the private sector has an interest in making those costs apparent, that becomes the job of P3 opponents.

Third, the Ontario Government is so deeply committed to P3 schemes that it is already adopting the true believer's "don't confuse me with facts" stance with which Ontarians became so familiar during the Harris era. Only well-informed public pressure is going to deflect the government now.

That suggests three key elements of a strategy to combat the spread of P3s in Ontario:

- A concerted effort, in the media and in the courts if necessary, to force disclosure of the details of P3 agreements.

- A consistent, sophisticated and cogent analysis of the cost and other implications of every P3 deal; and

- Targeted campaigns to build public awareness of those implications.

ACTION PLAN

1. Education and Mobilization

We need to do extensive education on P3s with our members. Building on the work of many of our affiliates, the Ontario Federation of Labour will develop education and mobilization workshops that will be delivered across the province. The workshops will include an analysis of the impact of P3s on all workers and communities, here in Ontario and in other jurisdictions (England in particular).

As a starting action, these workshops will identify P3 style projects which exist or are being planned in the community. Delegates will map out an action plan which gathers evidence about the projects and plans action which will voice opposition. These actions will build on past campaigns which have been organized by our affiliates and coalition partners.

As well, the OFL will work with affiliates to introduce this workshop/presentation throughout affiliate structures, e.g., conferences, schools, conventions and at affiliates= area councils.

At the same time, activists/ organizers will be given additional training on this issue. Every time a P3 or privatized public service is announced or identified, the OFL, with the local labour council and activists, will organize an event which publicizes our evidence against P3s and publicly voices opposition. Our coalition partners will be included in these actions.

2. Coalition and Community Partners – Building a Common Front

The debate around free trade in the late 1980s impacted on all Canadians and saw a wide range of social and community groups organize with the labour movement to mount opposition and raise awareness of the issues.

The impact of the resulting restructuring of public services as a result of P3s and privatization is just as serious on our members.

It is urgent that we increase our efforts as members of Coalitions, especially where work is being done to stop the P3 model. Examples of this are the labour movement=s work with the Ontario Health Coalition=s plebiscites against P3 hospitals, the Ontario Coalition for Better Child Care=s fight against the big box private child care centres, municipal committees fighting the takeover of water systems and the Ontario Electricity Coalition=s work to keep hydro in public hands.

These are just some examples of important work being done with community organizations.

The work to stop P3s must be done in every sector in every part of the province. We will propose to our community and coalition partners, a conference as early as possible in 2006 to broaden opposition to P3 policies. We will recommend that each organization consider building a common front to expose governments and employers who come forward with P3 and privatization plans.

3. Community Mobilization, Actions and a Mass Rally at Queen=s Park

Building on the education and mobilization workshops, the OFL and our affiliates will develop and deliver a community-based campaign directed at both our members and the community. This campaign will point to the need for public services to be publicly owned and delivered, making it a central political issue.

The month of May will be designated as public services month. We will organize public forums, call on local councils to make a declaration in support of public services, organize rallies and deliver a media campaign to both our members and the public.

The activities will build to a mass rally at Queen=s Park in May 2006. To ensure that we have an effective campaign across the province, the Federation will work with our affiliates and labour councils to secure full-time organizers throughout the campaign.

4. Working with Union Trustees on Pension Plans

Our trustees on Joint Pension Plans need to be educated and made aware of the need to stop the use of pension plan money for P3s. It ultimately works against all members when public services are used for profit-making.

The OFL will work with affiliates to organize meetings of our trustees on pension plans to educate them about the need to stop investments in P3s, in particular the delivery of public services by profit-making ventures.

5. Lobbying

While we will use our evidence and actions to fight P3s and privatization of public services, we also need to step up our lobbying of MPPs.

A lobby kit will be developed and, in the Spring and Fall of 2006, a major lobby of all MPPs at Queen=s Park will be organized.

The OFL Political Action Committee, with our Common Front, will assess our progress and recommend further actions to the OFL Executive Board for the lead up into the pre-election period.

6. Research - Coordination and Building Evidence

We need to ensure that we have all the evidence available to support our position. Many affiliates and community partners are doing research for specific sectors. We need to co-ordinate these efforts. A strong research component in this Action Plan will draw on this and new evidence.

We will:

- gather and build on existing research for the use of activists, educationals and publications.

- bring together trade union researchers and progressive members of the academic community to further our analysis of P3s and the government=s agenda on privatization.

- look at the experience in other jurisdictions which relate to Ontario.

- consider all options for rebuilding public services.

- hold a researchers= conference in February 2006 and establish a communications network to ensure activists have all relevant information on a continuing basis, in particular evidence as it relates to how P3s are being implemented in Ontario.

- research the best way to describe and put forward our message against all forms of P3s. Our message and way of describing what we mean by "P3" needs to be clear and easy to understand and relate to by taxpayers, voters and all of our members.

- borrow from our health care experience where affiliates have calculated the amount that would have to be bargained to get the same coverage privately as what we receive through OHIP coverage. We will research similar costs for other sectors.

- pursue the organizing of an Ontario Labour Research Committee which would be dedicated to the collection of evidence which supports public delivery of public services in Ontario.

7. Elections: Municipal in 2006 and Provincial in 2007

Many municipalities are arguing that the P3 model is the only way for communities to get new arenas, libraries, and hospitals; ignoring the huge increase in costs and the loss of the municipalities control over its own services.

Labour Councils will be identifying municipal candidates and organizing for municipal elections. Our mobilization against P3s must be part of this municipal election strategy.

Our efforts must ensure that P3s are an election issue being debated during the municipal election.

This is the last convention prior to the October 2007 provincial election. All of our work during 2006 must lead to P3s being a major issue in the election. The Liberals, in particular, need to be held accountable to their promise to not use the P3 model.

The Ontario Federation of Labour will ensure that the issue of P3s and privatization is front and centre in both the lead up to the campaign and during the campaign.

This Action Plan lays the groundwork for a Heads of Unions meeting to develop, approve and co-ordinate a strategy direction to the next election.

The strategy will include identifying priority areas of the province, message, media and ongoing action leading to election day in October 2007.

8. Learning with Others Around the World

We know that the Ontario Government is taking its agenda from the Blair Government in the UK. Both workers and communities in the UK have suffered from this.

The labour movement has learned a great deal from our sisters and brothers in the UK and we should continue to build those relationships.

We will call on the CLC to carry out similar actions to those in the Action Plan on a national basis.

Further, we will call on the CLC to assist in our efforts to share information with the trade union movement in the UK, Australia, New Zealand and other countries working to defeat plans of governments to bring the free market into public services.

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