Ideology Over Economics

P3s in an Age of Austerity

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This book is dedicated to my grandson, Peter Nuri Loxley Edwards, with the hope that his generation will do a better job of protecting the environment than mine did.

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Acronyms and Initialisms

ADB—Asian Development Bank
AfDB—African Development Bank
AU—African Union
BEE—Black economic empowerment
BLT—build-lease-transfer
BOO—build-own-operate
BOOT—build-own-operate-transfer
BOT—build-operate-transfer
BROT—build-rehabilitate-operate-transfer
CCG— Carillion Canada Group
CCPA—Canadian Centre for Policy Alternatives
CCPPP—Canadian Council for Public–Private Partnerships
CETA—Comprehensive Economic and Trade Agreement (Canada–EU)
CPP—Canada Pension Plan
CTFSF—Canadian Task Force on Social Finance
DB—design-build
DBB—design-bid-build
DBF—design-build-finance
DBFL—design-build-finance-lease
DBFOM—design-build-finance-operate-maintain
DBO—design-build-operate
DBOO—design-build-own-operate
DBTO—design-build-finance-transfer-operate
DBVFOM—design-build-vehicle-finance-operate-maintain
EBRD—European Bank for Reconstruction and Development
EIB—European Investment Bank
EMDE—emerging market and developing economy
EPEC—European Public–Private Partnership Expertise Centre
ESSU—European Services Strategy Union
ETI—economically targeted investment
FCM—Federation of Canadian Municipalities

GAAP—generally accepted accounting principles
GDP—gross domestic product
IADB—Inter-American Development Bank
ICT—information and communication technology
IFC—International Finance Corporation
IFRS—International Financial Reporting Standards
IMF—International Monetary Fund
IO—Infrastructure Ontario
LPVR—least present value of revenue
MDB—multilateral development bank
MIGA—Multilateral Investment Guarantee Agency
NAFTA—North American Free Trade Agreement
NGO—non-governmental organization
OECD—Organisation for Economic Co-operation and Development
OM—operations and maintenance
OMERS—Ontario Municipal Employees Retirement System
ONA—Ontario Nurses' Association
OPSEU—Ontario Public Service Employees Union
OSSTF—Ontario Secondary School Teachers' Federation
PFI—private finance initiative (UK)
PPIP—Private Participation in Infrastructure Project (World Bank)
PSC—public-sector comparator
PVR—present value of revenue
PWC—PricewaterhouseCoopers
RLT—rehabilitate-lease/rent-transfer
ROT—rehabilitate-operate-transfer
SIBS—social impact bonds
SOC—social opportunity cost (of capital)
SPV—special-purpose vehicle
SRTP—social rate of time preference
TIFIA—Transportation Infrastructure Finance and Innovation Act (US)
TIFU—Treasury Infrastructure Finance Unit (UK)
TILMA—Trade, Investment and Labour Mobility Agreement (Alberta–BC)
UN—United Nations
UNECA—United Nations Economic Commission for Africa
VfM—value for money

Preface

It has been almost ten years since my son, Salim, and I published *Public Service, Private Profits: The Political Economy of Public–Private Partnerships in Canada*. It was the first Canadian book to lay out what public–private partnerships (P3s) are and assess the theory behind them as well as their technical mechanics. It also analyzed a series of case studies and P3 contracts, access to which was and remains quite difficult. That was a comprehensive book that took many years to prepare. *Ideology Over Economics* builds on *Public Service, Private Profits* and has also been many years in the making.

The first chapter, "P3 Basics," pulls together material on P3s, and it looks at what defines P3s and the various forms they might take. It outlines their possible structure and the roles played by key actors, the government, the private sector and funders. It identifies the most common forms throughout the world and the extent to which the private sector encroaches on what was previously public-sector terrain. As products of neoliberalism, P3s' basic objective is to reduce the role of the state and bring the profit motive into public investment and public-sector operations by delivering profit to the private sector; they do this through a variety of forms and these are examined. P3s are part of the neoliberal agenda of austerity, cutting public and private consumption supposedly to stimulate private-sector activity, employment and GDP growth. This chapter examines the foundations of austerity and the contradictory role played by P3s. The argument for P3s rests on the transfer of risk from the public to the private sector and the savings that might result from this. The chapter argues that risk-transfer arguments are not based on real evidence while the extra costs of P3s in terms of higher costs of borrowing and legal, financial and administrative costs — so-called transaction costs — are well established and widely acknowledged.

Chapter 2, "Ideology Trumping Economic Reality: P3s after the Global

Financial Crisis," looks at the impact of the 2008–10 global financial crisis on P3s around the world and especially in Canada. Insurance and credit markets were severely restricted during the crisis. The private sector responded by restructuring the financing of P3s, by sharply reducing P3 activity and by lobbying governments for financial assistance. Governments in different parts of the world responded to these requests. The Canadian government, in particular, has expanded financial resources for P3s even in the face of growing fiscal challenges. A critical examination of the economic arguments that are said to underlie government largesse in this area shows that the promotion of public–private partnerships owes much more to ideology than it does to a rational evaluation of the net economic benefit of P3s.

There is growing pressure on municipalities to use P3s to close the infrastructure gap and deliver services. Chapter 3, "Asking the Right Questions: A Guide for Municipalities Considering P3s," prepared for the Canadian Union of Public Employees, asks probing questions on the costs and benefits of municipal-level P3s. Originally intended as a guide for municipal P3s, this chapter urges municipalities to take a cautious stand, fully examining the evidence, and asking the necessary deep questions before entering into a P3. There are over thirty questions on what P3s are and how they work, in theory and practice, who promotes them, how their finances work, how value for money is determined and whether or not risk is transferred from the public to the private sector. It raises questions about the quality of services delivered by P3s. Such a guide is necessary because there are major problems for municipalities in each of these areas, and due to these serious shortcomings, alternatives to P3s always have to be examined.

Turning to a detailed municipal case, "Wrong Turn: Is a P3 the Best Way to Expand Edmonton's LRT?," Chapter 4 shows that the arguments made for using the P3 approach to expand Edmonton's light rail transit system are deeply flawed. Despite the extreme secrecy surrounding the consultants' reports favouring P3s (reports obtained through FIPA requests were almost completely blacked out), there were sufficient grounds for opposing this move based on flawed methodology, inaccurate assumptions, lack of transparency and higher financial costs. While this project proceeded with great delays and is still not operational, sufficient concerns were raised so that plans to complete the second leg of the project with another P3 have been abandoned.

Moving to the provincial level and based on a presentation about Manitoba's Public–Private Partnerships Transparency and Accountability Act, Chapter 5 argues for legislation designed to ensure the more careful evaluation of P3s. Greater transparency and accountability is required in P3 proposals, with special attention on value-for-money calculations and claims that risk is being transferred to the private sector. Legislation requiring that proposals be reviewed by a fairness monitor and that they be evaluated by auditors general before execution, at the planning stage, and at all stages of implementation, makes eminent sense.

Turning to the national level, Chapter 6, "Growth versus Social Responsibility: Union Pension Funds and P3s in Canada," shows that there is a serious infrastructure gap in Canada. Public-sector union pension plans and the Canada Pension Plan have played a significant role in financing P3 arrangements to address that gap, although, as illustrated by the disputes around the activities of the OMERS and the Ontario Teachers' Pension Plan, union pension funds are driven only by financial returns. Disappointingly, those pension plans pay no attention to the possible negative implications of P3s for union members in other respects, such as reduced employment or wages, the loss or fire sale of public assets, or the higher cost of servicing capital. These consequences, then, place pressure on public finances, which, in turn, puts further pressure on unionized labour. Only the most astute unions see these contradictions and mobilize to try to address them.

Chapter 7, "A New Frontier: P3s and First Nations," starts with the observation that both the federal government and the P3 lobby group, the Canadian Council for PPPs, see First Nations as the next frontier for P3s. While the infrastructure gap in First Nations is very real, there are sound reasons why private finance may not be the answer. The weak governance and financial structures of First Nations, the long-term nature of P3s and the short-term nature of First Nations governance all conspire against P3s on First Nations territory. Also, the private sector finds it very difficult to operate in small, generally isolated communities with poor accommodations and social and recreational facilities. The case for the federal government directly funding First Nation infrastructure is, therefore, very strong.

At the international level, Chapter 8, "There is No Free Lunch: P3s in the Global South," looks at the extent of the infrastructure gap in countries of the Global South and the contribution of private-sector financing both before and after the 2008 financial crisis. "Enabling conditions" for P3s — such as legislative and policy support, offers of financial aid and subsidies, avoidance of competitive tendering, and so on — have been encouraged by governments and international actors. As a result, P3 activity has expanded, regardless of misgivings many have about their costs and desirability. From this experience, governments should avoid P3s, but if they must consider them (for instance, under pressure from donors), then at the very least, they should build an appropriate legal and policy framework and review the complete fiscal impact of any proposed P3s, as well as their effects on employment, wages and terms of service, before implementing them. Global South countries are advised to assess alternative approaches and other sources of financing before considering P3s as an option.

There is a large and growing infrastructure gap in Africa dating back to colonial times as a result of governments failing to provide properly for people's needs. This has, inevitably, led to the exploration of alternative ways of financing infrastructural development. Public–private partnerships have been proposed as a possible overarching solution. Chapter 9, "All the Same Problems and More: Are P3s the Answer to Africa's Infrastructure Needs?" examines the arguments for using P3s. Multilateral bodies within Africa, such as the African Union (AU), the UN Economic Commission for Africa (UNECA) and the African Development Bank (AfDB) have all endorsed their use, prompted by financial and technical support from the World Bank, the Organisation for Economic Co-operation and Development (OECD 2008) and by the (albeit cautious) endorsement of the International Monetary Fund (IMF 2004). The use of P3s in Africa is not extensive and they are located predominantly in telecommunications. The pros and cons of P3s are similar in Africa to those in countries of the Global North, yet the public sector in Africa is less equipped to deal with them — legal and institutional frameworks are less developed, private companies seem to demand larger subsidies and P3s have often not been the antidote to project cost overruns, completion delays or corruption, as was often claimed they would be. Given the pressures on African governments, the increased use of P3s is almost inevitable, regardless of their desirability. This being so, great caution should be exercised in the use of P3s to ensure better value for money.

"Carillion: Collapse of a P3 Giant," Chapter 10, details another case study. Carillion, a major construction company, P3 exemplar and likely the largest private partner in the world, collapsed in 2018. The event was seen as a serious setback for P3s and contracting out in the UK, Canada and possibly elsewhere. Significant issues in the collapse included the dubious role of accounting/consulting companies in reporting on the health of P3s, the fragile state of some P3s and the risk that fragility posed to unionized workers in terms of their jobs, wages and especially their pensions. Accounting firms who assess P3s are in a huge conflict of interest, as they are also deeply implicated in these partnerships. It seems that Carillion overexpanded and, notwithstanding the general high profitability of individual P3s, its cash flow problems led it to underbid on contracts, boosting cash flow while at the same time losing money. Following Carillion's collapse, the UK government altogether abandoned the P3 approach to infrastructure financing.

This book's discussions about P3s are expansive. Topics covered in these pages range from the micro level to country and continental analysis, from national to provincial, municipal and First Nations' contexts. This reflects the pervasiveness of P3s in the contemporary era and the questions they raise in widely different circumstances. Ultimately, it is at the micro level that P3s will need to be judged: we are not convinced that they deliver value for money relative to conventional ways of providing infrastructure. Their pervasiveness means, however, in the long run, as the lengthy contracts are played out, that they raise fiscal concerns for all levels of government in which they are represented. Health P3s in the UK have been unable to meet operating costs because of the large "lease" payments to the P3s' private owners. The collapse of Carillion attests to the frailty of P3 arrangements and to their ultimate dependence on governments for bailouts. We should be skeptical, at the very least, of seeing P3s as a solution to the infrastructure financing problems we face.