

# New ways of **WINNING**

**FIGHTING PRIVATIZATION AND CONTRACTING OUT**

## **WORKSHOP 1 NEW FORMS OF PRIVATIZATION**

**CUPE's National Privatization Conference, Toronto - March 27-30, 2003**

**CUPE·SCFP**  
*On the front line • Au coeur de l'action*

## ***Alternative Service Delivery (ASD):***

Alternative Service Delivery is a catchall phrase that describes any means of providing public services that is different from traditional methods. Whereas traditional methods involve the delivery and organization of services by public sector employees, ASD changes the way that services are financed and delivered by increased involvement of the private sector. The various forms of ASD include contracting-out, commercialization, competitive bidding, Public Private Partnerships and sale of assets.

### **What is behind Alternative Service Delivery:**

The push towards alternative service delivery is driven and supported mainly by governments and the private sector. But there are differences among some of these players and the changes that they want to see. For some, ASD is about displacing the public sector with the private sector and turning service delivery into profit-generating activities. For others, it's about using the private sector as a lever or a threat to force workplace change and/or concessions while keeping service public.

ASD is about adopting principles and practices of the private sector as a way of getting cheaper public services. None of the advocates for ASD will defend our rights, our jobs and our wages and benefits – only we can do that. But, in our struggle against ASD, we need to understand different types of ASD, who is promoting them and why. Understanding the rationale and aims of politicians and other decision makers within a given situation is key to effectively resisting ASD initiatives.

Public sector decision makers pursue contracting out and privatization for four principal reasons:

1. They are ideologically biased toward the private sector and against the public sector. They want to be able to offer contracts to their business friends.
2. They want cost savings and efficiencies and think that the private sector will deliver them.
3. They see a need for special expertise and technology that they think only the private sector can deliver.
4. Relations between employees and management have deteriorated so badly that management wants the service contracted, they want to get rid of something they see as a “headache”.

## ***Public Private Partnerships: Abbotsford Hospital***

### **Definition**

P3s refer to a wide variety of privatization activities. They usually involve private operation, management and maintenance. They can also involve private financing arrangements for infrastructure projects and long-term leaseback arrangements. The private sector lends money to build the project and the public sector leases it back by providing regular payments for the life of the contract. These long-term schemes are a troubling form of privatization as the contracts are often between 10 and 40 years in length and threaten public control over vital public services such as health care, education, water, and electricity.

### **Example of this form of privatization**

In 2001, the B.C. provincial government decided to build a new hospital in Abbotsford through a leaseback scheme, where a private developer will design, build, finance, and partly operate the facility. The provincial Liberals decided on a P3 without any community consultation, despite the sweeping policy shift that this would represent. The new hospital will replace Abbotsford's aging, outdated and crowded MSA Hospital. The previous NDP government had approved the hospital's replacement as a public project, but then the project went private when the Liberals implemented huge tax cuts and reduced government revenue.

### **Factors and forces driving privatization**

- **Government privatization agenda:**
  - The provincial Liberal government in B.C. is pushing for privatization in all areas of public service. They have even formed a government agency called Partnerships B.C. to seek out privatization "opportunities".
- **Aging infrastructure:**
  - The existing overcrowded and aging hospital in Abbotsford has needed to be replaced for some time. The privatizers count on the community's pressing need for a new hospital to lessen opposition.
- **Phoney consultant reports:**
  - The B.C. government paid \$250,000 to get pro privatization accounting firm Price Waterhouse Coopers to provide a report that would show cost savings through private financing of Abbotsford's new hospital. A forensic audit commission by The B.C. Hospital Employees Union (CUPE) found that the projections in this report were based on "suspect data."

## ***What are the consequences of this project?***

- **Higher costs:**
  - Relying on private developers to finance construction of the facility will be more expensive than public financing, largely because the provincial government can borrow at a lower rate of interest. Even the government consultant's report assumed only a 1% savings over 30 years.
- **Community suffers:**
  - The British experience with private hospitals shows that Abbotsford can expect reduced community services and fewer hospital beds compared to a publicly built facility. For example, a 1999 British Medical Journal survey of the business plans for 11 private hospitals found that they had planned a 31% reduction in the number of beds by 2002.
- **Elimination of good jobs:**
  - The contracting out of health support jobs in the new facility will result in having fewer jobs at much lower rates of pay.
- **Reduced quality of care:**
  - Reduced wages for health workers results in higher turnover of staff and higher difficulty for the employer to attract qualified employees. For example, in Scotland, the auditor general has noted that private contractors have average employee turnover rates that are nearly twice as high as those for in-house staff.
- **Increased number of hospital deaths:**
  - Lower quality cleaning standards at private, for-profit facilities is hazardous. A recent study by the Canadian Medical Association Journal revealed that introducing private, for-profit hospitals in Canada could increase hospital deaths by as many as 2,200 a year.

## **What alternatives is the union putting forward?**

- Message "Build Hospitals for People... Not For Profits"
- The new Abbotsford hospital's design should have community input and the hospital should be integrated with other community and long-term care services.
- The facility should be publicly financed and operated. Well before the Liberals came in, HEU was proposing innovative public-public partnerships for a new facility construction. The union had convinced the NDP government and employers to launch pilot projects for public-public partnerships in long-term care. The Liberal government cancelled these projects early in their mandate.

## ***Public Private Partnerships: Schools***

### **Definition**

P3s refer to a wide variety of privatization activities. They usually involve private operation, management and maintenance. They can also involve private financing arrangements for infrastructure projects and long-term leaseback arrangements. The private sector lends money to build the project and the public sector leases it back by providing regular payments for the life of the contract. These long-term schemes are a troubling form of privatization as the contracts are often between 10 and 40 years in length and threaten public control over vital public services such as healthcare, education, water, and electricity.

### **Example of this form of privatization**

In 1998, the Liberal provincial government in Nova Scotia decided to have 55 of its new schools privately designed, built, financed and operated. Thirteen of these new contracts went to a firm called Scotia Learning Centres (SLC), owned by Halifax millionaire George Armoyan.

### **Factors and forces driving privatization**

- **Lack of public investment:**
  - For 25 years, school construction in Nova Scotia was neglected by the provincial government. The lack of schools was at a crisis stage when the plan was announced.
- **Political opportunism:**
  - This scheme would allow the government to build schools without showing a deficit on its books. This benefited the provincial government by allowing it to claim that it was not creating new debt.
- **Private investors encourage government to allow private investment in schools:**
  - For example, CUPE member pension funds such as OMERS, a large Ontario pension fund for municipal and school board workers, has a subsidiary called Borealis. It was established specifically to make money by investing in P3s for infrastructure such as schools, hospitals, roads, water systems.

- **Bond raters pressure government to reduce debt:**
  - Bond raters such as Moody's on Wall Street, determine how much interest governments have to pay based on the amount of their debts. By having the private sector hold the debt for the public employer, governments hope to get a lower rate of interest for their debts.

### What are the consequences of this project?

- **The schools are more expensive:**
  - Had the provincial government built the schools itself, they would have been far less expensive because provincial governments and municipalities can borrow money more cheaply than private developers.
- **Hidden costs to the taxpayer:**
  - After the P3 contracts were signed, Scotia Learning Centres (SLC), coerced Halifax and Pictou residents into paying for a sidewalk leading to the schools. Without it, children would have to walk to school along busy roads. In Halifax, SLC also refused to let the province use its own portable classrooms, saying that they'd have to lease SLC portables for a hefty fee or pay to have the school expanded. Additionally, SLC takes 35% of profits from all food and beverage sales, including fundraisers such as kids' bake sales.
- **The company, not the community, makes important decisions:**
  - Particularly scandalous in the Halifax case was the site selected for construction. Rather than seek municipal input as to where the school ought to be located, Scotia Learning Centres opted to place the school inside a subdivision owned by Mr. Armoyan, SLC's primary owner. Recent arbitration decisions have resulted in allowing these privatized schools to carry one fifth of the liability insurance that a regular public school would be required to have.
- **Community access suffers:**
  - Access is being limited to SLC's facilities. Gym rental fees are significantly higher than in publicly-owned school board facilities. This has lead groups such as Recreation Nova Scotia to complain that reduced access hurts the health of Nova Scotia children. There were also problems getting SLC to agree to open its school during summer months in Pictou despite the fact that the town council provided the land for free, paid for the soccer field and for an enlargement of the gym.

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- **A community resource is turned into a private asset:**
  - In Bedford, SLC built a fence around the playing field and locked it, which prevented the children in the community from access to the only green space in the area. SLC saw the field as a money making prospect and accordingly started charging significant fees for use of the field.
- **Reduced Quality:**
  - For example, quality concerns have been raised about the fields at SLC schools and many were shut down by the school board for being unusable due to SLC's decision to cut costs by refusing to properly sod the playing fields.

## **What alternative is the union putting forward**

### **Proper funding from accountable sources:**

- All schools should be built with public funds.
- Sufficient public funding to build is essential.

### **Quality education that is responsive to community needs:**

- Schools should be treated as public resources rather than private assets.
- School operations should be managed by accountable Boards of Education not by private entrepreneurs.

### **Community benefits from stable, public sector jobs**

- The community benefits from public sector jobs that are higher paid than contract employees. Money flows back into the community from well paid workers with stable employment.

## ***Sale of Assets: Ontario Hydro***

### **Definition**

This form of privatization involves a transfer of ownership of public infrastructure and services to the private sector. It provides private sector shareholders with the most amount of control. The only limits imposed on the private sector are regulatory regimes put in place by government.

### **Example of this form of privatization**

Prior to 1998, municipal electrical utilities distributed electricity that was generated and transmitted by provincially owned Ontario Hydro. In 1998, legislation was introduced calling for the dismantling of the generation and transmission of electricity in Ontario. As a result, Ontario Hydro was split into five parts and the stage was set for the provincial government to be able to privatize the system.

At the end of 2001, Premier Harris announced the sale of Hydro One, which provides the transmission of Ontario's electricity. This sale was billed as the largest privatization in Canadian history, with approximately \$5 billion in assets to be sold off. This scheme was stopped by:

- a legal challenge from CUPE and CEP, the Communications, Energy and Paperworkers Union
- province-wide campaign by the Ontario Electricity Coalition
- mounting public pressure
- a lack of investors who were concerned with public opposition and limits on the prices they could charge for electricity.

### **Factors and forces driving privatization**

- **United States' drive towards an integrated continental energy policy:**

There is an insatiable American demand for electricity. The United States is pushing for an unrestricted access to the Canadian electricity market, including allowing American companies to create generating facilities in Ontario to increase capacity to the American market. This will ensure that Ontario's electricity would be sold to the highest bidder as opposed to meeting Ontario's electricity needs.



- **Quick cash for the provincial government:**

By selling off and leasing out electricity generation and transmission, the government stands to gain billions in revenue. In the long run, the government loses out on the potential revenue from electricity exports and the public is stuck with higher electricity prices that a for-profit provider would charge.

- **Pro-privatization ideology of the governing Tories:**

Despite the strong evidence to the contrary, the government strongly believes that the private sector can provide electricity cheaper and more efficiently. They want to provide opportunities for private business to make money by opening up an electricity market for them. They believe a stronger private sector means a stronger economy.

- **A need for new infrastructure:**

In 1997, two nuclear reactors were put out of commission by Ontario Hydro. This created a need for new generators in Ontario to make up for the reduced capacity.

- **Mismanagement at Ontario Hydro:**

Ontario Hydro had a long history of ignoring public input into its decisions. This resulted in some public animosity towards Ontario Hydro.

### **What are the consequences of this project?**

The Ontario Electricity Coalition has outlined the following consequences associated with hydro privatization:

- **Higher rates:**

Electricity rates are much higher in deregulated, private markets.

- **Blackouts and brownouts:**

Deregulating California's electricity markets caused more blackouts than Ontario has suffered in decades, from ice storms or anything else.

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- **Economic instability:**

At-cost electricity has supported Ontario's economy for many years. Deregulation of electricity would further destabilize an already unstable economy.

- **Burden on public services:**

Soaring electricity rates would put a significant burden on school boards, hospitals, public transit and other public services.

- **Unfair to low-income people and those on fixed incomes:**

Seniors and other members of our communities on fixed and low incomes would be hit hardest by the doubling of electricity rates.

- **Threat to sovereignty:**

Because of a public outcry, the North American Free Trade Agreement (NAFTA) includes clauses that protect existing publicly owned institutions. However, if Ontario sells off public generating plants and deregulates the electricity market, NAFTA rules would make it extremely difficult and expensive to return to at-cost public utilities. NAFTA would also prevent us from cutting back on exports in times of Ontario shortages. Deregulation would jeopardize Canadian control over electricity.

- **Problems for the environment:**

Some environmentalists think that deregulation would open up opportunities for more environment-friendly ways of generating electricity. However, privatization, deregulation and loss of sovereignty would limit the options for clean, accountable electrical utilities as private corporations push to use the cheapest and sometimes environmentally harmful sources of energy. The private power corporations waiting for a cheap sell-off of Ontario generating plants include some of North America's worst polluters.

**What alternatives is the union putting forward?**

- **Public control and ownership:**

Have Ontario Power Generation remain the major electricity supplier in Ontario to ensure that there is a steady supply of electricity for Ontarians at predictable prices. The Ontario Energy Board should have the power to set rates and mandate and regulate energy conservation strategies.

- **Environmental protection:**

Public power generation should move away from coal power and other polluting forms of hydro generation towards renewable sources such as small-scale hydro, wind and solar energy.

- **Public accountability:**

Public hydro in Ontario should require full public consultation prior to making decisions about new facilities or price increases.

## ***Commercialization: Edmonton Schools***

### **Definition**

This form of privatization refers to a public employer adopting business principles and practices. This includes charging fees for services to fully cover the cost of the service or to generate a surplus. The person receiving the service pays increasingly out of pocket (user fees), rather than through income tax. The practices also include adopting a corporate structure and reducing the role of elected officials. It often means hiving off a service into a separate agency, or self contained “business unit.” The ability to subsidize the service through internal financial transfers is usually stopped (no cross subsidization) and the unit is expected to become financially self-sufficient (full cost recovery).

### **Example of this form of privatization**

School based budgeting has been adopted in some Edmonton schools. Principals act as business managers, responsible for their school’s budget including raising the needed revenue. They are responsible for revenue generation as school funding is based on a voucher system where schools receive money according to how many students they attract. Under this system, the principal’s job is less focused on providing quality education and more on competing to attract students and chairing meetings to determine school spending.

School-based budgeting was first developed in the United States as part of a plan to reduce education budgets. Edmonton was the first school board in Canada to try this approach, originally as a pilot project in 1976. Since then, other school boards across the country have experimented with this form of privatization.

### **Factors and forces driving the privatization**

- **Governments distancing themselves from their own budget cuts:**
  - The provincial government introduced education budget cuts and takes no responsibility for how money gets spent at the school level. Anger can be diverted from government to the school principal.
- **Preparing schools for privatization:**
  - School based budgeting prepares schools for privatization by making them individual self-contained units that could then be more easily sold off to the private sector.

- **Promoting “flexibility”:**
  - Some governments argue that the move to decentralized budgeting allows schools to be more responsive to the particular needs of its students.

**What are the consequences of this project?**

- **Conflicting priorities for managers:**
  - Edmonton principals are forced to divert time and energy away from managing education to managing finances.
- **Students are treated as customers:**
  - The president of Local 3550, an accounts clerk for 26 years with the Edmonton Public School Board, stated to the 2002 Commission that students are being relied upon to buy pop and candy to support school activities.
- **Costs are also offloaded onto families:**
  - Parents and children are forced to fund-raise to support their schools.
- **Costs are offloaded onto teachers and teaching assistants:**
  - Many educators pay out of pocket for education supplies when the school fails to provide them.
- **The taxpayer gets less education bang for their buck:**
  - Decentralized budgeting has resulted in costly duplication of effort and resources. These schools are probably paying more for their supplies than they would if buying were done centrally so as to benefit from economies of scale. In short, bigger buyers get cheaper rates.
- **Less dollars equals lower quality:**
  - School maintenance tends to be cut as soon as there is a tight budget situation. This leads to health problems for students and staff. Local 474 in its submission to the 2002 Alberta Commission on Learning has cited an increase in reports of asthma, allergies and sick building syndrome as a consequence of maintenance cuts.

**What alternatives is the union putting forward?**

- **Allow accountable elected trustees to make education decisions:**
  - Ensure that school districts have the financial resources to act in the interest of students.
- **Block funding:**
  - Replace the voucher funding system with block funding (full transfer from provincial government) so that schools can focus on learning rather than luring “customers” from other schools.
- **Adequate and stable funding:**
  - Ensure that schools are not having to make choices between books and maintenance. Both are important for a healthy learning environment.

## ***Competitive Bidding : Ontario Home Care***

### **Definition**

Contracting out refers to a public employer turning over the operation and management of a facility or service to a contractor. Competition bidding and managed competition where public employees either are forced to bid against the private sector for the right to deliver a service or they must compete with the private sector through service zones. This system is used to extract concessions from public employees. There are many varieties of these forms of privatization but they generally translate into suppressed wages and benefits and reduced service.

### **Example of this form of privatization**

In the mid nineties, the Ontario government forced non-profit homecare providers to compete with for-profit providers for both home nursing and home support contracts. The Ontario government gives money to Community Care Access Centres which in turn award contracts to the lowest bidders for home nursing and home support services

### **Factors and forces driving privatization**

- **Inadequate health care funding:**
  - As hospital beds disappear and patients are released 'quicker and sicker,' reliance on home care grows. Yet the provincial Auditor General found that the funding formula did not "establish the amount of funding required to provide an adequate level of service" for health care in Ontario.
  
- **Private companies looking for new markets:**
  - Private companies are attracted to the growth potential in homecare and the government funding that comes with it. Private contractors thrive in situations where assured public dollars fund the private delivery of homecare. The private sector homecare agencies wish to expand their share of that market and are finding willing government partners in provinces such as Ontario.
  
- **Blurring the line between caregiver and salesperson:**
  - Being in the home of a vulnerable patient provides an opportunity for private companies to sell their products.

**What are the consequences of this privatization project?**

- **Lower wages for health care workers:**
  - Private for-profit providers pay substantially lower wages than not-for-profit providers. Their staff have a much higher turnover rate as a result.
- **Poor quality of care:**
  - High turnover hurts clients, many of whom are vulnerable and rely on trusting relationships with caregivers.
- **Increased burden on unpaid caregivers at home, mainly women.**
  - Increasingly, people are forced to provide more home care to ill and aging family members.
- **Health care dollars diverted to bureaucracy and profits:**
  - Money has been directed away from patient care to deal with higher administrative costs and to corporate profits. Fully \$247.4 million each year has been wasted by the Ontario Tories' shift to private for-profit home care.
- **Potential for fraud and corruption:**
  - While there haven't been any fraud charges laid yet in Ontario, a number of for-profit providers have faced convictions in the United States. In 1999, Olsten was forced to pay the US Department of Justice \$61 million (US) in fines for criminal violations. Hospital Corporation of America (HCA) has pleaded guilty to charges of defrauding US government health programs in Florida, Texas, Georgia and Tennessee, to the tune of \$95 million (US). This \$95 million was only a fraction of the total \$840 million (US) in fines that HCA paid in 2000.
- **Longer waiting lists:**
  - The siphoning off of public funds to for-profit agencies has contributed to longer waiting lists in Ontario for homecare services. Inadequate support at home leads to more falls, medication errors, and ultimately higher admission to hospitals and nursing homes, both of which are much more costly than home care.





**What alternatives is the union putting forward?**

**Readily available publicly funded and administered homecare:**

- Adequate levels of homecare would save money for the healthcare system by relieving strain on hospitals while ensuring that those who require care enjoy a higher quality of life that homecare provides.
- Public administration and funding help ensure that homecare providers are given the respect and wages that they deserve while providing homecare recipients with high quality service.

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