Why the Canadian Pension Plan
Should Avoid Public-Private Partnership

…stopping the P3 Trojan Horse at the gate.

Canadian Union of Public Employees Research

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The Canadian Union of Public Employees is Canada's largest union representing more than half-million women and men. In Manitoba, CUPE represents 24,000 members working in health care facilities, school divisions, municipal services, social services, child care centres, public utilities, libraries and family emergency services.

EXECUTIVE SUMMARY
Why the Canadian Pension Plan Should Avoid Public-Private Partnership

Over the last two decades, all levels of government have been pressured to consider Public-Private partnerships (PPPs or P3s) for the provision of public services and assets. P3s are formal arrangements between a government and private companies, where the companies own the assets they develop for the government. While a government commissions a school, road or hospital to be built, it is private companies who may finance and build the assets. These governments say they can avoid major capital outlays while creating the public assets that are needed. Private companies or a consortium provides the capital, management and technology for providing these assets and they recoup their investment, plus profit, by owning and leasing the facility to the government.

CUPE is not opposed to the private sector doing business with provincial or municipal governments. Companies have designed and constructed public infrastructure including recreation facilities, health care facilities, city offices, schools, roads and bridges. We are particularly supportive when companies, which are unionized, get public contracts. But doing work that government cannot do is very different than taking over what government can do.

Most government have realized the costs and liabilities of P3s and therefore that these arrangements with private companies are not worth the trouble.

The Canadian Pension Plan Investment Board should be aware of the risks and latent costs of P3s and therefore avoid investments that directly or indirectly finance P3s. We believe the investment policies and practices of the CPP should be socially responsible. Consistent with criticism of the CPPIB investment in military industries, tobacco companies and mining companies (such as Glamis Gold in Guatemala and Honduras), we believe Canadian pension funds should not be used to support commercial enterprise that undermines the provision of public services in Canada and around the world.

We understand the CPP is required by law to maximize returns on its investments, but we don’t believe this means the CPP is required to invest in unethical or socially irresponsible commercial enterprise. While there may be legislative limits on what the CPPIB can do, there is room for discretionary choices within those limits. With $100 bn in assets, the CPPIB can play a significant role in changing legislation and investment practices, so that all Canadians benefits.

CUPE, the labour movement and many public interest organizations across Canada are against the privatization of public services and assets. The main concern with privatization is that they often mean higher costs for citizens and declines in access to these services for major portions of society. P3s are seen as one-way services are isolated for full privatization later.

The P3 approach to providing public services generally affects:

- *Quality of Life*
  Public services meet basic human needs, protect public health and safety and meet other important social needs – clean water, sewer systems, safe roads, transit, police, libraries, parks and recreation, and housing. When PPPs are used to provide these services there is often a scaling down of the services offered or a reduction of quality of service available for the public.

- *Accessibility*
  Public services are for everyone. Government delivers public services because the private sector can't or won't deliver the service at a high enough quality to all citizens who need it at a price they can afford. Private companies sell services to make a profit which means those people without the resources are excluded from these public services. For example, user fees and cutbacks that are already restricting services, are increased. Privatization will only make services less accessible, especially to those who need them most and can't afford to pay.

- *Public Accountability*
  Politicians are elected to be responsible for spending tax dollars on public services. Company executives are responsible only to their shareholders. Once a government give up ownership and therefore control of a public asset, officials no longer have the ability to assure service delivery and therefore public accountability. P3s make it much more difficult for elected officials and bureaucrats to supervise the provision of services thus often leaving them more vulnerable to public criticism.

- *Transparency and Democracy*
  City government is the most open and transparent level of government. For many Canadians, access to their municipal and provincial officials is their only contact with government and the practical application of our form of democracy. It is in how they are treated that they know the strength of our system of government.

  Contracts with private companies are usually negotiated in secret and kept confidential. Secrecy is built into P3 proposals and contracts as companies want to protect what they call "confidential business information." The Manitoba Ombudsman has ruled that private agencies providing social services can keep their public funding secret, and the Hydra House collapse in 2004 is an example of what can happen.

- *Public Health and Safety*
  Municipalities and other levels of governments are charged with maintaining public health and public safety. Private corporations are not. Municipalities have to have public safety and health as primary criteria for all their actions. Private corporations have maximum return on profit as their primary criterion. Corporations often take and make public health and safety risks in order to maximize profit. The lack of accountability and control and lack of transparency in the privatization of public services add up to a huge public health and safety risk.

- *Cost of Services*
  Public financing is less costly than private financing. The public sector can borrow money at interest rates that are usually lower than commercial rates, because governments and public sector bodies have a better credit rating. Long-term leases also cost more than debt repayment generally. Thus P3's do not lower or avoid public debt. They simply hide it or defer it. This is convenient for politicians who need to be re-elected every few years, but it is not in the long-term interest of taxpayers.

Generally speaking, P3s are being promoted by large companies that know there is profit to be made from the provision of public services. The track record of these companies when they take over public services, around the world, is one of increased cost and decreased service. While P3s may seem attractive in the short-term, they do not provide sustained, high quality services that Manitobans expect and deserve. P3s are a contemporary Trojan Horse.

For the CPPIB, we recommend a balanced approach to maintaining the fiduciary obligation to Canadian while implementing investment policies that are socially responsible. In particular, we think the CPPIB should consider the following:

- Investment policy which outline the investment objectives of the investment, and what types of investment are allowed or excluded. Ideally, these policies could be written in a way that explicitly acknowledges an effort to invest in ways that will support the interest in employment security of Canadians. At the very least, particular investments such as "private placement bonds" or "infrastructure bonds" (common names for P3 investments) should be automatically referred to the Board of Trustees for formal consideration and hopefully rejection.

- Ensure that the authority for placing such investments must not be delegated to a money manager, as they will invariably pay no attention to the impact of their investments on plan members or the broader public. Our information indicated that an explicit exclusion of a certain type of investment (such a private placement bonds or equities) is probably not acceptable from a legal point of view. However, clearly the decision must rest with the body with fiduciary responsibility, and therefore delegation of such decisions must not be allowed.

- Selecting money managers can also be an opportunity to determine whether the pension portfolio currently holds P3/privatization investments, or whether there exists any restrictions. Generally, money managers should be monitored – including in personal interviews – by the administrator of plan on a regular basis. This monitoring offers a valuable opportunity for expressing concerns over investment policy.

- Socially responsible or ethical investment policy. While still far too rare, such policies allow the establishment of "screens" of other investment restrictions which will avoid support for companies or governments that have a terrible record on human rights issues, environmental issues, respect for workplace health and safety, or basic worker rights. There are an increasing number of screening services that can help to develop lists of investments which avoid high-risk investments, while maintaining investment in alternatives.

There is a growing body of evidence to suggest that such screens may actually focus the investment policy on corporate securities that will offer better returns. It is possible that such "socially responsible" screens or policies could also capture the issue of respect for the public sector and unionized public sector workers.

- pension funds have the right to actually vote on key corporate issues on behalf of the plan members. It is possible for the Plan to actually place a proposal before other shareholders at corporate shareholder meetings and therefore influence the adoption of ethical principles and practices in these companies.

- Sometimes P3 projects seek pension fund financing on a project-by-project basis. In general terms, this method avoids the need to follow the common regulatory procedures associated with public bond issues, and keeps the investment process relatively quiet. It also means that trustees can be approached with a "you-can't lose" type of offer, with very high rates of return promised along with the touted security of a public guarantee (since this is a "partnership"). This opens up a number of opportunities to oppose such investments.

Pension fund investment issues are not simple. However, this does not mean that the labour movement or individual workers and plan members can avoid or ignore them. When CUPE and the labour movement have raised these kinds of issues in the past, we often hear that the issue is "too technical", legally complicated, or not a high priority. The objection is also raised that in owning such a small portion of a company's stock or bonds, the actions of any one pension plan would be hopeless.

Trusteed pension funds now invest over $500 billion in trust property, and it is being invested on our behalf. Much of this money is being invested on behalf of unionized workers – who have a clear interest in seeing this money invested in ways that support domestic employment, unionization, discrimination-free workplaces, health and safety, sustainable economic practices, etc.

Our goal is to promote pension plan policies that protect workers and service their economic and social interests.

The CPPIB could contribute to the economic and social development of Canada by adopting policies and practices that enhance our quality of life, not undermine it.

UNDERSTANDING PUBLIC-PRIVATE PARTNERSHIPS

The Term "Public-Private partnership" is disarming. "Partner" suggests a mutually beneficial relationship, bringing together the best of the public sector with that of the private sector.

More and more forms of contracting out to the private sector are being hailed as public-private partnerships. Long-term contracts, leasing agreement, and even fairly short-term contracting out arrangements are commonly described as PPPs. PPPs are most closely associated with private sector financing and long-term leasing and ownership of public infrastructure. The differences among them relate to the point where ownership of assets is assumed by the private sector and when the public sector makes lease payments for facilities and service provision.

PPPs are often another way of contracting out public services. Instead of the usual short-term contracting-out arrangements, these longer-term financing, leasing and ownership agreements move public services much closer to outright privatization. PPPs are privatization by attrition and stealth.

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Some government and corporate officials want to expand the role of the private sector to include the financing, operation and ownership of virtually all public services. Some government and corporate officials claim that this combination will limit public debt and create more efficient and cheaper services.

Corporations want to build, operate and own our schools. Provide our food and medical services in hospitals, treat and supply our water, provide our recreational services, process our taxes and administer our social welfare system. In short, the public sector has become a new "profit centre" for the private sector.

The Canadian Council for Public Private Partnerships (CCPPP) promotes PPPs to governments and the Canadian public. The Council's membership includes representatives of Laidlaw, Philip Services, Serco and Price Waterhouse, all of which have been advocating and benefiting from privatization and contracting-out. The council's membership also includes some Canadian municipalities that employ CUPE members.

EXPOSING PUBLIC-PRIVATE PARTNERSHIP

Boosters of PPPs claim that these arrangements will:

- allow governments to avoid or eliminate debt;
- provide services and infrastructure at less cost;
- assure the newest and most efficient technology; and
- speed the completion of projects.

The truth is that PPPs often have very little to do with service or efficiency. Rather they allow government to give the appearance of an improved financial situation while offering corporations reduced taxes, a captive market and a guaranteed income.

The federal and many provincial governments support to move towards PPPs. Their policies have helped to set the stage for PPPs by cutting transfer payments and downloading services. Faced with tighter budgets and downloading, many local governments and other public sector employers are receptive to the idea of PPPs.

However, the experience so far strongly indicates that private delivery of public services only leads to a reduction in the quality of services. Basically, staff and operating standards are reduced in a drive to maximize profits. For capital projects and infrastructure, corners are cute, reducing safety. For services and programs, access is reduced as barriers to participation increase. For example, increased user fees and reduced first language services will limit access for the poor, women, ethnic communities and persons with special needs.

PPPs will make it easier for governments to evade their responsibilities and more difficult for citizens, consumers and taxpayers to deal effectively with problems related to services. Once a private corporation is awarded a contract, especially long-term ones like PPPs, the public is locked into specific arrangements that can reduce responsiveness.

The driving force behind politicians' and bureaucrats' support for PPPs is the desire to avoid borrowing and debt. But are public sector employers really avoiding debt with PPPs? Are they reducing the cost of financing infrastructure and service delivery? In almost all cases the answer to both these questions is NO.

PPPs do not help the public sector avoid debt. At best, they only help it defer debt. In the end, the public sector pays more under private sector financing arrangements.

The public sector borrows money at a rate of interest that is usually a half per cent or more lower than the rate available to private sector companies. Governments, including municipalities, have a better credit rating than even the largest corporations. This is because governments and public sector bodies have stability and longevity that reduces the risk that they will default on loans.

The myth that PPPs reduce debt persists because lease payments to private corporations are not usually counted as public debt. Yet lease payments are as much a financial commitment as debt repayment or service charges. For that reason, they should be considered in any assessment of a public body's liabilities. This would make the true costs of PPPs greater and more visible.

The private sector promotes the myth that they are the ones bearing the risk of PPPs since they often provide the capital. This is false. The public sector often guarantees the private financing for PPPs. As well, it assured the developer a stable, captive revenue at guaranteed prices of its services (though companies have been able to increase their demands when they have a monopoly).

Some PPPs appear to reduce costs only because they centralize services, creating economies of scale. But these supposed savings do not take into account the negative impact such changes can have on local communities of an economic hub. Services are less accessible and responsive to local needs.

Because only large corporations, most of whom are foreign-based transnationals, gave the capital and technology to introduce economies of scale, PPPs often serve to transfer economic benefits to other countries. Labour and supplies are more often purchased outside the local area and projects are transferred to other regions.

In short, what works for commerce does not work for the common good. In the private sector, competition may sometimes create the conditions for lower production and cost of goods. However, in the public sector, for-profit service delivery tends to increase environmental risks, overall costs of service and management stress on service mechanisms, with a concomitant decrease in accountability and performance.

The private sector claims that it can provide services more efficiently and more cheaply than the public sector and yet maintain service standards. We know that this is not true. There are long-term and hidden costs with corporate involvement. Profits for corporate investors are one such cost. The pursuit of profit compels corporate contractors to increase their market share and cute operational costs. They use "low ball" or "loss leader" bids to gain greater market share, but sometimes find that they cannot deliver on their promises.

THE PPP EXPERIENCE

There has not been extensive use of P3s in Manitoba. Partially because of the limited market and therefore profitability of P3s, governments have not been actively pursuing this form of partnership. During the Filmon government years there were some efforts at forming P3s and outright privatization of some public assets such as the telephone services, but these largely failed to provide the services needed.

Legislation initially protects existing workers. They are transferred to the private company and get to take with them their union membership and their collective agreement rights. Any new hires are not covered by the union or the collective agreement. Workers in a privatized service who still have a collective agreement jeep their heads down. Working conditions can worsen over time.

A two-tier wage and benefit structure exists in many sectors. People working side-by-side, doing the same job can have vastly different rates of pay and benefits. Pensions are non-existent for many new hires. At the start of privatization, the lowest paid and most vulnerable and lowest paid part of the workforce were hit. Now privatization and competitive bidding is directly affecting all job classifications.

Initially, not all unions were involved in the fight because they didn't see how it affected them. Not every sector realized they could be next as the appetite for PFI, competitive bidding, market models and other forms of privatization ballooned in the UK/

Unions in the UK see the next stage looming. The next wave of privatization is occurring with municipal government work going to profit making companies. This includes the administration of government services like payroll, tax assessment, and bill payments. There is the capacity to run administration "off shore". For example, a company will contract to take over the administration duties of a whole town and can contract that work to be done anywhere in the world, taking advantage of workers in poor countries.

Now UNISON, Britain's largest public sector union is leading a "positive public" campaign. The objectives are to stop privatization, raise awareness, develop support for publicly delivered services, and lead a public service alliance. The campaign has a twin track: stop privatization of public services and protect members who are transferred to profit-making employers. The campaign is also "evidence based".

Researchers provide the evidence; show private sector failures; do critique of methodology; show good practices in public services, and get the information out to members and the public.

AVOID THE TROJAN HORSE

Generally speaking, P3s are being promoted by large companies that believe there is profit to be made from the provision of public services. The track record of these companies, around the world, is one of increased costs and decreased services.

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In summary, the implications of investing in P3s instead of government public services are that:

- quality is compromised;
- public accountability is reduced;
- taxpayers pay more;

A dramatic failed attempt to get a private company to take on a critically important health related service, involved a consortium of Winnipeg hospitals and the Urban Shared Services. The pseudo-company was created by the Progressive Conservative government of the 1990's specifically for the purpose of supplying hot food to the hospitals. The multinational company, Aramark was involved. Instead of preparing good on the premises of each hospital in Winnipeg, food was now to be trucked from Ontario to a centralised facility in Winnipeg, where it would receive further processing before being transported to each hospital. Aramark also got the contract to provide "consulting and management services" for the whole projects.

The Government claimed there would be $32 million cost savings over the 20-year period of the contract. In the first year of operation, costs were already $2.5 million more than projected, despite lost jobs predicted by Statistic Canada to be around 350 for the two years into the contract. In that same year the USSC reported nearly 700 patient complaints about the quality of the food and patients in one hospital lost between one and 23 kilograms in weight in the first month of operation. By the late 90's the venture basically shut down. The NDP government took back the services after their election in 1999 and today the Regional Distribution Facility is providing quality hot and cold food for the city's hospitals.

The Charleswood Bridge in Winnipeg is a clear example of the greater cost of private sector financing. D.B.F. Ltd., the company which financed the bridge-building project will earn about $32 m over the 30 years it has the lease arrangement with the City. The bridge originally costs almost $10 m to build in 1994 and if the city had to finance the bridge it would have cost about another $15 m. Therefore, the bridge is going to cost the taxpayers of Winnipeg about $7 m more to have D.B.F. finance and build the bridge than if the City had done it on its own.

Large corporations such at Sodexho, Versa and Marriott have centralized food services to a number of hospitals. The result has been a displacement of workers and reduced demand for local business.

Many PPPs promise to save the public sector money. One of the principle ways they do so is by reducing staff and cutting wages and benefits. The Philip Services operation of the water treatment system in Hamilton Wentworth is a case in point. The corporation promised that it would create 100 jobs for the municipality. Instead, Philip Services dramatically reduced the number of employees.

According to employees at the Hamilton Wentworth water treatment plant, Philip Services has relaxed maintenance standards and has reduced the number of employees from approximately 120 to 75, a decrease of more then 35%. It is estimated that this has reduced Philip's wage bill by $2 million per year.

The New Brunswick government cancelled an $8.4 million Medicare billing and administration system contract with Blue Cross of Atlantic Canada. The Minister of Health stated that "the government was not confident that Blue Cross could deliver the system called for in a reasonable time and within agreed-upon costs."

Strait Crossing Inc. will receive the equivalent each year of the federal subsidiary to the ferry system ($42 million) plus the revenue from tolls. The company will also have the right to increase toll fees by 75% of the increase in the Consumer Price Index. With a million tourists estimated to visit PEI each year, the revenues to the Corporation are expected to be enormous. Risk for the company is further reduced because the government has issues bonds valued at $661 million to guarantee the debt on the bridge.

The UK Experience of Privatisation of Public Services

Before embracing PPPs, politicians and administrators in Canada should heed the British experience. In the early 1990's Britain's Conservative government introduced its Private Finance Initiative (PFI).

According to the Public Services Privatization Unit in Britain:

- PFI costs more and the costs continue to escalate.
- Very few PFI contracts have been signed.
- PFI has caused delays that have jeopardized projects.
- The public has borne the risks of projects as the government has steadily introduced more protection for the private contractor.
- PFI has distorted priorities for projects and resources.
- Projects are rewarded without considering whether they could be done more cheaply by the public sector.
- Given the size of PFI schemes, only the largest companies have been able to bid, restricting competition.

A delegation from the Ontario Federation of Labour including OFL leaders along with representatives from CUPE, CUPW, ETFO, OECTA, and OPSEU studied the "Transformation of Government" agenda in Britain first hand as it became evident that the Ontario Liberals are looking across the ocean for inspiration on restructuring and privatizing important public services.

The study tour in the summer of 2005 included sessions with leading academics, union leaders, and community activists. They all told a part of the story of the fall-out from this restructuring. Briefly here are some of the lessons learned from this tour.

<u>The Union Experience</u>

Unions, and the Trades Union Congress have opposed these transformations of government schemes for three reasons:

- they destabilize the service;
- undermine community accountability; and
- they cost more;
- communities suffer;
- jobs, wages and benefits are threatened;
- governments bear greater risks; and
- full privatization is made easier.

Citizens have the right to know what P3s are and what the consequences will be of government moving ahead on initiatives that involve private companies. There needs to be much more public debate before any government proceeds with a public-private partnership.

We think it advisable therefore, for all public officials to:

- fully inform themselves about the potential disadvantages and risks of P3s;

- consult stakeholders and hold a broader public discussion about the P3 approach and its long-term implications; and

- make a greater effort to obtain assistance with infrastructure funding from senior levels of government and from alternative sources like pension funds.

For the CPPIB specifically, we recommend;

- investment policies that support the interest in employment security of Canadians and avoid “private placement bonds” or “infrastructure bonds”.

- ensure that the authority for placing such investments is not delegated to money managers.

- Determining whether the CPP portfolio currently holds any P3 investments or commercial investments that are privatising public services.

- A socially responsible or an ethical investment policy. There is a growing body of evidence to suggest that screens on investments can focus the investment policy on corporate securities that offer better returns and be “socially responsible”.

- Exercising the pension fund right to vote on key corporate issues on behalf of the Plan members. It is possible for the Plan to actually place a proposal before other shareholders at corporate shareholder meetings and therefore influence the adoption of ethical principles and practices in these companies.

End