"Pen$ion Talk"

May 2004

6 – Pension Investment and P3s

P3 means "Public Private Partnership". P3s are opportunities for the private sector to provide public services at a profit. A P3 is the method most frequently used by government to privatize public sector services and infrastructure.

Frequently, P3s involve the private sector lending funds for a public project and the public sector leasing facilities back by providing regular payments for the life of a specified contract. These contracts are generally very lengthy usually for terms of 25 to 40 years.

P3s are quite different from normal design and build construction contracts between the public sector owner and the private sector builder because the private sector provides operating services, financing and key decision-making about issues such as cost and design.

Unlike the private sector, the accountability of publicly elected officials means citizens and our communities are ensured of transparency and input into decisions around public infrastructure.

Promoters of P3s claim that they are the best way for government to build and/or maintain public infrastructure like schools, hospitals, water systems, utilities, transportation, municipal services and more. This is clearly not true. There is another way – the way that throughout our history Canadians have always bought and paid for our public infrastructure – government bonds.

Traditionally, government has issued bonds to raise money for large capital projects. Canadian workers' pension funds have always been ready and willing to purchase government bonds because they offer a stable and assured return. However, as governments borrow less, there are fewer public bonds available. This is as true today as ever.

In the past, the Canada Pension Plan (CPP) reserve fund has been available to provinces, at federal bond rates, to help fund large capital projects. Now that the CPP reserve fund invests in the market place, fewer and fewer CPP dollars are available to governments for infrastructure investment.

CUPE has undertaken considerable research on P3s. We have found that while the name sounds "friendly", P3s are in fact very bad public policy.

- Most P3s involve multi-decade contracts for privatized operations and maintenance.
- Because P3s have such lengthy terms they limit policy options for elected officials.
- P3s are often more expensive to finance than regular government borrowing. This is because governments almost always have a better credit rating than private firms and therefore can borrow at lower interest rates.
- P3s must provide profit for the investors meaning that less of the funds are spent to provide services to the public.

- Commercial secrecy demanded by private investors undermines public accountability.
- P3s generally come with user fees, forcing some citizens to pay more for some public services than others or allowing those with more money to gain privileged access.
- P3s may hide but do not reduce public debt.

P3s are risky investments for pension funds. The promoters would like pension fund trustees to believe that a P3 is a safe, high return, bet. That is not necessarily the case. Governments have simply torn up P3 agreements due to political/community pressure, auditor general reporting, bad experience with the privateers and legal challenges. A few examples include Ontario Hydro, Nova Scotia schools and the New Brunswick Toll Highway.

It costs a significant amount of money and human resources to put together a bid on a P3 project. Can the pension plan legitimately bid on a P3 when the risks are so high and the costs are enormous?

Finally, it is clear that having our pension funds involved in financing P3s and other forms of privatization has devastating consequences for many plan members and workers. It raises the prospect of one worker's pension fund financing a company which is actively seeking to privatize or eliminate or downgrade another worker or even the very members of the pension plan. Pension funds, legally, have an obligation to ensure that the interest of the plan beneficiaries – in its broadest sense – are met. P3s subvert that objective.

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