



FAQ ABOUT PUBLIC PRIVATE PARTNERSHIPS

Question: What is a public private partnership?

Answer: A public private partnership (P3) is a form of privatization. P3s are multi-decade contracts for private management of public services or infrastructure. They can include private financing, ownership and/or operation. The most common form is one in which the private sector designs and builds something like a hospital, school or bridge and has a very long-term contract (20 or 30 or even 40 years) with government to operate the facility. The private partner often provides some portion of the up-front money to build the project and then is reimbursed with payments over the life of the contract.

P3s usually result in higher costs, lower quality and loss of public control.

Question: What about claims that P3s save money?

Answer: Put simply, P3s don't save money. First, the private sector pays more to borrow money than governments do. And the cost for private sector borrowing is increasing in the present credit crunch. Second, private corporations expect to make profits of between 10 and 20% on their investment in these projects. Third, negotiating public private partnership contracts is a long and expensive process. Fourth, monitoring and enforcing private contracts add another cost. These extra costs for the private sector mean extra costs to the public paying for the service. At the same time, wages and benefits paid to employees are generally lower and service levels often suffer.

Question: Don't P3s avoid government "debt"?

Answer: No. These long-term contracts obligate governments to massive payments for decades to come. Whether it is called government debt or a long-term contract, the fact is that for several decades taxpayers will be forced to pay for P3 services. The difference is that with publicly built and operated projects, government can make changes to meet future needs.

With a P3 they are tied to a contract, whether it is still needed, whether it is outdated, and whether it is affordable or not.

Question: What about the claim that P3s are worthwhile because the private sector takes on the risks of the project, for example the risk that something will go wrong in construction or in the operation of the service?

Answer: Risk transfer is the big argument for P3s, but it doesn't hold water. First, risk can be transferred to the private partner with publicly managed projects just as it can with P3s. Second, it costs money to get the private sector to take on these risks. Studies in the UK have suggested it can add as much as 30% to the cost of the contract. Third, often the risk doesn't actually get transferred and government ends up holding the bag. A major study in Britain found that risk in P3 projects was not effectively transferred from the public sector. In several major P3 projects that have failed, despite contract provisions that held the private sector responsible, the public sector ended up paying the bills after the private sector corporation involved in the project collapsed.

Question: What about the claim that public private partnerships are on time and on budget?

Answer: P3 projects take longer than traditional projects because they are so complex to negotiate. They may technically be "on time" because the extra months or years spent negotiating the agreement are not included in the official timetable. As to being "on budget", again, the costs of P3 projects have repeatedly skyrocketed between the time of announcement and the conclusion of contract negotiations with a final agreement. The Abbotsford Hospital construction cost was originally estimated at around \$200 million, and eventually ended up costing \$355 million. The Canada Line almost doubled, from about \$1.2 billion to over \$2 billion.

Question: What about public accountability in P3 contracts?

Answer: Private corporations, including P3 corporations, are less accountable than government. They do not have the same reporting requirements. Information is often kept secret to protect commercial interests. In BC, even mayors and councillors deciding on whether to commit taxpayer money to P3 projects, have been denied access to the detailed financial information they needed to make informed decisions.