Privatized Public Services Cost More

It costs more to have public services owned, operated, and delivered by private corporations instead of public entities like municipalities, provinces, and not-for-profit crown agencies. Public funds pay for the services no matter who delivers them, and the public gets a better deal when the services are publicly owned, operated, and delivered.

Public services can be privatized in a number of ways: through selling public corporations and assets, contracting out, forming public-private partnerships (P3s), social investment arrangements, selling assets and leasing them back ("asset recycling"), and giving "vouchers" or direct subsidies to those who need services to use to buy those services in the private market.

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PRIVATIZATION: NOT AS ADVERTISED

We all depend on public services every day, from ***infrastructure*** such as transit, water, electricity, roads, and sewers to ***institutions*** like hospitals, universities, schools, and libraries to ***services*** like long-term care, public health, child care, social housing, planning, emergency services, safety standards, and more.

Some governments and corporations call for the privatization of public services and infrastructure, suggesting that privatized services will cost less and be more efficient. CIPP has prepared a series of fact sheets to explain what privatization of public services means, why it is a bad idea, and what the alternatives are.

Profits

Corporations get involved in delivering public services to make money. That's why they're in business. They are accountable to their shareholders, not to the public or elected governments. Corporations like long-term contracts with governments because the funding and the returns are virtually guaranteed. Corporations involved in public-private partnerships (P3s), for example, expect to make a return of 10% to 15%. Public funds that could be used for operations and service delivery are siphoned off for private profit.

Depending on the model of privatization, often multiple corporations are involved in a project, and all of them are in it to make money. Social investment financing projects involve a complex range of deals with consultants, lawyers, and financiers,[i] while P3 infrastructure deals are generally undertaken by project-specific consortia of investors, management firms, engineers, construction firms, and others.[ii] The Auditor General of British Columbia points out that the transaction costs for a P3 contract are higher than those for a regular contract.[iii]

Higher Borrowing Costs

It costs more for a private company involved in an infrastructure deal to borrow money than it would cost the municipality or another level of government.[iv] In 2014 the Auditor General of Ontario found that the cost of 74 public-private partnership projects was nearly $8 billion higher than if the public sector had directly delivered those infrastructure projects on time and on budget, largely because of the greater cost of borrowing.[v]

No More Efficient

Those who advocate privatization claim that the private sector is more efficient than the public sector, so money can be saved by hiring the private sector to do what the public sector used to do or could do. But the evidence does not support this belief. For instance, the Ontario Auditor General points out in her 2018 report that it costs about 30% more to pay consultants to do IT work that could be done by hiring full-time staff.[vi] A comparison done by the UK National Audit Office found that consultants make twice as much money as full-time staff doing similar work.[vii] A study by the US Project on Government Oversight found that it costs more to pay outside contractors than employees to do work.[viii] A collection of 15 Canadian case studies found that municipalities bringing services back in house do so largely because they can deliver the services for less.[ix]

No Risk Transferred

When proponents of privatization finally admit that corporations face higher costs than governments, they claim that risk is transferred—perhaps the risk of rising construction costs or borrowing costs or of changes in regulation. The greater the risk assigned to the private partner, the higher the cost assigned to it. Alleged costs of assumed risks are commonly artificially inflated in comparisons of public sector and private bids, favouring the latter.[x] A UK report on hospital private finance initiatives in the United Kingdom[xi] found that 30% of the cost of a construction project was attributed to "risk."[xii] Generally, the public cannot find out what the real cost comparisons are because they are kept secret when a corporation is involved.

In the end, the real risk stays with the public. Private corporations, even multinationals like Carillion, can cease operation, and the government is still responsible for providing public services and infrastructure.[xiii]

Secrecy Enables Corruption

The Quebec Commission of Inquiry on the Awarding and Management of Public Contracts in the Construction Industry (the Charbonneau Commission) found that the lack of transparency around the largest public-private partnerships and huge infrastructure projects creates the opportunity for the corruption and collusion it found in construction contracts in Quebec.[xiv] The commission also noted that the outsourcing of these public projects leads to a loss of expertise in government that makes it more difficult for the public sector to detect corruption and collusion.[xv]

Costs Transferred to Users

The cost to government of a privatized service may be offset by charging users directly for the service such as road and bridge tolls. Private medical clinics have been found to extra-bill patients for services which are already covered by public health insurance.[xvi] Arenas built through public-private partnerships charge entry fees even for minor league hockey games. Under such systems, the public pays many times for a service, once through their taxes and again every time they use it.

Lack of Accountability and Control

Public services have the quality, accessibility, and effectiveness of their services as their primary objectives. Corporations have their profits as their main objective. For private companies, investment in public services and infrastructure that people rely on are just another way to make money. In the United Kingdom and Europe, corporations are now making even more money on P3s like hospitals by selling their equity interests in them in international markets, with average profits of 50%.[xvii]

The public pays twice

Governments often end up buying back the service or infrastructure after paying the private company for 20 or 30 years. Nova Scotia signed a deal with four developers in 1998 to build and maintain 39 schools. In 2019–20 they are buying back all but two of these (and those two will be closed) because it is less expensive to buy them back and maintain them publicly than to continue the contracts with these private partners.[xviii] It would have been less expensive for people in Nova Scotia to retain them as public infrastructure all along.

London's public subway operator, the London Underground, bought back a P3 contract halfway through it's 30-year lifespan.

The buyback cost the public corporation $255.3 million, which was paid to Powerlink's shareholders. According to calculations made by the management of London Underground UK, buying back the contract will allow the corporation to save $359.1 million over the next 15 years."[xix]

Quebec think tank IRIS demonstrated that the province could save as much as $4 billion by buying back the contracts for the CHUM and MUHC Montreal P3 hospital.[xx] There are dozens more examples.

PRIVATIZATION COSTS MORE

Privatized services and infrastructure cost more

Auditors general across Canada and in developed economies around the world have reached the same conclusion. It costs more to build public infrastructure or deliver public services through private corporations.

Notes

[i] National Union of Public and General Employees (NUPGE), *60% of Social Impact Bond funds spent on overhead and profits*, https://nupge.ca/content/60-social-impact-bond-funds-spent-overhead-and-profits

[ii] In just one example, the Regina Bypass highway, the consortium was 11 firms led by a French firm. https://regina.ctvnews.ca/regina-bypass-contract-awarded-to-consortium-led-by-french-firm-1.2397672

[iii] British Columbia. Auditor General. *Understanding Public Private Partnerships*. https://www.bcauditor.com/sites/default/files/publications/2011/report2/files/oagbc-understanding-p3-public-private-partnerships.pdf

[iv] Ibid.

[v] Ontario. Auditor General. *Annual Report 2014*. (Toronto, Ontario 2014) p.7 http://www.auditor.on.ca/en/content/annualreports/arreports/en14/2014AR_en_web.pdf

[vi] Ontario. Auditor General. *Annual Report 2018*. (Toronto, Ontario 2018) p. 619 http://www.auditor.on.ca/en/content/annualreports/arreports/en18/2018AR_v1_en_web.pdf p.619

[vii] Ibid.

[viii] Project on Government Oversight. *Bad Business: Billions of Taxpayer Dollars Wasted on Hiring Contractors*. (Washington, D.C. 2011) https://docs.pogo.org/report/2011/bad-business-report-only-2011.pdf?_ga=2.4290485.787681610.1566065581-2024821549.1566065581

[ix] Keith Reynolds, Gaëtan Royer and Charley Beresford. *Back in House Why local governments are bringing services home*. Columbia Institute Centre for Civic Governance. 2016. p. 5. https://www.civicgovernance.ca/wordpress/wp-content/uploads/2016/06/Columbia_Back_in_House_May_16_2016_English_web.pdf

[x] Reynolds, Keith. *How to Make the Public Sector Advantage Disappear.* Canadian Union of Public Employees. 2007.

[xi] In the United Kingdom, P3s are known as Public Finance Initiatives, PFIs or PF2s.

[xii] Pam Edwards, Jean Shaoul, Anne Stafford and Lorna Arblaster, *Evaluating the Operation of PFI in Roads and Hospitals*. (London: The Association of Chartered Certified Accountants, 2004), quoted in Reynolds, “How to Make the Public Sector Advantage Disappear,” 2007

[xiii] For instance, the bankruptcy of Carillion left governments in the lurch around the world. https://www.theguardian.com/commentisfree/2018/jan/16/pfi-bosses-carillion-money-george-monbiot and https://www.theglobeandmail.com/report-on-business/carillions-canadian-branch-files-for-creditor-protection/article37731988/

[xiv] Matthieu Vick. *Lessons from the Charbonneau Commission*. Canadian Union of Public Employees. 2016. https://cupe.ca/lessons-charbonneau-commission

[xv] Ibid.

[xvi] Ontario Health Coalition, *Private Clinics and the Threat to Public Medicare in Canada: Results of Surveys with Private Clinics and Patients*, 2017. http://www.ontariohealthcoalition.ca/wp-content/uploads/final-report-1.pdf

[xvii] Dexter Whitfield, *“The £10.0bn Sale of Shares in PPP Companies: New source of profits for builders and banks,”* European Services Strategy Unit, 2011. https://www.european-services-strategy.org.uk/wp-content/uploads/2011/01/10bn-sale-of-ppp-shares.pdf

[xviii] Anjuli Patel. “Province to buy 10 public-private partnership schools for $49.3M”. CBC News Nova Scotia. July 19 2017. https://www.cbc.ca/news/canada/nova-scotia/province-to-buy-10-public-private-partnership-schools-1.4212514

[xix] Mihn Nguyen and Guillaume Hebert. *Should we buy back the PPP for the CHUM and the MUHC?* Socioeconomic Research and Information Institute (IRIS). (Montreal October 2014) p.4. http://iris-recherche.s3.amazonaws.com/uploads/publication/file_secondary/CHU-PPP-English-WEB.pdf

[xx] Ibid.