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Public Private Partnerships and the Financing of Infrastructure Development in South Australia

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Contents

1. Introduction 4
2. The basics of PPPs 7
3. The origins of PPPs 10
4. The claimed rationale for PPPs 16
5. Lessons from the British Experience 20
6. The Australian Experience 36
7. Conclusion 43
8. Endnotes 52

1 Introduction

This report is designed to generate discussion about methods of infrastructure financing and development in South Australia. It draws from British and Australian experience with the use of methods such as Public Private Partnerships (PPPs). Some of the implications of this experience for policymakers in South Australia are identified.

Most analysts agree that South Australia's public infrastructure is ageing and in need of modernisation. The need for substantial new infrastructure investment is pressing but resources available through the State Budget are limited. Responding to this challenge the State Government is considering different methods of financing infrastructure development. The Government rightly recognises that South Australia's future prosperity will greatly depend upon a substantial increase in public and private infrastructure investment over the next five to ten years.

Concern about the impact of direct financing of infrastructure projects upon public sector debt levels is leading policymakers to consider new methods of financing projects. Public Private Partnerships (PPPs) represent such a method. The use of PPPs is now widespread internationally and in Australia.

The market for PPP projects is projected to be worth around US $35 billion by 2007.[1] Around 74 Private Finance Initiative (PFI) projects worth around £5.1 billion have been completed in Britain. Many European governments including Ireland and the Netherlands are going down the PPP path by establishing PPP units within government. The Netherlands has around 40 projects either underway or under consideration.[2]

Why are governments so enthusiastic about PPPs?

Historically the South Australian government has been the major source of finance for key infrastructure projects. It has used its capacity to borrow at more favourable terms than the private sector to achieve this. Significant investment in infrastructure by the State Government has created direct and indirect benefits for the private sector. The building and construction industry has been a major direct beneficiary while the private sector as a whole has benefited from the increased efficiencies and advantages that flow from the existence of modern infrastructure such as roads, telecommunications, education and health systems. Once completed, publicly funded infrastructure projects have been the property of government.

In an attempt to reduce exposure to risk and public debt, governments are retreating from direct financing of infrastructure. This is being achieved through long term lease arrangements with the private sector. Such arrangements are a feature of PPP programs. Some regard these methods of financing infrastructure as a pragmatic necessity to reduce exposure to risk and public sector debt. They argue that private finance of infrastructure is a necessity given the lack of public funds available. Others are concerned that Government can not afford to allow infrastructure like electricity, water, hospitals and schools to fail, so the Government will inevitably be exposed to risk when private sector failure arises. In any case they assert that it is more cost effective for the public sector to fund such infrastructure given the lower cost of capital available to government compared to the private sector.

The financing mechanism underpinning PPPs has its origins in the Thatcher governments attempt to move debt 'off balance' sheet in order to create the illusion that public sector debt levels are declining. According to one analyst of PPPs the Thatcher government "..sought to transfer public borrowing off its own books, so it recruited a private sector partner to borrow money for it, in exchange for downstream project revenues that would pay off the debt".[3]

The legacy of 'balanced budgets' and tax cuts made fashionable by the Thatcher Government remains with us, with most contemporary governments finding PPPs an alluring option. This is essentially because government payments on PPPs are regarded as revenue (expenses) rather than capital (debt). As such the payments governments make over a twenty to thirty year period towards a PPP projects are kept 'off balance' sheet, ensuring no addition to officially measured public debt. It seems ironic, as one commentator puts it, that PPPs are gaining momentum in contexts where public debt is historically low.

> …A method of financing developed for governments looking to reduce their deficits and debts is taking off now, when most public books are back in the black and debts are shrinking. And it seems equally paradoxical that governments, which traditionally have access to the lowest possible interest rates on borrowed money, should increasingly look to fund huge public projects through borrowing undertaken by a private sector partner. After all, the private partner not only pays higher interest, but also takes on a substantial degree of risk for the project.[4]

The second major argument put forward by governments in advocating PPP programs is the assumption that the private sector will be a more efficient provider than the public sector. Significant cost-savings are claimed to flow from PPPs, though experience in calculating cost differentials between public and private projects suggests that such savings may be illusory and a range of hidden costs ignored.

On the Gravy Train

Cashed up superannuation funds and financial institutions see PPPs as relatively low risk investments with assured revenue flows from government over a twenty to thirty year period. With the promise of a steady flow of revenue and a relatively low risk investment structure, private sector 'partners' cannot be blamed for taking a strong interest in PPPs. Not content with this alone, some 'partners' seek to lock in even greater certainty and profitability as one toll-highway project in Nova Scotia demonstrates.

> Frequently the government partner can be called upon to create a regulatory climate that will increase the private sector partner's revenues. ..On the Nova Scotia toll-highway project….the government not only raised the speed limit of the toll highway, but lowered the speed limit on the alternative route, thereby increasing demand for the new road. And

> trucks were obligated to use the toll road unless they had a secondary road delivery address on their waybill.[5]

Deep opposition to privatisation in the community poses a challenge to organisations with an interest in touting PPPs. In response to this challenge a significant public relations industry now exists to sell PPPs to a cynical public. When confronted with community opposition, “Some private partners …. have gone so far as to contract with consultants who specialize in turning local hostility into viable support….In essence, overcoming local opposition is a cost of doing business in making public-private partnerships work”.[6]

Buyer Beware

Negotiating PPP contracts is a complex, time consuming and a costly process. It is difficult to anticipate all contingencies in the drafting of contracts and problems are likely to emerge in the execution. The negotiating and drafting teams established by governments are often confronted by better resourced and more experienced counterparts in multi-national consultancy firms.

> The sheer intricacies of deals designed to foresee any eventuality mean negotiations can drag on for months or years, a bonanza for lawyers but no-one else. ….a project for an individual school or hospitals is worth just tens of millions of dollars. The documentation is times vast and costly, even for relatively small deals.[7]

After more than two decades of under-investment, South Australia’s infrastructure is badly in need of modernisation. As urgent as this challenge is, it is vital that policymakers carefully examine the relative merits of different methods of financing infrastructure development. PPPs are not the solution to the problem of under-investment in infrastructure. In juggling political and economic imperatives, governments should not retreat from direct financing of infrastructure. Governments should use the full range of financing methods available to them and be cautious and judicious in the application of PPPs, as tempting a solution as they appear.

Because there are many vested interests touting the use of PPP schemes, it would be prudent for the State Government in conjunction with other States to initiate an independent national review into the PPP experience so far. This should include a review of the relative merits of all infrastructure financing methods available.

2 THE BASICS OF PFI AND PPPs

This section provides an overview of the basics of PPPs and PFI drawing from the British experience which has inspired PPP policy in Australia. There are various types of PPP/PFI but the most common in Britain requires the private sector to Design, Build, Finance and Operate (DBFO) facilities, usually for 25 - 35 years (7-15 years for equipment). The private sector finances construction and is repaid by the state, in regular payments, for the use of the buildings and services provided under a facilities management contract. Payments are classified as revenue, not capital and thus do not count against public borrowing and do not commence until the building is completed. It therefore has enormous short-term political appeal.

Design, Build, Finance and Operate

The private sector will design, build, finance and operate facilities for the length of the contract after which the building may be transferred to the public sector. There is increasing pressure for two other types of PFI/PPP schemes:

1. Design, Build and Finance (DBF) schemes which exclude operational services;
2. Design, Build and Operate (DBO) schemes which rely on public rather than private funding.

Hard and soft facilities management

Facilities management in PFI/PPP is usually divided into hard and soft services. The hard services are those such as repairs and maintenance which are directly connected to the asset, its availability (for example, all parts of a school being available for use) and therefore to the payment mechanism. These services are always an integral part of the PFI/PPP project and will be carried out by the private contractor. Soft services are support services such as cleaning, grounds maintenance, reception and catering which are not directly connected to the availability of the asset. There is scope for these services to be retained by public sector in-house services. For example, the Stoke on Trent schools and Blackburn Hospital PFI projects both excluded certain support staff on the grounds that they were good quality services, proved by benchmarking, and were likely to keep on improving. The private sector wants to widen the scope of services covered by PFI/PPP contracts. Services should be excluded before the contract notice is published in the Official Journal of the European Community (OJEC) rather than being part of a variant bid for which the private sector will submit proposals.

The exclusion of some services does not alter the long-term fundamental objections to PFI/PPP nor does it reduce the privatisation of Britain's infrastructure. The promotion of Design, Build, Finance (DBF) schemes is not a real alternative because the private sector will still operate building repair and maintenance services although they would deliver fewer support services.

Risk transfer

Building and operating a public building entails a number of risks, such as the risk of construction cost overruns, higher than expected maintenance costs, changes in legislation affecting how the building is used, increases or decreases in demand for the services provided and so on. The public sector has traditionally accommodated these risks. Under PFI/PPP risks have to be specified, quantified and apportioned to the client or contractor with the majority transferred to the private sector.

Value for money

The British Treasury insists that PFI/PPP must provide ‘value for money’, which means that the estimated cost over the life of the contract (calculated at Net Present Value by assessing future costs at today’s prices) should be lower than the notional cost of traditional procurement using a Public Sector Comparator.

Buying a service, not an asset

Private finance is presented as an alternative form of procurement by converting the payment of debt incurred in obtaining assets into revenue payments as a payment for services. Although the government is keen to stress the ‘buying a service’ approach, frequently only the capital value of PFI/PPP projects is cited rather than the much larger combined capital and operating costs. For example, a London Borough of Haringey secondary schools project is a £87m capital project but the total PFI payment is £233m over 25 years. Similarly, the South Buckinghamshire NHS Trust’s £45m new hospital will in fact require a total payment of £244.7m to United Healthcare over 30 years.

Whole life asset performance

PFI/PPP projects are supposedly costed and priced on the basis of the suitability and sustainability of the initial design and construction, the long term maintenance, management and operation of the building together with continuous improvement of services over the length of the contract (often up to 30 years).

Performance-related reward

The minimum payment to a PFI/PPP contractor must not exceed 80% of total payment, in other words, part of the unitary charge is a performance related payment depending on the contractor achieving standards set out in the output specification and targets established for continuous improvement.

Private finance, off balance sheet

When public bodies borrow to finance investment, the money borrowed is counted as adding to the public sector borrowing requirement and appears in the government's accounts and financial statistics. If the private sector borrows the same amount of money to finance the same investment, it does not appear in the public accounts even though the public body enters a long-term contractual commitment to repay the private sector from its revenue budget. This is called off-balance sheet financing. Off-balance sheet financing is 'justified' if sufficient risk is transferred to the private sector.

Bankability

PFI/PPP must show evidence of 'bankability' which is PFI jargon for commercial interest, the certainty of an income stream and a willingness to consider all opportunities for generation of revenues from the sale of assets or third party use of facilities and services.

Output specification

The specification states the required outputs and performance standards leaving the private sector to design and operate services.

PFI/PPP projects are run by consortia of companies which usually set up a 'special purpose vehicle' company to run the project

Consortia usually consist of a construction company, financial institutions such as banks, a facilities management company (and subcontractors), architects (and a Registered Social Landlord in housing projects).

Advisers and consultants

Each organisation involved in PFI projects - the public body, members of the PFI consortia, tenants or user organisations, have their own legal, financial and other advisers which is an additional cost for PFI projects.

Long term contracts

Contracts are usually between 25 - 35 years for facilities (7-12 years for IT, vehicles and equipment).

3 THE ORIGINS OF PPPs and PFI

In searching for the origins of PPPs and PFI we are inevitbly led to investigate the British experience. Infrastructure investment in Britain declined dramatically after the 1973 oil crisis. Both Labour and Conservative governments imposed substantial cuts in public sector capital spending programmes. Net public sector investment under the Labour government, £28.8bn (5.8 per cent of GDP) in 1974/75, more than halved by the end of the decade and plummeted to a mere 0.4 per cent of GDP in both 1988/89 and 1998/99. The decline in public sector investment in the last two decades occurred at the same time as the government had unprecedented privatisation receipts and North Sea Oil revenues.

By the mid 1980s a spate of studies by the Confederation of British Industry, the Federation of Civil Engineering Contractors, the now defunct National Economic Development Council, had exposed the deteriorating state of the infrastructure and assessed the potential impact of further cuts in capital spending. The major contractors and construction industry bodies demanded increased government capital expenditure and relaxation of the External Financing Limits on nationalised industries and PSBR controls. There was little reference to the use of private finance.

The Conservative government doubled the road building programme to £12bn and proposed that additional road schemes could be built and operated by the private sector in ‘corridors of opportunity’. The Treasury’s Ryrie rules, which required a matching reduction in public funding in response to private funding of infrastructure projects, were relaxed in 1989. Some British companies were involved in some commercially unsuccessful private infrastructure projects overseas, but the Thatcher government insisted that privately financed schemes should not be subsidised. A number of private sector transport schemes including the rail link to the Channel Tunnel, a second Severn Bridge, a rail link to Heathrow and the Docklands Light Railway extension were developed at this time.

By 1990, with much of the basic transport and utility infrastructure in private ownership or planned for privatisation, contractors were lukewarm over the prospect of private roads. They turned to other sectors such as hospitals, prisons and urban development where they believed they could obtain higher returns and access ‘surplus’ land and property for development.

The Private Finance Initiative (PFI) was launched in November 1992. It was conceived as a financial mechanism to obtain private finance which could satisfy political need to increase investment in infrastructure without affecting public borrowing, guarantee large contracts for construction companies and new investment opportunities for finance capital. Most politicians had a short-term perspective but capital was looking longer term. A ‘crisis’ in the flow of PFI projects between 1995-97 was partly caused by demands for state financial guarantees and partly because PFI consortia were flexing their muscle to ensure contracts reflected their interests. In one sense, PFI was a natural progression given the Conservative’s privatisation and economic policies in the 1980s. The privatisation 'machine' was never going to stop, at least not of its own accord. PFI is privatisation by stealth, privatising those parts which could not, at least politically, be sold-off as complete services. It is the route to the ultimate marketisation and privatisation of health, education and social services.

Australia adopts PPPs

Many of the microeconomic reform policies that have been implemented in Australia, began life in the United Kingdom, mostly under the Thatcher and Major conservative governments. Examples include privatisation, competitive tendering and contracting, pool markets for electricity and, most recently, PPPs, introduced in the United Kingdom under the Private Finance Initiative.

In all these cases, the policy process has followed a similar pattern. Initial reports from the United Kingdom suggest that the policy has been wildly successful. These reports generate enthusiasm in Australia. By the time the policy is ready for implementation in Australia, serious problems have emerged in the United Kingdom. Australian advocates of microeconomic reform make changes which, it is claimed, will overcome all the defects of the UK model. In many cases, however, these changes are insufficient to remedy more fundamental defects. In other cases, they introduce equally serious problems of their own.

Since PPPs involve a mixture of privatisation and competitive tendering, it is worth examining these cases in some detail. The first rounds of privatisation in the United Kingdom were reported as if they involved a magic pudding, with benefits for everyone. Participants in the share floats received substantial capital gains with share prices immediately rising well above the offer price. The sale proceeds were treated by governments as if they were current revenue which could be used to finance tax cuts or increased public expenditure. Sale proceeds were enhanced by generous regulatory treatment which guaranteed rapidly growing profits for the buyers of privatised firms. There were also big benefits for incumbent managers, who paid themselves greatly increased salaries, and for financial markets, which collected commissions on the entire exercise.

It gradually became apparent that the hidden costs of the policy had been overlooked. After selling assets and dissipating the proceeds, governments no longer had access to the stream of earnings that had previously flowed from publicly-owned government business enterprises. Because the assets were underpriced, even using sale proceeds to repay debt did not generate interest savings sufficient to offset the loss of income. In addition, when privatised firms acquired all the monopoly privileges of state-owned enterprise, they naturally sought to maximise the profits those monopoly privileges could generate. The lax regulatory regimes imposed by the Thatcher government made this easy, so that consumers bore much of the cost of privatisation.

Australian governments were initially enthusiastic about privatisation. As the problems with the British model emerged, variants were adopted in an attempt to reap the supposed fiscal benefits while avoiding the pitfalls. The inappropriate accounting used in Britain was replaced by 'underlying' Budget measures and then by accrual accounting which supposedly prevented governments from treating the proceeds of asset sales as if they were general revenue. In addition, privatised public enterprises in telecommunications, transport and energy were opened up to competition, rather than retaining their monopoly privileges as in the UK.

These changes avoided some of the most ludicrous outcomes of British privatisation, such as the sale of half of British Telecom for only 3 billion pounds (about 10 billion dollars). But they did not resolve the fundamental problems. All the difficulties raised by the worst of the British privatisations are evident in the debate over Telstra. The idea that privatisation proceeds can be treated as cash and used for pork-barrel spending is very much in evidence. The likely sale proceeds (less than $20 billion) will be grossly insufficient for the loss of income to the government (around $2.8 billion per year, taking account of the cost of franking credits). Service standards have been pushed up in response to intense political pressure but will undoubtedly relapse once the deal goes through.

A similar history may be seen in relation to competitive tendering and contracting. Early estimates suggested cost reductions of as much as 50 per cent in the delivery of public services, a figure which was soon revised down to 20 per cent. Even this lower figure has not proved sustainable in the long term. Governments have borne substantial costs in cases where contractors have failed to deliver the contracted services or where contracts failed to specify the required services appropriately. In addition, once contractors have the benefit of incumbency, their charges for subsequent contractors have generally risen.

More importantly, much of the reduction in the cost of delivering services such as hospital cleaning was achieved through reductions in wages, working conditions and service quality. Cost reductions achieved in this way are neither economically beneficial nor sustainable in the long term. A particularly damaging and unsustainable trend, to which competitive tendering and contracting has contributed significantly is the growth in work intensity and, for full time workers, average working hours that has been experienced in Australia, the United Kingdom and the United States over the past decade.

In Australia, this effect has been mitigated by court decisions restricting the ability of contractors to reduce the award wages and conditions of existing staff. But this protection is limited, since it can be worked around by changes in job designations and since contracting out frequently involves non-union employers who can more easily evade award requirements.

With this background, it is useful to consider the relationship between the PPP programs now being developed in Australia and the British PFI. In its original form, introduced under the Thatcher-Major government, the PFI was little more than an accounting fiddle, aimed at reducing the measured level of public debt and the public sector borrowing requirement (PSBR). Instead of financing infrastructure projects in the traditional fashion, by issuing debt and paying off the principal and interest over the life of the project, the government committed itself to make continuing payments to private project owners.

Economically, the only effect was an increase in costs arising both from the additional complexity of the financial transactions and the higher rates of return demanded by private equity investors. However, since the obligations incurred under the PFI did not count as debt, there was a cosmetic improvement in the budget accounts. Very similar deals were popular in Australia under the name BOOT (Build, Own, Operate and Transfers).

It is now generally accepted that both the BOOT schemes of the 1980s and 1990s and the original version of the PFI were economically unsound. Both the UK Auditor-General and numerous House of Commons committees produced critical reports on the PFI. In Australia, BOOT schemes have been condemned by Commonwealth Parliamentary Committees, State and Commonwealth Auditors-General, inquires by bodies including the Industry Commission and the Economic Planning Advisory Council and numerous independent experts.

In response, governments in the UK and Australia have sought to improve the design of contracting arrangements associated with private provision of infrastructure. In particular, more attention has been paid to the allocation of risk. The stated principles of the British PFI and Australian PPP now include the following:
(i) returns in excess of the bond rate should be paid only where the private sector assumes risk that would otherwise be borne by government
(ii) risk should be allocated to the party best able to bear it.

These principles are sound but, particularly in the United Kingdom, they have not in fact been observed. Among many difficulties, two are critical. First, it is clear in many cases that a project will only be approved if a private financing arrangement can be implemented. Thus, all parties involved in the analysis have a strong incentive to find in favour of private provision. Second, the rates of return to capital demanded by the private sector are assumed to be applicable to the public sector, even though they are far in excess of any reasonable estimate of the true social cost of capital. This error reflects the anomalous 'risk premium for equity' under which returns demanded for investments in private equity greatly exceed the rate of interest on public debt.

The Partnerships Victoria program addresses the first of these problems, but not the second. In principle at least, projects are considered as candidates for PPPs only if they have already been approved for public funding. Thus, there is at least some potential for a genuine comparison between public and private financing options. Unfortunately, the detailed application of risk analysis is biased in favour of the private sector. The most important bias arises from the fact that the higher private cost of capital is ignored, but other risk assessments are also biased. Underlying this biased treatment is the continuing power of the original spurious motivation for the PFI, namely, the desire to achieve cosmetic reductions in official measures of public debt. If obligations under PPP initiatives were routinely reported as part of public debt, the appeal of these initiatives would be greatly reduced, and only initiatives with genuine benefits would be likely to receive consideration.

PPP projects also typically involve competitive tendering and contracting, with all the attendant difficulties. As has been noted above, some but not all of the problems of competitive tendering and contracting have been overcome by restrictions on the direct use of competitive tendering and contracting to undermine award conditions.

The British PFI has been in operation for a decade, but remains highly unsatisfactory. The majority of deals undertaken under the PFI have not delivered ‘value for money’ for British taxpayers. The approaches to public-private partnerships in Australia, including Partnership Victoria, have remedied some of the most glaring defects of the British PFI, but much more radical change is needed if costly mistakes like those in the UK are to be avoided. Most importantly, the biased treatment under which the private sector is allowed to claim operating cost advantages (even those derived from lower wages), while the public sector comparator is imputed the private sector cost of capital instead of the lower rate actually paid by the government, must be dropped. If this step were taken, only private sector partnerships that offered real and substantial gains in efficiency would be adopted.

PFI/PPPs under ‘New Labour’ in Britain

Much of Britain’s infrastructure including a large part of the transport, energy and utilities and communications infrastructure was privatised prior to New Labour coming into power in 1997. This left the social and welfare state, defence and criminal justice system infrastructure in the public sector which have subsequently become targets for privatisation. Whilst Labour spending plans increased public sector capital expenditure from £3.3bn in 1998/99 to £8.7bn in 2001/02 (at 1997/98 prices), this is still only one per cent of GDP and inadequate to meet the huge infrastructure backlog (for example, NHS £2.6bn and council housing £10bn repairs).

The New Labour government acted quickly in 1997, setting up and implementing the Bates Review which recommended streamlining the PFI/PPP process. They also rushed through legislation to clarify the powers of NHS Trusts and local authorities to enter into PFI agreements and guarantee financial payments over the life of the contract irrespective of public expenditure. In other words, PFI contract payments are ringfenced. They also established new processing and prioritising procedures for PFI/PPP projects in all government departments together with project teams and removed the requirement that all public sector capital projects be tested for private finance potential. This ensured that only ‘bankable’ projects were prioritised. PFI was heavily promoted in local government, which had lagged well behind other sectors. The Labour government appears to have a better understanding of the needs of business than the right wing ideologues of the previous administration!

Net public infrastructure investment is planned to increase to £19 billion per annum by 2003/04, representing 1.8 per cent of GDP. However, a further £21 billion of PFI deals are expected to be signed in the same period. By late 2000, nearly 350 PFI projects had been signed with a capital value of £25 billion. A further 227 projects were at an advanced stage. The welfare state infrastructure (such as schools and hospitals) accounted for 19 per cent of the value of projects. See Table 2 for the full scale of PFI projects.

However, this is a misleading indicator of the scale of PFI projects because it excludes projects which have been centrally approved but not signed and those which have been advertised following a local decision to proceed.

Although PFI/PPP started with large national, mainly transport projects, it has gradually been extended to city-wide facilities such as courts, schools and hospitals. The government now intends to drive PFI/PPP down to the community level by extending it to provide primary care facilities such health centres and surgeries and to finance improvement of council housing estates.

Conclusion

In a mixed economy, some form of partnership between public and private sector organisations is inevitable, whether it takes the form of contractual arrangements, joint ventures or market transactions. The principle that risks should be allocated to the party best able to bear and manage them is an important guide to the appropriate allocation of responsibilities between private and public sector agencies. On the other hand, the dangers of using contractual arrangements to generate cosmetic accounting improvements have become more and more evident in both the public and private sectors, most notably with the recent collapse of Enron.

4 THE CLAIMED RATIONALE FOR PFI/PPP

How the British government justified PFI/PPPs

The British government admits that private sector borrowing is more costly than government borrowing but claims that PFI/PPPs more than compensate by providing better value for money because:

- The private sector is more innovative in design, construction, maintenance and operation over the life of the contract.
- It creates greater efficiencies and synergies between design and operation. It is claimed that PFI/PPPs result in better services, better value for money and efficiency savings.
- It invests in the quality of the asset to improve long term maintenance and operating costs.
- The discipline of the market place ensure that the private sector manages risk better (Treasury, 2000).

It is also claimed that the government is using private capital as an addition to public investment “to close the all-too-clear gap that exists between the quality of our public sector buildings and facilities and those of the private sector”.[8] These claims are challenged below.

PFI/PPP projects do not bring any extra investment because irrespective of how hospitals, schools and other facilities are funded, they have to be paid for by taxpayers. It is a myth that PFI/PPP is additional investment, for example, 85% of the funds for major NHS capital projects since 1997 have come from the private sector via PFI/PPP schemes (but ultimately paid by the public sector).

The ideological underpinnings of PFI/PPP

Leaving aside the economic and political arguments, the promotion of PFI and PPP has gone beyond the immediate ‘its the only show in town’ and whilst tight Treasury control of public spending forces the public sector into using private finance, a new ideology has emerged to justify this policy. PFI/PPP is now claimed to be ‘the best show in town’!

It is important to understand the ideology underpinning PFI/PPP. It comprises six core elements. These are set out below.

‘Public services can and should be delivered by the private sector’

The growth in marketisation and privatisation will enable private companies to increase their control and influence in policy development and the decision making process. They will also be in an increasingly stronger position, both financially and politically, to launch their own privatised services which could cause a spiral of decline in public service provision as private services replace public provision for the middle classes and public provision is 'targeted' at the less affluent working class and poor. An example of this is council housing. The best quality housing has been sold off through 'right to buy', new council house building stopped and public resources channelled into housing associations. The tenure has been marginalised and now primarily caters for the young and elderly.

'Private management is always more efficient'

There is little evidence to support this claim. There is good and bad management in both the public and private sectors. But the belief in the superiority of private sector management serves another purpose for the advocates of PFI/PPP, because it supports the case for competition, provides a basis for criticising public sector performance and justifies central government intervention in the affairs of local government. For example, the DfEE is forcing some local authorities to outsource LEA functions and bring in private sector management. The irony is that many of these managers once worked for local authorities.

'It makes sense to separate purchasers and providers'

The government is wedded to the idea that it is beneficial to separate strategic policy making from the provision or delivery of services. This is the old mantra of splitting public policy down the middle - separating purchaser-provider or client-contractor. For example, the NHS can remain comprehensive and universal, free at the point of use, but health care can be delivered by a diversity of providers. Advocates of this position also claim that the dividing line between public and private domains is arbitrary and that "the public sector working in isolation could not achieve the type of outcomes that citizens want".[9] This position ignores economic reality that the more that the private sector provides, the more it wants to provide. And increased control of public provision provides the economic power to expand private services which then undermine the principal of a comprehensive and universal service. A diversity of providers will not necessarily lead to improved public services.

'Fair and open competition between rival providers'

The advocates of PFI/PPP believe that competition is the most effective way of obtaining public services and they believe that competition between rival providers maximises innovation and efficiency. This view ignores the fact that competition is virtually always primarily on financial grounds resulting in cuts in services and jobs and it has high transaction costs consuming resources, which could be used to improve services. It is a myth that the benefits of competition are always greater than the transaction costs.

There is no evidence that competition automatically leads to innovation and efficiency. These will always be secondary to the private sector's need to make a profit and protect the interests of shareholders. Furthermore, competition between public and private sectors is not on a level playing field because of their different values and operating systems. The negotiated procurement process for PFI/PPP also means that private interests, protected by the cloak of 'commercial confidentiality', can ensure that private interests are prioritised over social need and public interest.

Competition and marketisation also provide opportunities for business to advocate privatisation, promote policies, which reinforce vested interests, become more proactive in making project proposals and become more powerful in the procurement process.

'Focus on outputs, not inputs'

The switch to focus on outputs and outcomes, not inputs, means that the risks of delivering outputs are transferred to the private sector, for example, "the government no longer needs to build roads because it can purchase miles of maintained highway".[10] Outcomes, not ownership is the new mantra, thus freeing public services from "the straight jacket of monopoly control".[11]

'It does not matter who provides the service'

This is at the root of Labour's 'Third Way' and is only sustainable if one believes that public services can and should be privately delivered, that private sector management is superior to that in the public sector, that government should only purchase services, that a separation between strategic policy and provision is beneficial, that competition is the best way of achieving efficiency, that the ways services are delivered is irrelevant and all that matters is the quality of the final product.

The right wing backlash claim

A further ideological dimension is the claim that Labour must wholeheartedly embrace PFI/PPP in order to 'save' the public sector. The Institute for Public Policy Research in Britain has claimed that it is essential to enforce diversity (privatisation) across the public sector because in five years time if state financed and delivered public services have not improved and were then considered to be failing, there would be a right wing backlash which could mean the end of universal public services. They would be lost forever. The IPPR also argue that PPPs may form a new coalition of support for adequate public spending between non-public providers and public sector commissioners".[12] Surely this is little more than one political party using the policies of another to shield their own privatisation programme.

The 'saving the public sector' thesis is built on a number of assumptions:

- that public services can be partially privatised and that there is a halfway point in privatisation and that this new 'mixed economy' or 'diversity of providers' is feasible and sustainable.

- that private sector management and provision of public services is claimed not to constitute privatisation because assets will be returned to the public sector.

- that private finance, ownership and operation of the welfare state infrastructure will not lead to service and financial failures. There is no evidence that a mixture of public-private provision will produce any additional improvement in five years time.

- finally, it ignores the *current* backlash against privatisation, for example, public support to re-nationalise Railtrack and government acceptance that competition and private hospital cleaning has led to dirty hospitals.

The proposition that 'partial' privatisation is a feasible strategy to block 'full' privatisation in five years time is untenable. It ignores the fact that business constantly wants a larger share of public service 'markets' and some form of halfway position will be used to drive ever-wider marketisation and privatisation across the public sector.

New approach to privatisation

A new twist to PFI/PPP is being promoted by the IPPR and others such as the Office of Health Economics. They argue that that since many PFI projects offer only marginal value for money gains without innovation in design and service configuration, public funding should replace private capital. Projects should become Design, Build and Operate (DBO).

Taking the dogma out of PFI/PPP

The focus on the practical, efficiency and value for money of PFI/PPP projects is a trap. The advocates of PFI/PPP need to narrow the debate as much as possible to exclude discussion about principles, ideology and political beliefs. They want to confine the debate to the 'business' of how services are provided, in effect depoliticising public services. This side steps crucial issues about democratic accountability, the limitations of government by contract, social need and service quality.

Equally significantly, they want to limit debate to the here and now to avoid disclosure about the longer-term consequences of PFI/PPP. This would raise fundamental questions about what happens to public services when they are increasingly provided by transnational companies and the private sector gains monopoly control. They will cease to be public services except in name only. We are encouraged to think that this is 'progress' towards an enabling model of the state but the reality is starkly different.

5 LESSONS FROM THE BRITISH EXPERIENCE

This section reviews some of the lessons for policymakers from the British PFI/PPP experience.

5.1 Core or non core

The British government emphasises that PFI/PPPs are contracts for services, not buildings. They argue that under PFI/PPP public bodies do not buy an asset such as a school but buy the use of a school from the private sector for 25 years. This makes the distinction between support services (or non-core services) such as building maintenance, cleaning, catering, and transport services and core services such as teaching and medical treatment divisive and unsustainable in the longer term. Capital expenditure forms on average just 22% of the total cost of PFI projects.[13]

State withdrawal from ownership and management of the infrastructure has profound implications for core services. PFI/PPP consortia will eventually include private companies bidding to manage schools and local education authorities or private healthcare companies.

PFI/PPPs can create artificial divisions between core and support services, for example, dividing health and education teams both between white collar and manual services and between core services and supplementary activities. Partnership consortia have an economic interest in the performance of the core service within their building. For example, a PFI/PPP consortia has a direct interest in a school's educational performance, in maintaining pupil numbers and ensuring its popularity is translated into maximising income generation from community and business use of the facilities. Conflict and tension will exist between partnership and non-partnership schools over the quality of teachers, which schools are allocated resources for new or special projects and the distribution of any future budget cuts between schools and services. Consortia will, therefore, want to ensure that they have the best teachers and minimum disruption to the running of 'the business'.

Once the private sector controls the operational management of facilities they will be in a powerful position to influence service delivery policies. It makes a nonsense of the team approach, integrated services and joined-up government to which most public organisations have been striving for years.

The current division between core and non-core services is unlikely to be sustainable. The concept of the public sector continuing to provide core staff and buying space in an increasing number of privately managed and operated facilities is not credible. PFI/PPP consortia are also likely to want to expand the range of services provided using lobbyists to continually persuade government. Facilities management contracts are re-tendered every five to seven years to give consortia a degree of 'financial flexibility'. This provides an opportunity to impose substantial changes in the labour process and provide a 'PFI/PPP valve' to relieve financial pressure.

The case for PFI has, in part, been justified on a division between core (teaching, clinical services) and non-core services such as facilities management. This was always fraudulent because a division cannot be made in practice. The government is currently negotiating with private health companies who want complete control of the 26 new NHS fast track diagnosis and surgery centres employing doctors, nurses and all clinical and non-clinical services. In practice PFI is not being limited to the provision of buildings and related services. PFI is operating as privatisation by stealth, privatising those parts which could not, at least politically, be sold off as complete services.

Private sector takeover of 'failing' services and/or authorities is resulting in commercial values being embedded in the public sector. A two-tier public/private system is develop with the public sector increasingly marginalised and residualised. Despite the development of super-hospitals in Britain, twelve of the fourteen first wave PFI/PPP projects had a average 32 per cent reduction in staffed acute beds in the 1996-97 period.

Evidence of moves to include core services are:

The Welsh Assembly blocked a bid by the Conwy and Denbighshire Health Trust in March 2001 to include 23 renal nurses and ward clerks in a PFI project for a new renal and diabetic unit at Glan Clwyd District General hospital. The full business case had been approved by the Trust and the North Wales Health Authority. Staff would have transferred to Fresenius Medical Care had the move not been blocked.

The government is holding discussions with the private sector over the possible private management and operation of the new NHS fast track centres.

The Department of Health has established a joint venture company, NHS Local Improvement Finance Trust (NHS LIFT) with Partnerships UK PLC to finance primary care facilities. The DoH will invest £175m in the company over the next four years with matching equity from Partnerships UK. It will own and lease local health facilities, premises for GPs, dentists and chemists and will initially concentrate in inner city areas. It will extend the principle of PFI/PPP to community facilities. "NHS LIFT is a catalyst for change with the aim of stimulating long term interest amongst a wide range of investors" (see DoH website).

The outsourcing of LEAs, City Academies and the take-over of 'failing' schools by private contractors is likely to lead to private companies employing all school staff, including teachers.

5.2 Relative cost of finance

Government can borrow at lower rates of interest than the private sector. A sample of PFI schemes (excluding NHS projects) concluded that the current weighted average cost of private sector capital on PFI projects is 1-3 percentage points higher than public sector borrowing.[14]

PFI increases the cost of hospital building. Total project costs (construction and financing costs in a sample of hospital projects were between 18-60 per cent higher than the construction costs alone (for example, North Durham 60.6% higher, Norfolk 49.1%, Bromley 35.8% and Greenwich 30.8%.[15]

PFI/PPP availability costs (in effect the repayment of financing and construction costs) were between 11.2 - 18.5 per cent of the construction costs in contrast to 3.0-3.5 per cent annual interest on publicly financed projects.[16]

The government claims that the private sector “can compensate for the higher cost of borrowing” by being more innovative in the design, construction, maintenance and operation over the life of a contract by avoiding “costly over-specification in design”; create greater efficiencies and synergies between design and operation; invest in the quality of the asset to reduce maintenance costs; and to “manage risk better”.[17] These assumptions are challenged in the section below.

5.3 Project costs

Escalating costs are a common feature of PFI/PPPs, for example, Birmingham City Councils schools project rose from £20m for eight schools to £65m (rising to £70m in 2000) for ten schools prior to selecting a preferred bidder (ADLO, 1999). The first 14 NHS projects had an average 69 per cent cost increase between the Outline Business Case and early 1999.

The cost of the new Worcester Royal Infirmary increased 118%, rising from £49m in 1996 to £108m in 1999.[18] This was partly due to an increase in beds from 380 to 452 but £29.9m were probably attributable to ‘financing costs’.

5.4 Value for money

The Andersen/LSE study claimed that the average saving for PFI, measured against the public sector comparator, was 17% based on projects operational by late 1999. However, this was not a technical sample because it was made up of PFI projects submitted by civil servants and excluded all NHS PFI projects.

Other evidence suggests that the value for money claims are much smaller:

The first PFI school project, Colfax School in Dorset, was only about 2% less than the public sector comparator.

The Dartford and Gravesham Hospital is expected to cost a mere 2.8% less than the public sector comparator, the Carlisle hospital indicated a 1% saving and the North Durham hospital Full Business Case indicated a nil saving as the PFI and public sector comparator costs were the same.[19]

5.5 Future commitments

PFI contracts commit public bodies to revenue payments for 25-35 years.

By 1999, future commitments for PFI projects totalled £83.8bn up to 2026.[20] However, they only represent signed PFI/PPP deals and are relevant only if there is an immediate cessation of all prospective deals. Signed deals are a tiny fraction of projects under development and, assuming no policy changes and no change in the speed of approvals, a new stream of projects will develop annually between now and 2026. The financial commitment is more likely to be £415bn, arrived at by assuming that the rate of project approvals in the 1997-99 period continues to 2026.

The cumulative impact of PFI/PPP revenue payments will mean future governments may have to raise taxes, impose charges for services which are currently free, reduce borrowing to finance remaining public services or cut spending in non-PFI/PPP services. "The future cash outflows under PFI/PPP contracts are analogous to future debt service requirements under the national debt, and, potentially, more onerous since they commit the public sector to procuring a specified service over a long period of time when it may well have changed its views on how or whether to provide certain core services of the welfare state".[21]

The true cost of individual PFI/PPPs will not be known for 25-35 years when the first contracts terminate, then all social welfare costs and benefits can be fully assessed. Government and business interests appear very concerned about the intergenerational burden of social policy commitments yet sign up to PFI/PPP projects with little regard for the longer term public cost of PFI/PPPs.

There is no indication that PFI/PPPs are a temporary fix, indeed, quite the opposite as they are now embedded in third way ideology and government programmes. Those who use the logic of capitalism to claim that the state should not own facilities and only provide services are being economical with their analysis. The concept of the private sector owning and managing the infrastructure but stopping short of providing core services is untenable. PFI/PPPs are merely a half way position between public ownership and the total privatisation of health, education and social services. The concept of *joint venture* is not applicable because there is no pooling of resources, the public body withdraws from property and facilities management merely paying usage and service fees as a lessee to repay the private sector's construction and operating costs.

This leaves a smaller proportion of budgets to deal with other non-PFI/PPP services thus limiting an authority's ability to respond to changing social needs and urgent priorities.

5.6 Affordability gap

Because PFI/PPP projects combine the cost of building new facilities with the cost of running them, all of which is paid from the revenue budget, this usually means that revenue budgets must be increased to be able to cope with the additional expenditure. This frequently means cuts in other services. For example, the Outline Business Case for the Wakefield street lighting project showed a £729,000 increase in the annual street lighting budget (£18.2m over 25 years), a 35.3% increase on current expenditure. Three local hospitals were closed to help finance the Dartford and Gravesham PFI hospital. The NHS trust is now planning to close a community hospital to produce further savings.

5.7 Government subsidy

Local government PFI/PPPs receive revenue support subsidy in the same way as if they were publicly financed projects - £800m per annum is allocated up to 2001/02. The NHS effectively subsidises PFI/PPP schemes through three mechanisms - capital charges (paying the same for a reduced asset base), the capital support scheme and diverting block capital funding to PFI/PPP schemes. Ten of the first wave NHS projects receive an annual subsidy of £7.3m because of 'affordability' problems (Gaffney and Pollock, 1999). Accountants Chantrey Vellacott have estimated that the private sector's higher cost of borrowing costs the public sector an extra £50m for every net £1bn of PFI contracts.[22] They also noted that an extra £10bn public sector three-year capital spending 1999-2002 would still leave the public finances well within the Maastricht convergence criteria.

The Scottish Executive is providing £13.8m per annum for the first seven years, increasing to £16.1m for the remainder of the Glasgow schools 29 year PFI contract, representing a third of the unitary payment for the use of the schools.

The Dorset Police Authority (Western Division) PFI project was approved by the Home Office in May 1998 with a PFI credit of £12.4m. Five months later it had increased to £24.2m.

5.8 Transaction costs

Because each party has a battery of legal, financial, management and other advisers and consultants, fees are substantially greater than those incurred in market testing. Disputes during a 25-year contract are likely to bring in another flurry of invoices from advisers.

The advisers costs of the first fifteen NHS PFI hospitals were £45.2m which consisted of £20.4m fees for lawyers, £14.6m for financial advisers and £10.2m for management consultants and other advisers. Adviser's fees represented between 2.4% and 8.7% of the capital cost of the projects.[23]

The Home Office alone spent £5.3m on legal and accountancy fees between May 1997 and March 2001 for PFI schemes in the Prison Service and various IT projects.[24]

The cost of public sector staff time in developing PFI projects and the cost of the procurement process is rarely taken into account. So the actual transaction costs are substantially higher.

5.9 Public sector comparator

The purpose of the Public Sector Comparator (PSC) is to provide a benchmark to assess the potential value for money offered by a PFI project. It is open to manipulation because PFI project teams want to ‘prove’ value for money and can do so by exaggerating innovation and benefits of a PFI option (and also ignoring the problems experienced by current PFI schemes) whilst assuming limited scope for innovation and efficiency improvements in the public sector. They also frequently underestimate the full cost of the PFI option. Costings are included without evidence to support them. Not surprisingly, the PSC regularly shows PFI projects to provide value for money.

However, it should be emphasised that until the Treasury change the regulations to permit a full and comprehensive social, economic and environmental audit of public and private options, the PSC will remain a partial and ineffective method of assessment.

The difference between the public sector and PFI costs may be marginal and could be reversed with a small alteration to the financial estimates. There is evidence that public sector options are constructed to show this option in a negative light. For example:

The PSC often assumes a worst case scenario for the public sector cost calculations, for example, in estimating possible construction cost overruns and delays.

The savings assumptions in OBC spreadsheet may be inflated. For example, the Outline Business Case for the Wakefield street lighting project included ‘PFI savings” in four parts of the costings - the capital costs at 15% (or £2.4m over 5 years), ongoing capital costs of 15% (or £2.5m over 20 years), operating costs at 15% (or £3.8m over 25 years) and energy costs at 7.5% (or £1.45m over 25 years). The total PFI savings built into the PFI model were £10.15m yet the difference between the PFI and PSC costs on a net present value basis was only £680,000. Minor adjustments to the costings would fail to prove value for money.

The PSC may include cost estimates for risks which are not actually transferred in a PFI contract. For example, the PSC for the Cumberland Infirmary PFI project in Carlisle included nearly £5m to pay for the risk of clinical savings targets not being met and £2.5m included for medical litigation. Neither risk was transferred but the net present cost of the public sector option was inflated by £7.2m.[25]

The PSC may also inflate the cost of risks transferred to the private sector. Risks which are transferred to the private sector have to be identified, quantified and costed and these can easily be inflated to make the PFI option appear to provide 'value for money".

The PSC may also fail to show savings required under Best Value in the public sector comparator. It may:

- under-estimate the cost of PFI advisers whilst assuming services will be subjected to frequent marketing testing at inflated costs in the PSC model;
- under-estimate PFI monitoring costs and/or showing higher costs under the PSC model;
- assume ambitious supplementary income streams from advertising or third party use for PFI project whilst not taking account of similar potential income under a public sector option.

5.10 Control of the development process

Gaining control of surplus land and buildings such as school playing fields, vacant land, empty hospital buildings and so on for property development is a key part of PFI/PPP projects for the private sector. They often provide an important source of finance, profit and ensure that surplus public assets are sold for private development.

Land and property deals are a fundamental part of PFI/PPP projects enabling consortia to develop 'surplus' land and building for commercial and residential use but it may take several years for the value of these assets to be realised. Ownership of key development sites adjacent to new highways, airports and ports, particularly in developing countries, will increase the influence of transnationals in economic policy and direct foreign investment.

Some PFI/PPP hospital developments have changed from a mix of refurbishment and new build on existing sites to large new complexes on out of town green field sites. The physical form and financial commitments can distort health care planning. Patients and staff are forced to bear the additional travel costs and government has to finance road improvement, traffic and transport changes.

PFI/PPPs are not simply the replacement of public by private finance but they ensure the privatisation of the development process, operational management, the disposal of surplus land and property, and in some cases, additional development generated by the initial investment. In fact, business has a vehicle for the longer-term privatisation of the core services of the welfare state. Supplying and managing the infrastructure on behalf of the state avoids having to create a private sector market in which individuals pay private insurance and fees. PFI/PPPs are a means of finance capital extracting higher returns from public services than they would otherwise by providing private capital in place of government borrowing and 'contract capital' i.e. transnational service companies and consultants securing long term contracts. They redefine 'public service' because they can remain publicly financed but privately delivered in privately managed buildings.

5.11 Funding of capital expenditure

Local authority PFI schemes receive the same subsidy as public sector capital schemes via Revenue Support Grant, controlled by central government PFI credits for approved projects. PFI credits were increased from £250m in 1997/98 to £800m in 1999/00.

Since the 1990 health service reforms, capital spending has been financed internally by NHS trusts having to make an annual surplus of income over expenditure equal to 6 per cent of the value of their assets (buildings and equipment) and to make a charge for depreciation through capital charges.

Capital spending is heavily dependent on NHS trusts including capital charges in prices charged to purchasers, receipts from property and land sales, and NHS trust efficiency savings.

Before PFI/PPPs, public bodies planned and designed infrastructure projects, raised finance, supervised construction and then operated the facilities. The private sector were usually involved in the design and construction phases. However, financial and construction markets require PFI/PPPs to compete with other investment opportunities, and as the state becomes increasingly reliant (captive) on PFI/PPP projects, markets are likely to force up the cost of borrowing, construction and related costs. Furthermore, market forces will extend throughout the entire infrastructure procurement process. At the next economic crisis, public sector capital spending will again be cut and reliance on PFI/PPPs will be further embedded.

5.12 Changing nature of risk

The public sector has always borne the risk of facilities requiring adaptation as service needs change, of reletting or changing the use of buildings. There are many different types of risk such as construction risk (completing new buildings on time), design risk (the way buildings are used may change), and technological risk (information and communications technology will effect how services are delivered and buildings used). The management of risk has become a profitable industry by packaging or commodifying different types of risk and creating new insurance markets. Partnership projects require the transfer of risk from the public to the private sector (at a cost of course) although the Hatfield rail crash highlighted the reality that the state always bears ultimate responsibility and that risk will never be fully transferred.

The accommodation or transfer of risk has become a central feature both for those who wish to maintain collective risk through universal public provision, and for the marketisers, who want to transfer certain risk, at a suitable cost, from the public to the private sector.

The public sector has always borne the risk that public investment in new schools and hospitals will be adequate for the required level of future demand. Training adequate numbers of teachers and medical staff is another risk undertaken by the state. There are different types of risk such as design and construction risk (overrunning construction costs, adequate space and facilities), operational risk (escalating repair and maintenance costs), financial risk (failure to achieve rent, user fee or toll income targets, fluctuations in foreign exchange and interests rates); technological risk (equipment becomes redundant faster than expected), and residual value risk (value of the building at the end of the contract).

Risk transfer involves identifying the different types of risk, allocating legal responsibility and pricing each element so that it can be recharged to the public sector. Risk is highest in the early years of an infrastructure project but decreases over time so that the later years provide continuous cash flows with declining risk. This is in sharp contrast to most industrial investment where product obsolescence and competition from other firm's increases as a product ages.

But, 'risk' has been commodified (made into a commercial product) so that it can be identified, priced and responsibility legally attributed. Long-term deals are currently being signed on a static concept of risk transfer. But the nature of risk will change as the private sector gains increasing control of the infrastructure, delivery of support services and will be able to strongly influence, if not control, the supply chains of users, the growth of private services in 'public' facilities and third party use of spare capacity. Risk is identified, quantified, attributed and priced. In other words it is monetised.

5.13 Accountability

The accountability of partnerships is a major issue. Companies and private non-profit organisations are generally accountable only to shareholders and directors respectively. Partnership often involves a dilution and merging of public, private and voluntary interests. Whilst a public body will have to maintain a commitment to matters of public interest, a partnership reflects negotiation and accommodation of different and competing interests. Some partnerships focus on the private and voluntary participants supporting the local authority or health authority to achieve its objectives. Partnership by desire is being replaced by partnership by necessity; "an ideology of partnership which seeks to direct important sectors of a capitalist economy collectively - in the public interest - but through privatised means" (Sternberg, 1993, p239). The concept of partnership implies that the state and capital are jointly concerned with the public interest and that either side can ensure that the other delivers its contribution.

Partnerships are sealed by contracts with companies, not committees. Most partnerships are cloaked in secrecy with limited democratic accountability. The state and private contractors collude to protect intellectual property rights using 'commercial confidentiality' to minimise disclosure, participation, assessment of deals and public accountability. In this context, partnership is little more than negotiated privatisation.

At the same time as the state is shedding its responsibility to individuals (and to public sector workers) it is intensifying its commitment to financial and service capital with long term multi-million pound PFI contracts.

Democratic accountability is weakened in the following ways:

- the process of developing PFI projects, particularly in the procurement process;
- disclosure of information with use of 'commercial confidentiality' used to limit the release of information and to constrain any representatives consulted;
- accountability of advisers is limited;
- partnership boards usually have a few hand picked elected members and officers, together with private sector;
- representatives (and sometimes independent representatives) which frequently operate as a cabinet committee and bound by commercial confidentiality;
- negotiations between a preferred bidder and the authority are secretive and behind closed doors;
- reliance on a contract to implement responsibilities which is open to challenge and high legal costs of disputes. The experience of compulsory competitive tendering in local government, market testing in the civil service and NHS and the large central government ICT PFI contracts shows that a contract is no guarantee of service delivery, let alone democratic accountability;
- accountability of the project once it is operational is minimal.

To ensure public accountability of PPP projects it is vital that all contractual details be subject to the scrutiny of the Auditor General and the Parliament.

5.14 Service standards

The performance of the major computing PFI/PPPs has been less than successful. The catalogue of failures and cost overruns is summarised below This provides evidence of project delays, cost overruns, service failures and a failure to transfer risk. In addition, 14 local authority housing benefit and revenue contracts out-sourced to private contractors have caused havoc for service users, elected members and managers in 1999-2001. Five contracts have been terminated.

5.15 Public sector control

The treatment of PFI/PPP assets was 'clarified' by the government and should revert to public ownership at the end of the contract where it is in the public interest and when there is no alternative use for the asset.[26] However, this is likely to be only an academic matter because in 25-35 years time public sector capital spending may have almost vanished and public bodies may not have the capacity or political commitment to assume operational and managerial responsibility for facilities. In these circumstances, another PFI/PPP seems almost inevitable facilities or will be sold at residual value to the private sector.

5.16 Private sector influence

The replacement of detailed outline/output specifications will inevitably mean that private interests and profit-making squeeze out public need in the design and planning of public facilities. Public and community facilities will become business centres as the private sector seeks to maximise income generation and facilities compete for custom. It is galling for those who have long argued for community and multi-use of public facilities that it is suddenly 'public' policy but on business terms, controlled and operated by the private sector.

For example, Glasgow council decided to refurbish 26 secondary schools and build two new schools under a £1.2billion PFI project. However, the 3Ed consortium led by construction companies the Miller Group and Amey PLC, funded by Halifax PLC, persuaded the council to change the scheme to 12 new schools and refurbishment of the remainder.

PFI/PPP has become another legitimate means by which the private sector can profit from public need. The rates of return on PFI projects have varied between 10% and 20%, high by commercial standards.

There are considerable indirect benefits derived by communities from the existence of public infrastructure. Any fair comparison between public sector and private sector performance should take these into account.

5.17 Impact on labour standards and employment

The government and PFI/PPP consortia claim that the higher cost of privately financed projects will be more than offset by the private sector's "better utilisation of assets" and increased operational savings. Facilities management contracts are intended to integrate services, which have often been separately tendered. Increased productivity and financial savings from support services are a core requirement for the viability of most PFI/PPPs.

Another example of the pressure on wages was highlighted by the House of Commons Public Accounts Committee inquiry into the use of PFI/PPP in the prison service following the National Audit Office report into the Bridgend and Fazakerley PFI/PPP prisons. Richard Tilt, Director General of the Prison Service reported that "running costs in the private sector were 8%-15% lower although the public sector was slowly closing that gap. He went on to point out that a security officer in a Securicor prison costs £14,000 a year for a 44 hour week, whilst an HMP Prison Officer costs £20,000 a year for a 38 hour week".[27] On this basis, a private prison with 500 staff would be £75m cheaper over a 25-year period. The Prison Service submission showed the difference in staffing costs was greater than the total saving, thus proving that construction costs were actually higher than the public sector. Wage cuts do not, of course, represent efficiency gains but transfers between managers, shareholders and taxpayers depending on the form of privatisation and the type of service.

Most major cities and towns have a number of private finance/partnership projects in different parts of the public sector, for example, schools, hospitals, roads, regeneration, police, central government agencies, at different stages of development. The Private Finance Initiative is estimated to result in 150,000 transfers and 30,000 job losses between 1998-2007.[28] The cumulative effect of these projects will be more substantial than the comparative loss of CCT or market testing contracts by the same public bodies.

These projects will have a wider impact on employment in each city. Local economy research studies have shown that a multiplier of between 1.15 and 1.24 is applicable to contracting situations and takes into account both jobs loss and the impact of reductions in terms and conditions.[29] For every 4-5 jobs lost in local government, a further job is lost in the local economy.

PFI/PPP is a social justice issue. Most facilities management staff in schools and hospitals are women. They take the brunt of job losses and wage cuts. The Equal Opportunities Commission study noted above showed conclusively that compulsory competitive tendering was discriminatory.

The ‘commodification of labour’ is a technical term but increasingly effects public sector jobs. The government is keen to strengthen certain employment regulations so long as they increase the flexibility of labour and make the process of transfer from one employer to another easier, thus potentially reducing opposition to partnerships and privatisation. Public and private sector workers (jobs) are packaged to make transfer easier. The government has emphasised the importance of having a skilled and committed workforce but this has unfortunately been undermined by other policies, which promote the transfer of staff between employers.

5.18 Impact on in-house services

Although the government has stated that in-house services may be involved in PFI/PPPs on grounds of efficiency, the greater the degree of in-house involvement, the less risk is transferred to the private sector. This means other risks will have to be transferred. Since PFI/PPPs are not limited to new building, contractors can take over services in other buildings on the same or other sites and the subsequent loss of work is likely to lead to the closure or sale of in-house services or Direct Service Organisations (DSOs). PFI/PPP consortia will be well placed to asset strip public sector in-house support service organisations across a city in the process of building their own facilities management operation. PFI/PPP can also mean that new/improved facilities are privately operated leaving the older ones under public control. Thus a process of marginalisation is set in motion with ever increasing disparity between the two sectors.

As DSOs and technical service departments come under increasing pressure from PFI/PPP projects and the transfer of other services, it is only a matter of time before they are acquired by PFI/PPP consortia. The loss of further contracts would threaten the DSOs viability and help the contractor consolidate its market position. Some projects will primarily affect white collar staff, some projects will affect mainly building repair and maintenance work, whilst others will affect the full range of support services. The combined impact of these projects on jobs, pay and conditions could be substantive.

5.19 Best Value

In theory, PFI/PPP projects should be subjected to Best Value appraisal and consultation. In practice, Best Value service reviews are running in parallel with the procurement process. In other words, reviews are being used as part of the procurement process to prepare output specifications. Consultation with users is limited to agreeing the service standards to be incorporated into the Invitation To Negotiate, questioning the basis of the PFI/PPP project is not part of the agenda. The combination of a rigged Public Sector Comparator and a severely limited and distorted Best Value service review (in which the option appraisal has already been predetermined) are used to claim 'value for money'.

A good practice approach to Best Value and PFI/PPP should include the following:

- If PFI/PPP proposals are included in service review option appraisals they should be fully assessed alongside public sector and other options.
- The service review must be able to justify a decision to use a PFI/PPP approach and must be subjected to District Audit and Best Value Inspectorate assessment.
- The entire PFI/PPP planning, procurement and operation phases must be subjected to Best Value consultation with users and community organisations, employees and trade unions and the wider community. This should be accompanied by full information disclosure.
- Best Value service reviews should not be run in parallel with PFI/PPP procurement.
- PFI/PPP contracts should include detailed proposals for the achievement of continuous improvement over the contract period including regular service reviews and monitoring of performance.

5.20 Refinancing PFI/PPP projects

PFI consortia are refinancing deals to substantially increase their profits. PFI/PPP consortia are frequently refinancing projects, which enable them to borrow at lower interest rates once facilities are built and many of the risks have been eliminated. The consortia pocket the difference between the original and new financing costs.

For example, Group 4 and construction group Carillion almost doubled their returns from the Fazakerley (now Altcourse) prison contract. Profits increased by £14.1 million (75 per cent since 1995) of which £10.7 million came refinancing (extending the bank loan period at reduced interest rate and early repayment of other debt), £3.4 million from completing the prison ahead of schedule and lower construction costs. The Prison Service received £1 million for additional termination liabilities.

In early 2000, Morrison Construction packaged five PFI projects in a joint venture with Edison Capital, a financial services subsidiary of the US electricity company Edison International. It is the first example of bundling PFI projects and a step towards the creation of a secondary market.

Refinancing and a secondary market of PFI/PPP projects are likely to have an increasing impact on the scope and content of PFI/PPPs generally. The PFI/PPP lobby consistently under-estimates or deliberately ignores the power that international financial capital and market forces will ultimately have in determining the provision of public services. Yet marketisation means precisely that, with market forces having a powerful influence in the division of labour, risk allocation and the provision of core services.

Reliance on PFI/PPPs in Britain is accelerating marketisation and privatisation, creating an owner-operator industry, which finances, builds, manages and operates the urban, transport and welfare state infrastructure. The construction company-led PFI/PPP consortia of the 2000s could be replaced by consortia dominated by financial institutions and private education, health and social service firms which could merge with facilities management firms to provide a 'holistic' service. The more profitable PFI/PPPs will attract take-overs from other partnership consortia - the previous Conservative government were keen to encourage a secondary market in consortia. Those that struggle financially will also be subject to sale as parent companies seek to minimise losses. Public bodies will eventually have several PFI/PPPs operated by different consortia and contract rationalisation will inevitably take place. Ultimately, they enable the private sector to achieve economies of scale by merging projects across sectors. For example, a city which has three hospital projects, a portfolio of PFI/PPP school projects, several local housing companies, leisure, road and government agency projects will lead to rationalisation and job losses. Secondary trading in projects will have profound implications for services and democratic

5.21 New form of contractor organisation

PFI/PPP has accelerated construction industry expansion into facilities management, extending the scope of the industry from design, construction, building maintenance to a wide range of support services.

Competitive tendering and market testing resulted in two forms of contract organisation, the private firm and the in-house contracting organisation with its own trading account. PFI/PPPs require the formation of a 'special purpose vehicle' or operating company, a separate company in which the construction contractor, financial institutions and facilities management contractor have an equity stake. This company manages and operates the facility including selling spare capacity and vacant space to third parties. The combining of finance, construction and support service companies into a new owner-operator industry has been warmly welcomed by the Confederation of British Industry.

5.22 Impact on public interest

There has been an erosion, or redefinition, of the 'public interest'. In a climate of 'partnership' with a general political consensus about the role of private capital in the economy, policies and projects are approved with fewer fundamental questions being asked. Projects are 'assumed' to be in the public interest, or if private gain is transparent, it is approved because the public sector is getting something it needs. 'Planning gain' has been reduced merely to access to capital with no additional public benefit other than that which would otherwise have been provided by the public sector.

5.23 Procurement and negotiation processes

PFI/PPP imposes a new and more complex procurement process in the public sector. PFI/PPP procurement is part tendering (to select a preferred bidder) and part contract negotiation in which public bodies and PFI/PPP consortia and their advisers haggle behind closed doors. It requires public bodies to develop comprehensive project appraisal and evaluation methodologies and the ability to monitor large performance contracts to ensure contract payments are performance related and that risk is fairly attributed between client and contractor. However, neither the public sector comparator (merely an investment appraisal), the Treasury's Project Review Group criteria nor the National Audit Office best practice guidance refer to employment, equalities or environmental matters.

PFI/PPPs extend marketisation of services far deeper and wider than competitive tendering ever could. It virtually eliminates in-house competition (on grounds that there is no transfer of risk if services remain in-house) and smaller companies (because of large long-term contracts and equity capital in the consortia). Transaction costs are high, up to four times those of competitive tendering, but from the multinationals perspective, they form a useful barrier to market entry. They are ultimately funded by the public sector because they are absorbed into tendering prices and 'the cost of doing business'.

5.24 The balance between capital and the state

PFI/PPPs represent capital and the state forging a new relationship based on negotiated deals, long term service contracts, shared risk and guaranteed payments irrespective of the state of public finances. CCT and market testing were almost entirely labour only contracts but PFI/PPPs require the private sector to provide both a capital asset, maintenance and a wide range of support services. Capital is further embedded in the planning and delivery of public services and extends the enabling model of government.

The commodification of service provision results in social needs being subordinate to financial flows stemming from usage or activity levels, user charges and income generation. The distinctiveness of the public sector is eroded to ease transferability between public and private sectors and the former is reshaped into a residual role. It is changing the state's role in the provision of services, redefining 'public' service and 'public' employee and reducing its role from provision to underwriting, renting, procuring and regulating at an alarming rate.

The government claims that PFI/PPP are 'services' contracts, normally for local decision-making, but the Treasury ultimately controls approvals through the Projects Review Group. This is another example of the centralisation of decision making which will be more extensive over the next decade if PFI/PPPs continue at their current rate.

5.25 Risk of failure

There are considerable risks from not learning from previous experience with PPP and PFI schemes. The following table provides a summary of a number of PFI projects that have been abandoned.

To date some 16 PFI projects (as of November 2000) have been abandoned, mainly because they failed to provide value for money or on grounds of affordability. The schemes include four NHS hospital projects at Sheppey, Maidstone, Portsmouth and Southampton being negotiated with the Rotch Property Group.

Other schemes were:

Transport A21/A27 Weald and Downland Trunk Roads
Street Lighting, South Lanarkshire Council (affordability)

Education:
Carlisle College (VfM grounds)
Hinchley Wood School (affordability)
Stockton and Billingham College (VfM grounds)
Portsmouth University (VfM grounds)

Health:
Greater Glasgow Community and Mental Health Services NHS Trust
Downpatrick Hospital (NI)
Fosse NHS Trust, Loughborough General Hospital (publicly funded)
Orkney Health Board
Mayday NHS Trust Energy project

Other: Cheshire CC Information services
Publicly funded NHS project:
Causeway Hospital, Northern Ireland
Glasgow Royal
Guys and St Thomas's
Royal Berkshire
Rochdale
Central Sheffield women's hospital (previously a PFI project)
Royal Hull
Gloucestershire Royal
Western Hospital, Edinburgh
Wythenshawe Hospital, Manchester (part public/part PFI)

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6 THE AUSTRALIAN EXPERIENCE

Most State Governments now have PPP policies and programs in operation. This section provides a summary and review of selected policies. A number of case studies of PPP projects are provided to illustrate some of the pitfalls and problems associated with the implementation of projects.

6.1 NSW Policy

Guidelines for Private Financed Projects (PFPs) have been in existence in NSW since 1989. Prior to the revision of the PFP Policy in November 2001 the focus has been on economic infrastructure. Economic infrastructure projects totalling $5.5B have been implemented up to November 2001 in NSW.

The revised PFP policy seeks to engage the private sector in a range of activity including social infrastructure and certain related services. The NSW Government states it will deliver core services through the public sector, acknowledging that "..teaching services in education and the clinical services in health are core services". The policy does not however, make a clear distinction between core and non-core services. This is to be determined on a case-by-case basis.

Under the policy PFPs are required to result in a net benefit to the community. Before projects are offered as PFP they need to undergo a public interest test which includes the following criteria:

- Effectiveness
- Impact on key stakeholders
- Accountability and transparency
- Public Access and equity
- Consumer Rights
- Security
- Privacy

'Better value for money'

A key criterion in the NSW policy is 'value for money'. This involves the following elements:

- Improved risk management
- Ownership and whole of life costing
- Innovation
- Asset utilisation
- Whole of government outcomes

The main tool to evaluate value for money criteria is the Public Sector Comparator (PSC), used widely in Britain. Section 7 of the policy describes the PSC in the following terms.

The PSC is a model of the costs to Government of undertaking the project itself through conventional publicly financed and managed approaches. Importantly, to ensure comparability, the PSC will include an allowance for the costs of risks that are likely to crystallise over the life of a project, and which would be allocated to the private sector under a privately financed approach[30].

Guidelines

The Policy for Privately Financed Projects contains the following specific guidelines:

- The government will maintain a competitive and transparent process to provide a fair opportunity for all prospective private sector participants.
- The Government's aim is not to maximise the risk transferred to the private sector, but to optimise the allocation of risks to the public and private sectors according to which party is best able to manage them. This will maximise value for money over the life of the project. The revised guidelines include principles for risk allocation.
- The Public Sector Comparator (PCS) plays a key role in the value-for-money test. The PSC should represent the full long-term life-cycle costs of public sector delivery of the infrastructure related services. The PSC may be disclosed prior to the call for PFP tenders in cases where this will stimulate competition.
- In calling for expressions of interest and tenders, the Government's requirements will be expressed as much as possible in terms of the outcomes sought so as to provide maximum scope for private sector innovation.
- A concentration of expertise is needed in the public sector to assist agencies with PFP proposals and provide government advices to the private sector. A specialist Private Projects Branch, which will draw on expertise from across the public sector, is being established in Treasury.
- The NSW Government will take steps to minimise the potentially high transaction costs associated with PFP projects. This includes achieving a degree of standardisation in contracts; limiting the number of short-listed proponents, normally to three; and normally focussing on projects with a total contract value of $20M or larger, which can include bundling small projects to achieve critical mass.
- Transaction costs will be further reduced and development of the PFP market best served by consistency among States in their PFP guidelines. To this end, New South Wales has worked closely with Victoria in particular, however all State and Territory Treasuries are consulting to exchange information and identify and disseminate best practice.
- Certain sections of the Income Tax Assessment Act, 1936 can adversely impact on project financing. NSW Treasury is working with the Commonwealth Government with the aim of abolishing Section 51AD and modifying Division 16D of the Act.

- Intellectual property is a key issue for all PFP projects, including unsolicited proposals. Government will maintain processes that protect the private sectors' intellectual property rights. Government may seek to negotiate the purchase of intellectual property forming part of an unsuccessful bid.
- Unsolicited proposals will, without compromising genuine intellectual property rights, be market tested to ensure the Government achieves value for money.
- The government will require fair and equitable treatment of public employees who may transfer to a private employer as part of a PFP.
- The government will require the publication of a contract summary for privately financed projects. The summary will be audited by the Auditor-General and tabled in Parliament.[31]

Case Studies New South Wales

Project: Sydney airport rail link

The Sydney airport rail link involved the construction of a 10-kilometre underground railway line linking the Sydney CBD to the airport. The Minister for Transport, Bruce Baird called for expressions of interest for the privately funded airport rail link in October 1990. Minister Baird assured the community that: "The airport link will not require one cent of Government money[32]." The private consortium chosen by the Government included the Airport Link Corporation Pty Ltd (ALC), owned by Transfield Holdings and French group Bouygues SA. The railway link opened in May 2000.

Experience so far:

By January 1994 it was clear that the Government would pay $470 million out of the $600 million cost. The consortium would build and run the stations and collect the ticket revenue for 30 years with the project reverting to public ownership. The government would also design, build and maintain tunnels, tracks and signalling until 2030.

Over the five years since the contracts were signed, the taxpayer contribution continued to grow. In May 1996 the taxpayer had contributed $570 million. Furthermore a station at Wolli Creek added a further $130million, amounting to a bill of $700million. In July 2000 ALC lodged a claim with the State Rail Authority, claiming $15 million. In November 2000 the consortium defaulted on a $200 million loan with the National Bank. The ALC when into receivership on November 30th 2000.

A number of critical problems arose with the project. Passenger levels were projected to be around 48,000 when the link opened, rising to 68,000 within 10 years. In practice they were around 12,000 a day. Problems with the service included; overcrowded carriages at peak times, lack of luggage space and the cost of tickets was high. A one-way ticket from the airport station, Mascot, to Central is $9, compared with $7 on a bus and approximately $22 by taxi.

The end result of this PPP was that the NSW Government had to bail out the project, costing taxpayers $704 million.

6.2 Queensland PPP Policy

The Queensland Government released its PPP policy, *Public Private Partnerships Guidance Material* in September 2001. The policy, "… applies to the provision of public infrastructure and any infrastructure related service delivery that may involve private investment or financing". Like the NSW Government the Queensland Government will determine the extent of private sector involvement in service delivery on a case by case basis.

The policy is applied to projects where the expected capital value will exceed $30M or the Net Present Value (NPV) of the strategic priority will exceed $50M during the term of the contractual relationship.

Principles of the policy

The following principles underpin the Government's approach to PPPs:

- Performance measures should be established to ensure that the quality of the service delivered meets the needs of the community and that the project outcomes are transparent;
- Projects should focus on the output specification (the end result) rather than the input specification (the means of delivery);
- Projects to be delivered under the policy framework must have Government approval, prior to the formal involvement of the private sector;
- The allocation of risk and the commercial framework of the contractual relationship model utilised should be capable of delivering the best value for money outcome for Queensland;
- Private sector participation is to be subject to a competitive tendering process, consistent with the principles of the Government's State Purchasing Policy;
- The principles of transparency and accountability for process and outcomes must be observed, with full recognition of the requirement to protect private sector intellectual capital and commercial confidentially where appropriate;
- The conduct of the public sector should always be such that confidence in the probity regime is implemented and maintained at all times;
- Where possible standardised approaches should be used to minimise transaction cost and time; and
- Where appropriate, incentives for all parties should be considered to encourage a high level of performance.[33]

6.3 Victoria

The Victorian State Government, *Partnerships Victoria June 2000* PPP policy applies "…to the provision of public infrastructure and any related ancillary services which involve private investment or financing". Unlike the NSW PFP Policy which differentiates between core and non-core services, this policy does not detail to that level or does not explicitly highlight that social infrastructure is an area of opportunity.

Within Victoria this policy applies to public infrastructure projects when the present value of payments to be made by the Government (and/or by consumers of a service) will exceed $10 million during the period of a partnership. This figure varies between all three states.

The principles of the Victorian Partnership project are similar to other states. They include:

- Projects should focus on the specification of the end result rather than the means of delivery;
- Projects to be delivered within the *Partnerships Victoria* policy framework must, prior to the formal involvement of the private sector, have the Government's approval;
- The allocation of risk and the commercial framework of the partnership model utilised should deliver the best outcomes for Victoria;
- Performance measures should be established to ensure that the quality of the services delivered meets the needs of the community and that the outcomes of the project are transparent;
- Private participation is to be subject to competitive tendering processes, consistent with the Government's general goods and services procurement policies;
- There should be an emphasis on transparency and disclosure of the processes and outcomes, acknowledging the need to protect commercial confidentiality where appropriate;
- The conduct of the public sector should always be such that confidence in the probity of the partnership model and the way in which it is implemented is able to be maintained at all times;
- Standardised approaches should be used wherever possible to minimise transaction time and costs; and
- Where appropriate, incentives for all parties should be provided to encourage high level performance.

Case studies

Project: Spencer Street Station

On Tuesday the 2nd of July 2002 The Premier of Victoria, Steve Bracks announced that the Government of Victoria would establish a PPP with Civic Nexus for the development of the Spencer Street Station. Civic Nexus includes ABN Amro, Leighton Contractors, Australian architect Daryl Jackson and UK architect Nicholas Grimshaw. Civic Nexus will build the station, worth $350 million, and maintain and operate it for 30 years with total costs of about $100 million. The state will pay Civic Nexus $300 million over 30 years[34].

This facility will be able to handle some 30,000 passengers an hour in peak periods. Modes of transport accessing the station are trains, trams, buses and taxis. It will have an airport style baggage check in, and lounges, cafes, shops.

When this partnership was announced it was the largest public private partnership under the Partnership Victoria Program. Furthermore it is the biggest public private partnership project in Australia currently.

Construction of the station will start by September 2002 and be completed by mid 2005, in time for the 2006 Commonwealth Games.

6.4 Queensland

The Queensland Government claims that "…PPPs are essential for the state's future to help fund massive demands for infrastructure fuelled by Queensland's high growth[35]."

The State Development minister, Tom Barton in May 2002 announced a short list of $2 billion of PPP projects. These included:

- Gateway Bridge duplication, $800 million
- Petrie to Kippa-Ring railway - $200 million
- Paradise Dam - $210 million
- Tugun Bypass $157 million[36]

Paradise Dam was taken off this short list in August, 2002 after concerns about how long the project would take to finalise and the political implications of introducing a full commercial water pricing mechanism. Currently irrigators are subsidised for half of the $40 a megalitre they are currently charged, while a private sector financed dam would have to charge significantly more[37].

The Public Private Partnership policy was allocated $4.2 million budget in 2002 to fund a central co-ordination taskforce over the next three years[38]. Furthermore in September this year the Beattie Government unveiled its policy framework on PPPs. The Minister for State Development will oversee the finalisation of the guidelines.

Case Studies

Project: Airport-city Rail Link

The Airtrain- city rail link commenced on May 7 2001. Airtrain links Brisbane's International and Domestic airport terminals with Brisbane and the Gold Coast. Airtrain Citylink Limited will operate this service under a BOOT arrangement. The private company has agreed to Build, Own, Operate for 35 years and then transfer the rail link back to the State of Queensland. Airtrain is the Queensland's first privately owned and operated commuter railway network. This is a $233 million project.

Contractual arrangements require that the state Government take control if Airtrain fails[39].

Experience so far:

Low patronage levels are threatening the viability of the project. In June 2002 the Beattie Government was reported to be holding talks over the fate of Brisbane's Airtrain, with Treasurer Terry Mackenroth "admitting he is not confident the airport-link can survive[40]."

Project: St Vincent's Hospital (Gold Coast) – Sisters of Charity Health Service

St Vincent Hospital was one of Queenslands first PPPs. Sisters of Charity group built and managed the $48 million hospital. This group runs more than 30 charitable health services, making it the largest such provider in Australia.

The St Vincent's Hospital has 500 staff, 50 private beds and 150 public beds.

Experience so far:

The Sisters of Charity Health Service national chief executive officer Stuart Spring has claimed that "..the funding arrangement with the Government was unworkable[41]." In June 2002 the Beattie Government was forced to take over the hospital due to a financial collapse, with losses of $10million. [42].

8 CONCLUSION

Read at their widest, the policies that have been represented as PPPs in Australia amount to a New Right Utopia. There is no barrier within these policy papers that can prevent State governments being reduced to the point where they own nothing, and their sole direct tasks will be teaching school children and tending the sick. In Victoria and Western Australia, they will also continue to employ our judges. Bravely, Western Australia also promises to continue to employ police and manage 'offenders'. Let's be clear: these policy papers supply no other limits. Beyond these slender commitments, PPPs amount to open slather for privatisation.

The truth is that the policies don't even supply these slender limits. A close reading of the Victorian policy, for example, reveals that the government has only promised to remain directly responsible for 'core' services. The problem here is that, when we go to the definition of 'core', we find that this does not necessarily even include education and hospital services. The policy does not make a clear statement that these are core services, and that they are therefore not subject to the PPP policy. Rather, what the policy says is that these tasks 'are widely regarded as core services'. Note, the policy does not say that the Victorian government regards these services as 'core', only that others do. Given that the paper also explicitly states that the definition of core services will be decided on a 'case by case' basis, strictly, the policy remains utterly open-ended.

This is, perhaps, a form of stealth. Yet it is not 'privatisation by stealth'; rather, it is pure and simple, in your face privatisation, plus a good deal of 'stealth' in defining the real limits of the policies.[43] This is true of all the States. Despite their qualified allusions to protecting so-called 'core' services, all the policies emphasise their open-ended scope. The Western Australian government's policy is perhaps the most explicitly open-ended. In contrast to the vagaries employed to describe the very few functions that the government intends to keep, the policy paper presents an explicit list of areas that the West is actively seeking to privatise. These are: transport and port facilities, health facilities, education facilities, water supply and waste water treatment, electricity generation, transmission and distribution, gas supply and distribution, housing development and new housing estates, land development, and major construction processes. This list, the paper emphasises, is 'non-exclusive'.

Partnerships – beyond the spin!

State governments have all released policy papers that set out privatisation policies, which they insist are not privatisation policies. Lets be clear. Private isn't public. Privatising water, electricity and transport can only mean privatising water, electricity and transport, regardless of whether the government does or does not continue to directly employ judges and police. Likewise, privatising school and hospital facilities, which presently appear to be at the front-line of the PPP policies, can only mean privatising school and hospital facilities, regardless of whether the government does or does not continue to employ schoolteachers and nurses.

Of course, the reasons why our State governments are refusing to say that their privatisation policies are privatisation policies are plain enough. Despite the fact that the Australian public has been barraged by 20 years of bi-partisan pro-privatisation rhetoric, accompanied by a privatisation program valued at around $150 billion - a program that has placed Australia at the top of the world privatisation rankings - the public has remained implacably opposed to the policy.[44] Opinion surveys always show that between 60 and 70 per cent of Australians are opposed to privatisation; an opposition that stretches across all demographics and voting intentions. So entrenched is the public's opposition that even the majority of Telstra shareholders are opposed to the further privatisation of Telstra.[45]

Given the unpopularity of privatisation, our politicians have simply removed the word; they have scrubbed out 'privatisation' and replaced it with a new descriptor called 'partnership', and continued to advance their privatisation policies under this new banner. We will come to the new banner, and then to some of the issues that arise under the new policies. But first, it is worth noting a speech made by the Australian Auditor-General in April, which goes to the most general concern about the validity of the assurances State governments are issuing about so-called 'core' services and the continuing privatisation of the nation's public sector:

> Outsourcing and privatising areas traditionally considered public sector activities indicates that the size of the core is shrinking. A broader issue is whether, over the longer term, the public sector might diminish to a point at which it no longer constitutes a credible, effective or viable arm of sound governance.[46]

This brings us to the second conceptual problem with these policies, which is the insistence that they are not promoting privatisation, but 'partnerships'. Now we all know what partnerships are. We have tennis partners, marriage partners, bridge partners, business partners and so on, and in every case - in all conventional contexts - if the term is to have a distinct meaning, 'partnership' must carry connotations of equality, with the partners working toward a joint goal.

The truth is that almost nothing in these latest privatisation policies can be fairly described as providing for the formation of partnerships, apart from the frequent rhetorical assertions that the policies do have this aim. On the contrary, almost all the detail of the policies testifies to the fact that they primarily aim to establish long-term commercial contracts, provided these represent so-called 'value for money'. This is made unequivocal by the universal stipulation that private firms will only be contracted to supply specified 'outputs'. This automatically necessarily means that the governments will remain solely responsible for the 'outcomes' from the deals.[47] The inescapable conclusion is that the policies thus provide for the establishment of asymmetric business relationships; relationships so starkly asymmetric that they cannot be defined as 'partnerships'. In fact, the policies amount to nothing more than conventional principal-agent contract relations, and principal-agent contract relationships are not, and cannot in any reasonable sense, be described as 'partnerships'.

Thus, it seems obvious that the role of the 'partnership' rhetoric is simply to hide the unpopularity of privatisation behind a term that implies equality, and therefore evokes a friendly glow. There are dangers in this policy marketing rhetoric that go beyond fooling the public. The danger is that the terminology will also fool the governments themselves. The risk is that the positive connotations of equality and joint goals that are associated with the rhetoric of partnership will confuse and tend to disarm the governments and their officials. There are places for genuine partnerships with government. But falsely characterising garden variety principal-agent contracts as partnerships only encourages institutional capture, allowing select private firms privileged access to market and political intelligence and generally interfering with the necessarily hard-headed and unprejudiced evaluation of whether or not the proposed privatisations are socially beneficial.[48]

Costs and benefits

Given that in discussing PPPs we are actually talking about various forms of privatisation, what can we say about the costs and benefits? Let's leave aside the actual open-ended character of the polices, and assume for the moment that we are just talking about the present agenda to privatise schools and hospitals. The first thing to say is that it is mistaken to think that private provision will bring additional funding for these facilities. On the contrary, privatisation is merely a more expensive alternative to funding the infrastructure through public borrowing in the traditional way.

There is some inescapable arithmetic here. Irrespective of whether the infrastructure continues to be collectively funded through the public sector, or is funded by select private firms, there is no doubt about where most of the money will come from: it will be borrowed from the managers of the nation's swelling superannuation funds. The inescapable arithmetic is that the funds will lend money to the government by purchasing bonds for a return of less than 4 per cent, whereas they demand an additional risk premium of 6-8 per cent from consortia that offer private infrastructure bonds.[49]

Moreover, with private firms, someone must also fund the additional cost of raising the capital, involving the structuring of the projects, undertaking risk evaluation, carrying out debt and equity placement, and so on, which is usually 3 to 4 per cent of the total cost.[50] Further, although this is rarely mentioned, we must remember that additional costs also arise because, unlike State governments, private firms must pay tax. While quasi-taxes or tax equivalents may theoretically be applied to the 'public sector comparator' (in the name of 'competitive neutrality' - yes, the national competition policy lurks behind PPPs), this does not remove the private tax disadvantage; it merely transfers its manifestation from the comparator to the Treasuries.

The inescapable arithmetic therefore is that the cost to the public of capital under privatisation is at least double the cost of raising the funds directly through the public sector in the traditional way: instead of the government rate of less than 4 per cent interest on the capital; private consortia must receive between 9 and 16 per cent.[51] In turn, this means that the only way that PPPs can be profitable to private firms is if the service quality is dramatically reduced, the taxpayer gets severely gouged, or large-scale efficiency gains can be found.

It beggars belief to imagine that large-scale efficiencies can be found by privatising social infrastructure such as schools and hospitals. The most likely prospect is that the services will decline. In the UK, where private financing has been operating for some years now, the diversion of funds to cover the additional costs for private hospital development has led to a 30 per cent reduction in bed capacity and a 20 per cent reduction in hospital staff.[52] An extensive study of the record was also undertaken last year by Tony Blair's favourite think-tank, the Institute of Public Policy Research. Although heavily criticised for being a deeply interested attempt to 'talk out' the policy's opponents, the report nevertheless found that the British results showed no significant efficiency gains in hospitals and schools.[53]

This stands to reason, for it has long been recognised that the major opportunity for capturing efficiencies in this area is in the construction phase, which is already conventionally put out to private tender. Conceivably, there may also be some gains to be made by tendering for maintenance, or bundling the maintenance task with the construction tender, although these gains are only likely to be small and they are, in any event, hotly contested in the literature.[54] Regardless, there is no need to sell off private ownership rights or long-term private franchises for schools and hospitals in order to capture these gains.

Risk allocation

So how do the policies justify the additional costs? The magic pudding that fills the cost gap is known as 'risk allocation'.

First, the idea that substantive risk transfer occurs in these deals is conceptually flawed. As mentioned, construction risks, the obvious risks in social infrastructure, have already been privatised. And, as also mentioned, the policies explicitly stipulate that the governments will remain fully and solely responsible for the outcomes in all the privatised policy areas, with the private firms only being responsible for so-called 'outputs'. This means that, if the privatisation of schools and hospitals has adverse impacts on education and health, the governments will continue to carry the can for every residual thing - beyond the specified outputs, and including whether or not the outputs are philosophically, legally, economically, politically and technically adequately specified.[55]

This leaves the major risk that all normal private firms face; the risk that actually gives an authentic meaning to the notion of private enterprise but which is non-existent in these cases. This is, of course, the risk that there will not be sufficient demand for a firm's product, or that it will be undercut by competition. In the case of PPPs, this risk will be completely borne by the governments, since they have all undertaken to guarantee demand for 25-30 years. It is this remarkable government guarantee that underwrites all PPP policies. This is the river of gold for which the private consortia are bidding. Note the contrast between the extraordinary 25-30 year public income security that is to be granted to the new owners under the privatisations, courtesy of the nation's taxpayers, and the receding security it entails for Australian workers.[56] From this perspective, we can say not only that PPP policies are about privatisation; we can also see that, in the most vital sense, they are not about private enterprise.

If none of the major risks are transferred under the policy, how can risk be used to justify the policy? The answer is that the State governments have adopted an idiosyncratic definition of risk. Ever since Frank Knight (1921), conventional economic literature has defined risk as an actuarial concept, applying to randomness that may affect returns that can be specified in terms of insurable numerical possibilities (as with the likelihood of rain, or lottery tickets). Beyond this strict definition, the probability of random occurrences affecting returns is a matter of subjective belief, or the concept shades into the broader concept of 'uncertainty'.[57]

The widespread use of subjective risk assessment, defined in a way that can include any and all possible imaginable uncertainties, is cause for serious public suspicion. A major study of risk allocation in the UK, for example, found that risk transfer was the critical element in proving the 'value for money' case for privatising public hospitals. For the six hospitals subjected to the study, the value of the allocated risk varied by between an extraordinary 17.4 and 50.4 per cent of total capital costs, yet, as it happened, in each case this just amounted to a cost that was sufficient to close the gap between the private and public options, often favouring the private proposal by less than only 0.1 per cent. Since there is no standard method of measuring the value of non-calculable risk, and the UK government has not published the method it uses to arrive at its figures, the study concluded that the 'value for money analysis seems to be no more than a mechanism that has been created to make the case for using private finance'.[58]

The final point on the costs and benefits of the policies is that PPPs also create new and potentially very costly political and technical risks. Given that the policies cannot, and explicitly do not, transfer the residual risks to the private firms, this means that the governments are automatically exposed to moral hazard - or the practice of regulatory gaming in order to shift any unspecified or unanticipated costs back onto the public.

Opportunities to exploit moral hazard are encouraged by the unavoidable and therefore inevitable reduction in public accountability that comes with the attribution of private rights in public infrastructure. This follows by definition, since the public monitoring of private performance, including 'step in rights', can only ever amount to partial supervision; that is, if monitoring is not less than partial, then the government would effectively still remain the manager, or a shadow manager, of the infrastructure - a costly duplication that would, of course, completely destroy any possibility of efficiency gains. The incentives thus encourage partial monitoring. And to the extent that monitoring is partial, private firms capture opportunities to exploit the government's continuing responsibility for the actual policy outcomes.[59]

Aside from the risks that come with moral hazard, the arrangements also create new technical risks. Anyone who has observed the Sydney and Adelaide water infrastructure failures, or who has been following the corporate crisis in the US, will know that there are many ways in which firms can increase their earnings without enhancing productivity by exposing the public to additional risks.[60]

In hospitals, for example, the current proposals will divide the ownership and control of the buildings from the clinical services, yet there is an obvious relationship between the two, since the level of building hygiene is a direct cause of hospital-acquired infections. This will introduce a direct conflict. It will be in the new operators' interest to minimise expenditures in all areas, but in the public interest for investment levels to be technically optimised. Assuming the private operators are risk-neutral rational-maximisers, as PPP policies themselves generally do, this ensures that, at the least, there will be service losses at the margin. In the UK, technical risks have also emerged. At the privately financed Darent Valley Hospital in Dartford and Gravesham, nurses have complained that the design was not conducive to effective care, and equipment was not working properly when the hospital opened. At the new Princess Margaret Hospital in Swindon, the recovery room is located 80 metres from the operating theatre.[61] Other hospitals have faced leaking sewage, unusable rooms, and no air conditioning. Cumberland Infirmary has become infamous for its glass atrium that was too hot in the summer, while in other privately financed hospitals there have been complaints of corridors that are too narrow to turn a trolley and of nurses' stations being placed where some patients cannot be seen. [62]

Similar risks will be opened up in schools. In the UK, where the Blair government is openly subsidising school privatisation, one school discovered that, at the urging of the UK Treasury and education department, its new 25-year contract didn't include the cost of 'furniture and equipment', 'access for wheelchair users', or 'cabling and IT provision'. Nor was provision made for the costs of emptying the classrooms, storing equipment, or replacing it after refurbishment. Other hidden additional costs have also been discovered in the UK's schools. For example, the classroom size set out in the contracts is now too small for the curriculum needs in at least three schools.[63]

The necessary variations that must be made to the original UK contracts will now add substantial new costs on to the schools, which reminds us that perhaps the most important if inherently undefinable risks created by the polices are those which are presently unforeseeable, since they relate to the continuing development of educational and health standards. Remembering that the policies involve 25 to 30 year contracts, we must also remember that, as standards change which require changing building space or servicing requirements, governments will have to deal with today's competitive private provider, who by virtue of the contract will have automatically become tomorrow's private monopoly abuser.[64]

Why have governments gone this way?

If all this is true, if the policy is nothing but virtually open slather for privatisation, which is deeply unpopular within the community, more costly, leaves all the substantial and residual risks with the governments, and creates new risks, we are left with one question, which is why on earth have the State Labor governments gone this way?

There appear to be two interlocking reasons. The first is simply the opportunity PPPs present to exploit an accounting quirk, whereby the liabilities incurred are entered into the public accounts as expenses rather than debt. Here it is important to appreciate that all the fiscal characteristics of the PPPs are exactly the same as public debt, except these funds are more expensive and less flexible. While strictly this means that they will increase the exposure of the governments to financial risk compared with debt, they are not accounted for in the same way and therefore do not incur the same scrutiny or criticism. It is this practice of shifting debt off the balance sheet through a giant web of complex contractual arrangements that has led critics to label the Blair government as 'Enron-on-Thames'. Enron also called its deals 'partnerships'.

The contemporary refusal of the States to maintain, let alone increase, traditional public borrowing has thus opened up the way for PPPs. Let us stress that the present zero public debt policies are driven by nothing but pure populism, or economic irrationalism. There is no reputable rationale in any economic theory for our State governments not to borrow. Australia's public debt to GDP ratio is ridiculously low, at 6 per cent compared to an OECD average of 40 per cent. There is no microeconomic or macroeconomic justification for eliminating this remaining skerrick of debt. Leaving aside empty populist blather about mortgages, bankcards and baby boomers, the common justification that gets trotted out by grown-ups in this area is that public borrowing 'crowds out' more valuable private borrowing by raising interest rates. This is an entirely irrelevant consideration in this case, and it is theoretically wrong in any event.

As John Quiggin has pointed out, the macroeconomic effects of infrastructure investment will be exactly the same whether the investment is made collectively through the public sector or by select private firms.[65] This is to say, whoever does the borrowing, the effects on firms outside the infrastructure sector will be identical. And as Kenneth Davidson has recently reminded us, in any event public borrowing levels do not determine Australia's interest rates. Rather, in globalised financial markets, interest is determined in relation to the world rate, with adjustments for inflation and currency risks. This is an easy point to demonstrate. While Australia has one of the world's lowest levels of public debt, our interest rates are among the world's highest.

By contrast, Japan has the world's lowest interest rate, yet at 135 per cent of GDP has one of largest public debts. Likewise, the US has lower interest rates, but carries three times the level of public debt.[66] Plainly, there is no straightforward relationship between public debt and interest rates.

Thus, the only available conclusion is that, effectively, our States have become imprisoned within their own populist anti-public debt rhetoric. Under the present circumstances, where pressure for public infrastructure investment is intense, PPPs are attractive because they offer the governments a way to take on debt-equivalent obligations, while avoiding the appearance of having done so.

This motivation dovetails with second reason why the States have gone this way, which is that the policies are simply a consequence of the direct political pressure from vested financial interests on the current Labor Governments. PPPs are attractive to the politicians as a way of pacifying or buying off the local lobbies, which, of course, are simply seeking secure public rents. Labor premiers always seem to be vulnerable to these kinds of pressures from the so-called 'big end of town'. This stems from the somewhat absurd but nevertheless lingering idea that Labor is somehow anti-business, or a poorer economic manager than the conservative parties. Labor governments always dread local business charges that lead to headlines like 'the go-slow state', the 'shut-down state', and so on, and hence they are always keen to prove their business credentials.[67]

Which is to say that, as far as can be divined, the policies have not been driven by the State Treasuries. This follows because PPPs deeply offend one of the most basic of Treasury operating principles: the law against hypothecation. All Treasuries hate hypothecation, or the ring-fencing of parts of the annual budget to particular areas. There are two levels of objection. The first and milder objection is to using hypothecation to raise additional money. This is bad, but not so very bad as the second objection, which is to hypothecating existing moneys.

It is not difficult to understand the Treasury objections. The more of a budget that gets immunised from annual management, the less room they have to move and the harder their annual budget task becomes. The more that certain areas are walled off from discretion, the less room they have to adjust for annual variations, and - by definition - the more that the pressure will fall on the remaining parts of the budget. This is an important point to appreciate, and is not well understood in the general community. To restate, the more public money that is hypothecated (tied) to the operation of physical infrastructure, the more that the pressure will automatically increase on the funds allocated for the remaining services.

PPPs create the need for substantial hypothecation, tying tax streams to private rents for up to 30 years. The value of the fixed-capital stock in NSW schools alone is some $17 billion. By definition, the process of continuously hypothecating budget funds to pay expensive rents for this infrastructure must continuously mount the pressure on the remaining service areas.

Since we may assume that self-respecting, professional Treasury officials will be opposed to the policy, or at least policy neutral, we must therefore look to the political pressure that has been placed on the premiers by the business lobbies for the second of the interlocking explanations for the policy direction.
Conclusion: An un-holy alliance

In conclusion, the PPP policies effectively spring from an un-holy alliance between the irrational economics that underpin the zero public debt policy and the special pleading of vested financial interests. Of course, there are no mysteries about why the lobbyists are pushing so hard for the policies. Private consortia will always seek to purchase the benefit of a very secure income stream, with risk characteristics similar to a government security, but higher returns. Who can blame business for chasing the security of government contracts, as they always have? For business, self-interest is the name of the game and PPPs amount to a recession-proof form of corporate welfare. For business, the nanny-state is a very bad thing, unless of course it is business that is being nannied.

There are alternatives

There are alternatives to PFI/PPPs. Governments could choose to increase public sector capital expenditure without risking their reputations as 'sound economic managers'. Government's capacity to borrow on favourable terms or issue public infrastructure bonds is a prudent alternative in comparison to reliance on PFI/PPPs, as British and Australain experience indicates.

Borrowing for productive infrastructure investment accords with the golden rule of public finance that on average over the economic cycle, government borrow only to invest and not to fund recurrent expenditure. With current public debt levels at historically low levels in South Australia and relatively slow economic growth rates, there is an overwhelming case for substantially increasing public sector infrastructure investment in order to underpin higher economic and employment output.

9. ENDNOTES

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[43] See also Christopher Sheil, 'Muddy waters as tail tries to wag dog', Australian Financial Review, 7 December 2001.
[44] For a recent survey, that only managed to find one poll in favour (in the case of privatisisng ports in 1994, and even then only by a 3 per cent margin), see David Hayward, 'The public good and the public services: what role for the private sector?' Dissent, Autumn-Winter 2002, pp. 8-12.
[45] Ibid.
[46] P. J. Barrett (Auditor-General for Australia), 'Implementing adequate supervision - What kind and how much?', Address to a laboratory for politicians and top managers from different public
[47] This is an advance on past policies, since it makes explicit what has always been the case in the context of privatised essential services (see Christopher Sheil, Water's Fall, Running the Risks with Economic Rationalism, Pluto Press, 2000, p. 75). Regardless, the point being made here is that the explicit acknowledgement that this is the case makes nonsense of the idea of 'partnership'.
[48] See also Christopher Sheil, 'Let's drop the PPP: it's simply a deal', Australian Financial Review , 15 February 2002. On the other hand, to the very slight extent that the policies do occasionally refer to conditions that really do suggest characteristics associated with genuine partnerships -- such as the suggestion that is generally made that the governments should share in any 'windfall profits' that the private firms may gain -- the policies tend toward government-business relations that have been heavily criticised in the past under the popular rubric of 'WA Inc'. Once governments have a financial stake in the earnings of the private firms, a whole range of important, difficult and unresolved
[49] For the figures, see: John Quiggin, 'Sums starting to sink in', Australian Financial Review, 1 August 2002; Kenneth Davidson, 'What's left?' Dissent, Autumn-Winter 2002, pp. 2-4; Nixon Apple, 'Welcome to the 5% Club', Dissent, Spring 2002, pp. 8-10.
[50] For the estimate, see Apple, op. cit., p. 8.
[51] The reasons for the lower premium demanded of government has been long debated in the economics profession, and it is generally agreed that the

difference is largely due to inefficiencies and transaction costs associated with private financing, on the one hand, and the high degree of security and liquidity associated with public borrowing, on the other. Yet, whatever the reason, the fact remains that it is cheaper for governments to borrow than it is for private consortia. On the equity premium puzzle, see John Quiggin, Great Expectations: Microeconomic Reform and Australia, Allen & Unwin, Sydney, 1996, pp. 147-53.

[52] Allyson Pollock, Jean Shoal & Neal Vickers, 'Private finance and "value for money" in NHS hospitals: a policy in search of a rationale?' BMJ (British Medical Journal), 18 May 2002; 324 (7347): 1205-9.

[53] Commission on Public Private Partnerships, Building Better Partnerships: the final Report of the Commission on Public Private Partnerships, Institute for Public Policy Research, London, 2001.

[54] For a good discussion of the issues, including the story of the infamous 'Domberger 20 per cent', see Bob Walker & Betty Con Walker, Privatisation: Sell Off or Sell Out? ABC Books, Sydney, 2000, Ch 6.

[55] Again, it is important to emphasise that the explicit recognition that this is the case by the State governments is a policy advance, but, again, the point being made here is that it makes nonsense of risk transfer (see also note 7 above).

[56] See also Sheil (2000), op. cit., p. 76.

[57] For a recent discussion, see Steve Keen, Debunking Economics: The Naked Emperor of the Social Sciences, Pluto Press, Sydney, 2001, esp. pp. 151-2, 211-12.

[58] Pollock et. al., op. cit., Transparency is also a major concern in the Australian policies, as the final contracts will not even be available for scrutiny by the parliaments or Auditors-General, let alone citizens generally. Rather, the policies only commit to making contract summary statements available. The lack of transparency has been a constant source of outrage in the UK. See, for example, George Monbiot, 'Public fraud initiative', Guardian, 18 June 2002, and 'Public disgrace', The Spectator, 9 March 2002.

[59] See also Sheil (2000), op. cit., pp. 71-81.

[60] Ibid. See also Michael H. Granof & Stephen A. Zeff, 'Generally accepted accounting abuses', New York Times, 28 June 2002.

[61] Pollock et. al., op. cit.

[62] Seamus Ward, 'PFI is here to stay', BMJ 324:1178 (18 May 2002).

[63] Melanie McFadyean & David Rowland ,'A costly free lunch', Guardian , 30 July 2002. For another horror story associated with schools and the UK's PFI scheme, see Francis Beckett, 'Private profit, public squalor', New Statesman , 15 July 2002. Nor is it clear how the social returns that are presently captured by schools in their roles as community centres are to be funded under PPPs.

[64] See Walker & Walker, op. cit., p. 178.

[65] John Quiggin, 'Private financing of public infrastructure', Dissent, Autumn-Winter 2002, p. 16.

[66] Kenneth Davidson, 'Myths and mismanagement', Dissent, Spring 2002, pp. 2-7.

[67] See Christopher Sheil, 'Superficial appeal of PPPs falling apart', Australian Financial Review, 24 May 2002.