PPPs: issues and alternatives

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Summary

- History, context, research

- Privatisation and efficiency: the global evidence

- PPPs:
  - global evidence
  - UK evidence

- Things get better in the UK
Privatisation from 1970s

- PPPs/outsourcing already established in France, USA
- IMF & cold war ideology > state economic activity threatens democracy
- ‘Privatisation’ : Thatcher/Reagan strategy to weaken public sector unions
- PPPs: off-balance sheet, higher returns, captive outsourcing
- Forms of privatisation share key roles esp. cutting public employees
- Sectors, form, politics vary: UK, EU, USA, world (?health ?electricity?)

<table>
<thead>
<tr>
<th>Type of Privatisation</th>
<th>Fiscal gain to state</th>
<th>Advantage to corporations</th>
<th>Advantage to political agenda</th>
</tr>
</thead>
<tbody>
<tr>
<td>Privatisation by withdrawal/austerity</td>
<td>Reduces public expenditure</td>
<td>Transfer of value/emp</td>
<td>Cuts state capacity, weakens labour</td>
</tr>
<tr>
<td>Privatisation by sale of SOEs/other assets</td>
<td>Revenue from sales</td>
<td>Transfer of value/emp</td>
<td>Cuts state capacity, weakens labour</td>
</tr>
<tr>
<td>Privatisation by outsourcing</td>
<td>IMF wage bill rules, cuts spend</td>
<td>Transfer of value/emp</td>
<td>Cuts state capacity, weakens labour</td>
</tr>
<tr>
<td>Privatisation by PPPs (also pensions, insurance)</td>
<td>Off-balance sheet debt</td>
<td>Rent, captures public spend, outsourcing</td>
<td>Cuts state capacity, (weakens labour)</td>
</tr>
</tbody>
</table>
Researching privatisation

- Multiple objectives, to support:
  - campaigns against privatisation; collective bargaining;
  - influence political debate, media, academic agenda
- PSPRU/PSIRU: Database on companies: contracts, finances, employment, performance. UK, EU, global
- Inputs: media, official/NGO reports, feedback (> knowledge)
- Outputs: enquiries (+feedback); material for reports, newsletters

<table>
<thead>
<tr>
<th>CATEGORIES</th>
<th>IMPACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workers</td>
<td>- Jobs, - pay/conditions, - security, - unionisation</td>
</tr>
<tr>
<td>Citizens</td>
<td>+ Prices, - quality, - x-subsidy, - equality, - environment</td>
</tr>
<tr>
<td>Corporations</td>
<td>+ Sales/surplus, - risk, MNCs/subsids, cartels</td>
</tr>
<tr>
<td>Economic performance</td>
<td>+ cost of capital, -/= efficiency, ?invest, fiscal illusion,</td>
</tr>
<tr>
<td>Democracy</td>
<td>- accountability, - control/planning, + corruption</td>
</tr>
<tr>
<td>Public sector</td>
<td>- capacity, - employment, = responsibility/risk</td>
</tr>
</tbody>
</table>
Efficiency: no evidence for private efficiency advantage

- IMF consistently sceptical on comparative efficiency claims
  - “While there is an extensive literature on this subject, the theory is ambiguous and the empirical evidence is mixed.” (IMF, March 2004)

- Global meta-review of 80+ studies on outsourcing: “it is not possible to conclude unambiguously that there is any systematic difference in terms of the economic effects of contracting out technical areas and social services” (AKF Denmark 2011)
  - Some signs of efficiency gains in waste, but linked to wage cuts

- Analysis compared performance of all European companies privatised between 1980 and 2009 with that of companies which remained public: found, with a high level of statistical significance, that privatised companies did worse than those that remained public, and continued to do so for a period of 10 years: “the privatization group underperforms the group of sectors remaining public”. (Knyezevas and Stiglitz 2013)
Efficiency: across sectors, no evidence of extra private efficiency

- Water and waste: Meta-review of 27 econometric studies on comparative public/private efficiency in waste and water various countries: “We do not find a genuine empirical effect of cost savings resulting from private production” (Bel and Warner 2010)


- Buses: no significant difference in efficiency between public and private bus operators, or mixed systems: (Pina and Torres 2006)

- Auditing: Australia: ‘outsourced audits are more costly’ (Chong et al 2009)

- Prisons: “privately managed prisons provide no clear benefit” (Lundahl et al. 2009)

- Airports: “Empirical evidence regarding the effects of privatization on the efficiency of airports is scarce and largely inconclusive (Bel and Fageda 2010)

- Rail: global review of rail privatisations finds ‘mixed results’ (Beck et al 2013)

- Telecoms: global study comparing private and public found: “efficiency growth following privatizations ...is significantly smaller than growth in public sectors.” (Knyazeva, Knyazeva and Stiglitz 2006)

- UK privatisations in general: “little evidence that privatisation has caused a significant improvement in performance” (Martin and Parker 1997, Florio 2004)
Healthcare: efficiency advantages of public

- Healthcare:
  - USA private-centered system has relatively poor outcomes in life expectancy, infant mortality, and much higher costs. (OECD)
  - Systemic waste from private processes: in USA “30 cents of every medical dollar goes to unnecessary health care, deceitful paper-work, fraud and other waste. The $750 billion in annual waste is more than the Penta-gon budget and more than enough to care for every American who lacks health insurance....Most of the waste came from unnecessary services ($210 billion annually), excess administrative costs ($190 billion) and inefficient delivery of care ($130 billion)” (IOM 2012).
  - A review of 33 studies of NHS services in the UK examined evidence on outsourcing of cleaning, facilities management, ‘out of hours’ medical services, treatment centres, clinical services, and IT. It found negative impacts of outsourcing on service quality in 18 cases and positive impacts in 4 cases. (PSIRU 2014)
  - Meta-review of studies on healthcare in developing countries finds studies do not support the claim that the private sector is usually more efficient, Basu et al 2012
  - Global systematic overview for WHO of 317 papers on comparative technical efficiency concluded that: “public provision may be potentially more efficient than private..... Summary statistics showed average for-profit hospital efficiency levels at 80.1%, not-for-profit at 82.5%, and public at 88.1%.”
Remunicipalisations in Norway (TNI 2017)

- Oslo waste management services
  - Privatised for 20 yrs, Oct 2016 workers on 90 hour weeks, ‘000s of complaints, municipalised in 2017 > better pay/conds, quality control

- Bergen: bring 2 elderly care centres inhouse, improves pay and conditions, one breaks even, one > surplus of €500k

- Sandnes: child support services outsourced for many yrs, brought inhouse>builds capacity, flexibility, better responsiveness, quality
• Fiscal dishonesty:
  - IMF: “projects have been procured as PPPs not for efficiency reasons but to circumvent budget restraints and postpone recording fiscal costs of providing infrastructure services”
  - Tao Zhang IMF dep director 2016: “there are significant fiscal risks, PPPs are not infrastructure for free”.
  - PPPs have left costly legacies in Ghana, Tanzania, Portugal and Hungary. (Eurodad 2015)
  - Mozambican guaranteed US$2bn loans to finance a PPP program of coastal protection. Project defaulted on loans so government is in financial crisis. Eurodad 04 Jul 2017

• Upward renegotiation:
  - IMF finds 55% of PPPs are renegotiated after about 2 years, 62% > higher prices
  - 2017 Odebrecht corruption in Brazil mainly done by dive bidding on contracts then bribes to renegotiate upwards

• PPP tendering and transaction costs
  - take longer and cost more than normal procurement, and so create additional transaction costs for both governments and companies.
  - A study by EIB researchers of projects across Europe found that the procurement costs averaged over 10% of the total value of each PPP contract.
  - FT 2011: in UK “lawyers, financial and other consultants have earned a minimum of £2.8bn and more likely well over £4bn. In fees over the past decade or so getting the [PPP] projects up and running”.

• Corruption, everywhere
  - Huge incentive for corruption to displace private sector and gain 25 year contracts
PPPs: Burden state finance, crowds out services

- **Imposes debt burden on public finances**
  - In the USA actual first-year revenue of 26 toll roads opening between 1986 and 2004 averaged one-third less than projected. (Bain 2013)
  - All toll roads built in Australia since 2005 have less traffic and less revenue than forecast
  - ‘Take or pay’ agreements impose the cost of excess capacity on public: Water treatment plants under BOT PPPs > high prices or capacity payments, Energy IPPs inflate capacity payments for 25 years
  - PPPs have left lasting, costly legacies in Ghana, Tanzania, Portugal and Hungary. (Eurodad http://www.eurodad.org/PPPs-dangerous-debts-developing-countries)
  - Mozambican government secretly guaranteed US$2billion of loans from Credit Suisse and the Russian bank VTB to finance a PPP program of coastal protection - in breach of its own laws. The loans are now in default so the government is in financial crisis. Eurodad 04 Jul 2017 http://www.eurodad.org/g20-mozambique-loans

- **Crowds out spending on services**
  - In the USA, contracts for private road schemes include clauses giving companies “the right to object to and receive compensation for legislative, administrative, and judicial decisions.”
  - a PPP hospital in Lesotho — supported by the World Bank — eventually swallowed up half of the country’s health care budget while giving a high return of 25 percent to the private sector provider. (Oxfam 2014)
  - A PPP project in Egypt to build 345 public schools told officials that after-school and weekend programs for students were no longer possible because investors wanted to expand their "revenue streams" by having "cultural events" at the schools at night.
PPPs: Value for money assessment of PPPs vs public sector

- Cost of capital: always higher for private sector
- Construction ‘on time’: costly ‘turnkey’ contract
- No efficiency savings
- Real transaction costs and uncertainty
- No reduction in public spending under PFI schemes: government pays

<table>
<thead>
<tr>
<th>Factor</th>
<th>Comparing</th>
<th>Evidence indicates</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Cost of capital</td>
<td>Debt interest + dividends</td>
<td>PPP more expensive</td>
</tr>
<tr>
<td>2 Cost of construction</td>
<td>Comparative costs and completion</td>
<td>PPP more expensive/neutral</td>
</tr>
<tr>
<td>3 Cost of operation</td>
<td>Comparative efficiency</td>
<td>Neutral</td>
</tr>
<tr>
<td>4 Transaction costs</td>
<td>Procurement + monitoring, management</td>
<td>PPP more expensive</td>
</tr>
<tr>
<td>5 Uncertainty</td>
<td>Incomplete contracts, contingent liabilities, impact on service</td>
<td>PPP riskier</td>
</tr>
</tbody>
</table>

- Cost of capital: always higher for private sector
- Construction ‘on time’: costly ‘turnkey’ contract
- No efficiency savings
- Real transaction costs and uncertainty
- No reduction in public spending under PFI schemes: government pays
Alternatives

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>SECTOR</th>
<th>FINANCE MECHANISM</th>
<th>MECHANISM</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>Public transport</td>
<td>Bonds</td>
<td>TFL refinances PFI schemes</td>
</tr>
<tr>
<td>Egypt</td>
<td>Canal/port</td>
<td>Bonds</td>
<td>Suez canal</td>
</tr>
<tr>
<td>South Africa</td>
<td>Electricity</td>
<td>X-subsidy/tax</td>
<td>Rural electrification</td>
</tr>
<tr>
<td>Brazil</td>
<td>Water</td>
<td>Charges</td>
<td>Porto Alegre finances wwtp</td>
</tr>
<tr>
<td>SS Africa</td>
<td>Water, electricity</td>
<td>Taxes/charges</td>
<td>Most infrastructure financed through public finance/SOE</td>
</tr>
<tr>
<td>Sweden/Denmark</td>
<td>Infrastructure e.g. Øresund Bridge</td>
<td>Taxes/charges</td>
<td>100% public, transparency, inc. sub-contracting, AAA rating</td>
</tr>
</tbody>
</table>

- Note scope for tax increases:
  - IMF paper 2013 estimates potential extra revenues from taxes on high incomes, wealth, company profits, financial transactions, and from land and property = huge increase in tax revenues: 33% in high income countries, 50% in middle income countries, 70% in low income countries.
UK: Private Finance Initiative (PFI) (= PPPs)

Cumulative private finance investment and charges over time for all current deals (£ billion)

- **Cumulative investment charges (£bn)**
- **Total charges of current deals £310 billion**
- **Estimated debt and interest payments**
- **Other costs, for example: operating costs**

- **Payments made to date £78 billion**
- **Capital value of PFI deals £58 billion**

**Financial year ending**

- 1996
- 2000
- 2004
- 2008
- 2012
- 2016
- 2020
- 2024
- 2028
- 2032
- 2036
- 2040
- 2044
- 2048

**Notes**

1. Capital and interest repayment is estimated to be 40% of the unitary charge.
2. Capital value of all current PFI deals is £58 billion. If more projects are signed, anticipated charges would increase.

Source: HM Treasury PFI database (updated 15 December 2014)

UK PFI: Much higher cost of capital

- “the effective interest rate of all private finance deals (7-8%) is double that of all government borrowing (3-4%)”
- “over the longer term, as the original investment is repaid, additional public spending will be required to repay the debt and interest of the original investment” (NAO 2016)
- Same point applies to privatised utilities (water, energy, rail): higher private cost of capital > extra £248 per year for all households in the UK

<table>
<thead>
<tr>
<th></th>
<th>Effective interest rate</th>
<th>Annual cost</th>
<th>Lifetime cost all PFI &gt; 2050</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total PFI payments</td>
<td></td>
<td>£10bn.</td>
<td>£310bn.</td>
</tr>
<tr>
<td>of which interest</td>
<td></td>
<td>£4bn.</td>
<td>£124bn.</td>
</tr>
<tr>
<td>PFI implied interest rate</td>
<td>7.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Govt bonds implied interest rate</td>
<td>3.25%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extra cost due to PFI</td>
<td></td>
<td>£2.2bn.</td>
<td>£68.8bn.</td>
</tr>
</tbody>
</table>
UK PFI: other issues

- Selective
  - Even at peak in 2000, PFI/PPPs only finance 16% of UK public sector investment.

- Higher operational costs
  - Sub-contracting e.g. Treasury Xmas tree: £900 via PFI or £40 in shop
  - “Operational expenditure on private finance roads in 2013-14 was three times higher, in proportion to road usage, than similar spending on publicly financed roads” (NAO 2016)

- Crowding-out of other services:
  - 25 year contracts crowds out other spending on staff e.g. South London hospitals
  - Seven health trusts have PFI deals deemed unaffordable by Department of Health in 2012
  - “Private finance provides a short-term cash flow benefit for a department. However, over the long term it will not have an advantage as it will have to spend its future budget (over a 25- to 30-year period) to repay the capital and interest of the debt and a return on the investors’ equity” (NAO 2016)

- Longer procurement
  - “Tendering and financing of PFI/PPPs slow and opaque” (FT); overall time elapsed between decision and financial close can be 5 years or more (NAO 2016)

- Reduced public sector capacity and democratic control/accountability
  - E.g. Network Rail sub-contracting > loss of expertise to monitor tenders
Lessons from London: termination of £20billion transport PPPs

<table>
<thead>
<tr>
<th>PFI project</th>
<th>Start date</th>
<th>sector</th>
<th>Value (£m)</th>
<th>Status</th>
<th>End date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metronet SSL</td>
<td>2000</td>
<td>LU</td>
<td>6700</td>
<td>Terminated</td>
<td>2008</td>
</tr>
<tr>
<td>Metronet BCV</td>
<td>2000</td>
<td>LU</td>
<td>5400</td>
<td>Terminated</td>
<td>2008</td>
</tr>
<tr>
<td>Tubelines</td>
<td>2000</td>
<td>LU</td>
<td>5500</td>
<td>Terminated</td>
<td>2010</td>
</tr>
<tr>
<td>Prestige</td>
<td>1998</td>
<td>LU</td>
<td>1300</td>
<td>Terminated</td>
<td>2010</td>
</tr>
<tr>
<td>Croydon Tramlink</td>
<td>1996</td>
<td>Light rail</td>
<td>205</td>
<td>Terminated</td>
<td>2008</td>
</tr>
<tr>
<td>Powerlink PFI</td>
<td>1998</td>
<td>LU</td>
<td>133</td>
<td>Terminated</td>
<td>2013</td>
</tr>
<tr>
<td>Woolwich DLR</td>
<td>2005</td>
<td>Light rail</td>
<td>177</td>
<td>Terminated</td>
<td>2011</td>
</tr>
<tr>
<td>City Airport DLR</td>
<td>2003</td>
<td>Light rail</td>
<td>147</td>
<td>Terminated</td>
<td>2011</td>
</tr>
<tr>
<td>Connect</td>
<td>1999</td>
<td>LU</td>
<td>475</td>
<td>continues</td>
<td></td>
</tr>
<tr>
<td>Lewisham DLR</td>
<td>1995</td>
<td>Light rail</td>
<td>142</td>
<td>Built</td>
<td></td>
</tr>
<tr>
<td><strong>Total value</strong></td>
<td></td>
<td></td>
<td><strong>20179</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Value terminated</strong></td>
<td></td>
<td></td>
<td><strong>19562</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>% terminated</strong></td>
<td></td>
<td></td>
<td><strong>97%</strong></td>
<td></td>
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</tbody>
</table>

Source: Tfl evidence to HoC Treasury select committee 2011
# UK: Lessons from the London transport PFIs

<table>
<thead>
<tr>
<th>Public sector alternative</th>
<th>Better public sector alternative was supported by elected politician but rejected in favour of PPP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>“the first Mayor of London, Ken Livingstone, and his Transport Commissioner, Bob Kiley, championed an alternative method of raising money, via the issue of bonds secured against future fare revenues from London. This was rejected by the Treasury.” “In comparison [with Metronet], whatever the potential inefficiencies of the public sector, proper public scrutiny and the opportunity of meaningful control is likely to provide superior value for money...”</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Public borrowing is cheaper</th>
<th>PPPs have now been replaced by public borrowing through bonds at much lower cost</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>“replacing private borrowing with public sector borrowing will bring ongoing savings of up to GBP £250 million over the remaining life of the concessions.”</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Government guarantee</th>
<th>The bank loans raised by the PPPs were nearly all guaranteed by the government</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>“In terms of borrowing, the Metronet contract did nothing more than secure loans, 95% of which were in any case underwritten by the public purse, at an inflated cost— the worst of both possible worlds”</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk transfer</th>
<th>Like other PPPs, these were said to ‘transfer risk’ to the private sector</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>“Given that public authorities are typically procuring essential infrastructure, they will need to step in if a PFI contractor fails. Thus risks cannot be truly said to be “transferred”... risk can be fully transferred only if the procuring authority could abandon a failing PFI concession, which is unlikely ever to be the case. ... the private sector is willing to bear significant risk only if it is paid enough.” ; “it is difficult to lend any credence to the assertion that the Metronet PPP contracts were effective in transferring risk from the public to the private sector. In fact, the reverse is the case.”</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Forecast cost savings from PPP</th>
<th>Consultant (PWC) forecast of savings was horribly wrong</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>“As the partnership was being put together, PricewaterhouseCoopers, a consultancy, predicted that the private sector could extract savings of up to 30%, a figure that informed the entire project. But the consultancy published no adequate evidential basis for that figure.”</td>
</tr>
</tbody>
</table>
## UK: Lessons from the London transport PFIs

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>Quote</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating efficiency</strong></td>
<td>Private companies did not contain costs and relied on state subsidies</td>
<td>“Metronet’s inability to operate efficiently or economically proves that the private sector can fail to deliver on a spectacular scale…” ; “The legacy left by Metronet’s former shareholders was one of poor programme management and system integration, ineffective cost control, a lack of forward planning and inefficient fiscal management.”</td>
</tr>
<tr>
<td><strong>Competition</strong></td>
<td>PPP companies favour themselves when awarding sub-contracts</td>
<td>“significant savings have been made through procurement and maintenance efficiencies, namely the re-procurement of maintenance outsourcing… The review and revision of supply chain contracts with the previous shareholders …led to an estimated saving of £0.5bn.”</td>
</tr>
<tr>
<td><strong>Incomplete contracts</strong></td>
<td>Long-term contracts in PFIs for operation, maintenance and services are inflexible</td>
<td>“…PFIs are the least flexible form of contract, in many cases binding both client and contractor to a series of outputs that have diminishing desirability and/or affordability, with much less scope to negotiate change than under other forms of contract.”</td>
</tr>
<tr>
<td><strong>Transaction costs</strong></td>
<td>Tendering, monitoring and managing contracts creates additional transaction costs</td>
<td>“The removal of the need for contractual [management]….and elimination of duplication between LU and Metronet that was inherent in the PPP structure…full integration of back office and support functions activities …[and] procurement and maintenance productivities will enable a cost reduction of £1billion” “the lawyers involved in the PFIs raked in £400m in fees over the course of the contracts.”</td>
</tr>
</tbody>
</table>
UK 2017: labour party manifesto for June 2017 election

- Commits to public ownership and direct labour for first time in 25 years
  - “Public ownership will benefit consumers, ensuring that their interests are put first and that there is democratic accountability for the service.”

- “We will act to ‘insource’ our public and local council services as preferred providers.

- “Labour will bring key utilities back into public ownership to deliver lower prices, more accountability and a more sustainable economy. We will:
  - Bring private rail companies back into public ownership as their franchises expire
  - Regain control of energy supply networks through the alteration of operator license conditions, and transition to a publicly owned, decentralised energy system
  - Replace dysfunctional water system with regional publicly owned water companies.
  - Reverse the privatisation of Royal Mail at the earliest opportunity.

- These commitments were increased and strengthened at Labour Party Conference September 2017, including commitment to
  - no more PFI/PPP deals
  - bringing existing PFI/PPP deals back inhouse
**On privatised water:** “…. Quite why this natural monopoly should not operate through not-for-profit, public interest companies is ever less clear.” [Water privatisation looks little more than an organised rip-off](http://www.ft.com/content/76507f96-d4d7-11e7-87a4-36a0e8b925d0) FT Sep 10 2017 by Jonathan Ford, City Editor

**On PFI/PPPs:** “[PFI discredited by cost, complexity and inflexibility](http://www.ft.com/content/24692dfb-d5ee-9a2e-736b-631a93a369c4)” FT Sep 26, 2017 by Chris Giles, Economics Editor (see also [Xmas tree](http://www.ft.com/content/24692dfb-d5ee-9a2e-736b-631a93a369c4))

**On public ownership:** “For the first time in four decades, an intellectual revolution is taking place in British politics. ...it is the right that risks being left behind. Radical ideas from the hard left ... now have mainstream appeal.” [Tories are being swept away by Labour’s intellectual revolution](http://www.ft.com/content/76507f96-d4d7-11e7-87a4-36a0e8b925d0) FT Sep 28 2017 Sebastian Payne
UK 2017: We Own It and public opinion

• We Own It:
  - national campaign against privatisation since 2013.
  - Leads campaigns, links diverse campaigns, mobilises researchers
  - Against privatisation
  - positive case for public sector
  - specifically aims to shift debate and ideas: counter-Mont Pelerin
  - Facebook [http://facebook.com/WeOwnItCampaign](http://facebook.com/WeOwnItCampaign)
  - [Website](https://weownit.org.uk/)
  - twitter @We_OwnIt

Mont Pelerin Society: first meeting held in Switzerland in 1947
UK 2017: Public supports public

- Big growth in public opposition to privatisation, support for public: new report by Legatum/Populus Oct 2017 “Public opinion in the post-Brexit era: Economic attitudes in modern Britain”

- even Sun (Murdoch paper) reports prominently
Further reading

WORLD


UK

- We Own It  https://weownit.org.uk/

- HoC Library 2015  PFI: Costs and Benefits  www.parliament.uk/commons-library


Selective, small and declining proportion of infrastructure investment

- PPPs only deliver small proportion of infrastructure investment
- In rich countries:
  - PPPs deliver **3.1%** of infra investment; even big users, only 5-10%
  - Most investment comes from public or private utilities own funds, plus government spending

- In developing countries
  - PPPs deliver **6.4%** of infra investment, a **decline** since 2010
  - Source: McKinsey’s 2016 Bridging Global Infrastructure gaps

<table>
<thead>
<tr>
<th>Developing countries</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>PPPs as % of all infra investment</td>
<td><strong>8.9%</strong></td>
<td><strong>8.8%</strong></td>
<td><strong>8.5%</strong></td>
<td><strong>5.5%</strong></td>
<td><strong>6.4%</strong></td>
</tr>
</tbody>
</table>
### PPPs by sector 1985-2009 (OECD 2012)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of PPPs</th>
<th>Value USD $ billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roads (inc bridges/tunnels)</td>
<td>567</td>
<td>306.7</td>
</tr>
<tr>
<td>Rail</td>
<td>153</td>
<td>138.2</td>
</tr>
<tr>
<td>Electricity and gas</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Water</td>
<td>564</td>
<td>105.3</td>
</tr>
<tr>
<td>Other (schools, hospitals etc.)</td>
<td>463</td>
<td>94.6</td>
</tr>
<tr>
<td><strong>World total</strong></td>
<td><strong>1747</strong></td>
<td><strong>644.8</strong></td>
</tr>
</tbody>
</table>

Note also ports, airports, waste management (incinerators etc), computing/IT systems
## Promoters

<table>
<thead>
<tr>
<th>TYPE</th>
<th>AGENCIES</th>
<th>Loan specs, conditionalities, promotion</th>
<th>Direct investments</th>
<th>Promotion</th>
<th>Legislation</th>
<th>Promotion, advice</th>
<th>Private equity, special funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFIs</td>
<td>World Bank, ADB, IADB, EBRD, EIB</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFC</td>
<td>IFC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other global</td>
<td>OECD, G20, WEF</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other regional</td>
<td>EU, UNECE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National govts</td>
<td>Eg Brazil</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consultants</td>
<td>McKinseys, PWC, KPMG, etc</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>Private equity, special funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Note also widespread resistance: NGOs, unions, etc
PPPs: definition and history

• PPP definitions
  - private company finances, builds and operates some element of public service
  - Revenues from
    • (a) end-user charges = “concession”
    • (b) government payments = ‘modern’, ‘PFI-style’ PPP

• Concessions for infrastructure: ancient history (Weever 2013)
  - France water concessions 19th century
  - Indian railway companies, returns guaranteed by India
  - trams and street lighting concessions
  - committee for Ottoman debt: rail etc concessions
  - Lenin, NEP and concessions

• UK, Europe, other OECD
  - UK introduces PFI schemes 1990s
  - Key attractions are: off-balance-sheet keeps within fiscal rules, + extra business/returns
  - Other EU countries eg Portugal, Germany follow; EU encourages
  - Other OECD develop PPPs eg Australia, Canada, S Korea, USA

• Developing countries and global promotion
  - Promotion by IFIs etc, resistance by public organisations
Danish ‘state guarantee’ model

The Danish state

Share capital + state guarantee

Lenders

Loan

State-owned company

User tolls

Railway and road users

Contractual payments

Main contractors (design and build)

Operations and maintenance contractors
UK: Excessively high return on equity

Figure 1
Pre-tax Blended Equity IRR versus the Benchmark Cost of Blended Equity Benchmarks (Higher/lower equity risk premium)