

BAD business\$

Schools need better facilities, but handing over government responsibilities to big business is no solution. **Danielle Townsend** reports.

Classroom looking really shabby? Major maintenance required? Temporary classrooms crowded around the fringes of your school?

Many schools are suffering from long periods of neglect and a lack of spending on adequate facilities, but governments have failed to act. An increasingly popular solution put forward by state governments is to form public-private partnerships (PPPs), which involves the private ownership and development of public infrastructure such as schools, roads, hospitals and prisons.

But a new report commissioned by a group of public sector unions including the AEU refutes the idea that private consortiums should own and manage public infrastructure projects. The report, *Financing Australia's Infrastructure*, by Strategic Economics, looks at better ways of financing infrastructure development.

According to Rob Durbridge, AEU Federal Secretary, governments are failing to consider alternatives to the private finance option. "In this report we put forward a whole lot of other ways that they can get good cheap capital for investment," says Durbridge.

"Instead of making agreements with private finance corporations which are going to make a profit out of this, if capital is an issue, why not make agreements with superannuation funds and other not-for-profit bodies

whereby everybody wins, rather than some international finance house."

PPPs in education already exist in New South Wales and Queensland. In NSW, nine public schools have already been built using the PPP model, with the government just announcing a further nine will be built by 2010. The NSW Government has made clear that it has no intention of publicly funding further school-building in the short term.

Funding irony

The NSW Teachers' Federation has opposed the use of PPPs to build these schools from the outset, stating that the building of schools is clearly a government responsibility. "We want and need new schools," says Angelo Gavrielatos,

"We condemn the government for privately funding public schools, while publicly funding private schools."

NSWTF Senior Vice President, "but the answer does not lie in private funding."

Gavrielatos says that the irony of this funding policy is not lost on teachers. "We condemn the government for privately funding public schools, while publicly funding private schools," he says.

In Queensland the government announced late last year that a PPP with an Axiom consortium, the same company that built the first nine

schools in NSW, would develop the new Southbank Education and Training Precinct to replace the existing Southbank Institute of TAFE.

The Queensland Teachers Union is against the use of a PPP to develop the site and TAFE Organiser Paul Reardon suggests that the Government was not entirely convinced either. "You get the impression that the Government would have preferred not to have a PPP, but the political pressure from industry which developed the proposals was strong," he says.

Reardon says the QTU's concern now is to ensure that educational, equity and industrial standards are protected. "It looks like the commercial world will be well and truly represented in the precinct, with retail and overseas student accommodation, but there are questions about whether child care will even be offered," he says. "Once again women are shut out of education. You just wonder who has control over the plans."

In both NSW and Queensland the buzz words from the Premiers have been "value for money". But Durbridge says that won't be the case. "It's a myth that it saves money," he says. "That's exactly what the Queensland Government have been saying up until now, but then they've gone ahead and done it."

The Federal Government has also recently embraced the idea of PPPs, planning to revise rules that will make it easier for government to form partnerships and give private contractors a slice of the government's multi-billion dollar spending program. It is only a matter of time until we see private development of federally funded education facilities.

The proposed Australian Technical Colleges (ATCs) have been flagged as a "classic opportunity for a PPP" by Dennis O'Neill, the chief executive



officer of the Australian Council for Infrastructure Development. This would not be surprising given the already heavy influence of business in the establishment and running of the ATCs.

Manipulating the balance sheet

There's no doubt that PPPs can provide local communities with bright new schools, but Durbridge warns of the danger of being given limited options. "I think teachers basically want decent places to work," he says. "Given the choice between a new school and no new school, what are people going to do?"

According to Durbridge, governments must go back to basics in terms of service provision. "We shouldn't be comparing a PPP to second-rate public service provision and neglect. We should expect nothing less from government than first-rate quality public provision, including school infrastructure." In an earlier report called *Paying for Private Profit*, also produced by economic consultants Strategic Economics, the authors challenge the current 'policy rage' for PPPs and many of the myths that support their use (see box). The authors explain the real attractiveness of PPPs to governments, which is that they reduce government debt. While that doesn't mean that governments don't have to pay for the infrastructure, and in fact often pay more through lease

ATAGLANCE

■ State governments are attracted to the idea of using PPPs to build new schools and facilities as a means of reducing public debt

■ Private ownership of public infrastructure threatens the integrity of education and other public services

■ The UK experience confirms there are serious financial problems associated with PPPs

■ Alternative funding options are available and should be pursued.

payments over a period of decades, it does change where the expenditure item goes on the balance sheet.

"It's an accounting issue, designed so the accounting firms that rate governments will think they are better than they are," says Durbridge. "It's a manipulation."

The question of how to fund infrastructure is a real one though and there is no doubt that in education there is a great need for new schools and facilities.

Financing Australia's Infrastructure questions the need for governments to resort to private enterprise to finance the development and maintenance of infrastructure.

The report outlines some alternative models that governments could consider to assist them with capital investment. These could include local community investment funds, the creation of bonds for general or specific purposes and other methods of managing government debt for infrastructure development to make it more cost effective.

Durbridge points to providing opportunities for superannuation funds to invest in public development, thereby sharing the opportunity to profit, rather than allowing it to go off-shore or into the hands of private shareholders. While these methods would undoubtedly require a more "hands-on" approach from governments, they would also stem the flow of public funds to private profiteers.

Lessons from the UK

AEU Federal President Pat Byrne has recently visited the UK to study the result of five years of private involvement in education projects, called private finance initiatives (PFIs) in the UK. She found that, while local communities are happy to be getting beautiful new schools, the hidden costs are beginning to bite.

In many of the first PFIs, private providers were contracted to provide cleaning, maintenance, security and food services. Viewers of the television program *Jamie's School Dinners* will be aware of the problems encountered by celebrity chef Jamie Oliver when he challenged the appalling nutritional standards of school meals. The government has responded by attempting to provide leadership and ban junk food. But the reality of 25-year contracts with private contractors has made the task much harder than it should be.

This is the kind of obstacle caused by PFI agreements that is only now starting to surface, according to Byrne. Reports have emerged of schools being locked into retaining vending machines that undermine the school's healthy eating philosophy, or long delays on repairs while the private partner denies its responsibility for some kinds of maintenance.

"We've heard some awful stories about Local Education Authorities (LEAs) not realising what they have to include in the contract until later, and then there's no scope for negotiation," says Byrne.

"But schools and the LEAs are becoming more experienced and things are slowly improving."

Byrne says that many of the latest agreements do not include all the extra services, apart from building maintenance and security. "Private providers are finding that many school



services are not exactly a capitalist's dream; you don't make millions from school lunches!" she says.

However, to provide an additional income stream, many private developers rent out the school buildings and facilities to the local community. "Then you have real issues like who's responsible for security," says Byrne. "What is happening is that the principal's time is taken up with arguing about these management issues. That's not a useful way to spend the time of your educational leader."

These are the concerns on the local level that come with the promise of new school facilities, but the larger concern is the involvement that private business has in the education system. In the UK, the Government has allocated 5.1 billion to the *Building Schools for the Future* project for schools capital investment through private partnerships.

These funds are coordinated through a national non-government body that assists the Local Education Authorities (LEAs) to set up PFI partnerships. "The private sector has an 80 per cent shareholding in the partnership," says Byrne. "The LEA has a 10 per cent share and the education department has 10 per cent."

"There are real concerns that the key decisions about education get transferred to a model in which the local authority only has a ten per

cent stake," she says. "Because the bulk is owned by private enterprise, the concern is 'will they also own the curriculum and turn education into something utilitarian?'"

The PFI makes the relationship between the school and private enterprise a long one. Most of the contracts in the UK and Australia are for between 25 and 30 years. In the UK there may soon be a good test of the ability of these contracts to provide long-term security for the LEAs. Jarvis, one of the major businesses that has education PFI contracts, is struggling financially, with the potential to go broke, leaving many unfinished projects and half-completed contracts.

In this case, the government may end up picking up the pieces, demonstrating the risk of the PFI projects. "At the moment there aren't any answers about who would take over responsibilities," says Byrne. The lesson for Australia is that, where PPPs are occurring, extreme care needs to be taken to ensure that educational integrity is maintained and that communities are not disadvantaged by the contracts. It is doubtful that this is entirely possible where private enterprise is involved with public projects. This message may have come too late for some school communities in the UK. ■

DANIELLE TOWNSEND is a contributing editor to *Australian Educator*.

Debunking the MYTHS

In the *Paying for Private Profit* report, the authors take a look at 10 myths about public-private partnerships:

MYTH 1. BY REDUCING THE CALL ON PUBLIC FUNDS, THE AMOUNT OF FUNDS AVAILABLE FOR ESSENTIAL SERVICES IS INCREASED.

There is little evidence that the 'savings' are actually spent on increased services. They are more likely to be used to retire debt. In fact, because the private sector requires a higher rate of return on investment, private financing of infrastructure can often end up costing more than if the public sector financed the project itself.

MYTH 2. PRIVATE SECTOR INVESTMENT ACCELERATES THE AVAILABILITY OF COMMUNITY GOODS AND SERVICES.

While there is some short-term attraction in the argument that goods and services are available sooner to the public, it does not take into consideration the long-term financial liabilities that accumulate with this strategy. What it also assumes is that there is no alternative method of raising public, sector funds for investment, which is not the case.

MYTH 3. THE PRIVATE SECTOR IS INHERENTLY BETTER AT PROVIDING SERVICES.

Private sector failure is too well documented to argue that the private sector is inherently efficient and effective. It is very difficult to compare the two, because the public sector has responsibilities to

equity, access and the community that are not part of the private sector's essential motivation.

There is sufficient evidence of efficient public-sector provision, where the objectives are clearly stated, to show that the statement is myth. The failure of PPPs in the UK, where services have dropped since their introduction, indicates that there are serious problems with private provision.

MYTH 4. PRIVATE SECTOR INVOLVEMENT IN THE PROVISION OF GOODS AND SERVICES IS FREE OF POLITICAL INTERFERENCE.

Removing the provision of services from the public sector does not eliminate the potential for corruption, poor resource allocation and inefficiency. In many cases the growing interdependence of government and business caused by partnerships increases the risk of influence and interference on a political level.

MYTH 5. PRIVATE SECTOR INVOLVEMENT REDUCES THE LEVEL OF FINANCIAL RISK TO GOVERNMENT.

While, in the short term, PPPs reduce the financial risk to government and improve the balance sheet, the risk to government is that they fail to maintain control. When public projects funded by private enterprise go wrong, governments still end up underpinning the outcomes. Though the risk is not accurately reflected in government accounts, it is still maintained by government despite the involvement of a private partner.

MYTH 6. PPPs REDUCE TAXATION.

PPPs don't provide free goods and services, as users of the increasing amount of toll roads will attest. There is a long-term impact of 20 to 30-year leases that the government is required to maintain along with the real cost, and therefore tax liability, of maintaining PPPs.

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MYTH 7. THE USER PAYS PRINCIPLE IS INHERENTLY A FAIRER WAY OF PAYING FOR SERVICES.

The cost of using services provided by a PPP is not fair because it does not take into consideration the user's ability to pay. When a PPP exists, the government tends to close or incorporate into the PPP its own services, forcing the user into relying on pay-per-use services regardless of their financial situation.

MYTH 8. PRIVATE SECTOR INVOLVEMENT CAN INJECT WORLD BEST PRACTICE INTO SERVICE PROVISION.

While partnerships often do result in an exchange of information and skills, it is often out of the public sector and into private business. The existence of a web of PPPs in public service provision can also create a level of unnecessary complexity that requires its own maintenance. A good example is the privatisation of British

Rail, which has gone from one organisation to 43 contractors and approximately 1,500 subcontractors, increasing costs without increasing service.

MYTH 9. THE INTRODUCTION OF NEW PLAYERS WILL INCREASE EMPLOYMENT AND IMPROVE CONDITIONS.

While new investment in infrastructure will create new jobs, it may not increase overall employment. Experience suggests that if a PPP takes over service provision the result is often a net reduction of jobs as a result of reducing expenditure. In addition, when employees are transferred from the public sector to the private sector there is most often a reduction in pay and conditions.

MYTH 10. PPPs IMPROVE ACCOUNTABILITY.

While performance contracts are often used in PPPs, in practice they are often not used to terminate a contract. It can be difficult to assess performance when the data must be provided by the contractors themselves and many mechanisms can be used to inflate or deflate statistics. Also, in practice, the cost of terminating a contract and renegotiating with another partner makes the likelihood of real accountability improbable.

Summary of the report: *Paying for Private Profit: A review of the public-private partnership model in the provision of community infrastructure and services* by Strategic Economics.