



Private profiteering or Public Private Partnerships

1 Introduction

In 2005, an Annual Conference paper was prepared by Executive called 'Threats to New Zealand's public education system.' That paper signalled a number of threats that have evolved from the disestablishment of the Department of Education and the removal of infrastructure support. However, PPTA has no formal policy position on the full range of forms of privatisation, nor specifically on public private partnerships (PPPs). Until now, PPTA has not offered formal advice to members about how to tiptoe through this particular field of tulips.

2 Background

2.1 The Tomorrow's School vacuum

There has been a long-term scaling down of the role of central government in education in New Zealand, from a Department of Education that had clear authority and influence to a Ministry of Education that devolves (for which read abdicates) responsibility for policy implementation to school leaders and the volunteers from the community who are elected to boards of trustees.

This has resulted in an emerging gap – or divergence – between policy development and actual implementation and practice in schools. This vacuum is filled, in part, by a hotchpotch of contracted services or no services at all. One example is the patchy professional learning support that is supplied to secondary schools and secondary teachers via the School Support Service contracts. A number of groups have seized the opportunity to fill some of that space with services that are not provided system-wide in any consistent or reliable sense.

2.2 Enter the entrepreneurs, stage right

Some, though certainly not all, of the groups filling that space have a self-interested, entrepreneurial streak. There is potential for significant amounts of money to be made from the public education system by private companies or bodies corporate.¹ Such groups seek to influence the direction and provision of education at local and national levels by working in partnership with schools, Crown research institutes, local bodies and business. This is not a new phenomenon, as evidenced by partnerships that have been formed internationally between the OECD and Cisco, Microsoft, Intel and the Gates Foundation.

The Secondary Futures initiative in New Zealand, originally another OECD project, fuelled a desire on the part of many groups previously outside the traditional education sector to contribute to and become closely involved with education in a range of contexts. Some of these newcomers are seeking approval from PPTA or seeking to engage with PPTA as partners in their endeavours. Some have flagged their motivation as philanthropic and believe they offer a constructive and powerful base for change. Certainly, cash-strapped schools in need of funding and expertise are grateful for any offers of help and may not always have the luxury of considering the wider implications.

¹ For information on the newly elected UK government's plan to encourage the establishment of "for profit schools" go here: <http://www.ppta.org.nz/index.php/ppta-blog/the-martians-have-landed.html>



3 Curriculum and assessment Influences

3.1 OECD 'leadership'

The OECD regularly produces international league tables that rate the efficacy of member countries' education systems. PISA reports are one example. These rankings can exert a heavy influence over member countries' policy development in a number of ways. In New Zealand, for example they have led to a statistically-dubious focus on the so-called 'tail of under-achievement', a 'tail' who in fact still achieve above the OECD average according to the 2003 PISA report on reading. The push for a 'high quality/high equity' education system is also entirely a result of OECD league tables.

3.2 There's gold in them thar league tables

The OECD governments themselves identify multinational corporations as having huge financial resources that can be accessed, through PPP arrangements, to support the policy development that league tables give direction to. The OECD, along with the World Bank in relation to developing nations, provides advice to governments on 'best practice' in forming PPPs. For their part, the multinationals probably see money to be made in developing tests and managing the assessment process. There is a risk that national education interests in relation to curriculum policy may become subservient to the interests of global capital, advanced and nurtured by the OECD.

4 Teaching workforce influences

4.1 The most dangerous man in America...

Another area of policy development that interests multinationals is the teaching workforce. The *Education Weekly* reports that the Bill and Melinda Gates Foundation is pumping millions of dollars into American school districts:

to implement plans to reshape key aspects of the teaching profession, including evaluation [for which read performance management], compensation [for which read performance pay], and professional development.²

The grants range from \$40m to \$100m, 'as part of the Foundation's \$500 million overall strategy to study, define and promote effective teaching'. The article goes on to say that:

Each [site] will begin by setting out a definition of effective teaching [i.e. standards], crafting a new system for evaluating teachers on a combination of measures, and offering personalised feedback to teachers based on the results.

This has not been without challenge and controversy; the ethics of the Gates agenda, which includes the ruthless closure of public schools to replace them with Gates charter schools,³ have been subject to serious criticism.⁴

²<http://www.edweek.org/ew/articles/2009/11/19/13gates.h29.html?tkn=QLNFD5YKbU5CCSNbSqqaGN8%2F77rSE98uzH>

³ There is an assumption that charter schools are always better than public schools. Actual research suggests otherwise: "[A] massive study by Stanford University, looking at data covering some 70 percent of all charter school students nationally, found that bad charter schools outnumber good ones by a ratio of roughly 2 to 1 – and an astonishing 83 percent of charter schools were either no better, or worse than, traditional public schools."

Retrieved from:

<http://seattleeducation2010.wordpress.com/2010/07/20/schooling-arne-duncan-i-met-with-the-united-states-secretary-of-education/>



5 PPPs for school property – appearing soon at a school near you

5.1 Anne Tolley promotes PPPs for New Zealand schools

In several OECD countries governments have negotiated PPPs for school property, usually so that private interests can build new schools and then maintain them for a set period of time. PPPs for school property are now being pushed in New Zealand.

On 4 December 2009, Education Minister Anne Tolley signalled that the Ministry of Education and the Treasury were assessing the suitability of PPPs for building and maintaining some new school property. She said:

Under a PPP the sector partner would be responsible only for the school property for the term of their contract. The operation of the school would remain the responsibility of its board of trustees, and the land would still be owned by the government. PPPs for new school property would use the skills and abilities of the private sector to finance, build and maintain a new school.

In answer to the question of what this would mean for students and teachers, she said:

The proposed project will have no impact on students and teachers. If a project goes ahead there will be engagement with teachers, the community and board of trustees during the planning, design, procurement and tendering process.⁵

5.2 The fine print

While all this may sound fine, the fact is that business interests are lining up to participate in any such projects because there is money to be made. Craigs Investment Partners and Morrison and Co have launched a \$125 million fund to invest in the government's PPP vehicle, Public Infrastructure Partners (PIP).

6 Public private partnerships or private profiteering?

6.1 The Auditor-General's warnings on PPPs

There are other reasons to be cautious about going down this path. In February 2006, the Auditor-General published a report⁶ in which he warned that: '*Public entities are ultimately accountable for delivering public services, and cannot transfer this responsibility to the private sector*' (p.25). The report discusses in detail the risks of PPPs, and the careful and skilled management that they require. Some of the identified risks are listed below:

- The public entity needs '*a high level of expertise to implement partnering arrangements successfully*' (p.18). Poor contract management by the public entity was identified as a significant risk (p.28).
- Effective governance is required throughout a project (p.25).

⁴ http://www.huffingtonpost.com/leonie-haimson/the-most-dangerous-man-in_b_641832.html

⁵ <http://www.beehive.govt.nz/release/ppps+being+considered+new+school+property>

⁶ Controller and Auditor-General (2006). *Achieving public sector outcomes with private sector partners*. Wellington: Office of the Auditor-General.



- Poor performance by the private sector party may adversely affect the state's delivery of core or essential public services (p.28).
- A change in political control of the public entity may result in a change of policy that affects the partnering arrangement (p.28).
- There are difficulties in allocating risk, because the state is ultimately responsible. The Auditor-General's report cites a hospital project in Australia that required state intervention when it became apparent that delivery of services could not be guaranteed. In the end, the company '*was able to avoid the full financial risk obligations embodied under the contractual arrangements*' (p.32).

The report comments that these risks can adversely affect the '*value-for-money outcome of the project and damage the reputation of both parties*' (p.28).

6.2 Even Treasury has doubts

Advice from Treasury the following month was far from positive about PPPs.⁷ While some advantages were listed, these were mostly qualified. There were also four major disadvantages identified:

- Tendering and negotiation: PPP contracts are much more complex because they need to build in all possible contingencies for the length of the contract (typically 25 to 30 years);
- Contract renegotiation: The pricing of variations can be very tricky, with the Crown often ending up "*paying a heavy price, since the price is not determined in a competitive bidding context*";
- Performance enforcement: Some kinds of performance are hard to specify, for example maintaining good customer relations or avoiding public relations blunders;
- Political acceptability: Examples of political risk include the private sector party going bankrupt or making inordinate profits; either can make PPPs politically unacceptable.

Trevor Mallard, who was Associate Minister of Finance at the time, commented to PPTA that the Treasury and Auditor-General's work had led him to conclude that PPPs were a bad idea for New Zealand, for the following reasons:

- Whereas in the UK there was a very centralised system that was suffocating innovation in school property, devolution in New Zealand meant that there was already considerable innovation.
- The public sector could raise finance far more cheaply than the private sector, and private partners needed to factor profit into the equation whereas the state did not.
- There was no advantage to the government's books; the project still showed as a liability because of the risk that the private partner might fail, and there were also ongoing operational costs to show.

⁷ Katz, D. (2006). *Financing infrastructure projects: Public private partnerships (PPPs)*. Wellington: NZ Treasury.

6.3 Privatised the profits: socialise the losses

The possibility that a private partner might fail and the taxpayer will have to pick up the costs is real. In the UK, the public service union Unison has been campaigning against what are called there PFIs (Private Finance Initiatives), citing a number of disasters in the areas of:

- inadequately budgeted projects, leading to extra costs to the taxpayer;
- design problems;
- late delivery on projects;
- failure to deliver, causing costs to be transferred back to the taxpayer.

Ultimately, of course, when a project goes bankrupt, or when contractual commitments have to be adhered to or expensively altered because the user's needs have changed, it is the taxpayer who ends up footing the bill. There even have been cases in the UK where the taxpayer has had to continue to pay the PPP contractor despite the school having closed.

Brighton Council had to pay PFI contractors £4.5m when Comart and Media Arts School closed six years after being rebuilt. Balmoral High in Belfast closed six years after it was built, when pupil numbers halved. The Northern Ireland Department of Education now owes the contractor £370,000 a year for the next 18 years.⁸

Britain's Audit Commission drew the following conclusions in a 2003 report on the experience to date of PFIs in schools:

- The quality of school buildings completed by PFIs was inferior to those completed by the state, and there was little evidence of innovation.
- Costs varied widely, and there was certainly no consistent pattern of PFIs delivering for less.
- Risk management had been poor, and PFI schools had not been delivered on time any more often than those built by the state.

Similar conclusions appear to be being drawn from experiments in Canada and Australia.

7 What's the point then?

7.1 Plonk it on the card

The appeal for the government is that PPPs appear to reduce government debt in the short term, by shifting the funding from capital to recurrent funding lines within the budget. But PPPs are fundamentally a form of privatisation whereby governments work with private sector interests whose primary motivation is to maximise profits and minimise costs. Details of agreements can be largely hidden from the public for reasons of commercial

⁸ Retrieved from: <http://www.cypnow.co.uk/news/ByDiscipline/Education/888741/Failed-PFI-schools-cost-millions/>



sensitivity. PPPs, in effect, simply allow governments to purchase infrastructure on the credit card. This may make the balance sheet look better, but it is a highly unethical imposition on future generations. These are the reasons behind recommendation 2 of this paper: that PPTA oppose PPPs on the grounds that there is an absence of evidence of their benefits.

7.2 Debt swaps and PPPs – the same thing

It is of particular concern that governments are using the global financial crisis as justification for introducing PPPs, given that a related mechanism, a 'debt swap', was used by countries such as Greece:

in order to reduce the apparent level of debt, to avoid breaching fiscal debt limits imposed by the EU on national governments; similarly, the greatest incentive for using PPPs is to reduce the apparent level of debt and deficits.⁹

And we all know what happened next.

7.3 PPPs – the next taxpayer rip off

It seems that, internationally, governments are not heeding the lessons from the global financial crisis about the dangers of turning a blind eye to the actions of the financial community as they invent 'financial instruments'. Instead, governments are bent on encouraging private companies to borrow money for strategic national infrastructure, with the taxpayer securitising the debt. As PPTA has already argued, in its 2009 publication *Secondary Education and the Economic Crisis*,¹⁰ the government must take responsibility for the public financing and provision of public education.

8 Impact on teachers

8.1 Can property really be separated from teaching and learning?

Particular concerns for teachers in a PPP school include detrimental features such as narrowing the width of corridors, minimising the size of classrooms, combining features that were previously separate, decreasing storage for teaching materials, and inadequate facilities for the storage of student equipment. They may also find that they do not have access to classrooms and facilities, should the owner choose to 'sweat the asset' when school has finished for the day. Nor do they have any control over decisions such as the installation of junk-food vending machines.

8.2 Why keep a dog and bark yourself?

The PPP model has major implications for Tomorrow's Schools. If all property matters are to shift to a private company, there will be very little for boards of trustees to do, since that is one of the most important and useful tasks they carry out. In its absence, will boards be tempted to interfere in day-to-day school management? The cost of operating a board model does not seem justified if property management is removed.

⁹ Hall, David. 'More public rescues for more private finance failures - a critique of the EC Communication on PPPs'. Public Service International Research Unit. Retrieved from: <http://www.ppsiru.org/reports/2010-03-PPPs.doc>

¹⁰ http://www.ppta.org.nz/index.php/resources/publications/doc_download/582-secondary-education-and-the-economic-crisis

8.3 Teachers' working conditions

There is a tendency for companies operating PPPs to try to increase their profit margins by undermining employment conditions.¹¹ Although this mainly affects cleaning, caretaking and support staff, it can extend to teachers. As these companies are not likely to be experienced in education or particularly interested in it, they may make decisions that teachers find professionally unacceptable. For example, there is usually no one on site to deal with small repairs; instead it is necessary to work through the bureaucratic requirements of the company, meaning delays and costs. While the English example of a hospital being charged more than £300 to change a light bulb is undoubtedly at the extreme end of the experiment, it does demonstrate conclusively where the power lies in these relationships.¹² These schools may seem attractive places to work when they are 'fresh and new', but that may no longer be the case as they near the end of the lease period and the liability begins to shift to the taxpayer. Overseas experience indicates that there is no incentive for the company to spend money on maintenance as the lease approaches its end.

Should a PPP secondary school be established in New Zealand, PPTA will want to ensure members are well-informed about possible problems and, if employed there, are industrially and professionally supported.

8.4 False economy

One of the items on the human balance sheet that is never understood by the economists who push for PPPs is the very real financial contribution that goodwill makes to an asset. Communities in New Zealand have a strong sense of ownership of their local school. They put in many unpaid hours to enhance the plant, as well as contributing financially to initiatives that improve the property and facilities. It is highly unlikely that they would continue to sacrifice their time and money in order to lift the returns for the directors and shareholders of a private, offshore company.

9 Education International's work on privatisation

9.1 Privatisation of education

Education International (EI) commissioned a major report on privatisation in public education, which was published in 2008.¹³ This excellent and wide-ranging report distinguishes between 'endogenous' and 'exogenous' privatisation. Endogenous privatisation involves the importing of ideas, techniques and practices from the private sector (for example, school choice), which they call 'privatisation **in** education'. Exogenous privatisation involves opening up public education to private sector participation for profit (for example, PPPs for school property), which they call 'privatisation **of** education'.

¹¹Dowdswell, D, and Heasman, M (2004). *Public Private Partnerships in Health: A Comparative Study*. Durham: University of Durham. p.26:

"The early PFI programmes for PFI development in the UK allowed companies providing facilities services freedom in setting terms and conditions of service; such was the opposition to this principle (many companies introduced lower wages, unsocial hours working and restricted pension rights) that the decision was reversed".

"In Australia payments to medical staff equate with the full private sector, whereas nursing and other salaries average out at 5% below comparable public sector levels, yet recruitment rates seem not to have suffered".

¹² Retrieved from: <http://www.dailymail.co.uk/news/article-400394/PFI-hospital-schemes-close-wards.html>

¹³ Ball, S.J. & Youdell, D. (2008). *Hidden Privatisation in Public Education*. Education International. Retrieved from: <http://download.ei-ie.org/docs/IRISDocuments/Research%20on%20Education/Hidden%20privatisation/2008-00167-01-E.pdf>



The authors argue that 'privatisation of policy programmes and of policy itself through advice, consultancy, evaluations and research and policy formulation and writing' (such as the curriculum and teaching workforce influences discussed above) qualify as exogenous privatisation.

But much of what the authors describe as privatisation is already familiar to us in New Zealand. For example, alternative education provision in New Zealand is used as an illustration of exogenous privatisation, because it involves contracts with private providers for the delivery of services to students excluded from schools.

9.2 Democracy doesn't work but business does!

This year, Education International followed up with a further report, this time specifically on PPPs.¹⁴ In the Executive Summary, the report says:

The rationale for promotion of PPPs goes back to the in vogue discourse of small government, tight state expenditures, the rhetoric of choice and competition, and the oft-stated argument that governments are not up to the job. This rhetoric from political leaders, whether in government or in opposition, is inherently ideological. It is influenced and/or complemented by private sector actors, who seem to be aggressively pushing PPPs arrangements for many reasons... This alliance between political and business interests stands at the core of the PPP discourse... (p.8)

9.3 Types of PPPs

The five major types of 'contractual PPPs' identified by the EI report as being of concern to EI member unions are:

- infrastructure PPPs;
- private operation of public schools;
- outsourcing of educational services;
- outsourcing of significant non-educational support services; and
- partnerships for innovation and research.

In New Zealand, outsourcing of education and education-related services has become almost commonplace. In an article in the *PPTA News* last year, Massey University's Professor John O'Neill noted that: '*Between 2001 and 2004, 21% of [state schooling services] contracts were awarded to for-profit companies. Between 2005 and 2008, this doubled to 42%.*'¹⁵ This contracting out undermines equity (as the private sector cherry-picks the services most likely to make a quick profit), militates against long-term planning, diminishes capacity in the public sector, and potentially allows defrauding of the taxpayer.

¹⁴ Education International (2009). *Public Private Partnerships in Education*. Education International. Retrieved from http://download.ei-ie.org/Docs/WebDepot/200909_publication_Public-Private-Partnership-in-Education_en.pdf

¹⁵ O'Neill, John (2009). 'Liquid learning'. p.8. In *PPTA News*. Vol 30, No 4, May 2009. Retrieved from: http://www.ppta.org.nz/index.php/resources/pptanews/ppta-news-pdf/doc_download/509-ppta-news-may-2009-volume-30-no4



PPTA has no opposition to profits per se, but believes it entirely inappropriate for companies to be profiteering from a system that is funded entirely by the taxpayer, parental donations and locally-raised funds.

9.4 Business charity: an oxymoron?

One of the most insidious aspects of privatisation is the practice of wealthy donors 'picking winners' and investing in selected schools, which is all very well for the lucky recipients of the cash but grossly unfair to students in surrounding schools who do not benefit from the largesse.

Given that organisations may be genuine in wanting to make philanthropic contributions to schools, it is incumbent on the government to develop a framework that ensures contributions are fairly distributed to schools and that the companies and individuals involved do not seek to influence students' education for commercial reasons. PPTA recommends that schools ask the following questions before entering into a business relationship.

- How will student learning be enhanced?
- What are the real reasons for the approach by a business? Can the business be trusted to behave ethically?
- Are there any targets to be met by the school that continued funding is contingent on?
- Are there any conditions on the funding?
- What kind of profile is the company demanding?
- Does the school have the right to withdraw from the partnership?
- What guarantees are there of continued service?
- What happens if the money or help is pulled?
- How can we avoid students being let down (for example, in mentoring schemes)?
- Are they willing to commit to a Memorandum of Understanding?

While this checklist will be helpful to principals looking at the ethical questions around business partnerships, the real responsibility for ensuring every student gets fair and equal access to high-quality education at their local school lies with government and the Ministry of Education. The Ministry needs to develop guidelines that ensure the playing field is level and that business intervention does not increase inequality and disadvantage.

9.5 What's the connotation of 'partnership'?

Finally, the term 'public private partnership' is a complete misnomer. As we have seen, the 'partnership' is not the warm relationship between equals that might normally be construed by the term, but an exploitative relationship whereby the public purse is raided by privateers bent on extracting profit. Governments, which are elected to guard public money against such raids, seem too fearful and venal to do anything other than weakly comply. A more accurate acronym for these mechanisms is not PPP but simply PP, for 'private profiteering'. That phrase more accurately reflects the parasitic nature of the relationship.



10 Conclusion

The main recommendation to Annual Conference is that PPTA policy should be to oppose the establishment of PPPs because there is insufficient evidence of their educational benefits and considerable reason to be concerned by the risk to the taxpayer.

Recommendations 2 and 3 establish specific policy to protect members' interests should they be employed in a PPP school, and recommendations 4, 5, and 6 call for better oversight and management of private interests active in the public education system. Recommendation 7 calls on political parties to show some commitment to taxpayers' best interests, by indicating to those companies that see PPPs as a route to quick profits that there is no general support for this policy in New Zealand.

Recommendations:

1. That the report be received.
2. That PPTA oppose PPPs in the absence of evidence that they provide long-term cost savings for public budgets, greater efficiency, or innovation.
3. That a package of advice be prepared to assist members who may be seeking employment in a PPP school.
4. That PPTA work to ensure transparency and to safeguard teachers' professionalism and working and learning conditions, should they be employed in a PPP school.
5. That PPTA call on the government to take full responsibility for the funding of public education.
6. That PPTA call on the government to develop guidelines to ensure that philanthropic contributions do not undermine equity in New Zealand schools or allow the exploitation of New Zealand students for commercial gain.
7. That PPTA call on the Labour Party, the Green Party, and the Maori Party to warn any private companies that contract to build public schools that, should there be a change of government, those contracts will be repudiated without compensation.

