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| ***Business structure – privatisation & PPP*** |

**Introduction:**

* What is privatisation and nationalisation?
* PPP & PFI – the case for Public-private partnerships and Private Financial Initiatives

***Nationalisation:***

Nationalised industries were very important in the UK before 1980. The reasons for nationalising industries were:

* Supply unprofitable services
* Avoid duplication of services (natural monopoly)
* Control strategic industries
* Prevent exploitation by monopoly suppliers

**Privatisation**

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The main aspect of privatisation is the **transfer** of **ow\_\_\_\_\_\_\_\_\_p** of nationalised (state-owned) **industries** into the **private** sector.

Other **policies of privatisation** include making state-owned schools, hospitals and local authorities **‘contract out’** many services (i.e. refuse collection) to private business.

This is popular in the **UK** and **USA** where even some **prisons** are ‘contracted out’.

Examples of **privatised companies** in Europe include:

* *British Airways, British Aerospace*
* *Deutsche Telekom, Skoda*
* *British Rail, British Gas, British Coal, British Water*
* *Jaguar, Rolls Royce, BP*

The main argument for privatisation is that business enterprises will use resources much **more efficiently** in the **private** sector as they will be driven by the **pr\_\_\_\_\_** motive.

* Those **against** the policy argue that it’s not just about profits when considering these organisations: quality of life and necessity are other factors.
  + It will lead to job cuts and job losses

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| What are your opinions? |

*Summarise yourself:*

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| ***Arguments for*** | ***Arguments against*** |
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| What Chinese industries have been privatised that you know of? |

Impact of *privatisation* on business (in the UK):

* Some privatised businesses have **increased profits** (some argue they were sold/privatised way under their true price/value)
* **Prices** have **fallen** in some sectors: most **utilities** for example
  + However, rail travel has **increased** as have **water** **prices**
  + Cuts in some services too
* Decrease in **staffing levels** (although they may have been overstaffed initially)
* **Increased investment** levels in infrastructure (although that is decreasing)
* Some companies **increased** their services and diversified
* Many **mergers** have happened between the new privatised companies

***Have public monopolies just become private monopolies?***

They are regulated by such **‘watchdog’** bodies as Ofwat, Ofgem, Ofcom etc.

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| All of the above fall into **deregulation** of industries: lifting the restrictions that prevented private sector competition. The privatised industry then competes with other private sector competition like telecommunications.  The hope is give *more choice*, *better efficiency* and lessens the *burden* on the government |

**Public-private partnerships (PPP)**

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Two main types of *public-private partnerships*

1. Government funded

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1. Private-sector funded (more PFI)

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**AN example of one particular PPP:**

* The M6 (a busy motorway) toll in England is a **PPP**. In 1989 it was announced that it would be built **privately** and a **competition** (tender) took place which was won by Midland Expressway Ltd in 1991.
* The contract was for a 53-year concession to **build** and **operate** the road as an early form of public private partnership with the **operator** paying for the construction and **recouping** its **costs** by setting and collecting **tolls**, allowing for a 3-year construction period followed by 50 years of operation.
* At the end of this period the infrastructure would be **returned** to the **Government**. Toll rates are set at the discretion of the operator at six-monthly intervals and there is no cap on the rates charged.
* **Drivers** have an alternative choice of public motorways but they are often ‘jammed’. The M6 toll offers a quicker, shorter route but at a price.

***PFI (Private Finance Initiatives)***

**PFI** falls under the **PPP umbrella**; these involve the private sector in the operation of **public services**.

Under a **PFI** scheme, a **capital** project such as a school, hospital or housing estate (traditionally the government’s responsibility) has to be **designed**, **built, financed** and **managed** by a private consortium (group – Special Purpose Vehicle: **SPV**) under contracts that typically last for 30 years.

* Private consortium will be **paid regularly** from government funds according to performance
* If it misses targets, it will be **paid less**
* The UK government is very active in using **PFI** in the **construction** of hospitals (over 25+)

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| ***Main advantages*** | ***Possible disadvantages*** |
| Government **does not** have to fund expensive one-off payments to build large-scale projects – unpopular tax increases  **Risk** involved in funding is transferred to the private sector  Government doesn’t have to increase its **borrowing** | Creeping privatisation of public services  Government can **borrow money** more cheaply than in the private sector  Government sometimes has to **‘bail out’** troubled companies  Debate as to the true cost of PFI – perhaps cheaper for governments in the long run  Quality of provision is questioned |

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| Can you find examples of PPP/PFIs in China? |

***Worksheet summary quiz and activity:***

1. Why might **Public** and **Private** sector organisations collaborate?

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1. Private sector organisations are **more** **efficient** than public sector organisations. Explain this general belief.

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True or False (Mark an **X**)

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|  | **True** | **False** |
| 1. Privatisation has been a **complete** **success** in the UK. The public are happier with the service as well as a decrease in price. |  |  |
| 1. A privatised company’s **profit motive** is always good for customer service. Service is **not** compromised over profits. |  |  |
| 1. Many British privatised **car companies** have become successful British companies since their privatisation. |  |  |
| 1. **Job** **cuts** are one of the disadvantages of nationalisation. |  |  |
| 1. PFI cuts government **borrowing**. |  |  |

**Summary of the worksheet in your own words (in English and Chinese):**

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*Vocabulary check:*

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| **English** | **Chinese** |
| **Collaborate** |  |
| **Subsidy** |  |
| **Voluntary** |  |
| **Cartel** |  |
| **Restraints** |  |
| **Toll** |  |