Ontario Health Coalition
Review and Analysis of Ontario Auditor General's Report
on the Brampton Civic Hospital P3
December 9, 2008

Key Finding:

The auditor concludes: "that the all-in cost could well have been lower had the hospital and the related non-clinical services been procured under the traditional approach, rather than the P3 approach implemented in this case." pp. 104

On page 114, the auditor calculates all the changes that should have been made to the comparators used to determine the costs if the hospital was built publicly versus the P3. He calculates these in 2003 dollars. He finds that the total P3 costs were $1,153 and the total costs if the hospital was to be built and operated publicly (traditional procurement) were $959. The difference is $194 million in 2003 dollars. See pp. 114.

In addition to this, we have confirmed with the auditor's office that this $194 million difference does not include an additional $200 million over the life of the project ($107 million in 2004 dollars) higher cost for financing the hospital using the private sector as compared to the government's own borrowing rate if it financed the hospital publicly.

It also does not include $63 million in modifications that were required after close.

Therefore, the total cost of the Brampton P3 hospital is more than $300 million higher in present dollars (2003/04) than if the hospital was built publicly.

Summary of Findings:

1. The P3 model was forced on the hospital without proper assessment, no other policy options were considered.

The auditor notes that it was provincial government policy to build the hospital by a "Public Private Partnership" (P3) in which a for-profit consortium would finance, build and privatize the support services of the hospital. The for-profit consortium is being paid back in monthly charges throughout the 25 year duration of the deal.

- the hospital was not given a choice – it was told by letter from the government in February 2002 that it must build the hospital as a P3 and no other options would be considered. pp. 108.
- the "value for money" cost comparison between the projected costs of building the hospital publicly and opting for P3 privatization was flawed and "was done too late to allow significant changes or improvements to be made to the procurement process." pp. 104. The cost comparison was done, "only after the decision to follow the P3 approach had been made." pp. 108.
- The government also directed the hospital that non-clinical services had to be privatized as part of the P3 model. pp. 108-109.

2. Costs almost doubled, and the hospital size was significantly reduced.

The initial cost projection for the hospital was $357 million (capital costs alone) in September 2000.

The final cost for construction was $614 million ($467 million in design and construction; $63 million in modifications to the facility; $84 million in financing charges). pp. 105

The cost projection figure was later revised to be significantly higher (by $168 million) but the later revisions to the cost estimates were flawed because they double-counted some figures. pp. 104, 111. The revised cost projections were mistaken by at least $119 million. Mistakes included:

- Double-counting the cost for the building shell (potential inappropriate overstatement of costs $79 million). pp. 111.
- at least $40 million overstatement of contingencies and allowances (includes cost overruns). The auditor notes this figure should likely more than $40 million. pp. 111, 112.

3. The hospital would have cost less if it had been built publicly (traditional procurement) with proper oversight.

The auditor lists several items that would have cost less if the hospital had been built publicly (traditional procurement):

- The province's borrowing costs were less expensive than those of the for-profit consortium. If the hospital had been financed publicly, it would have cost $200 million less over the life of the deal ($107 million in 2004 dollars). pp. 105, 109.
- The costs for consultants were exorbitant and most of these would be unnecessary but for the decision to build the hospital as a P3. The total cost for consultants was $34 million. Of this figure, $28 million is ascribed to the P3, according to the auditor. pp. 105, 114.
- Other costs would have been lower if the hospital was procured and run publicly, including the privatized support services. pp. 113, 114.

4. Additional mistakes and unnecessary cost increases.

In addition, the auditor found mistakes and unnecessary cost increases as follows:

- $63 million could have been saved if the hospital did not have to be modified (there were modifications for equipment and the hospital was significantly reduced in size as the costs increased).

- The "value for money" comparison between the costs using the public (traditional) approach and the privatized P3 approach overstated the public approach costs by $634 million over the life of the project ($289 million in 2003 dollars). pp. 104, 111. The overstatement of costs for building the hospitals publicly was then used as justification for privatization through the P3. Some of the mistakes included:

  - the risk for cost overruns in traditional construction were estimated at $67 million, or 13%. However, in the Peterborough hospital, built in the same time period publicly (traditional procurement) cost overruns for construction were only 5%. pp. 112.
  - design and construction costs were overstated. Total cost overestimate for the public comparator was at least $44 million. pp. 104, 112.
  - costs for utilities and property insurance were only counted as costs under public (traditional) procurement, and not under the P3, even though the hospital will have to pay them regardless of whether or not they privatized. This amounts to $203 million ($88 million in 2003 dollars). pp. 104, 113.
  - costs for publicly providing non-clinical services were overstated by $582 million over the life of the project ($245 million in 2003 dollars). pp. 113, 114.
  - the risk for price fluctuations was improperly assumed to be transferred to the private sector consortium. They were not transferred and the hospital still bears the

risk for price fluctuations. This amounts to $95 million ($34 million in 2003 dollars). (The deal allows for re-pricing of the services after the first four years.) pp. 113.

5. Local share of the capital cost more than doubled. Shortfall of $19 - $138 million still.

The local hospital's share of the capital costs of $1.3 billion over 25 years. Of this, the local share was set by funding agreement with the provincial government at $452 million over 25 years. The government offset $ 204 million of this, leaving the total local share at $248 million. pp. 118.

- The community has never been informed of the total local share.
- The hospital is negotiating with the province to lower this cost and has asked the government to cover $119 million. pp. 118.
- This leaves a total of $129 million in local share, if the government approves. pp. 118.

In addition to the capital cost of construction, the hospital has also incurred $240 million in equipment and equipment installation charges (pp. 118) that were in a separate deal. The government has agreed to fund $175 million of this, leaving a $65 million shortfall that must be funded by the hospital. pp 119.

After fundraising, between the costs for equipment and the local capital share, and provided that the government lowers the local share by another $119 million as requested, there is still a shortfall of $19 million. pp. 119.

6. Secrecy unnecessary, more transparency required.

The auditor states that more documents could be disclosed to the public regarding the P3, including:

- some aspects of tender documents and value-for-money assessments. pp.119.
- interim costs and progress reports. pp. 119.

The government should provide a consistent approach to disclosure. pp. 119.

Unfortunately, in this section the auditor repeats false claims - without having investigated them -by Infrastructure Ontario that value for money documents etc. for the newer P3 hospitals are posted on its website.

In fact, Infrastructure Ontario has refused to provide any financial information on any other P3 projects, including the hospitals in North Bay and Sault Ste. Marie. Every single piece of financial information has been redacted (blacked out) from the Project Agreements that have been released. The only "Value for Money" documents on Infrastructure Ontario's website are summaries in which the consultants note that they have not been asked to test any of the figures involved in either the public sector comparator, nor in the private consortia bids. The Ministry of Public Infrastructure Renewal refused to disclose the full Value for Money assessments of the North Bay and Sault Ste. Marie P3 deals when the Ontario Health Coalition asked for them. We are currently reviewing documents to see if any Value for Money comparisons have been disclosed regarding the Royal Ottawa Hospital P3. In summary, contrary to the claims of Infrastructure Ontario and the government in the auditor's report, there is less information disclosure on the newer P3 projects than there was regarding the Brampton P3.

Recommendations:

The findings of this audit are significant. The auditor has provided definitive evidence of cost over runs, higher costs, and miscalculations amounting to hundreds of millions of dollars in the

Brampton P3 project. Despite claims by the government and Infrastructure Ontario that these issues have been resolved and that there is now public transparency and accountability in the P3 projects, the newer P3 projects are characterized by less public disclosure than was the case in the Brampton P3. At minimum, the government must respond as follows:

1. Infrastructure Ontario and the government must disclose in all the newer P3 hospitals (including the Royal Ottawa, North Bay, Sault Ste. Marie and St. Catharines projects) the value for money documents and the key financial information, including the information listed in the auditor's report that is appropriate for public release including:

- Total costs to be paid over the life of the projects to the private sector consortia.
- Cost of design and construction.
- Interest rate on the financing.
- Total costs of the support services to be privatized.
- Summary of the Project Agreements with this information included (currently it is all redacted).
- Value for Money assessments in full.
- List of services to be privatized.
- A proper public disclosure policy.

2. Given the mistakes in the Value for Money documents for the Brampton hospital P3 (totalling more than $600 million over the life of the project), there should be a moratorium on all further P3 deals. A proper, publicly accountable assessment of the newer P3 projects is done and released to the public.

3. Given the Auditor General's findings of higher costs for both the financing of the hospital construction and the privatization of the support services, there should be full reconsideration of the P3 policy, including the deals that the government is calling "alternative financing" arrangements. Most urgently, the government should re-assess its P3 policy regarding the 12 or more large hospital projects in which 20 - 30 year P3s - including finance, build and service privatization - are underway or being considered.

Ontario Health Coalition
15 Gervais Drive, Suite 305,
Toronto, Ontario M3C 1Y8
tel: 416-441-2502
fax: 416-441-4073
email: ohc@sympatico.ca
www.ontariohealthcoalition.ca