

Ontario's First Two Privatized P3 Hospitals: Cost Increases and Delays

Background

November 2, 2006

ROH Costs Increase from \$100 - \$146 Million¹

This week - McGuinty government and ROH announce the hospital is built "ahead of schedule" and "within budget" at \$132 million. This claim is untrue. The hospital has, in fact, been announced and re-announced over the years with many different proposed deadlines and a set of escalating cost projections, and, according to the hospital's own documents, the total cost of the new facility now sits at \$146 million.

- 24 July 2004 - Ottawa Citizen reports new cost for ROH to be \$126 million and new completion date to be in late 2006.
- 15 July 2004 - Internal memo sent by Kathryn Hendrick - estimated close of deal end of summer 2004 with construction to begin right away. This would put finalization of construction according to original timelines 18 months later at March 2006.
- 11 July 2004 - Ottawa Citizen reported that after months of delay, the government approved the project and was denying that it is a P3.
- December 15, 2003 - ROH sent a memo to all staff and volunteers stating that the McGuinty government had approved the project to go ahead and construction would begin by March 2004. (Therefore, est. completion would be September 2005.)
- 3 October 2003 - Ottawa Citizen - reports hospital cost at \$100 million.
- 29 September 2003 - Ottawa Citizen - reports hospital cost now estimated at \$100 - \$120 million.
- 28 September 2003 - Ottawa Citizen - reports hospital slated to be complete by fall 2005.
- 26 Sept 2003 - CBC - announced that hospital spokesperson Kathryn Hendrick announced that a \$95 million deal was signed for the ROH.
- 25 Sept 2003 - ROH stated that the cancellation of the P3 and bringing the project back into the public system would cost \$10 million in penalties by the for-profit companies. Construction was slated to begin that fall and be completed in 18 months (by early 2005). On October 3 the hospital was forced to admit that the figure was actually \$2 million as per information filed in court.
- 9 Sept 2003 - Ottawa Citizen reported that the ROH was approved by the government at a cost of \$100 million. It was announced then that the final deal was within days of completion and construction would begin shortly thereafter.
- 6 July 2004 - Ottawa Citizen - reports hospital re-approved by Smitherman, est. cost \$100 million.
- May 28, 2003 - ROH still announced to be \$100 million.
- 15 December 2002 - Ottawa Citizen reported that a cap of \$100 million was set on the cost of the new facility and the project manager is quoted as stating that he hoped the private sector bids would come in below this cap.

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¹ In the interests of accuracy, it should be noted that all hospital projects that are mid-stream for government approvals and funding may experience delays, particularly when new governments get elected. This was the case for the ROH as the McGuinty government reviewed the P3 deal. These delays may reflect legitimate public accountability requirements or changes in policy direction. However, this is the case whether a hospital is procured publicly or privately. The McGuinty government's claims about the inefficiency of public procurement do not take into account any political contingencies or cost increases due to the length of time it takes to negotiate contracts or secure funding. Any balanced attempt to compare both types of procurement must adopt the same approach. Following the same standards McGuinty is upholding for public procurement, and following the same timelines (ie. from final cost projection prior to contract signings to the end of the construction phase), the cost increases for the Brampton and Ottawa P3 are measured here and are comparable to the cost measurements McGuinty has used for publicly procured projects.

Brampton P3 Hospital Cost Increase from \$350 - \$550 million

- The cost of the Brampton privatized P3 hospital has almost doubled from the beginning of the negotiations with the for-profit consortium. The cost has gone up from approximately \$350 million to over \$550 million.
- The size of the deal is extraordinary. In total, including the building and the private contracts for services, the deal commits at least \$2.6 billion in taxpayer's money to the private consortium. This does not include any equipment, for which there is a separate deal.
- Hugh Mackenzie, an independent economist reports that the cost is \$174 million higher (net present value) than if the hospital were to be built publicly. This higher cost includes only the higher borrowing rate for the private corporations and does not include profit-taking from the privatized services or any terms of the land deals.

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