

Ontario Health Coalition

Brampton P3 Hospital – Disclosed Documents on Costs

Backgrounder

May 9, 2007

Ontario's previous Conservative government commissioned Deloitte and Touche to do a review of the Brampton P3 hospital deal. The review was conducted in the spring and summer of 2003.

The province's own rules required the Ministry to demonstrate that the P3 arrangements represented reasonable value for the hundreds of millions of dollars in public funding that would be committed to these schemes. To accomplish this, the hospital prepared a Value for Money Benchmark (VFMB) to compare the costs of the privatized P3 hospital with the equivalent infrastructure and services under public funding and non-profit operation. To establish due diligence, the Ministry of Health then commissioned an independent assessment from accounting firm Deloitte and Touche (D&T) who carried out their review culminating in a report dated March 17, 2003 and a two page letter dated August 22, 2003.

The financial documents relating to the Brampton P3 have remained secret until they were recently disclosed as a result of a court case initiated by CUPE, OPSEU, SEIU and the Ontario Health Coalition, represented by law firm Sack, Goldblatt Mitchell. Last year, the coalition and the unions won a ruling from the court requiring the Ontario government and the private consortium (The Infrastructure Company of Canada or THICC) to file with the court many of the remaining secret documents in the privatized P3 hospital court challenge. The for-profit consortium appealed. Earlier this year, the health coalition and the unions won the appeal, forcing the provincial government and the consortium to reveal documents including 191 pages of financial information which were previously redacted to 2 pages. The court challenge against the P3 hospitals is ongoing.

Timelines:

The report of the Deloitte and Touche – evaluating the cost comparison between building the Brampton hospital publicly or privately through a P3 - is dated March 17, 2003 and a two page letter following it is dated August 22, 2003.

The McGuinty government was elected in October 2003.

The Brampton P3 hospital costs increased and the size of the project was subsequently reduced.

The P3 deal was closed November 23, 2004.

Thus the Ministry of Health and Long Term Care of the McGuinty government had in its possession a review and letter for 13 months prior to the final signing of the P3 deal which shows that the P3 deal was unlikely to show any Value for Money and may have been \$300 - \$400 million more than original estimates. Since then, the hospital costs increased and the size of the project decreased.

Major Findings:

The coalition, along with the unions sponsoring the court challenge (CUPE/OCHU, OPSEU, SEIU) commissioned Lewis Auerbach, a former Director, Audit Operations Branch in the Office of the Auditor General of Canada to review some of the documents.

According to Auerbach's analysis of the government-commissioned independent review by accounting firm Deloitte and Touche, the cost for the P3 could be approximately \$300 million or even higher than the public comparator. In other words, according to this analysis, the privatized P3 hospital scheme will cost approximately \$300 million more than the estimated cost of funding the hospital publicly and running its services on a non-profit basis.

The conclusions the OHC draws are these:

1. The government had, for 13 months prior to signing the P3 deal, evidence that the privatized hospital would cost up to \$300 million more than if it were built publicly. This information was in the government's possession prior to signing the P3 deal in Brampton.

Additional Findings by the OHC from the newly released documents:

The total projected cost of the project from its construction to 203 is \$2.74 billion. These costs include:

1.35% higher cost of borrowing, resulting in \$94 million in additional costs

\$299 million in dividends paid to the equity partners

Management fees for hospital operations totalling \$37.8 million.

2. This total of \$430 million in management fees, dividends and higher interest is being paid out to the for-profit companies in the Brampton P3 deal, is in addition to profits from refinancing or additional opportunities that this arrangement anticipates.

All the savings for the P3 over public borrowing and operations are anticipated to come from non-clinical operating budgets. The total cost of the design, construction and financing are actually anticipated to be higher than the comparator, even in the WOHC documents. In order to make the project show value, the WOHC projections state that the privately operated services, including profit and extra private management fees, will be 70% of the cost of a publicly run facility. The operating costs before profits and fees are projected to be just 59% of the public sector comparator. **The anticipated operational savings are implausible, and, if they are achieved, will likely result in significant cuts in addition to the reductions in the size of the project that have already occurred.**

3. Thus, the higher costs on the capital side are projected to come from the operations of the hospital. The anticipated operational costs are utterly implausible, and will likely result in significant cuts in addition to the reductions in the size of the project that have already occurred.

4. The P3 hospital scheme has not met any of the typical justifications posited by the government for this new form of privatization of public assets and services. In fact, the Brampton P3 experience runs completely contrary to claims that P3s are built on time, in budget and with efficiencies. It was not built on time – in fact, it is significantly behind deadlines. It is not on budget – hospital capital costs alone increased from \$350 million to \$550 million over the negotiation of the deal. The hospital is significantly smaller than projected, with the latest announcements stating that the hospital will now open with 479 beds rather than the original promise of 608. For almost double the original estimated cost, the community will have a hospital with ¾ the promised beds.

The parties call upon Premier Dalton McGuinty to:

I. Explain to Ontarians why his government signed the Brampton P3 deal when it had documents implying that the deal could cost taxpayers an unnecessary \$300 million and when they knew the deal would result in unprecedented privatization of public hospital assets and services.

II. We are calling upon the Ontario Auditor General to do a review of the Brampton and Ottawa P3 deals.

III. We are calling upon the government to immediately disclose the remaining secret portions of all the P3 the deals to Ontario taxpayers.

IV. The government should impose an immediate moratorium on any further long-term P3 hospital projects pending a full and complete review of the Brampton and Ottawa P3 deals by the Provincial Auditor General.

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