

# **First Do No Harm:**

## **Lessons from Ontario's Experience with For-Profit Diagnostic and Hospital Clinics**

**Ontario Health Coalition  
15 Gervais Drive, Suite 305  
Toronto, Ontario M3C 1Y8  
tel: 416-441-2502  
fax: 416-441-4073  
email: [ohc@sympatico.ca](mailto:ohc@sympatico.ca)  
[www.ontariohealthcoalition.ca](http://www.ontariohealthcoalition.ca)**

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By Natalie Mehra*

## **Introduction**

Pressure on governments to contract non-profit hospital services to for-profit clinics is growing. Though private clinics are not new, with each round of pressure for privatization, for-profit companies are delving deeper and deeper into the provision of clinical hospital services. The recent proposal for for-profit surgical clinics would complete the privatization of hospitals, up to and including doctors and nurses. Once for-profits are allowed to bid for public funding for hospital surgeries, the gates will be open for U.S. for-profit hospital corporations to take over our local hospital services. But even if the for-profits focus initially on diagnostic tests, surgeries and other fast-track profitable procedures, the consequences for local non-profit hospitals, patient care, and provincial budgets could be significant.

In 1990, Ontario passed legislation creating the legal framework for the first wave of “Independent Health Facilities” - non-profit or for-profit entities paid by government to provide medical procedures and tests. Among the for-profits were x-ray, ultrasound and other clinics which took over services that had formerly been provided by non-profit hospitals.

Under the Harris/Eves government this for-profit privatization qualitatively deepened. Private clinics were given contracts to take over a range of new clinical hospital services. One private cancer treatment centre and seven for-profit MRI/CT clinics were opened, with contracts to be paid by public taxes.

This new foray into privatization did not last long. After a special audit by the provincial auditor revealed the for-profit cancer treatment centre to be more expensive, with no measurable reduction in wait lists, the for-profit centre was closed and capacity was increased in the public system. The McGuinty government renegotiated some of the for-profit MRI/CT clinic contracts, turning the centres into non-profits, and refused to allow roving U.S. diagnostic clinics on the backs of trucks to enter Ontario and sell their scans in border towns. Thus, the extent of privatization had been rolled back, leaving the for-profit x-ray and ultrasound clinics while other clinical hospital services were enhanced within the non-profit hospital system.

Now, a new proposal to complete the privatization of hospital services is being championed by the Ontario Conservative party. John Tory has made opening the “market” for hospital surgeries and other procedures to for-profit companies a key plank in the Conservative election platform.

There is a growing body of international academic literature detailing the impact of these for-profit clinics which receive public funds but operate on a for-profit basis. The studies have raised concerns about the negative impacts of these clinics on human resources planning, quality and cost in jurisdictions such as Australia, Britain and the United States.<sup>1</sup>

This report is an initial look at the experiments with for-profit clinics closer to home. The clinics studied here are in Ontario, and are specifically limited to the model proposed by John Tory: specialty clinics funded by taxpayers selling hospital services on a for-profit basis. This report brings together the experiences in the private cancer treatment centre, the private

MRI/CT clinics and the private x-ray clinics. We looked at the key concerns about private clinics and compiled the information available on each. What have been the impacts on staffing shortages? On public accountability? On cost? On quality? Can these clinics measure up to the pro-privatization rhetoric of the industry and politicians who claim they provide services “faster, better, cheaper”?

The goal of this paper is to let Ontario’s experience with private clinics - clinics exactly like those proposed by John Tory - inform the current debate about the future ownership and control of our local hospital services.

# Key Findings

Ontarians would do well to heed the ancient medical tenet: “first do no harm”. The evidence from Ontario’s experiments with taxpayer-funded, for-profit diagnostic and hospital clinics shows that there are significant dangers created by privatization, these include worsening of staff shortages in the public system, higher costs, loss of rural and small town services, and loss of public accountability. Though there is no evidence that for-profit privatization of hospital services has any relation to wait times - in fact the higher costs entailed by profit-taking may mean that private clinics *harm* rather than help wait time solutions - there is some evidence that they may worsen access by increasing barriers caused by extra fees for patients and reduced rural and remote facilities.

## **1. There is no evidence that the for-profit ownership of clinics has any relation to wait times.**

In his special audit, Ontario’s provincial auditor reported that the for-profit cancer clinic at Sunnybrook had not reduced wait times. In fact, since each treatment was more expensive at the private clinic, the public investment would have bought more treatments per dollar if it had gone to a public cancer treatment centre.

The for-profit MRI/CT clinics actually reduced hours of MRI operation in local public hospitals. They siphoned off the lightest care cases, leaving the most complex for local non-profit hospitals. They reduced capacity in the public system by poaching scarce technologists and radiologists, reducing hospital MRI hours, and taking the income generated by WSIB - funded cases out of local non-profit hospitals. There is no accounting of how many more scans could have been done, had the funding been directed to non-profit hospitals rather than the for-profit clinics.

Recent cuts to private lab hours in towns across Ontario have resulted in exceedingly long line ups.

## **2. For-profit clinics have drained staff from Ontario’s non-profit hospitals leading to a reduction of services in local hospitals.**

Despite the fact that Premier Ernie Eves promised in the legislature that the introduction of seven private for-profit MRI/CT clinics would not poach staff from public hospitals, the evidence shows that they did. In fact, the for-profit clinics caused at least three public hospitals to reduce the hours of operation for their public non-profit MRIs as they suffered staff shortages caused by private clinic poaching of scarce radiologists and technologists.

Similarly the for-profit cancer treatment centre at Sunnybrook found its staff in local non-profit hospitals. Its oncologist worked in the public system until he formed his private company to take the contract for the clinic. Nurses came from nearby Princess Margaret Hospital.

This finding is in keeping with the international academic studies and reports on for-profit hospital clinics which indicate serious health human resources instability and worsening shortages as a consequence of the introduction of private clinics.

There are serious shortages of specialists and nurses across Ontario. The lack of anesthesiologists and operating room nurses is one of the major impediments to increasing output. Thus, the evidence is that improving health human resources planning and ensuring hospital ORs have sufficient funding are the major requirements for reduced wait lists. The evidence shows that privatization is likely to harm, rather than help with these two crucial requirements.

**3. For-profit clinics have centralized services in large urban centres where the larger market of customers enables them to maximize their profit margins. In the case of Diagnosticare and CML x-ray facilities, this has led to closures of services in small towns.**

Generally the for-profit clinics have located in urban centres. All of the for-profit MRI/CT clinics were located in large urban centres, as was the for-profit cancer treatment centre. In the case of Diagnosticare and CML x-ray clinics, the parent companies have shut down operations in “unprofitable” small towns to centralize services in urban centres, forcing patients to travel further. The same trend has occurred in the private laboratory companies. In fact, in public consultations across Ontario in the spring of 2007, we received regular reports of cuts to hours of operation in small-town private labs that have taken over local hospital services. Excessively long line ups at private labs are becoming a repeated source of complaint for Ontario patients.

**4. The private clinics are characterized by a disturbing lack of public accountability, transparency and openness. Contracts are shrouded in secrecy. Outcomes are not measured. There is little public access to key information.**

All of the private clinic contracts are obscured from public scrutiny by the use of commercial secrecy laws and a lack of regulation ensuring appropriate public disclosure, despite the fact that all of these contracts are paid for by the public through our taxes. The for-profit cancer treatment centre contract was secret and has never been publicly released. The contracts for the MRI/CT clinics were subject to “confidentiality” clauses forbidding clinic operators from disclosing the terms of the deals. Similarly details about contracts with the private laboratories has been impossible to obtain from the provincial ministry and the from labs themselves.

For all the clinics that are privately owned and not publicly traded, it is difficult or impossible to find out any information at all about ownership, profitability, linkages and investors. Though it is possible to find out financial and ownership information from corporations that are publicly traded, many are large multinationals and their Ontario operations are aggregated with Canada-wide or international operations, making a clear determination of the level of profit-taking from public taxes impossible to determine.

**5. For-profit clinics have been given large public subsidies on top of their regular billings without accountability. In some cases, local health services have been shut down, even after receiving extra public subsidies, because their profit margins were not high enough to satisfy the for-profit operators.**

In the most extreme case, Diagnosticare received repeated grants of millions from the Harris/Eves government, municipalities and local doctors, and then closed down x-ray centres in small towns because their profit margins -- at 15% -- were not high enough. The cancer treatment centre at Sunnybrook hospital received over \$4 million as a start up grant and higher fees for each treatment given, even though the company was operating for its own profit.

**6. Private clinics “cream-skim” the lightest and most profitable cases, leaving the heavy care to the public system. Even so, where costs have been made transparent, they have been higher in the private clinics.**

Since none of the for-profit clinics are set up to deal with medical emergencies or highly complex cases, heavier and more expensive procedures have been left to local non-profit hospitals, while the lightest care procedures have been skimmed off by the for-profit clinics. The for-profit MRI/CT clinics are incapable of handling complex and heavier-care patients. Similarly, the for-profit x-ray clinics do the lightest care patients, leaving more expensive tests to be done in local non-profit hospitals.

There are few publicly available cost comparisons between costs in for-profit clinics and public hospitals. The cost comparisons made public to justify the for-profit x-ray clinics were so inaccurate that they were eventually dropped, as they failed to weight costs according to complexity. The only independently audited cost comparison that has been done showed the for-profit cancer treatment centre at Sunnybrook hospital to be considerably more expensive than Ontario's public cancer treatment centres. Ontario's for-profit laboratories cost 25% more than costs in the non-profit company that contracts public hospitals to do the same work.<sup>2</sup> In fact, there are two non-profit community laboratory programs in Ontario, both of which are less expensive than their for-profit counterparts for the same work.<sup>3</sup> The for-profit labs charge patients for tests that are covered publicly in hospitals and are inarguably medically necessary.

# Case Studies

## 1. Private for-profit cancer treatment centre at Sunnybrook<sup>4</sup>

This for-profit after-hours cancer-treatment centre quietly opened in early 2001 in Toronto. The contract was awarded without tender to avoid public opposition. After the terms of the secret deal were finally disclosed and subject to audit, it was found that the clinic's costs were \$500 more per treatment than costs in public non-profit hospitals. The centre was closed in 2003.

### **Public Accountability**

The terms of the deal were ultimately subject to scrutiny only through months of persistent work by the opposition parties. The contract for the private cancer treatment centre was considered a commercial secret and was therefore not open to the public. After much pressure in the legislature, NDP health critic Frances Lankin was granted an opportunity to read the contract. She was forced to take hand-written notes of the details in the contract as she was not allowed to make a photocopy or any electronic reproduction. With enough information to levy pressure about specific concerns, ultimately Liberal health critic Lyn McLeod and Frances Lankin were able to force a special audit of the deal by the provincial auditor, though the contract itself was never revealed to the public who were paying for it.

### **Costs**

The provincial auditor's findings, public pressure, and a change in leadership at Cancer Care Ontario ultimately resulted in the closure of the for-profit clinic. Among the key findings:

- the private cancer treatment centre was \$500 more expensive per procedure than Ontario's public cancer treatment centres.
- the for-profit centre was given \$4 million in public money to cover their start up costs.
- wait lists had not changed.

### **Human Resources Impact on Local Hospitals**

The clinic's oncologist, Dr. Tom McGowan worked in the public system prior to opening his for-profit business upon obtaining the contract from Cancer Care Ontario. There was no public accounting of where the clinic found their staff, though it was revealed that at least some of the nurses came from nearby non-profit Princess Margaret Hospital<sup>5</sup>. Because it received more funding than the public cancer treatment centres, the clinic was able to pay its staff bonuses to attract their work time out of local hospitals.

## 2. Private MRI/CT Clinics

In total, seven clinics paid by public funds, but operated on a for-profit basis, were opened by the Eves Conservative government. Two of the clinics were owned by groups of doctors. The rest were owned by for-profit companies. The terms of the contracts with the companies were never made public, though it was reported that they were paid \$4.6 million per year. Once it took office, the McGuinty government began negotiations to buy out the clinics and restore non-profit governance.<sup>6</sup> All contracts come to an end this year.

### **Human Resources Impact on Local Hospitals**

University Health Network scaled back the hours of operation of its publicly owned and operated MRI diagnostic tests because it lost between 2 and 4 technologists to one of the new private MRI clinics. Private clinic operators went into the public hospital to try to recruit staff. The chief technologist reported he was offered an annual salary of \$90,000 - \$22,000 more than he makes at the hospital.<sup>7</sup>

Kingston General Hospital lost one of its three MRI technologists to the for-profit clinic which offered a higher salary and reduced hours.<sup>8</sup> KGH was forced to reduce MRI hours of operation as a result.

Windsor Hotel-Dieu Grace Hospital lost one of its MRI technologists to the for-profit clinic in Kitchener.<sup>9</sup> The technologist was offered a bonus of between \$10,000 and \$15,000 to work at the private clinic.<sup>10</sup>

### **Costs**

The contracts with the private MRI companies are commercial secrets. However, the claim by Eves government that the clinics can offer services for 36% less was countered by the Ontario Hospital Association who noted that the clinics only do the light and easy scans. This was confirmed by MRI technologists who reported that the clinics are not set up for people with heavy or complex care needs, nor those with high risks. They do not have the facilities, equipment or staff to deal with emergencies or complex care. There has not been any public evaluation of costs in these for-profit clinics.

In addition to OHIP funding, the for-profit clinics received funding by selling services for WSIB-funded scans, causing a loss of revenue to local hospitals.<sup>11</sup>

There has been no investigation to clear up questions of queue jumping at the clinics. Most recently, Premier Dalton McGuinty revealed that at least some of the for-profit clinics were selling “medically unnecessary” scans to patrons who paid out-of-pocket fees. Clinic operator Neena Kanwar, president of KMH Cardiology and Diagnostic Centres, admitted that the clinic would take patients who pay out of pocket for medically unnecessary scans.<sup>12</sup> The reported cost was \$700 - \$1,200 – considerably more than the cost of a hospital MRI.



## **Quality**

MRIs are used to diagnose cancers, multiple sclerosis and other diseases. CT scans use radiation and scan for diseases and stroke. Perhaps the most serious quality issue with for-profit MRI/CT clinics is the sale of medically unnecessary scans to “worried well” queue-jumpers. CT scans expose patients to radiation, at much higher levels than x-rays. Ethicists and physicians have raised concerns about the for-profit clinics valuing profit before patient safety. Other ethical issues regarding self-referral and quality control have been raised in regards to private clinics’ practices in other jurisdictions. However, these issues have not been investigated or reported upon in Ontario.

## **Public Accountability**

Most of the MRI clinics in Canada are privately owned, making it difficult or impossible to get information on ownership, profitability, linkages and investors. The contracts - both the initial deals signed by the Eves government and the renegotiated contracts signed by the McGuinty government are secret. There has been no public accounting of cost, quality or outcomes.

## **General**

In 2002, the Ontario Health Coalition commissioned a research report on for-profit MRI CT clinics: “Scanning for Profit: A Critical Review of the Evidence Regarding for-Profit MRI and CT Clinics” by Ross Sutherland, RN. The following is a summary of our key findings at that time:

“To evaluate this policy change the Ontario Health Coalition examined the existing evidence of the effects of for-profit MRI-CT clinics on waiting times, cost and quality of care. The research included searches of major medical, economic and political data bases and interviews with health authorities, provincial and federal governments, government agencies, professional associations and private clinic operators.

Our study was unable to find any evidence supporting the contention that for-profit MRI-CT clinics reduce waiting lists faster than the public system, improve quality or decrease costs. However, evidence was found which indicates that:

- Opening for-profit clinics would, at best, have a minimal impact on waiting times, and probably increase waits in the public sector. Alberta has stopped contracting out MRI services and maintained utilization levels and shorter waiting times by increasing capacity in the public system
- For profit clinics allow people to queue jump without respect to medical need. This is happening in Alberta, BC, Quebec and Nova Scotia.
- There is a higher risk of poorer quality in stand alone for-profit clinics than in hospitals.
- It is less expensive to expand services in the public sector than pay for-profit clinics to initiate new MRI services. Calgary’s experience indicates that it could cost 21% to 25% more.

- For-profit clinics, where doctors have a financial interest in the facility, have a higher incidence of medically inappropriate referrals, a greater number of referrals, and less service to the poor and elderly.
- Over half of the for-profit MRI clinics in Canada have no official quality assurance or accreditation procedures. No official bodies are collecting demographic, patient health status, usage or ownership data on for-profit MRI-CT clinics in Canada.
- For-profit clinics draw critical personnel away from the public health care system.”

### 3. Diagnosticare X-Ray Facilities

In 1996 Diagnosticare got involved in the medical imaging business and soon after owned 160 private clinics in 7 provinces generating revenues of more than \$70 million per year.<sup>13</sup> More than 4/5 of those clinics were in Ontario. In Ontario, the private company received provincial grants, municipal grants and fees paid by taxpayers for its x-ray services. Citing insufficient profit margins, Diagnosticare demanded more money from local communities to stay open. Then after receiving the money, the company closed community x-ray clinics across Ontario, forcing patients to travel to other communities to get their x-rays.

MPP, Jean-Marc Lalonde complained in the legislature:

*“This government has given \$9 million to DiagnostiCare to support them in the x-ray clinics that we have. DiagnostiCare received the \$9 million and decided to close down the x-ray clinic in Rockland, in Plantagenet, in Alfred and in Embrun. But all the time they had the \$9 million to improve the equipment. They sold their company and closed all the x-rays that we have in our area.”<sup>14</sup>*

In 1999, Diagnosticare reported to shareholders significant increases in profit margins. The company closed clinics in smaller towns and bought up more profitable operations in larger urban centres where there is a larger, more profitable market. In their own words:

*“The significant increase in revenue was primarily due to the acquisition during the year of 50 additional diagnostic imaging businesses in Toronto, Ottawa, Vancouver and Montreal. A total of 19 under performing or marginal clinics were rationalized.”<sup>15</sup>*

When the 2000 federal transfer was announced for medical technologies, alone among all the provinces, the Conservative government gave a portion of its money to for profit companies. Diagnosticare received \$9 million of the public monies to upgrade its equipment, even though it was operating on a for-profit basis. Share prices more than doubled and Diagnosticare was bought out by for-profit company Canadian Medical Labs for \$52 million.<sup>16</sup> CML then closed x-ray clinics in an additional five communities across Ontario<sup>17</sup>.

#### Case Studies:

##### **Diagnosticare Closes in Rockland, Ontario**

Mayor Jean-Pierre Pierre made public a meeting held with Diagnosticare in which the company revealed that its profit margin of 15% was not high enough to meet its target profit rate of 23%. The company threatened that it would close down the local x-ray lab if the municipality did not provide more funds to increase its profit margins. The municipality agreed to subsidize the company's rent and the local doctors pooled money to subsidize the technician's salary. The company did not immediately close down, but cut its operating hours in half. Ultimately, Diagnosticare closed the x-ray lab.<sup>18</sup>

**Local Doctors Subsidize For-Profit Diagnosticare in Richmond, Ontario**

Diagnosticare took over many of the Ottawa region's labs in 1999 and began closing the smaller ones. Under threat of closure, doctors in Richmond provided a \$500 per month rent subsidy to keep the lab open in their community.<sup>19</sup>

# Endnotes

1. For recent international studies and articles, see the following:

## United States: poor quality, staff shortages, damage to public hospitals

- **The Impact of Physician-owned Limited-service Hospitals: A Summary of Four Case Studies**  
Prepared for the American Hospital Association, Colorado Health and Hospital Association, Kansas Hospital Association, Nebraska Hospital Association and the South Dakota Association of Healthcare Organizations, February 2005.
- **Statement of the American Hospital Association before the Senate Committee on Finance: Physician-owned Specialty Clinics: Profits before Patients?** May 17, 2006  
*“The research to date has found strong evidence that financial incentives are influencing physician behavior. Behaviors documented include patient selection and steering, service selection and increased utilization. On the other hand, two benefits of competition claimed by these facilities have not been borne out – they are not more efficient and quality results have been mixed....physician-owned, limited-service facilities treat relatively low severity patients within profitable diagnoses-related groups. Government Accountability Office (GAO) reports and other peer review literature also support these findings. A March 2005 Centers for Medicare & Medicaid Services’ (CMS) report to Congress studied physician-owned, limited-service facilities and also found that all but one hospital treated patients with a lower severity of illness than full service community hospitals.”*

Both reports available at: <http://www.healthcoalition.ca/clinic-virus.html>

- **Effect of the ownership of dialysis facilities on patient survival and referral for transplantation** *New England Journal of Medicine* November 25, 1999 vol. 341: 1653-1660; No. 22  
<https://content.nejm.org/cgi/content/abstract/341/22/1653>
- **Payments for care at private for-profit and private not-for-profit hospitals: a systematic review and meta-analysis** *Canadian Medical Association Journal (CMAJ)* • June 8, 2004; 170 (12).  
doi:10.1503/cmaj.1040722.)
- **A systematic review and meta-analysis of studies comparing mortality rates of private for-profit and private not-for-profit hospitals** *(CMAJ)* • May 28, 2002; 166 (11))
- **Comparison of mortality between private for-profit and private not-for-profit hemodialysis centres** *JAMA* November 20,2002 Vol. 288 No.19

## Britain: Higher Costs, Poor Quality

- **Independent sector treatment centres: How the NHS is left to pick up the pieces** *British Medical Association Journal (BMJ)* 2006 332: 614) March 2006
- **Surgeons claim independent centres produce poor results** Adrian O'Dowd, *BMJ* 2006 332: 623.
- **Living dangerously** Fiona Godlee, *BMJ* 2006 332: 0.
- **U.K. trial with private health care is failing** Op-Ed by Frank Dobson MP and former U.K. Health Minister, *Toronto Star* (April 12, 2007). The following is an extract from Frank Dobson's Op-Ed:  
*“In Britain, the recently introduced private, for-profit, hospitals and clinics are carrying out the simple, cheap, less-risky operations. To put it crudely, they are creaming off the profitable work....That leaves the NHS (public health system) hospitals to carry out the straightforward operations on less healthy people as well as virtually all the complex and expensive operations. But despite cherry-picking profitable surgeries, the profiteers are being paid, on average, 11 per cent more per operation than NHS hospitals get for the same surgery....The NHS actually overspent its budget for the first time in 60 years. Hospitals have been cutting back on services to*

*clear deficits.”*

2. Frazer, Dennis and Rick Lambert, “Laboratory Outpatient Funding: Past, Present and Future”. Paper Presented to the Ontario Society of Medical Technologists 28<sup>th</sup> Annual Convention, September 26, 1991.
3. M J McQueen and A J Baily, “Hamilton Health Science Laboratory Program: A Provider Developed Model for Hospital, University and Community Services”, Health Care Management Forum, Fall 1993.
4. Office of the Provincial Auditor, Special Audit of Cancer Care Ontario. December 13, 2001
5. Interview with nurse who requested to remain anonymous
6. Dennis Buekert, Canadian Press, “Ontario to buy private clinics” July 18, 2004
7. Caroline Mallan and Theresa Boyle, “Eves to discuss MRI staff poaching; doesn’t say what province will do. Opposition wants end to more clinics” Toronto Star, A6, August 12, 2003
8. Theresa Boyle and Robert Benzie, “Second clinic lures MRI worker; Kingston hospital loses technologist Premier to blame, Liberals, NDP say” Toronto Star, A7, August 2, 2003
9. Ibid
10. Theresa Boyle, “Eves not worried by clinic hiring”, Toronto Star, August 1, 2003, A19; Theresa Boyle and Robert Benzie, Private MRI clinic didn’t poach, Eves says, But hospital contradicts Eves’ version, Toronto Star, July 30, A6
11. Interview with Patty Rout, radiation technologist and OPSEU vice president.
12. Theresa Boyle and Robert Benzie, “Yuppie scans spark debate; Can healthy people pay for own MRIs? Issue remains unresolved.” Toronto Star, July 28, 2003, A6
13. CBC The National, “A Cautionary Tale” December 13, 2002; Francis Russell, Winnipeg Free Press, “Ottawa Lets Provinces Cheat”, February 28, 2003; IBL Troubled Company Reporter, September 19, 2001
14. Hansard, June 11, 2003
15. DC Diagnosticare Inc. Annual Report. 1999
16. [www.capitalcanada.com/Transactions](http://www.capitalcanada.com/Transactions)
17. Frances Russell Anon footnote 13
18. Anon footnote 11
19. Canadian Medical Association Journal, “Rural doctors provide rent-free space to keep lab open”

