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Presenting with the Toronto Health Coalition

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As an economist I am going to make a case for what I believe is the most fiscally responsible and sensible financing option available to this government at this time.

I am going to lay out how you can protect and expand public health care, a key goal you have claimed for your mandate, and a key goal of the electorate of Ontario.

And I am going to show you why resorting to P3s will not provide "more for less" for the people of Ontario; and I am going to show you what mechanisms will provide "more for less" for the people of Ontario, mechanisms that only you, as the government, have at your disposal.

The Tories used to say P3s were faster better cheaper

Faster?

There is no reason why P3s deliver services faster. The speed is a function of the contract negotiated with government.

Better?

There is, to date, no uncontested evidence that P3s provide higher quality than not-for-profit care. Indeed, there is evidence that the pressures of having to generate profits/rates of return every year for investors despite built-in constraints in government payment plans can lead to difficult choices regarding how services are provided, choices that can easily compromise quality care and even patient safety.

Cheaper – even the promoters of P3s rarely focus on that anymore when it comes to the financing packages. The cost savings are to be found elsewhere, in the service package that gets bundled into the long-term lease.

There are three reasons that P3 financing cannot solve our capital needs in the most cost-effective way: economies of scale, getting paid a premium to broker the needed capital, and the requirement of equity (or down-payments) in private borrowing.

Point number one: Size Matters

An individual has to pay higher rates of interest to borrow money than a business, a business has to pay more than a developer, the developer pays more than any individual municipality, the municipality pays more than the government of Ontario, and the feds get the cheapest rates of all when it comes to borrowing money.

Size matters— that's what economies of scale are about.

Government is big enough and can buy on a large enough scale to achieve better value for public dollars if we bought strategically.

Think of it as bulk buying, but in the capital market instead of the grocery store.

The bigger the volume purchase, the less expensive the unit price. The bigger the purchase, the lower the risks and costs associated with moving product.

The principle behind "bulk buying" is a lesson of consumer culture that has been largely ignored by governments both in procurement (e.g. drugs) and financing capital requirements of public infrastructure and service.

Look at the emerging need for new hospital capacity. It is estimated that the costs of building the Royal Ottawa Hospital is about $1 billion. The Ontario Hospital Association estimates that the capital needs of the hospital sector currently sit at between $7 to $9 billion. Is there a way to better bundle our capital needs to get the best borrowing rates for the needed expansions?

While there is no "one size fits all" to financing new building projects (for example, the situation of CAMH—the Centre for Addiction and Mental Health—and its highly socially-effective but complicated mix of institutional, residential and commercial land use on one very valuable piece of real estate) there are rules of thumb.

Due to their sheer scale, governments have the biggest advantage in scale. You water down that advantage when you enter a P3 partnership.

Point 2: The difference in the structure of interest rates, from biggest to smallest player, should be used to work for the taxpayers' advantage

A government floats bonds for its major capital needs. The current 21-year yield-rate of an Ontario bond is about 5.56% a year. Stability in this rate of return is the very heart of the deal, for the bond-holder and the debtor, the government.

A private investor gets a premium, large or small, for raising the money for the government from the capital market. I have assumed they will not get much more than _ of a percentage point on top of the government long-term rate as a "risk premium", because the government will implicitly or explicitly guarantee the loan, as it must in such a sensitive area of public policy.

The difference of a _ percentage point seems pretty small. But on a loan for $1 billion it amounts to $2.5 million a year. Over the lifetime of the deal, taxpayers would be paying $50 million more if it was a 20 year deal, $75 million more if it was a 30 year deal. (That assumes the private deal fixes the rates at these incredibly low rates, rates we haven't seen in 40 years or more, for another 30 years.) What is the taxpayer getting for that extra $50 or $75 million in payments?

Point 3: Why should taxpayers pay for equity capital in public projects?

The private sector and the public sector don't borrow money in the same way. The public sector borrows all the money it needs. The private sector needs to put down some amount of equity in order to borrow.

Think of how mortgages are financed, or business deals are started. Historically equity requirements ranged between 15-20% of borrowing needs. But we are in a higher risk era, and in my estimates I assume a much lower equity rate, a requirement of 10% down.

Investors demand a higher rate of return on the up-front money that goes into a deal. Typically P3s yield between 15-20% rates of return on equity in North America and in the UK. Again I am assuming this government will bargain for a better deal for Ontario's taxpayers, and limit the returns to 10% per annum on this equity.

Connecting the dots – borrowing and revenue needs

So far we have been talking about P3s in a way that separates borrowing and revenue. But you have a revenue problem, so need to talk about the connection between borrowing and taxes. The table on page 6 of our submission lays out the links.

It shows that in one year, **Ontario taxpayers would have to pay $55 million** in increased taxed or reduced spending in other programs **to finance a $1 billion** project in the cheapest way possible, **through public borrowing**. **If P3 financing** was the way of finding the funds for the deal, even using the low-ball assumptions in this table, Ontario taxpayers would be on the hook for **another $7 million a year**, simply for the privilege of having private sector investors come up with the money package required to start building.

If we were to finance the $7 to $9 billion in capital needs assessed by the OHA as necessary in the hospital sector, Ontario taxpayers would have to pay **between $47 million to $61 million more a year, over and above public borrowing rates,** if we go the P3 route to finance these builds.

Over a 30 year period, Ontario taxpayers would need to pay over **$200 million for that one billion-dollar expansion. If all our currently needed expansions** were **financed with 30 year P3 deals** (and some of them are even longer) we would be contractually obligated to pay **between $1.4 and $1.8 billion more** just to raise the capital through the private market rather than through public borrowing.

Again, it needs to be stressed this is a least-cost estimate. The deals could require higher rates of return, and the deals could be structured to take advantage of increases in interest rates in future.

If this government invested directly in public health care instead, it could use the "opportunity" costs that it would have incurred by going P3 to finance the things people are clamouring for in the system, like reduce waiting times – the key to which is hiring more people.

If you could "save" $7 million a year by financing a $1 billion project like the ROH using public borrowing instead of a P3 deal, what could you buy?

RNAO tells us that, at an average annual salary of $60,000 per Registered Nurse, that $7 million could **hire 117 more nurses**.

At current levels of government support to universities for a four-year course of training for nurses, about $35,000, we could **train 800 more nurses** just with the costs "saved" **over four years** by not going P3 in **one billion-dollar development**.

For this government to meet its target of **hiring 8,000 new nurses**, about $480 million would be needed, an amount that would be "saved" over the **next 8 to 10 years** if the **$7 to $9 billion** in capital needs identified by the Ontario Hospital Association were financed by public borrowing rather than through P3s.

I’d be happy to pursue this discussion, both in question and answer or afterward if anyone wants to discuss this further. But I want to close by repeating that P3s are neither a fiscally responsible nor sustainable financing plan over the long term for expanding public service capacity.

P3s waste taxpayers’ money and waste public trust, just because governments don’t want to call a spade a spade.

The electorate of Ontario voted for change. They want basic services supported and improved, not continually eroded. To maintain and expand services will cost voters more money, not less. There is no source of free money. P3s don’t save taxpayers money, they cost taxpayers more. We sincerely hope the flirtation with P3s does not become another unnecessary chapter in the book of lessons-learned about government waste, a chapter that we will all read about in a future Auditor General’s report.