McGUINTY PRIVATE P3 HOSPITAL PLANS
TRUTH SERUM

Ontario Health Coalition Briefing Note August 26, 2005

CLAIM #1 The government announced provincial funding for 5 hospital developments in the last week.
TRUTH Ironically, Ontario's Liberal government MPPs travelled across the province last week to make splashy announcements that they will *not* be funding local hospitals...for profit corporations will be funding them and the communities in question will pay the consequences of this privatization. In some cases the local media and others have been bamboozled by the government press release and the photo-op press conferences that looked like funding announcements.

What the Liberal government actually announced:

- in Belleville 5 Liberal MPPs (Caplan, Dombrowsky, Parsons, Smitherman, and Renaldi) made the announcement that they will *not* fund the expansion of the Belleville site of Quinte Healthcare.
- in Sault Ste. Marie, Premier Dalton McGuinty made the announcement that the province will *not* fund the 289 bed hospital to replace Plummer Memorial and the Sault General Hospitals.
- by Ministry of Public Infrastructure Renewal Newsletter last week, the government announced that it will *not* fund the renovation and new wings of the Montfort Hospital.
- in Mississauga, MPP Bob Delaney announced that Credit Valley Hospitals 2 new wings will *not* be funded by the Liberal government.

According to the Ministry of Infrastructure's ReNew Plan, 66 hospitals will be redeveloped or built in the next 5 years. Of these "a sustantial portion" of 30-35% (ie. up to 23 hospitals) will be privatized. While some hospitals will be built or renovated through provincial funding, thereby remaining bona fide public/non-profit hospitals , the community hospitals listed here will not. Instead the private for-profit sector will fund the hospitals and the facilities will be subject to the terms required by those corporations for the duration of long term lease and service privatization agreements.

CLAIM #2 These hospitals are not privatized P3 hospitals.
TRUTH These hospitals are privatized P3 hospitals by the accepted academic and industry definitions of P3.

The term P3 or "public private partnership" was created by the P3 lobby to brand their product. The term has been picked up and used by academics, governments etc. It refers to the transfer of ownership, operation or financing of public/non-profit assets and services to the private for-profit sector. P3s range from short-term partial privatization to much deeper and longer privatizations. In P3s there remain some public elements of public sector involvement through contract, title, or other mechanism, and importantly, public subsidy. There are several generic categories containing sub-categories in the continuum of P3 privatization options set out by the industry[1] including:
Operation & Maintenance Contract (O&M): a private operator operates a publicly-owned asset for a contracted term.
Design-Build-Finance-Operate (DBFO): The private sector designs, finances and constructs a facility under a long-term lease, and operates the facility during the term of the lease.
Build-Own-Operate (BOO): The private sector finances, builds, owns & operates a facility or service in perpetuity.
Build-Own-Operate-Transfer (BOOT): A private entity receives a franchise to finance, construct and operate a facility (and to charge user fees) for a specified period, after which ownership is transferred to the public sector.
Buy-Build-Operate (BBO): Transfer of a public asset to a private or quasi-public entity under an upgrade and operate contract.

[1]For definitions of P3s see Canadian Council of Public Private Partnerships website and Bennett Jones LLP, Ontario Hospital Association Background Report "Public Private Partnerships for Ontario Capital Hospital Projects", August 15, 2001.

CLAIM #3 P3s are justified by cost-overruns in publicly-funded projects.

TRUTH The evidence shows the opposite.

In their comprehensive evaluation of P3s in hospitals[2], the British Association of Chartered Accountants (the members of which have been consultants on the biggest experiment in P3 hospital privatization in the world) concluded, "[c]onservatively estimated, the trusts appear to be paying a risk premium of about 30% of the total construction costs, just to get the hospitals built on time and in budget, a sum that considerably exceeds the evidence about past cost overruns."

They also concluded:

- that the hospitals' costs for P3s were higher than those financed by the government, even though the hospitals were smaller than the ones they replaced
- that even with the higher costs, the risk transfer is unclear
- that the costs of borrowing were five points higher in the private sector than the public sector's costs of borrowing, making the P3s "considerably more expensive than the conventional procurement."
- that hospitals with P3 contracts were more likely to be in deficit than the national average suggesting that P3s are not affordable
- that the high costs will affect health service staff and patients.

David Caplan, like Tony Clement, stakes this claim upon the misuse of a study that looked at one aspect of P3 procurement in 23 projects. But the study, by the British Auditor General[3], does not in any way claim that P3s are cheaper or better. The auditor is extremely clear about this, concluding, "It is not possible to judge whether these projects could have achieved these results using a different procurement route."

In fact, the study looked at 37 P3 projects to test whether there was price certainty for *solely the construction element* of the deal *once the contracts were signed*. The study did not look at the huge increases in cost from the beginning of the deals through the negotiation of the contracts, nor the operating and service privatization elements of the contracts, nor the opportunity costs entailed in the commercial development of public lands, nor the risk created by the contracts, nor any other elements of P3s. It compared these results to cost increases in the public sector from the beginning of the deals on. It is now acknowledged that this comparison of price change over two different timelines is akin to comparing apples and oranges. The auditor could make no claims about quality comparison to public sector procurement, overall cost comparisons between the PFI contracts and public procurement, the higher profit margins and so called "risk premiums" charged by construction companies to finish construction within contracted times – the premiums that the Association of Chartered Accountants note far exceed the evidence about past cost overruns -- and the audit office acknowledged that the study was based largely on interviews with PFI contractors and the construction industry – the same people who are the prime beneficiaries from these deals.

In fact, the British Auditor General called the accounting schemes associated with P3s "pseudo-scientific mumbo jumbo". The British Medical Association Journal editors called them "Perfidious Financial Idiocy"[4]. In Britain, where the schemes are discredited, the government has also tried to change their name.

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[2] Association of Chartered Certified Accountants, "Evaluating the Operation of PFI in Roads and Hospitals" Research Report No.84, 2004.

[3] Comptroller and Auditor General UK, "PFI: Construction Performance", February 2003.

[4] "PFI: Perfidious Financial Idiocy - a 'free lunch' that could destroy the NHS" by Richard Smith (editor), British Medical Association Journal, 1999, 319:2-3 (July)

Cost overruns and long delays have been characteristics of all the Canadian privatized P3 hospitals to date.

- In Brampton, costs rose from $350 to $550 million during the negotiation of the deal. An independent economic analysis shows that the hospital will cost $174 million more than if the hospital was built publicly[5]. The project is over a year late, is smaller than originally planned even though it is much more expensive, and will be opened in stages.
- In Ottawa, costs for the P3 hospital rose from $100 to $120 million during the negotiation of the deal.[6] The project is over a year late and the hospital will have fewer beds than those it replaces.
- In Abbottsford, BC, costs for the P3 hospital rose from $210 to $355 million during the negotiation of the deal. The annual operating lease for the private sector contractor has doubled from $20 to $41 million. [7]

For a list of P3 projects that have been the victims of cost-overruns, bankruptcies and legal wrangling between the private and public sector elements, please see: "100 P3s Failed, Flawed and Abandoned" at www.ontariohealthcoalition.ca

CLAIM #4 All the P3 privatizations to be announced by the government will be subject to a set of principles including the public interest, transparency & accountability, "appropriate" public ownership or control, and value for money.

TRUTH In fact virtually all important information about the P3 hospitals and the P3 policy have been hidden from the public, who will ultimately bear the costs and consequences of them.

Among the information the government refuses to disclose:

- refusal to admit that they are pursuing P3s including privatizing more hospital services for longer terms than any government has done before
- refusal to tell Ontarians which hospitals are slated for privatization
- refusal to clearly list all the services and functions that are slated for privatization within the hospitals
- refusal to make disclosure in court of the financial regime and many of the key details of the Brampton and Ottawa P3 deals it signed, the value for money reports on those deals etc. (note: the deals commit well over $2.5 billion in public money in payments to the private companies involved).
- refusal to disclose the estimated cost of the Belleville P3
- refusal to confirm Minister Smitherman's comment that the St. Catharines hospital will be publicly funded

There is no legislation to bring in privatized hospitals. There is no legislation proposed or introduced that would ensure the government meets its promise of transparency, public interest, value for money or any other commitment it has made. There has been no public release of a definition for "public interest" or "transparency" or "value for money" or "appropriate public ownership" or "control". There is no legislation introduced to ensure public access to information overrides commercial secrecy in the case of public service and infrastructure contracts. The P3 issue has never been debated in the legislature. There have been no public hearings, committee hearings, audits or any other regular parliamentary processes or accountability processes regarding the hospital deals signed to date or the P3 policy.

[5] Mackenzie, Hugh. "Financing Canada's Hospitals: Public Alternatives to P3s", October 2004.

[6] ROH website and planning documents.

[7] "Construction costs increase hospital price" Metro Valley Newspaper Group, 61 Feb 05, pg 34, and "Changes boost cost" MVNG 10 Feb 05, pg 3.

CLAIM #5 This is no big deal.

TRUTH This is a radical policy change, with no democratic process, committing billions in ultimately public funds and limiting our government's policy options for deals stretching approx. 30 years (over 7 successive government terms) into the future.

The announcements last week will commit well over $750,000,000 (capital costs only - not including long term service contracts, equipment, technology and so on) to P3 privatization. In addition to the Brampton and Ottawa projects, this means that over $3,300,000,000 in public hospital assets and services have been privatized through P3s since the Liberal government has taken power without any normal democratic processes used in parliamentary democracies to establish shifts in public policy.

Sault Ste. Marie - 289 bed hospital to replace 2 existing facilities with current estimated cost of $200 million.
North Bay - New regional health centre. Current estimated cost $219 million.
Ottawa (Montfort) - 2 new wings and renovation to result in projected expansion fo 81 beds. Current estimated cost $250 million.
Mississauga (Credit Valley Hospital) - 2 new wings and renovation. Current estimated cost $100 million.
Quinte - New wing containing a projected expansion of 77 beds. Government would not disclose estimated cost.
Subtotal: $769,000,000

Brampton - capital costs + long term servicing contract commit approx. $2.5 billion in public taxes for 27 years.
Ottawa (Royal Ottawa) - capital costs $120 million
Total known commitment to hospital P3s to date: $3.389 billion