ONTARIO PRE-BUDGET CONSULTATIONS

TORONTO, February 11, 2004

Toronto Health Coalition Submission

Introduction

Thank you for inviting us here today.

As members of the Toronto Health Coalition, a watchdog agency committed to the preservation and strengthening of public universal medicare, we welcome this opportunity to be heard.

The first duty of governments is to protect their citizens. Public trust is at least partly predicated by taxpayers' faith that their government is advocating on their behalf, getting the best deal possible to ensure residents universal access to quality care. This is not strictly following the Zellers slogan "…*because the lowest price is the law*". But it does require that the government document value for money. Our Auditor Generals would say that it makes no sense to be paying more in the long run for inferior quality of health care.

In the next few minutes, we want to share with you not only our concerns about the future of public, universal health care but also our suggestions as to how you might tackle your fiscal headache. We appreciate that you are in a financial bind. We also believe that you are sincerely committed to maintaining the integrity of a health care system that our Minister of Health described recently as "the very best expression of Canadian values." (Studio Two, January 30, 2004)

Despite the fact that Ontario taxpayers are now paying $10 billion more for health care a year than when the Tories came to power, public health care is in very bad shape: programs have been cut; services delisted; hospitals closed; home care budgets decimated; jobs lost.

We have been led to believe, however, that your government does not want to continue with this legacy of crippling cuts and creeping privatization. After all, in the Liberal Health Care Platform, you assured us that you would make "a legal, binding commitment to public medicare and ensure that [we] have the information to hold any government accountable for delivering quality health care."

Notwithstanding the current fragility of our health care system, we believe that it can be revitalized and strengthened. We are not naïve, however. The reality is that you have inherited a 5.6 billion dollar deficit and you are calling on the people of Ontario for help. Unlike the previous government, you are prepared to listen to us and that's why we are here.

Although we have concerns about many health care issues—home care, the nursing home crisis, an alarming shortage of full-time nurses, waiting lists—we are going to focus on the P3 hospitals.

Prior to the election, the Liberal Party campaigned against P3 hospitals. In the *Ottawa Citizen* on May 28, 2003, Mr. McGuinty said, "What I take issue with is the mechanism. We believe in public ownership and public financing (of health care). I will take these hospitals and bring them inside the public sector." We support your position wholeheartedly. Let's get them back in the public sector.

Obviously, you want to be fiscally prudent. We want to suggest ways that you can revert to public finance and control over our hospitals and avoid going the P3 route, which we see as the road to disaster.

P3 (Public Private Partnership) Hospitals

Aside from the William Osler Health Centre in Brampton and the Royal Ottawa in Ottawa, the P3 option is being considered for other hospitals in Ontario:

- the Centre for Addiction and Mental Health
- the Bridgepoint Health Centre (formerly Riverdale Hospital)
- the Salvation Army Grace Hospital
- Markham Stouffville
- the Halton Health Care Centre in Oakville
- West Lincoln Memorial in Grimsby
- St. Joseph's Health Care Centre in Hamilton

<u>Cost Factor</u>

There is no question that these facilities are needed. Residents and politicians of Ottawa and Brampton, for example, are very aware of the need for expanded acute care services in their communities. There is also no question as to who's paying for these new facilities. We are. After all, there's no such thing as free money. The question is "Are we paying too much or, perhaps, not enough for the services we say we want?" According to information about P3 hospitals in Britain, for example, Public Financial Initiatives (PFI) can drive costs up higher than necessary.

<u>Erosion of Services</u>

Evidence in other jurisdictions also points to the fact that, not only is the P3 model usually more costly; because of the need to make a profit—and this has to be the bottom line in privatized health care-- costs have to be cut. Health care is about care and care is about people. When costs are cut in order to make a profit, both quality and the extent of service are in jeopardy.

The fact is that health care turns on labour costs. Let me elaborate. Whether you're building a new for-profit hospital or a new not-for-profit hospital, there is no magic labour-saving technology. In such a labour-intensive industry, the temptation is to cut labour costs. In light of the current nursing shortage crisis in Ontario, this could be disastrous. Operating costs might be lower, but these reductions rarely make up for the profits taken, so the taxpayers are no better off as far as dollars and cents are concerned. In fact, they are far worse off with lower levels of patient care than might otherwise have been the case. The issue is labour, not capital and for-profits schemes can't solve the "supply of labour" problem. They can only offer up (more expensive) capital and re-allocate the existing supply of labour.

Lack of Transparency and Accountability

As well as our concern around cost and getting value for our money is the whole issue of accountability.

What's the deal?

In November 2003, the Liberals announced that they were proceeding with plans for redeveloping both the Brampton and Ottawa hospitals as P3s. Here's where the lack of transparency comes in.

We did not see the contracts before they were amended (if they were amended). We have not seen a summary of the revisions. We have not seen the current existing contract. All we really know for sure is that an arrangement was made between the government and the private companies involved in the building and operating of the hospitals. We also learned that we are now mortgage holders, not renters. What does this really mean? How is this new arrangement any different from the deal struck by the previous government? It is unacceptable that taxpayers are being told to have faith that this is the best deal possible, or even an improved deal.

Prior to the election we were assured that accountability was one of the top priorities of the Liberals. In fact, if you visit the Liberal website, you will read this promise: "We will make accountability to the public a central principle of medicare in Ontario."

If you want us to help you solve your fiscal difficulties, we need more information.

Alternative financing options?

The public has no idea what other financing options were considered by the government as far as the Brampton and Ottawa hospitals are concerned.

- Was there any analysis of the costs of public financing—including and excluding the costs associated with canceling the contracts-- versus the costs of the P3 deals?
- If alternatives were considered, why are these documents not public?
- If alternatives were not considered, why not?
- Apparently, the cost of canceling the P3 contracts was considered prohibitive. What does that mean? Why haven't we been told how much of a cancellation penalty the Ontario taxpayers would have to pay?
- Given that we have had little information, are these contracts even a done deal?

Again, if you want us to help you solve your fiscal difficulties, we need more information.

Economies of Scale

As an economist I want to talk to you about the economies of scale this government can seize and use to the Ontario taxpayers' advantage.

I want to talk to you today about why size matters – and how that relates to P3 hospitals and similar costly public-private initiatives. And I want to talk to you about how public borrowing--and raising the revenues required to cover such borrowing--is the most fiscally responsible and sensible policy option available to this government at this time.

Size matters. The Government of Ontario can borrow money at cheaper rates than any other player—cheaper than a business, cheaper than the developers, cheaper than an individual hospital, cheaper than any individual municipality.

Size matters—the bigger the volume, the less expensive the individual price. This is the principle behind "bulk buying," 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.

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.

The first rule of thumb is that the cheapest source of finance is through public borrowing. The implicit political rule that goes along with this is that taxpayers should not being paying more to developers for their efforts to raise capital when governments can do it more easily and definitely at lower cost.

Let me walk you through how this can occur, how the numbers quickly escalate due to the sheer scale of what is needed, and how easy it is to avoid this kind of waste – of taxpayers' money and of the public trust.

The Size Advantage – Governments Pay Less to Borrow Capital

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.

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.

A private investor would want to get a premium for raising the money for the government from the capital market. I have assumed they will not get much more than ¼ 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 Size Advantage – Governments don't need to raise "equity" first

However, the public sector borrows all the money it needs. The private sector puts down some amount of equity in order to borrow.

Whereas typically the equity (like a down-payment to get a mortgage) would range between 15-20% of borrowing needs, I am assuming a much lower equity rate of 10% down. However the private financier would need a higher rate of return on his/her equity than ¼ of a percentage point. 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.

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 attached table lays out the links.

THE DIFFERENCE BETWEEN PUBLIC AND P3 BORROWING

	Ontario Government borrows @ 5.5%	Private Sector borrows 90% @ 5.75%	Private Sector puts up 10% Equity Capital at 10%	Average Cost of Private Sector Deal	Additional Costs of Private Financing over Public Financing
Costs Per Year to Borrow (New Taxes or Reduced Spending on Other Program Areas)					
$1 billion	$55,000,000	$51,750,000	$10,000,000	$61,750,000	$6,750,000
$7 Billion	$385,000,000	$362,250,000	$70,000,000	$432,250,000	$47,250,000
$9 billion	$495,000,000	$465,750,000	$90,000,000	$555,750,000	$60,750,000
Borrowing Costs over 30 years					
$1 billion	$1,650,000,000	$1,552,500,000	$300,000,000	$1,852,500,000	$202,500,000
$7 Billion	$11,550,000,000	$10,867,500,000	$2,100,000,000	$12,967,500,000	$1,417,500,000
$9 billion	$14,850,000,000	$13,972,500,000	$2,700,000,000	$16,672,500,000	$1,822,500,000

What could you do with the difference between P3 and public financing?
Average cost of 1 Registered Nurse: $60,000 - $7 million could buy 117 nurses a year
Average cost of 1 four–year Nursing Program: $35,000 - $28 million could buy 800 new nurses in four years

* based on 2004 CCRA preliminary estimates of number of Ontario taxpayers in 2002 tax year = 5,783,120

How Much More Would the Taxpayer Pay?

To use P3 financing on just one billion dollar project would cost Ontario taxpayers almost $7 million a year over and above what they would be paying in new borrowing costs if the government was the source of financing for building the needed facility. If all our emerging capital needs (for expanding facilities and upgrading them) were financed using P3s, the additional annual costs for Ontario taxpayers would range between $47.2 million and $60.8 million a year.

These costs would either be borne by higher taxes to cover the new costs or reduced services. In either case, the unnecessary costs/cuts by going the P3 route are simply magnified over time.

Since most significant capital expansions are amortized over a long period, typically 30 years, the total unnecessary expense to Ontario's taxpayers, over the life of these agreements would range from over $200 million just to finance one billion-dollar project, to between $1.4 and $1.8 billion to finance the capital needs the OHA currently identifies as outstanding, using P3 financing. As noted, these are least-cost scenarios. P3 deals often have higher rates of return, or other arrangements that can indirectly increase the rate of return on the equity put up

by the private financiers beyond a 10% rate. More importantly this estimate assumes the private deal fixes the borrowing costs at these incredibly low rates, rates we haven't seen in 40 years or more, for another 30 years.

The only reason it has become difficult for the government to borrow is a decade-old ethic that deficits should not be allowed to occur and debt loads should be dropping. But at a time when (a) many public investments have been deferred for a decade or more and there is much infrastructure maintenance and expansion required to meet the needs of a growing population and (b) interest rates are at 40-45 year lows, there is absolutely no excuse to hang onto a counter-productive mantra like "no more public debt."

This does not mean unfettered public borrowing. It means judicious increases to avoid waste—the wasted tax dollars, unnecessary increases in user fees, or reduced access to services for some, even as others jump to the head of the cue.

You can look at the difference between the P3 and public finance options as a cost increase or a cost saving. In either case we have to pay more taxes–or cut the equivalent in program spending--the only question is how much more.

The story of how we finance our capital needs in our hospitals is intimately related to the labour story in health care, which is the real issue behind waiting lists and public concerns about the sustainability of health care.

How Else Could We Use That Money?

If every $1 billion in P3 financing costs the Ontario taxpayer another $7 million a year in unnecessary taxes or unnecessary program spending cuts, what could we buy for another $7 million, or what could we avoid losing?

At $60,000 a year for the average full time Registered Nurse, ***we could hire another 117 nurses a year, or not have to lay them off.***

The Registered Nurses Association of Ontario (RNAO) says it takes $150,000 to train a nurse in Ontario, from elementary school to post-secondary. Over 6,500 nurses are still registered with RNAO are currently working in the US. RNAO estimates that about 500 nurses have been leaving for the United States and elsewhere every year since about 1996. If most of those nurses received their education and training in Ontario, that reflects a vast leakage of public investment.

Last year the government was paying $7,843 per nursing student per year to universities. Not accounting for the "time value" of this investment, four years would cost the government $31,372 for every completed nursing student. When you factor in the current 25% attrition rate, the cost to the government is well over $35,000 per student.

Every $1 billion P3 financed project means an opportunity cost of $28 million over four years, ***the equivalent of training 800 new nurses***.

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.

P3s: Faster, Better, Cheaper?

The previous health minister, Tony Clement, was often on the record saying that P3s provide health services "faster, better, cheaper".

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

There is, to date, no incontrovertible 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 for investors within a fixed rate government payment plan can lead to difficult choices regarding how services are provided, choices that can easily compromise quality care and even patient safety.

Finally most commentators have stopped insisting that P3s are cheaper, instead arguing that the increased prices of private borrowing are merited if the government is transferring risk. In the case of "public" hospitals, risk transference is negligible if not nil. No government will let a hospital facility die because its funders/developers/owners go bankrupt or illiquid.

The electorate will always perceive the government as guarantor that these needed services/facilities remain available and are not "closed til further notice" like some insolvent business. And that perception or expectation of the role of government is totally appropriate for such a service as acute care. That is the social contract we agreed to more than 40 years ago, and the Romanow process verified this is still the implicit social contract that Canadians believe they are part of.

This government has indicated it wants to keep the public's trust and govern with both prudence and compassion. This government has indicated it wants to listen to the people it represents in order to develop sensible policy initiatives that reflect the public will. Public borrowing--and raising the revenues required to cover such borrowing--is the most fiscally responsible and sensible policy option available to this government at this time. Such an approach invests wisely, avoids waste today and in the future, and restores public confidence in the government's ability to do what only it can do – govern both the public purse and collective needs of Ontario.