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P3s

FACT SHEET

P3s – The Wrong Prescription for Health Care

March 2009

Earlier this year the *Saskatoon Star-Phoenix* revealed that the Saskatchewan Party government would be establishing a P3 secretariat to explore the possibility of using public-private partnerships for large-scale infrastructure projects, including health care facilities.¹ According to an October 15, 2008 government briefing note, obtained through a freedom of information request, the Ministry of Government Services is also preparing the groundwork for a P3 hanger facility for the Air Ambulance program.²

In addition, the Brad Wall government recently launched the Patient-First Review to examine the province's health care system. Tony Dagnone, who is heading the review, has emphasized his commitment to publicly funded health care, but has stated repeatedly that he is not opposed to considering private delivery of health care. When the Dalton McGuinty government announced plans in 2005 to use Alternative Financing and Procurement (the Ontario Liberal government's name for P3s) to finance a new children's hospital in London, Dagnone, then CEO of the London Health Sciences Centre, called the announcement a "super day" for the London region.³ The people of Saskatchewan, however, appear less enthusiastic about private delivery of health care. A Viewpoints Research poll commissioned by the CUPE Saskatchewan in November 2008 found that 65.6% of Saskatchewan residents were opposed to P3 hospital and health care facilities. Nearly three-quarters of respondents (73%) believed facilities like schools and hospitals should be publicly owned and controlled.⁴

Saskatchewan citizens have good reason to be skeptical of P3 hospitals. The experience across Canada and in the United Kingdom clearly shows that P3s are the wrong prescription for the delivery of health care.

¹ James Wood, "Gov't explores public-private partnerships; New secretariat to evaluate proposals," *The Saskatoon StarPhoenix*, January 2, 2009.

² "Air Ambulance hangar could be Sask.'s first P3 project; D'Autremont lauds B.C. Sea-to-Sky Highway that reportedly cost taxpayers an extra \$220 million," *Owls and Roosters*, February 16, 2009, <http://owlsandroosters.blogspot.com/2009/02/air-ambulance-hangar-could-be-sasks.html>

³ John Miner, "Hospital money sought; the government is looking to the private sector to finance London's new children's hospital," *The London Free Press*, September 28, 2005.

⁴ Viewpoints Research, poll conducted November 13 to 19, 2008, http://cupe.ca/updir/Poll_by_Viewpoints%2C_December_8_release%5B1%5D.pdf

Brampton Civic P3 Hospital

For several years, concerns about cost overruns, secrecy and the lack of public accountability have dogged Ontario's P3 hospitals, which were initiated by the Conservative government in the late 1990s, but continued by the McGuinty Liberal government under the label AFP.

In December 2008, Ontario's auditor general released a damning report on the Brampton Civic Hospital P3 project. Among other things, the auditor general found:

- The "value for money" report carried out by project consultants seriously inflated the cost estimates for the traditional public procurement approach by \$634 million over the life of the project.
- The Brampton P3 hospital costs ballooned from an initial projection of \$357 million to a final construction cost of \$614 million, even though the building was significantly smaller than projected with fewer beds.
- The hospital could have been built publicly for \$194 million (in 2003 dollars) less than the P3. An additional \$200 million (or \$107 million in 2004 dollars) could have been saved over the life of the 25-year lease if the project would have been financed with the province's 5.45% cost of borrowing at the time instead of the higher rate paid by the private consortium.
- Between 2000 and 2007, \$34 million was spent on legal, technical, financial and other advisors, of which \$28 million was attributable to the P3 process.⁵

Following the release of the auditor general's report, the Ontario Health Coalition called for an immediate moratorium and re-evaluation of the government's hospital P3 privatization policy. Calls have also been made for a similar audit of the Royal Ottawa P3 hospital, which opened two years ago with 54 major deficiencies, according to its current CEO.⁶

Abbotsford P3 Hospital

The Abbotsford Regional Hospital and Cancer Care Centre in British Columbia provides another cautionary tale about P3s.

For starters, the Abbotsford Hospital was plagued by delays. The original announcement in 2001 anticipated a 2005 completion date. But cancellation of the public procurement plan led to a three-year process of preparations, bidding and contract negotiation for the P3 deal, which delayed the project delivery date until 2008.

Three of the four bidders withdrew, leaving only one vendor, Access Health Abbotsford, which seriously compromised the ability to ensure a competitive bidding process. This should have given the B.C. government reason to reconsider the P3 approach, but they charged ahead nonetheless. Coincidentally, the construction costs in Access Health Abbotsford's final bid exceeded the Request for Proposals budget target.

⁵ Auditor General of Ontario, *2008 Annual Report of the Office of the Auditor General of Ontario*, Chapter 3, Section 3.03, Brampton Civic Hospital Public-private Partnership Project.

⁶ Mohammed Adam, "Audit on Royal Ottawa sought," *The Ottawa Citizen*, January 26, 2009.

As for “risk transfer” – a key selling point for P3s – several operational risks remain with the public sector in the Abbotsford P3 project. These include: ongoing inflation risks, ongoing contract enforcement, risks associated with self-monitoring, risks related to technological evolution and infection control practices, risks of substandard service levels, changing labour costs, and risks associated with high patient demand due to a natural disaster.⁷

In a 2009 report, forensic chartered accountant Ron Parks and chartered accountant Rosanne Terhart evaluated four B.C. P3 projects, including the Abbotsford Hospital. Their analysis found that the nominal dollar cost of the Abbotsford P3 Hospital exceeded the public sector comparator by \$328 million.⁸

Parks and Terhart also looked at another P3 health care initiative in B.C. – the Diamond Centre (formerly the Academic Ambulatory Care Centre), an 11-story facility on the site of the Vancouver General Hospital. They concluded that the Diamond Centre cost \$114 million (or 130%) more over the life of the contract than if it had been built publicly.⁹

The U.K. PFI experience

In the 1990s, the United Kingdom pioneered the use of Private Finance Initiative (PFI), which has served as a model for Canada’s P3s. The U.K. has used PFIs extensively for hospital funding and expansion.

PFI hospitals have been criticized for construction delays, cost overruns, staff cuts, bed reductions and shoddy quality. At the PFI hospital in Carlisle, two ceilings collapsed and the sewage system overflowed into the operating theatre. The Edinborough P3 hospital was built over an old mine, which has contributed to a serious rat problem.¹⁰

In 2002, the Association of Chartered Certified Accountants found that negotiations for PFI hospitals took an average of two extra years longer than traditional public procurement.¹¹ Two years later, the Association of Chartered Accountants in London carried out a thorough evaluation of the operation of PFI hospital projects. They concluded:

- The annual capital costs of PFI hospitals were at least 100 million pounds more than they would have been with public financing.
- The PFI hospitals were considerably smaller than the public hospitals they replaced.
- A risk premium of 30% of total construction costs was paid to ensure PFI hospitals were built “on time and on budget.” This premium was much higher than the cost over-runs in publicly built hospitals.

⁷ Hospital Employees’ Union, *HEU Report on the Abbotsford Regional Hospital and Cancer Centre “Achieving Value for Money” Report*, December 2005, p. 15.

⁸ Blair Mackay Mynett Valuations Inc., *Evaluation of Public Private Partnerships: Costing and Evaluation Methodology*, Prepared for Canadian Union of Public Employees, January 5, 2009, p. 10.

⁹ *Ibid.*, p. 3.

¹⁰ Ontario Health Coalition, *P3 Hospitals – Importing a British Failure*, May 2003, available at http://www.web.net/ohc/docs/british_p3.pdf

¹¹ As cited in *HEU Report on the Abbotsford Regional Hospital and Cancer Centre*, p. 12.

- Private consortia appeared to bear little effective risk during the term of the PFI contract.
- PFIs are an expensive method of financing public services and may result in cuts to public services and/or tax increases.¹²

More recently, a 2008 report by the U.K.'s largest public sector union bluntly stated, "The reality is that the Private Finance Initiative and Public Private Partnerships are costing the country a fortune. It is a case of buying one hospital for the price of two."¹³

P3s make no economic sense in the best of times, but the global financial meltdown has cast even more doubt on the U.K.'s PFI approach. A leaked memo to the *Guardian* newspaper in January 2009 warned that hospital projects were at risk because of the PFI credit crisis. Health authorities were told to "expect a capital desert in 2010/2011."¹⁴

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¹² As cited in *Ibid.*, p. 16.

¹³ http://www.unison.co.uk/asppresspack/pressrelease_view.asp?id=1251

¹⁴ As cited in David Hall, *A crisis for public-private partnerships (PPPs)?*, Public Services International Research Unit, January 2009, p. 3.