**Comments from the**

**Ontario Council of Hospital Unions / CUPE**

**to**

 **The Commission**

**on the**

**Reform of Ontario's Public Services**

**December 15, 2011**

**CUPE Research**

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The Ontario Council of Hospital Unions would like to raise two specific issues with the Commission: [1] public private partnerships and [2] interest arbitration.

**Public Private Partnerships**

CUPE has long criticised the use of private financing of public capital projects such as hospitals. These projects are referred to under the term Alternative Financing and Procurement (AFP) by the government, but are more commonly referred to as public private partnerships or P3s. In Britain, they are referred to as Private Finance Initiatives or PFIs.

Many longstanding concerns raised by CUPE and others were proven correct in the review by the Auditor General of the first P3 hospital, the Brampton Civic Hospital. The government resisted attempts by CUPE and others to get hard information about the Brampton P3 hospital project for years. However, in 2008 the Auditor General was able to do a detailed review. Here are [the ‘highlights’](http://www.auditor.on.ca/en/reports_en/en08/303en08.pdf) from the situation he found:

* Cost increases: the facility’s construction costs increased from an initial estimate (under public procurement) of $357 million to $614 million under the P3. Despite this, the project’s size actually *shrunk*.
* High cost of ‘risk transfer’: The risk transferred to the private sector was costed at $67 million, 13% of the total cost of the facility. Rightly, the Auditor General questioned this cost.
* Costly P3 consultants: The hospital and the Ministry engaged approximately 60 legal, technical, financial, and other consultants at a total cost of approximately $34 million. About $28 million of these costs related to the work associated with the new P3approach, yet they were not included in the P3 cost.
* The total P3 costs were $1.153 billion or $194 million more than the public model.
* This $194 million advantage for the public model does not include the
$107 million in higher private sector financing costs for the P3 (nor even the
$63 million in modifications required after close).

The Auditor’s conclusions should bring some doubt to even the most ardent backers of P3s.

Since the Auditor’s report, there has been significant new problems with public private partnerships. First, in recent months the international experience with P3s has revealed more problems, and, second, the international financial situation is making the use of P3s particularly unadvisable. We believe this Commission should review these concerns and advise the government to suspend the use of P3s.

Below we list some of the recent problems.

**[1] Recent Developments in Britain**

[A] An October 11, 2011 [report](http://www.nao.org.uk/publications/1012/foundation_trusts.aspx) from the **British National Audit Office** indicates that British Department of Health advisers have found that up to 6 of the 22 hospitals with public private partnerships (P3s) "were not viable under any of the tested scenarios" because of the scale of their PFI (i.e. P3) payments and other financial problems.

The Audit Office reports that "tackling the financial problems faced by some of the most challenged (hospital) trusts will require direct intervention" by the government, including "addressing the affordability of PFI schemes." The Audit Office notes that the Department of Health now "acknowledges that external financial support may be needed for a small number of trusts with large PFI schemes."

**Conservative Health Secretary**, Andrew Lansley, [commented](http://www.telegraph.co.uk/news/politics/8822552/Almost-50-NHS-trusts-struggling-financially.html): “This report exposes the dismal legacy of challenged hospitals we inherited from the Labour Government. Labour burdened some of our hospitals with PFI deals they cannot afford, allowed years of bailouts to snowball into huge debts, and turned a blind eye to poor performance and quality."

The conservative newspaper the *Telegraph*[reports](http://www.telegraph.co.uk/health/healthnews/8780363/NHS-hospitals-crippled-by-PFI-scheme.html) that 60 hospitals with PFIs are in trouble, supplying a list of the debts of the 60 hospitals. *The Telegraph* also [reports](http://www.telegraph.co.uk/health/healthnews/8780363/NHS-hospitals-crippled-by-PFI-scheme.html)that there "is already evidence that waiting lists for non–urgent operations have begun to rise as hospitals delay treatment to save money." The 60 hospitals care for 12 million patients.

The Telegraph [adds](http://www.telegraph.co.uk/health/healthnews/8780363/NHS-hospitals-crippled-by-PFI-scheme.html)that their "proposals are expected to include significant cost–cutting and the renegotiation of PFI contracts. Money will also be moved from NHS trusts that are in better financial shape to cover the debt costs at those that are struggling. However, officials are braced for the need to use Whitehall (i.e. government) funds to bail out some hospitals." The [Financial Times](http://www.ft.com/cms/s/0/fe7539a6-ef66-11e0-bc88-00144feab49a.html#ixzz1bpaf8n1L) reports concern in the private sector about the possibility of the government renegotiating PFI deals.

[B] In August 2011, the [Telegraph](http://www.telegraph.co.uk/health/healthnews/5995025/Hospitals-to-cut-services-to-pay-for-pay-60bn-private-finance-deal.html)  revealed British government documents which indicate that the cost of hospital P3 deals signed since 1997 "will swell by almost one quarter from 2011 to 2014".

Given the current policy of government austerity in Britain, this will mean that the hospitals are going to have to find significant “savings". The Telegraph story [Hospitals to cut services to pay for £60bn private finance deal](http://www.telegraph.co.uk/health/healthnews/5995025/Hospitals-to-cut-services-to-pay-for-pay-60bn-private-finance-deal.html) reports that the hospitals are already drawing up the plans for the required savings.

The *Telegraph* goes on to note:

The steep increases come as the NHS (National Health Service) prepares for its annual budget to be frozen, meaning cuts in real terms as PFI and other costs rise. As a result, hospitals have been ordered by Sir David Nicholson, the NHS chief executive, to make "efficiency savings" of at least £15 billion over the same period. The Department of Health returns to the Treasury show the £60 billion total cost of the schemes to taxpayers is more than five times the capital value of the buildings. Annual payments will rise from less than £500 million at the last election, in 2005, to £1.5 billion by 2014, peaking at £2.2 billion by 2029.

Notably, the Ontario government’s fiscal situation has some similarity with the British government’s, and so P3s may have a similar result.

[C] In September 2011, the **Public Accounts Committee of the British House of Commons** warned that investors have made bumper profits from taxpayers by buying up the contracts for schools and hospitals funded through PFIs and taking the proceeds offshore (see, the *Guardian*, [*Investors 'using tax havens to cash in on PFI contracts'*](http://www.guardian.co.uk/politics/2011/sep/01/private-finance-initiatives-tax-havens-public-accounts-committee)*)*.
In particular, **the committee criticised the British Treasury for assuming PFI contractors would pay tax,** when many are based in offshore tax havens.

The Committee identifies 91 PFI projects held in overseas tax havens. Innisfree, one
of the largest investors in PFI, told the committee that 72% of its shares were held by investors based in Guernsey. (With a 30% share, Innisfree is [part](http://ochuleftwords.blogspot.com/2011/06/are-p3s-way-for-foreign-corporations-to.html)of the [consortium](http://www.newswire.ca/en/releases/archive/June2011/13/c5489.html) that won a massive P3 hospital bid in Montreal.)

[D] The **Treasury Select Committee of the British House of Commons** has also weighed in recently. In August 2011, it [concluded](http://www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/news/pfi-report/)that public private partnership "**funding for new infrastructure, such as schools and hospitals, does not provide taxpayers with good value for money.**"

The Committee found that the capital cost of even a low risk P3 project is over 8% – double the long-term cost of government borrowing.

Higher borrowing costs since the credit crisis mean that PFI is now an **‘extremely inefficient’** method of financing projects, according to the Committee. Analysis commissioned by the Committee suggests ***that paying off a PFI debt of £1bn may cost taxpayers the same as paying off a direct government debt of £1.7bn.***

The Committee also stated it has "not seen any convincing evidence that savings and efficiencies during the lifetime of PFI projects offset the significantly higher cost of finance."

The Committee concluded that the widespread use of the model over the last 15 years was because of "significant incentives... which are unrelated to value for money". These include the fact that PFI does not appear in government debt figures, and do not use up limited departmental capital funding, [according to](http://www.healthinvestor.co.uk/%28X%281%29A%28bHuTIPyUzAEkAAAANjVmNmRiM2YtY2UwZi00ZjgxLTg0OTMtYzg0NGE0NDU3ODMyLQ0AyYRHVsS79zSWkF0yMi_KpGo1%29S%28kfu2w0iohdi3ec55duegdqbc%29%29/ShowArticleNews.aspx?ID=1828) *Health Investor*.

The **Conservative Party Chairman of the House of Commons Select Committee** states the PFI funding mechanism should be used "as sparingly as possible until the value for money and absolute cost problems associated with PFI have been addressed." "We can’t carry on as we are, expecting the next generation of taxpayers to pick up the tab," he added.

The Treasury Select Committee also "raises concerns that the current Value for Money appraisal system is biased to favour PFIs," another point long raised by P3 critics in Ontario. The Treasury Select Committee report is [available here](http://www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/news/pfi-report/).

[E] Following these various negative reports, the Construction Products Association [forecast](http://www.hvnplus.co.uk/news/doubts-on-pfi-contributing-to-downturn/8621559.article) in late October 2011 a 30 per cent fall in health sector construction work this year, followed by a 15 per cent fall next year. Health construction work is expect to fall from a peak of around £5.2 billion in 2008, down to £2.4 bn in 2014, adjusted for inflation..

The collapse was put down to uncertainty over the future of PFI, Kelly Forrest, CPA senior economist said. “We think it will be a while before PFI returns to the health sector.”

[F] After the reports noted above, the British Chancellor has announced a fundamental review of the government's use of PFI.

[Chancellor George Osborne said](http://www.ft.com/cms/s/0/0344a800-0edd-11e1-b585-00144feabdc0.html#ixzz1dzkFXqYv)  “We have consistently voiced concerns about the misuse of PFI in the past and we have already taken steps to reduce costs and improve transparency...We want a new delivery model which draws on private sector innovation but at a lower cost to the taxpayer and with better value for public services.”

Unfortunately, the government appears at this time only trying to reform PFI. The [Financial Times](http://www.ft.com/cms/s/0/0344a800-0edd-11e1-b585-00144feabdc0.html#ixzz1dzmAcY5e) suggests that the government wants more "direct" private sector investment in public infrastructure, possibly through pension plans   Instead of banks financing these projects for decades through a mixture of debt and equity, banks would finance projects only until building was complete.

This would reduce the period of time that the public is stuck covering the high cost of bank borrowing.  Pension plans (or other "direct" investors) would then buy out the debt, once construction was complete, and hold on to it for good long time.

[G] Negotiations to increase funding for PFI hospitals

Negotiations have begun to increase funding in Britain for hospitals laid low by the burden of expensive PFI deals.

A Maidstone and Tunbridge Wells Trust (hospital) spokesman [told Kent media](http://www.kentonline.co.uk/kent_messenger/news/2011/december/2/new_hospital_already_needs_cas.aspx): “MTW is part of a national review of NHS trusts that require financial assistance to support their private finance initiative (PFI).  The trust is working closely with its PCT commissioners, strategic health authority and the Department of Health as part of this ongoing assessment."

Maidstone and Tunbridge Wells hospital is one of 22 trusts identified as needing cash support to meet its P3 payments. Its privatized P3 hospital is brand new.

British Treasury Select Committee P3 advisor Mark Hellowell recognizes that P3 hospitals have higher fixed costs and so [argues](http://opinion.publicfinance.co.uk/2011/09/lansleys-hypocrisy-on-nhs-cuts-and-pfi/) that they must be paid more per procedure than other hospitals.

"Since some NHS trusts have high fixed costs, it serves no efficiency
purpose to penalise them (and the populations they serve) for this. After
all, few would doubt that these trusts needed the new hospitals they commissioned, and the government forced them to use PFI (nobody would
have touched it had it not been the only game in town – to borrow Alan
Milburn’s phrase). Therefore, fairness dictates that these costs should be
borne centrally: the PbR ('payment by result') tariff should be adjusted so
that trusts with high costs are fully funded for these costs."

Kent media now [reports](http://www.kentonline.co.uk/kent_messenger/news/2011/december/2/new_hospital_already_needs_cas.aspx) Maidstone and Tunbridge Wells hospital will receive extra cash for its P3 burden.

**[2] P3s during a financial crisis**

Turmoil in the financial sector drives up private financing and P3 costs. This was certainly true following the 2008 financial crisis and it looks like similar problems are brewing in Europe (where many P3 financiers are headquartered).

European governments are struggling to create a €1 trillion ($1.4 trillion CDN) fund to ward off financial melt-down. Broader international assistance may ultimately be required, so Canada may become involved. As well, with banks facing huge loses, a recapitalisation of banks of approximately €110 billion is proposed, with banks taking a 50% write down on Greek debts.

It is far from clear that, even if these huge steps to save the banking system are fully and decisively implemented that the financial crisis will not linger on, perhaps for years. The [*New York Times* led off a story](http://www.nytimes.com/2011/10/25/business/global/talks-adjourned-aides-try-to-iron-out-euro-rescue-details.html) October 25 noting that “fears were growing that the result might be another example of European leaders doing less rather than more. And concerns are that it may not be enough.”

It is also not clear which banks may be affected by these problems.

Dexia, the most recent bank to fail (in October 2011), passed a recent stress test without problem, but then had to be quickly bailed out by the French, Belgian and Luxembourgish governments when a variety of problems arose. The three countries will guarantee as much as €90 billion of interbank and bond funding for 10 years for Dexia and the Dexia Credit Local unit.

It is also not clear what the ultimate impact of this or other potential failures will be, on the credit rating of the various governments’ bailing out the banks -- or on the various private sector partners of failing banks. As a result of the Dexia bailout, the credit rating agency, Moody's, [has warned](http://www.guardian.co.uk/business/2011/oct/10/dexia-new-bailout-belgian-deal?newsfeed=true)that it may downgrade Belgian government bonds (already Belgium is [forced to pay](http://www.theglobeandmail.com/report-on-business/international-news/european/dexia-agrees-to-belgium-bailout/article2196475/) almost 2% more than Germany for ten year bonds). There are also concerns that France's AAA rating may fall under threat.

Notably, Dexia itself is involved in public private partnerships. The Guardian [reports](http://www.guardian.co.uk/business/blog/2011/oct/04/troubled-dexia-helped-fund-pfi-projects?newsfeed=true)it has been involved in about $9.36 billion worth of P3 projects in Britain. Dexia, is also involved in at least three hospital public private partnership (P3) projects in Ontario ([Halton Healthcare](http://newswire.ca/en/story/819693/contract-awarded-for-new-oakville-hospital-project), [Bridgepoint](http://www.bridgepointhealth.ca/projectpartners)and [CAMH](http://www.newswire.ca/en/story/532173/contract-awarded-for-camh-redevelopment-project)) as well as the [Windsor Essex Parkway](http://www.fasken.com/en/windsor-essex-parkway-reaches-financial-close/) P3 project, the largest P3 project in the country.[[1]](#footnote-1)

There may be more bank troubles to come. After the failure in October of Dexia, a major European bank, a top leader of [MF Global said](http://www.ochu.on.ca/leftwords_ochuBlog.php?id=3346861473302794268) that other financial service businesses may fail. Only too true.

The credit ratings of numerous banks have been downgraded. Goldman Sachs now [has said](http://www.nytimes.com/2011/10/15/business/global/g20-seeks-broader-solution-for-europes-debt-crisis.html?_r=1&ref=business) that at least 50 of the 91 European banks tested previously by the banking authority are likely to fail revised stress tests.

As with the last go around (just three years ago) no one knows which businesses will make good on their promises, and which will fail. That drives up the cost to finance infrastructure through private finance relative to public finance. As a result, a financial crisis will drive up the costs of P3s.

OCHU/CUPE [released](http://cupe.ca/privatization-watch-june-09/P3s-even-more-expens)a [study](http://www.scribd.com/fullscreen/70295224?access_key=key-lm1kjd3soqev4is2124) by noted economist Hugh Mackenzie just after the 2008 banking crisis detailing how the financial problems were driving up the cost of the P3 financing.

We now find ourselves in a situation again where uncertainty surrounds the future of many private financiers. This will drive up private financing costs. Moreover, public authorities (and Canadian governments may not escape this) are ending up on the hook for much more of the risk.

We get the worst of all worlds: private financing costs go up and more risk is left with the public authorities. Surely this is a moment to pause and reconsider our use of public private partnerships.

**[3] P3 Impact on Canadian business**

Events in Britain also raise doubts about whether P3s will in fact benefit all parts of Canadian business, including large Canadian businesses.

Bombardier lost its position as the favourite for a £1 billion Crossrail train contract when the government moved to fund the deal through a P3, the [*Guardian*reports](http://www.guardian.co.uk/business/2011/sep/04/pfi-threat-to-bombardiers-chances-of-crossrail-deal).   The problem?  Bombardier's German based competitor, Siemens, has better access to financing than Bombardier.  "A large company like Siemens will be able to borrow the money to undertake a project of this kind," Tony Travers, director of the Greater London Group at the London School of Economics, warned.

Indeed, Siemens's superior financial firepower is thought to have been a factor in their victory over Bombardier for a recent Thameslink deal that caused Bombardier to announce it would layoff 1,400 workers at a British factory.

This dynamic is likely even more relevant to Canada than England. Our local business class is not among the biggest businesses (even compared to British business who have, in fact, pushed into the Ontario hospital industry through P3s).  Indeed, Bombardier is actually a Canadian based corporation -- *one of our biggest.*

So are Canadian corporations likely to have the "superior financial power" that will advantage them in the long term financing deals inherent to P3 privatization?  Their size, at least, suggests otherwise.

The Canadian Construction Association, while not opposed to P3s, says that it is lobbying the federal government to consider other methods of infrastructure development than the current public private partnership (P3) model.

A Vancouver construction industry [report](https://skydrive.live.com/redir.aspx?cid=551b92a74f9805f9&resid=551B92A74F9805F9!139&parid=root) indicates that P3s "have worked only for a handful of very large Canadian construction firms. Ninety per cent of the Canadian construction industry, however, is made up of small and medium-sized firms."

"The problem is in the financing component of the P3s. Traditionally, Canadian general contractors have depended on bonds purchased from the bonding industy for financial backing for projects. P3s don’t use bonds in the same way. They require letters of credit – cash from recognized financial institutions.  Often P3s require 10% of the cost of a project covered by money
in the bank. On a very large project, that can amount to hundreds of millions of dollars.  Most construction companies in Canada are not financially large enough to play in that arena.  The result is smaller Canadian construction companies are either shut out of P3 projects in favour of very large, often offshore, consortiums or, at best, they are reduced to being subcontractors working for those consortiums."

“As an industry we are lobbying for the government to consider other methods so Canadians aren’t left out of the P3 game,” says Dee Miller, the Chair of the Canadian Construction Association.

The Canadian Construction Association is reportedly asking government to look at performance and material bonds to back P3 projects just as they have always underpinned other construction projects, or that Ottawa launch a Canadian infrastructure government savings bond program that ordinary citizens could buy into.

“If governments plan to solve our infrastructure deficit by predominantly using the public-private partnership process as it is currently structured, they will literally hollow-out the Canadian construction industry,” Miller warned.

**[4] The consequences of P3 failure for public services**

Britain's largest nursing home chain, Southern Cross is going kaput, brought down, in part by our economic circumstances. It had 752 homes with 31,000 elderly and infirm residents.

Southern Cross’ growth was part and parcel of a massive privatization of nursing home health care services in Britain. [About](http://www.telegraph.co.uk/finance/personalfinance/insurance/longtermcare/8630245/Southern-Cross-your-questions-answered.html)100,000 beds in municipal homes have been replaced by beds run by for-profit corporations (and, to a lesser degree, by voluntary organisations). Barely 10% of all care remains in public hands. Running largely on public money, these are public private partnerships, with the private sector owning the facilities and operating the homes, often through complex arrangements. Southern Cross had profited by buying a huge number of nursing homes and then realizing a cash bonanza by selling them to property companies and renting them back.

Some useful comments from [*The Telegraph*](http://www.telegraph.co.uk/health/healthadvice/8640780/Expect-more-tragedies-like-Southern-Cross.html)on how this P3 deal transferred the risk to the elderly and most vulnerable:

* While the Government insists that no residents will end up homeless as a result of Southern Cross’s collapse, ministers have been unable to give assurances that residents will not have to be placed elsewhere.
* There is a wealth of research to show that moving individuals who are settled in nursing homes has a severe impact on their well-being. There is a clear correlation between such upheaval and an increase in morbidity and mortality. There is also research to show that elderly patients with dementia are more likely to experience a deterioration in their symptoms, becoming more confused, disruptive and requiring higher levels of personal care when moved to a new care home.
* Those with learning disabilities exhibit signs of emotional distress and depression, often resorting to self-harming behaviours such as headbanging or hand-biting. These institutions have become ''home’’ to the residents, and being forced to move home is a disorientating, scary and bewildering experience for a group of people who need stability and routine. Yet, because a private company provides their care, there is nothing that can be done to ensure they are protected from this.
* This situation has arisen because Southern Cross was bought by private equity firms which effectively asset stripped it using the controversial “sale and leaseback” strategy. This meant that the homes owned by Southern Cross were sold off to more than 80 private landlords, thus releasing their equity, and then leased back to the company. When rents rose and income dropped, the company ran into problems and folded.
* It is a horrifying and timely warning to those in the Government seeking to increase the role that private providers have in health care. Under the current NHS reforms, situations such as this will only increase as more responsibility for care provision is handed over to private companies.
* This must not be allowed to happen. We must protect those who have no voice from losing their homes, and ensure the debacle of Southern Cross, with its tragic consequences, is never repeated. In the pursuit of profits, it is the vulnerable and infirm that suffer while shareholders get rich.

Dot Gibson, general secretary of the National Pensioners Convention, [said](http://www.telegraph.co.uk/finance/newsbysector/epic/sche/8630421/Elderly-face-moving-care-home-after-Southern-Cross-closure.html): “There is little doubt that forcing residents to move will in some cases have fatal consequences. Serious questions should be asked as to whether having 80 different landlords in charge of 752 care homes is a proper way of running our social care system. How can the interests of some of our most vulnerable older people be protected when profit is the driving motive?”

Southern Cross workers [interviewed](http://www.ft.com/cms/s/0/11055c46-abd2-11e0-945a-00144feabdc0.html#ixzz1RpDihbpm) by the business newspaper the *Financial Times* spoke of a deterioration in standards over the past year, as the company’s finances lurched into crisis. One dietary workers reports that the food budget in her home had been reduced to 2.47 pounds per day per resident ($3.81 CDN).

Now local governments are stuck with the responsibility to make sure the elderly get care.

**Windsor**

A not so different experience occurred recently in Ontario.

A P3 long term care (LTC) project on the old Grace Hospital site in Windsor was repeatedly delayed with a bed crisis resulting at local hospitals. The private developer’s financing problems sparked the crisis.

[The 256 bed](http://www.ochu.on.ca/leftwords_ochuBlog.php?id=8848096889918657552) LTC P3 project had been stalled for years while the city has been desperately short of long term care beds, causing patients to back up in the local hospitals. As a result, the local hospitals fell in to a ‘1A’ bed crisis.  The new LTC facility was supposed to be completed in March of 2010.

City treasurer Onorio Colucci said the city is owed about $1,020,000 in back taxes, penalties and interest, and that the developer has not paid taxes since purchasing the property in 2005.  “It has been going on for a long time,” Colucci said. “We have been trying to hold off, to not complicate the matter while the province tried to resolve the issue".

The landmark former Grace hospital grows more dilapidated with each passing day. Overgrown weeds, broken windows, busted concrete, mountains of gravel and a punctured building laced with graffiti are what remain of the former Salvation Army hospital.  "I don't have to go to Detroit -I have this to look at," said an exasperated neighbour.

Dwight Duncan acknowledged that there has been a "horrendous cost" to the health care system and the region's seniors who were waiting for long term care beds to become available.  "This contract has been completely violated," Duncan said.

Government's usually justify the extra costs associated with P3s by arguing they transfer risk to the private sector (and then require the public authorities to pay for it).

In this case, the Finance Minister argued that the government was trying to avoid being sued by the developer: "We had to go the extra mile to insure that he would not have a case against the province," Dwight Duncan [stated](http://www.cbc.ca/news/canada/windsor/story/2011/06/24/wdr-vozza-deadline-june-24.html).

The project was supposed to be *completed well* over a year ago, but now the project hasn't even begun: after the failure of the P3, the government had to re-start the process.

The local hospitals still have a bed crisis, with the hospitals [regularly operating](http://www.windsorstar.com/health/Windsor%2BRegional%2BHospital%2BDavid%2BMusyj%2Bwants%2Bpolicy%2Bresurrected/5600806/story.html) at 103% or 104% bed occupancy due in large part to the many LTC patients who remain at the hospital. Long-awaited surgeries get cancelled because there are no beds to put patients in to recover.

**Conclusion**

To be sure, CUPE has had long term objections to the use of public private partnerships. And we have detailed these problems extensively.

But recent events we believe should indicate to broader sections of the public that there are more and more problems emerging with the use of P3s.

We urge this Commission to recommend a different direction for Ontario.

**Interest Arbitration**

We were concerned about some comments in the media concerning modifications to interest arbitration. Hospital do not have the right to strike and so are forced by law to use interest arbitration to settle collective bargaining disputes rather than free collective bargaining. Other essential service workers also use this system of contract resolution.

In the 1990s the Mike Harris government attempted to modify the interest arbitration process, introducing changes that favoured employers. This led to a severe decline in labour relations between CUPE and Ontario hospitals, with regular (sometimes weekly) pickets in front of hospitals. One round of collective bargaining stretched out over four years.

Ultimately the government revised its interest arbitration policy and the parties were able to agree on a mutually acceptable arbitration process that had credibility with both sides. After that arbitration, the OCHU/CUPE and the Ontario Hospital Association were able to successfully negotiate four consecutive central collective agreements without having to use the interest arbitration process. In other words workers and hospitals voted to ratify four agreements. This is a much more useful outcome than having an agreement involuntarily imposed on unwilling partners.

This was only possible as both parties new that the failure to negotiate a deal would mean the parties would have to go through a balanced arbitration process. When that balance is removed, the ability to bargain a mutually acceptable result is destroyed.

Contrary to suggestions from some, this process did not result in an unfair burden to the hospitals. Wages are generally the major issue in bargaining and as such are a fair measure of the balance of success between the parties. Here are the general wage increases (with the compounded increase over each agreement) since the last central arbitration and the four subsequent negotiated central settlements.

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| --- | --- | --- | --- | --- |
| 01-Apr-97 | 1.00% |  |  |  |
| 29-Sep-97 | 0.50% |  |  |  |
| 01-Apr-98 | 1.00% |  |  |  |
| 29-Sep-98 | 1.00% |  |  |  |
| 01-Apr-99 | 1.00% |  |  |  |
| 29-Sep-99 | 1.00% |  |  |  |
| 29-Sep-00 | 2.00% | 7.74%  | 6 years | Arbitration |
| 29-Sep-01 | 2.50% |   |   |  |
| 29-Sep-02 | 3.00% |   |   |  |
| 29-Sep-03 | 3.00% | 8.74%  | 3 years | Settlement |
| 29-Sep-04 | 1.50% |  |  |  |
| 01-Apr-05 | 1.50% |  |  |  |
| 29-Sep-05 | 1.50% |  |  |  |
| 01-Apr-06 | 1.00% | 5.61%  | 2 years | Settlement |
| 29-Sep-06 | 2.75% |   |   |  |
| 29-Sep-07 | 3.00% |   |   |  |
| 29-Sep-08 | 2.60% | 8.58%  |  3 years  | Settlement |
| 29-Sep-09 | 2.00% |  |  |  |
| 29-Sep-10 | 2.00% |  |  |  |
| 29-Sep-11 | 2.00% |  |  |  |
| 29-Sep-12 | 2.00% | 8.24% | 3 years | Settlement |

Between 1995 and 2010, the general wage increase has amounted to 42.6%. Wages are, of course, paid in nominal dollars (not real dollars) so we believe it is useful to compare those increases to nominal economic growth to determine if CUPE hospital worker wage settlements have burdened the economy.

Nominal economic growth over the same period was 96.9%. We might add that the CUPE hospital workforce has remained stagnant for many years, the population has grown significantly, and hospitals perform many more procedures than they once did. So we believe that CUPE hospital workers have already made a very significant contribution to Ontario economic efficiency and there is no need to further restrict their wages.

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1. Indeed, a large part of the troubled assets of Dexia [are on](http://www.bloomberg.com/news/2011-10-09/belgium-is-said-to-get-france-s-approval-to-buy-dexia-consumer-bank-unit.html) the balance sheet of Dexia Credit Local, a French unit of the bank. Bloomberg [reports](http://www.bloomberg.com/news/2011-10-09/belgium-is-said-to-get-france-s-approval-to-buy-dexia-consumer-bank-unit.html)the unit has €21 billion of Greek, Italian, Portuguese, Spanish and Irish sovereign debt. Dexia Credit Local, however, is also the unit of the bank involved in all four of the bank's public private partnership (P3) projects in Ontario. [↑](#footnote-ref-1)