

Ontario Health Coalition

Cost Comparison Analysis of P3 Projects Versus Public Hospital

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A comparison of the costs of procurement for the P3 (Private-Public Partnership) hospitals in Brampton and North Bay to the Peterborough hospital, procured without use of private financing, raises serious questions about the costs of the P3 model.

The Peterborough hospital was the last public project to be approved before the privatized P3 hospital program was introduced by Tony Clement and Jim Flaherty. It was started under the Conservative government and completed under the McGuinty Liberal government. The Brampton P3 hospital was the first P3 hospital announced under the new privatization program, started by the Conservative government and completed by the McGuinty government, despite promises to stop the P3 program. The North Bay P3 hospital is the first P3 hospital started by the McGuinty government and it is currently under construction.

Despite claims that the P3 model has changed, and despite attempts to re-name the policy "Alternative Financing", all of the P3 hospitals are financed by private for-profit consortia and governed by lease and lending deals made between the hospital board/government and the private consortia. Both the North Bay and Brampton projects are P3 hospitals, and involve unprecedented multinational for-profit companies (consortia) in the financing, management and running of the hospitals' services and their properties.

At times, the McGuinty government's Ministry of Infrastructure Renewal has also attempted to distance itself and the McGuinty government from the decisions relating to the negotiations of the P3 deals. However, the P3 policy is government policy, imposed on the hospitals and their communities by the provincial government. The provincial government (Ministry of Health in the case of the Brampton P3 and Ministry of Public Infrastructure Renewal in the case of the North Bay P3) has been involved in the negotiations of each deal, and Ministerial sign-offs are required for the deals as per usual government procurement policy. Thus, it is correct that the government be held accountable for the scope and costs of these deals, and the P3 policy itself which has been implemented without any proper legislative process.

Extraordinary Costs in P3 Hospitals

The cost comparison shows that the P3 hospitals are extraordinarily more costly than the public Peterborough hospital project. The main findings are as follows:

- The price per bed (construction costs/number of final beds) for Peterborough's public hospital is between \$.05 million and more than \$ 2 million less per bed than the P3 hospitals commissioned at the same time and completed in a similar time frame.
- Total costs, including equipment, are significantly lower for the public Peterborough hospital versus the P3 hospitals.
- The public Peterborough hospital has 80% as many beds as the Brampton P3 hospital but cost only 30% of the costs of the P3 hospital, in construction costs alone. If we include the service and interest costs the difference becomes even greater.
- The public Peterborough hospital has significantly more beds than the P3 North Bay hospital but was significantly cheaper: Peterborough Hospital has 127% of the bed capacity of the North Bay P3 Hospital but was only 35.8% of the costs.

Costs and timeline comparisons:

	William Osler Health Centre (P3)	North Bay General Hospital (P3)	Peterborough Regional Health Centre (Public)
Timeline	November 30, 2001- October 2007	January 19, 2007 (winning bidder named)	June 20, 2000- June 8, 2008
Construction costs	\$650 million ¹	\$551 million ² (unclear if this cost includes equipment)	\$197 million
Total costs w/equipment + plus privatization of services (including interest)	Approximately \$900 million ³ including equipment; \$3+Billion with service contracts and interest ⁴	\$1.05 billion ⁵ (includes interest and services, unclear if this cost includes equipment)	\$286 million ⁶ (including equipment, there is no service privatization deal included since this is a public hospital not a P3)
Beds upon opening	479	n/a	400
Total beds	608	388	494 ⁷
Cost per total bed (construction costs)	\$1,069,078.95	\$1,430,412.17	\$398,785.43
Total costs per bed w/equipment, interest and privatization of services included	\$1,480,263.16 (from \$900 million figure)	\$2,706,185.57	\$558,704.45

¹ See Schedule 28 of the Project Agreement released March 2004 showing a final selected bid of \$536 million. After the final Project Agreement was signed, the consortium required another \$21.8 million before they would start construction. Ultimately the MOHLTC announced another \$24 million in capital costs, raising the total capital cost (publicly disclosed) from the previously disclosed total of \$536 million to over \$550 million. See “\$22M causing more delays to hospital” by Sabrina Divell, Brampton Guardian, 06/11/04. See Hansard for Minister George Smitherman’s comments in the legislature - June 8, 2004. Also see Toronto Star “Mayor fights for hospital; Promised Brampton centre still in limbo while costs soar” Morgan Campbell 07/21/04. On December 22, 2006 the government issued a press release announcing another \$24 million in capital funding as follows: “the McGuinty government is investing \$34 million to help the William Osler health Centre to finish building its new 608-bed Brampton Civic Hospital site, Health and Long-Term Care Minister George Smitherman announced today....The funding announced by the government today includes: - \$24 million in capital funding for the William Osler Health Centre to provide equipment and related accommodation, such as electrical fixtures and building structures....- \$10 million in operational funding to assist the hospital with costs related to transitioning to the new hospital site.” MOHLTC press release on CNW. See News Release Ministry of Health and Long Term Care “Brampton Civic On-Time Opening Ensured by New \$114 Million Investment from McGuinty Government” 3/30/07: “Smitherman announced today the government is....investing an additional \$101 million in capital and \$13 million in one-time operating funds

² “Hospital construction costs top \$551 million, province says” Local News - Monday, March 19, 2007, North Bay Nugget, Staff

³ Metroland- Brampton Division “Hospital price tag rises to \$900-M; Community fundraising obligation more than doubled” Peter Criscione 05/25/07

⁴ See Schedule 28 showing \$2.6 billion cost when construction costs were at \$550 million (prior to increase in building and material costs).

⁵ See North Bay Nugget “Billion-dollar hospital” April 07, 2007 by Gord Young; Toronto Star, “Tory Blames McGuinty for hospital cost overruns” Tobi Cohen, April 8, 2007: “The media recently obtained a letter, sent in February from Health Minister George Smitherman to a hospital board official, that pegged the new cost of the [North Bay] project at more than \$1 billion.”

⁶ Peterborough hospital CEO Paul Darby, May 2008.

⁷ Peterborough MPP Jeff Leal at All Candidates Meeting September 2006 confirmed there will be 494 beds operational and fully staffed.

Questions The Government Must Answer:

- Part of the explanation for the extraordinary costs of the P3 hospitals can be found in the work of Lewis Auerbach, former Director in the Auditor General's Office of Canada. Auerbach found in the Brampton P3 documents that the government had committed \$430 million⁸ in the deal to the private consortium in extra interest, management fees and dividends (profits). Why would the government pay \$430 million in extra interest, management fees and profits for the Brampton P3 hospital when the hospital was projected to cost \$350 million in total before the P3 started?⁹
- Given the controversy and criticism over lack of public accountability why has the government still not released documents including the full financial information for public scrutiny, including at the Royal Ottawa P3 Hospital, the North Bay P3 Hospital, the Sault Saint Marie Area P3 Hospital and, all subsequent P3 hospitals?
- Why is the government continuing with a program of P3 privatization when the cost per bed is two to four times more expensive for these P3 hospitals than Peterborough's public hospital?

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⁸ See Auerbach, Lewis "Commentary on the William Osler Health Centre Value for Money Benchmark and Letters of Assurance" May 9, 2007.

⁹ Brampton Guardian "Province Wants Partners for New Hospital" December 05, 2001, by Sabrina Divell.