

# **Cancel Private Hospitals: Prominent Economists Say P3 Hospitals Threaten Medicare**

Toronto Four prominent economists and a former director of audit operations with Canada's Auditor General released a report today that is sharply critical of controversial public-private-partnership (P3) hospital proposals. The report commends the new provincial government for rejecting the P3 model for public hospitals, including those planned for Brampton and Ottawa.

The reports authors are: Lewis Auerbach, Arthur Donner Phd., Douglas D. Peters Phd., Monica Townson and Armine Yalnizyan.

In an open letter to the Ministers of Health and Long-Term Care, and Public Infrastructure Renewal, the authors describe P3 hospitals as posing a serious threat to the public health care system. They urge the government to carry through with the commitment to cancel the P3 projects proposed for the Royal Ottawa and William Osler Hospitals and to ensure that all future investment in public hospitals accords with the principles of public financing, ownership and not-for-profit administration.

The authors conclude that when properly accounted for, P3 hospitals are likely to be 10% more costly than hospitals that are publicly financed, owned and operated.

Their report concludes that there is every reason to expect that if P3 hospitals were established in Ontario, they would result in a deterioration of hospital services, diminished accountability, an increase in two-tier care, and needless cost. The authors note that this is turn in likely to discourage confidence in publicly funded health care, and weaken support for the medicare model.

## **Summary & Background**

### *FUNDING HOSPITAL INFRASTRUCTURE: WHY P3S DON T WORK, AND WHAT WILL*

#### **Summary**

A group of prominent economists and a former director with Canada's Auditor General have written to the Honourable Ministers of Health and Long Term Care, and Public Infrastructure Renewal commending the government for having rejected the P3 model, and encouraging the government to carry through by cancelling these outstanding projects.

In support of their position, the experts have prepared a report which examines the consequences of adopting a public-private partnership or P3" model for providing health care infrastructure and services. It exposes the fallacies of the rationale offered for adopting this approach, and describes the significant cost premium and accountability problems associated with the P3 model.

The experts describe the consequences of adopting the P3 for public hospitals as including:

- ❑ **a substantial premium that taxpayers will pay for hospital facilities and services that are likely to be 10% more costly than hospitals that are publicly financed, owned and operated;**
- ❑ **the likelihood that the extent and quality of services will decline in P3 hospitals as efforts are made to sustain profit margins in an environment where efficiency gains are limited;**
- ❑ **the accountability problems inherent to P3 projects where confidentiality is claimed for financial and business records, preventing a proper accounting for public health-care spending, and frustrating efforts to monitor P3 hospitals for compliance with the principles and objectives of the Canada Health Act;**
- ❑ **the risk that by introducing the profit motive to public hospitals, P3s will create a platform for two-tiered service because of the co-mingling in one institution of insured health care services with those provided outside the publicly funded system.**

The authors also express their support for the traditional approach to funding public infrastructure. They describe the public funding model as perfectly sound so long as accounting for such investments is improved. To this end they call upon the new Government to adopt an accrual rather than a cash method of accounting for investment in health care infrastructure so that the costs of acquiring an asset like a public hospital can be spread over its useful life. They note that with interest rates at historically low levels, and significant unemployment in the province, the time is ideal to invest in hospitals and infrastructure.

## **Background**

In December 2001, Ontario's Conservative government announced plans to establish two private hospitals on sites owned by the William Osler Hospital Centre (WOHC) and the Royal Ottawa Health Care Group (ROHCG).

According to a scheme it described as a public-private partnership or P3, the Government proposed that both hospitals would be privately financed, owned, and operated. In addition to providing hospital buildings and facilities, these P3 deals would bundle all non-clinical services into long-term contracts with for-profit health care companies. According to the Government, clinical care services would remain under the control of the existing hospital boards.

In making these announcements, the Government signalled its intention to abandon the non-profit model for providing hospital services in Ontario, where for decades public hospitals have been publicly financed, owned and operated on a non-profit basis. Capital funding for hospital infrastructure was provided by grants from the provincial and federal governments, and private charitable donations.

On the eve of the recent election, both the WOHC and ROH signed framework agreements with the same consortium of domestic and foreign investors. Neither the provincial government nor the hospitals were willing to disclose the details of these arrangements. However the WOHC has indicated that in its case the P3 contract has a value of \$1.28 billion, and a term of twenty-eight years.

However the framework agreements signed by the Hospitals are contingent upon provincial approvals which have not yet been granted. Moreover, during the election campaign, the Premier indicated that he would not, if elected, carry through with these P3 initiatives.