

In this PPP, taxpayers are the ones who paid

A report by the Ontario Auditor General on the Brampton Civic Hospital project shows the pitfalls of this kind of financing

To P3 or not P3, that is the question.

Public-private partnerships (P3s) are an increasingly popular method for financing the construction of public works projects, from sewage systems through to hospitals

But a recent report by the Auditor General of Ontario should give pause.

Auditor General Jim McCarter examined in detail the deal that saw a private consortium build Brampton Civic Hospital and lease it back to the province.

Using the ever-cautious words of an accountant, his bottom line was: "Our work indicated that the all-in cost could well have been lower if the government had built the hospital itself."

Put more bluntly: Taxpayers got screwed.

On paper P3s look good. The idea is that private business will use its acumen and access to capital to build facilities quickly and cost-effectively. Cash-strapped governments, for their part, are able to invest in much-needed infrastructure now while repaying investors over the long term—as individuals do with a mortgage.

In theory, this allows both public and private partners to focus on what they do best.

But let's take a look at what happened in practice at Brampton Civic Hospital. In November, 2001, the Ontario government approved the development of new hospitals using the P3 approach.

In August, 2003, a deal was signed between William Osler Health Centre (the health corporation that runs Brampton Civic" and the Healthcare Infrastructure Company (a consortium of private-sector companies) to design, build and finance a new hospital. The consortium would also provide non-clinical services such as laundry, housekeeping, security and maintenance over a 25-year period.

The Auditor General found that when all was said and done, going the P3 route cost Ontario taxpayers \$194-million more than if the hospital had been built and run publicly. Financing the construction cost added a further \$200-million in interest charges because government can borrow money at a lower rate than private business.

As much as we love to complain about the presumed inefficiencies of government, this is not capitalism's shining moment of glory.

Paying \$394-million too much for a \$614-million hospital is pathetic—with a capital PPP.

So how did the money-saving P3 idea unravel? Again, the Brampton Civic story is informative.

The Auditor General points to several key problems:

>>> In 2001, a consultant pegged the cost of a new 716-bed hospital at \$381-million. By 2004—after the province embraced P3s—that estimate jumped to \$525-million for a smaller, 608-bed

hospital, but the discrepancy was never justified. (The hospital opened with 479 beds operating in October, 2007.);

>>> The cost of a government-built hospital was overstated by a whopping \$289-million, making it look like a totally unaffordable option compared to a P3;

>>> For example, when estimating the cost of a government-built hospital, William Osler Health Centre added \$67-million, assuming a 13-per-cent cost overrun. In reality, cost overruns are about 5 per cent;

>>> The province spent \$28-million on consultants working on the P3 project but didn't include that in the P3 costs; nor did it factor in all the time government employees spent on the project;

While those numbers are damning enough, Mr. McCarter notes, more fundamentally, that the province never conducted a formal analysis to determine if the market was sufficiently large and competitive to justify a P3 arrangement.

In this instance, the answer is clearly "No." Because so few construction contractors are able to undertake a project as large and complex as building a hospital, they would end up being involved whether the facility was built by government or a consortium. So all that going the P3 route does is pad the bills.

In his report, the Auditor general

makes a series of recommendations to avoid the Brampton Civic debacle and notes that the Ontario government has already implemented many of the changes.

There is no doubt P3s can be done better. But no one is asking whether they should be done at all.

As the federal government embarks on a plan to spend its way out of a recession, it has created a new Crown corporation, PPP Canada Inc., and given it \$1.3-billion to "spearhead the promotion of public-private partnerships."

Taxpayers deserve more than P3 boosterism. And they deserve more justification than a fallacious premise that governments are incapable of efficiency.

Our much-needed public works projects, from hospitals to bridges, should be built and operated as efficiently and cost-effectively as possible and, so far, P3s have not proven their mettle.

As Canadian comic and aspiring politician Greg Malone has said bitinglly: "P3s should be called P12s - Public Private Partnerships to Plunder the Public Purse to Pursue Policies of Peril to People and the Planet for all Posterity."

— Andre Picard
The Globe & Mail
February 5th, 2009

