

## **Beware P3 Hospitals**

The Winnipeg Free Press and Straightgoods – February 3, 2004

**By Dr. Gordon Guyatt**

**(Winnipeg Free Press Headline: Private Hospitals Bad Business)**

What can a provincial government do when a community needs a new hospital, but the government doesn't have the money to construct and equip the building?

One option is to raise taxes. Another is to borrow the money, and incur a budget deficit.

Governments now have a third option. Let the private sector raise the money, build and own the hospital, and run its non-clinical services. Advocates call the new option "private-public partnerships", or P3 hospitals.

On the surface, sounds like a great deal. The government avoids politically unattractive taxes or deficits and the community gets its hospital. Ontario and Alberta have already gone ahead with P3 projects, and BC has one in the works.

But wait a minute. Who really pays for the hospital? The private sector isn't raising the money out of generosity. In the end the government, using our taxes, pays every penny.

And, for a number of reasons, they end up paying more. First, the cost of borrowing is higher for the private sector. Private financing interest rates are typically 0.5% to 2.0% higher than governments would pay.

Second, the private companies anticipate a profit of at least 5%.

Third, there are costs associated with negotiating the deal. The Royal Ottawa Hospital, for instance, required \$8 million to put together a P3 deal.

Ultimately, the government forks out the money for the higher interest rates, the profits, and the deal-making costs. Economists estimate that

each P3 will cost the Ontario government at least 10% more than public financing.

That additional cost means less money for health services. Britain has the world's largest established P3 program. In a series of five articles in the prestigious British Medical Journal, researcher Alyson Pollock has shown that increased P3 costs have resulted in fewer hospital beds, and poorer service. That could also happen in Canada

P3s have additional problems. With public financing, auditors have full access to a hospital's financial and performance records. Not so with P3s, which routinely use commercial confidentiality to keep financial information and performance data away from auditors.

Finally, the profit motive creates an incentive to charge patients for faster or better care. P3 advocates claim that safeguards will prevent such practices. They have made the same claims, however, about outpatient for-profit surgical and radiological services. The safeguards have not stopped those clinics from increasing revenue by charging patients who then jump the queue.

So, with all the problems, why are governments still considering P3 initiatives? Ontario's current situation illustrates the government's dilemma.

In the last month before Ontario's October 2003 provincial election the previous Conservative government signed two deals for P3 hospitals. The deals were typical: private consortia would build, own, and manage non-clinical hospital services. Not-for-profit hospital boards would lease the building, and maintain responsibility for clinical services.

During the election campaign, Liberal leader Dalton McGuinty promised to scrap the P3 deals and restore public funding. He also promised not to raise taxes and to balance the budget. After he won the election and had an auditor check the books, he found a projected deficit of over \$5 billion.

So, how could he cut the deficit, not increase taxes, fund the very necessary new hospitals, and keep his promise to cancel the P3 deals?

His solution was to make cosmetic changes to the agreements negotiated by the previous governments. The hospital would retain ownership of the physical building, while all other aspects of the agreement stood. In effect, the arrangement became a mortgage for the hospital, instead of a lease.

That still means the government will end up paying the additional costs of private borrowing, and the companies' profit margin. The deal will make the current year's accounting look better, but end up paying more in the long run.

Worse yet, the Liberals are entertaining the possibility of other P3 hospitals. McGuinty is allowing six Ontario hospitals to continue negotiations with possible private funders.

The Liberals' dilemma illustrates that the problem is a matter of accounting practices. Under current procedures, if the government borrows money to build the hospitals, the entire capital expenditure counts in the current budget. That means the deficit increases, and the government is left with a political black eye.

If it's a lease or mortgage, however, the expenditure is charged to the hospital and doesn't appear on the government's books, allowing them to claim prudent management.

Never mind that the public ends up paying more for their hospitals. Leave the unpleasant options of raising taxes, incurring a deficit, or cutting services – including hospital services – to future political leaders.

Accounting practices that spread the cost of the hospital over its useful life would go a long way toward solving the problem. In the meanwhile, we should congratulate provincial governments that have had the good sense to stay away from P3s.