# The Healthcare Infrastructure Company of Canada

**THE HEALTHCARE INFRASTRUCTURE COMPANY OF CANADA CONSISTS OF:**

- Borealis Infrastrucure Management Inc.
- Carillion Canada Inc.
- EllisDon Corporation
- Compass Group
- Oxford Properties Group
- CIT Structured Finance
- BMO Nesbitt Burns

THE HEALTHCARE INFRASTRUCTURE COMPANY OF CANADA is comprised of *Borealis Infrastructure Management Inc., Carillion Canada Inc.,* and *EllisDon Corporation.* Facilities management will be provided through a joint venture of *Carillion,* the *Compass Group* and the *Oxford Properties Group;* a construction joint venture of *EllisDon* and *Carillion,* with *EllisDon* the senior partner; and finance provided by *CIT Structured Finance,* which is part of the Bermuda-based *CIT Group,* and *BMO Nesbitt Burns.*

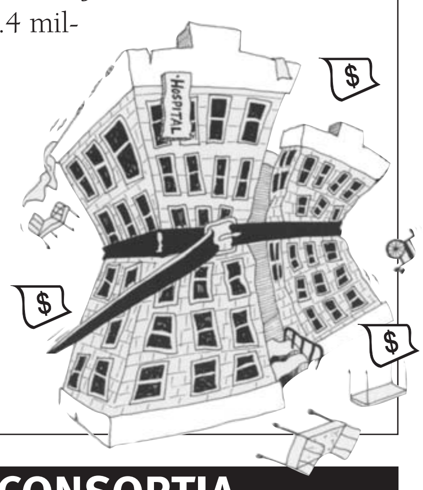
**CARILLION PLC, THE PARENT COMPANY OF CARILLION,** is one of the major private finance initiative (PFI) and general construction companies in the U.K. It has annual revenue of $4.5 billion, 2002 profits of $95 million and 20,000 employees.

### Rich executive pay

The group chair of Carillion Plc is Sir Neville Sims. His total compensation in 2002 was about $1.02 million plus a complex set of stock options. Sir Neville holds 427,041 shares in the company. The group chief executive officer is John McDonough. His total compensation in 2002 was about $1.4 million, plus a deferred stock bonus. He owns 374,976 shares.

### Trouble in Swindon

Carillion is involved in a number of controversial PFI hospital projects in the U.K. For example, the company is behind the consortium that built the new Great Western PFI Hospital in Swindon, which opened in late 2002. Swindon's main newspaper, *The Wiltshire Evening Advertiser,* has provided in-depth coverage of the problems with this project.




## ABBOTSFORD PRIVATE HOSPITAL CONSORTIA

Prepared by the Hospital Employees' Union –September 2003

… over

In 2001, the newspaper revealed that the project's real costs far exceeded initial estimates. Construction came in at $720 million, more than original estimates of $330 million before the project began. And when annual payments are factored in along with construction costs, the bill for the facility would be $1.05 billion over the duration of the 30-year concession. See:

- <http://www.thisiswiltshire.co.uk/wiltshire/archive/2001/06/27/swindon_news1ZM.html>
- <http://uk.geocities.com/swindon_libdems/sbc/29062001/local.html>

**A month after it opened, senior administrators were warning doctors against referring patients because all the beds were full**

The new hospital has 80 fewer beds than the hospital it replaced. In January 2003, the newspaper reported that barely a month after Carillion's new hospital opened, senior administrators were warning doctors against referring patients because all the beds were full. By April, government recognized the facility was too small and allocated $27 million more for a new 27-bed ward.

The added cash for new beds coincided with a series of critical articles and controversies about patients left on trolleys for inordinate periods of time. One patient, Mr. Tony Collins, was contacted by the *Guinness Book of World Records* after he was left waiting on a trolley for 60 hours! Another patient was left on a trolley for 144 hours in April. As recently as June 28, 2003, the controversies about long waits on trolleys continue. See:

- <http://www.thisiswiltshire.co.uk/wiltshire/archive/2003/04/03/swindon_news2ZM.html>
- <http://www.thisiswiltshire.co.uk/wiltshire/archive/2003/01/30/swindon_news7ZM.html>
- <http://www.thisiswiltshire.co.uk/wiltshire/archive/2003/04/01/swindon_news12ZM.html>
- <http://www.thisiswiltshire.co.uk/wiltshire/archive/2003/05/14/swindon_news19ZM.html>

### Savings claims at London area hospital in question

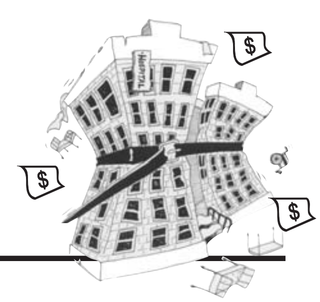
Carillion is also part of another controversial PFI hospital in Dartford, just outside of London, which was completed in 2000. As with the Swindon hospital, the new Dartford PFI hospital has 50 fewer beds than the hospitals it replaced. When it opened, there were complaints about no water in the theatre scrub rooms, making sterilization impossible and causing the suspension of operations. See:

- <http://www.redpepper.org.uk/natarch/solomon.html>
- <http://society.guardian.co.uk/ppp/comment/0,10537,524149,00.html>

But the most controversial aspects of the Dartford hospital concern financing. When the decision was made to go the PFI route, proponents claimed it would save almost $40 million in construction costs. But at the end of the day, savings were only $11 million. Britain's equivalent of our Auditor General conducted a critical review of the claims. See:

- <http://www.hsj.co.uk/collections/be2.htm>
- <http://news.bbc.co.uk/2/hi/health/347649.stm>

However, this uproar was surpassed by news that Carillion and its consortium partners reaped a windfall profit of $45 million in a complex debt refinancing scheme crafted by the international consulting firm PricewaterhouseCoopers.



Many questions have been raised about Carillion benefiting from this refinancing, rather than the government and taxpayer. See the *Observer* newspaper:

- <http://observer.guardian.co.uk/Print/0,3858,4217902,00.html>

The company's share price took a beating in July 2003, falling more than 15 per cent as a result of revelations of cost overruns and construction delays in a U.K. PFI transportation project Carillion is involved in.

Carillion also faces labour strife in the U.K. as British unions fight more aggressively against poor pay – about $9.60 an hour – and working conditions that are the hallmark of support services in PFI hospitals. See:

- <http://www.unison.org.uk/news/news_view.asp?did=726>
- <http://www.unison.org.uk/news/news_view.asp?did=829>

The company is involved in a diverse range of PFIs, including privatized jails, which have proven highly profitable. See:

- <http://society.guardian.co.uk/privatefinance/story/0,8150,516624,00.html>

Carillion was recently fined more than $160,000 by the British government for health and safety violations that resulted in two serious workplace accidents at its privatized rail unit. See:

- <http://www.ananova.com/business/story/sm_692865.html>
- <http://www.ananova.com/business/story/sm_696161.html>
- <http://www.ananova.com/business/story/sm_700108.html>

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**THE COMPASS GROUP PLC** is one of the world's largest food and contracted-out service companies, with $22 billion in revenue annually, and some 360,000 employees worldwide.

### Gold plated salaries, stock options

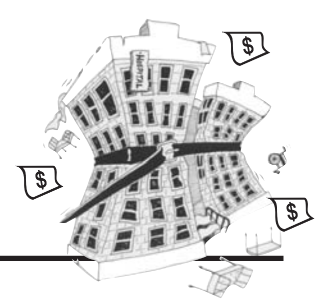
Operating profit for the Group was up 19 per cent to $1.8 billion in 2002. With the recent purchase of Beaver Foods, Compass is now the largest food service operator in Canada. Last year, they racked up $675 million in revenues. They have 13,500 "associates" in 1,600 locations.

Group chair and former CEO is Francis Mackay. His total compensation in 2002 was $3.5 million. In 2001, his salary increased 39 per cent from 2000. See:

- "PFI salaries attacked," *Guardian,* Sept. 10, 2002
- <http://society.guardian.co.uk/ppp/story/0,10537,800413.00.html>

Mackay is also sitting on various categories of stock options – many granted without cost – valued in 2002 at approximately $27 million. As chair of the board of the European home improvement giant Kingfisher PLC, Mackay pulls in another $675,000 annually in directors fees.

Compass Group CEO is Michael J. Bailey. His total compensation in 2002 was $4.7 million. Bailey has also been given stock options with a 2002 value of $25 million.



By comparison, workers are paid $9.50 an hour in the initial small scale privatization contracts that Compass has won here in B.C.

### Privatization 'brands'

Compass Group "brands" that specialize in health care include food services subsidiary **Morrison Management Specialists,** which contracts with 350 acute care hospitals and 250 seniors homes, mostly in the U.S. In Canada their health clients include: Sunnybrook and Women's Health College Services Centre in Toronto, Lakeridge Health Corp. centered in Peterborough, Healthcare Corp. of St. John's and Extendicare Inc.

Another "brand," **Crothall Health Care Inc.** does housekeeping, laundry and linen, facilities management and energy and asset management for 118 hospitals – again mostly in the U.S. Their volume was more than US$500 million last year and Crothall has 15 per cent of the U.S. market for contracted-out services. Canadian customers of Crothall Services Canada Inc. include: the Queen Elizabeth II Health Sciences Centre in Halifax and Mt. Sinai in Toronto.

**Compass subsidiary Medirest was caught up in a public outcry over cleanliness and infection control standards in Glasgow hospitals**

These two Compass subsidiaries recently "won" the controversial privatization contracts for food services and housekeeping at B.C. Children's and Women's Hospital and B.C. Cancer Agency in Vancouver. Close to 500 skilled and experienced hospital support workers were fired in September 2003 when Compass took over. After winning a smaller privatization contract at a Vancouver long-term care facility in 2002, Compass cut staff and wages in half.

**Victor Kramer Co.** is a subsidiary that specializes in outsourcing. They do laundry linen management and consulting. The company has 200 customer hospitals in the U.S. They claim to "guarantee" annual savings for their clients.

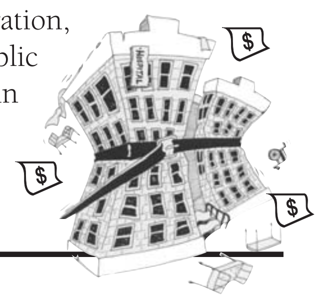
Compass is active in the U.K. privatization scene through a variety of subsidiaries. One of those, the cleaning company **Medirest,** was one of a number of private contractors caught up in a general public outcry over cleanliness and infection control standards in Glasgow hospitals. At one facility, Medirest was sacked part way through its contract, and workers were made direct employees of the health trust. A British union, UNISON, reported in October 2002 that Medirest employees had been directed to bring their own cleaning materials to work. See:

- <http://www.unison.org.uk/bargaining/doc_view.asp?did=546&pid=271>

Compass Group and its Chartwell subsidiary had three school food contracts cancelled in New Jersey and Michigan after problems such as spread of hepatitis were identified. See:

- <http://www.aft.org/privatization/psrp/TrackRec_FoodSer.pdf>

**BOREALIS INFRASTRUCTURE MANAGEMENT INC.** is a key player in the consortium. In turn it's linked to the infrastructure division of Borealis Capital Corporation, "Canada's leading independent manager of alternative assets." Private/public partnerships (P3s) are one of their main corporate priorities. Key stakes in Borealis are owned by the **Ontario Municipal Retirement System (OMERS)** and the **Canada Pension Plan Investment Board (CPPIB).**



Ironically, OMERS is the Ontario government-controlled pension for health care workers and municipal employees in the province. Ontario unions whose members' pensions are vested through OMERS are critical of OMERS role in privatizing public services. In another link to governments and privatization, the federal government-controlled CPPIB invests Canadians' Canada Pension Plan contributions.

### Borealis' star falls over private school scheme

Borealis was a key player in an ill-fated P3 school scheme in Nova Scotia, bidding to finance, own and maintain 15 new schools. Early on, the project drew harsh words from the province's auditor general, who criticized the province's attempt to hide debt from the books. The auditor said accounting needs were "driving other issues." He said it "should not be used as a model" for other operating leases.

> **In Nova Scotia the government abandoned the unpopular P3 schools, all future projects to be publicly owned, operated**

In 2000, the newly-elected Conservative government abandoned the expensive and unpopular P3 schools, and announced that all future projects would be publicly-financed and -owned. "The former government used P3 as a blank cheque, and the P3 schools grew too elaborate and costly," says education minister Jane Purves.

Government officials estimate the cost of P3 schools grew by another $32 million beyond the original high price, due to further changes after contracts were signed. For a sharp critique of OMERS and its priority of investments in P3s, see an article from *Eye Weekly* at:

- <http://www.eye.net/eye/issue/issue_02.07.02/news/privatization.html>

### Another OMERS arm

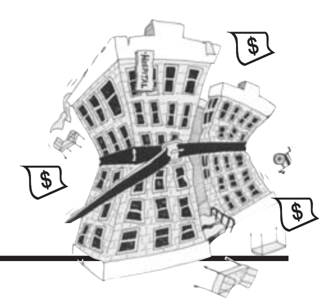
The real estate specialist in the Health Care Infrastructure Company of Canada is Oxford Properties Group – one of North America's largest commercial real estate firms. The company is a wholly-owned subsidiary of OMERS.

The company has some $3.5 billion in assets. and 1,416 employees. In 1996 it bought Marathon Realty from Canadian Pacific and also owns the real estate portfolio of the Royal Bank. Oxford owns many high profile properties across Canada, including 1138 Melville, the Guinness Tower and the Marine Building in Vancouver.

**ELLISDON CONSTRUCTION** is one of North America's largest construction firms and has been in operation for 51 years.

The President and CEO is Geoff Smith, son of company founder Don Smith. Geoff Smith and his brothers own roughly 50 per cent of shares, while employees own the rest. Others of note on the board of directors include Spencer Lanthier, former CEO of KPMG; Lou Hyndman, former Alberta Provincial Treasurer during the Lougheed administration; and company founder Don Smith.

Although the company has not previously built hospitals in B.C., it is nonetheless Canada's largest builder of health care facilities.



It built the B.C. Centre for Disease Control lab in Vancouver, and other active hospital projects include the Alberta Children's Hospital at the University of Calgary and the South Lake Regional Health Centre in Ontario.

**CIT STRUCTURED FINANCE** is the creative financing arm of CIT Group Inc. CIT was formerly known as Tyco Capital Corp., a subsidiary of scandal-plagued Tyco International. At various points in its history it's been owned or controlled by five different financial institutions. The company has over US$50 billion in assets.

### The million dollar birthday party

Concerns about corporate ethics hit CIT Group hard in 2001/2002, given the company's relationship to the scandal-ridden Tyco. Former Tyco CEO Dennis Kozlowski and director Frank Walsh face charges as a consequence of an alleged US$20 million secret payment or "finder's fee" paid in the course of the US$9.9 billion purchase of CIT Group by Tyco International in 2001. See:

- <http://news.bbc.co.uk/2/hi/business/2584675.stm>

**Now CIT Group is facing a major class action lawsuit launched on behalf of shareholders**

Kozlowski and other Tyco International executives face charges of tax evasion, fraud and accusations that they looted millions from the company. Kozlowski is accused of using Tyco funds to pay for a US$6,000 shower curtain and a US$2,200 wastebasket for his home, along with US$1 million for costs associated with a lavish birthday party he threw for his wife on the Italian island of Sardinia. Here, according to CNN, is a taste of what was planned at the bash:

*"The guests come into the pool area, the band is playing, they are dressed in elegant chic. Big ice sculpture of [Michelangelo's] David, lots of shellfish and caviar at his feet. A waiter is pouring Stoli vodka into [the statue's] back so it comes out [its] penis into a crystal glass."* See:

- <http://money.cnn.com/2002/09/17/news/companies/tyco_party/>

Allegations that Kozlowski skimmed some US$135 million in perks and extras are summarized at:

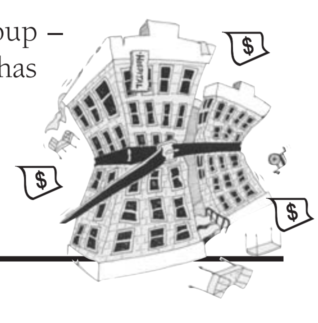
- <http://www.telegraph.co.uk/money/main.jhtml?xml=/money/2002/08/08/cntyco08.xml>

In large measure because of the scandal, Tyco International was forced to sell all of its shares in CIT Group in July 2002 for US$4.8 billion – half what CIT had originally cost Tyco the year before. Now CIT Group is facing a major class action lawsuit launched on behalf of shareholders who allege that the prospectus documents were not fulsome or accurate enough. See:

- <http://members.aol.com/mhenzel182/cit.htm>
- <http://news.morningstar.com/news/DJ/M04/D10/1049995869267.html>

### BMO Nesbitt Burns

BMO Nesbitt Burns is the investment banking arm of BMO Financial Group – more commonly known as The Bank of Montreal. BMO Financial Group has assets worth some $261 billion. They have 34,000 employees.



The chair and CEO is Tony Comper. His salary and bonuses totaled $2.1 million in 2002. President Yvan J.P. Bourdeau is also a member of the advisory board to UBC's Faculty of Commerce. BMO Nesbitt Burns donated $3,765 to the B.C. Liberal Party in 2002.

A similar Health Care Infrastructure Company of Canada was the successful bidder for the new 608-bed William Osler Health Centre P3 in Brampton, Ontario. The William Osler concession is for a 25-year period. The consortium also was selected for the Royal Ottawa Hospital P3 in early September. The components of the Ontario consortium are Carillion Canada Inc., Borealis Infrastructure Management and EllisDon Corporation. For details on the project, see:

- <http://www.cupe.ca/www/57/OslerP3>

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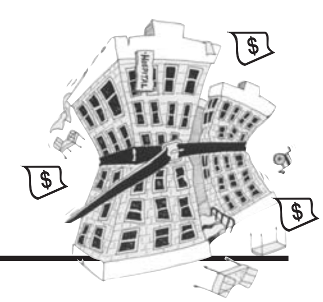

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