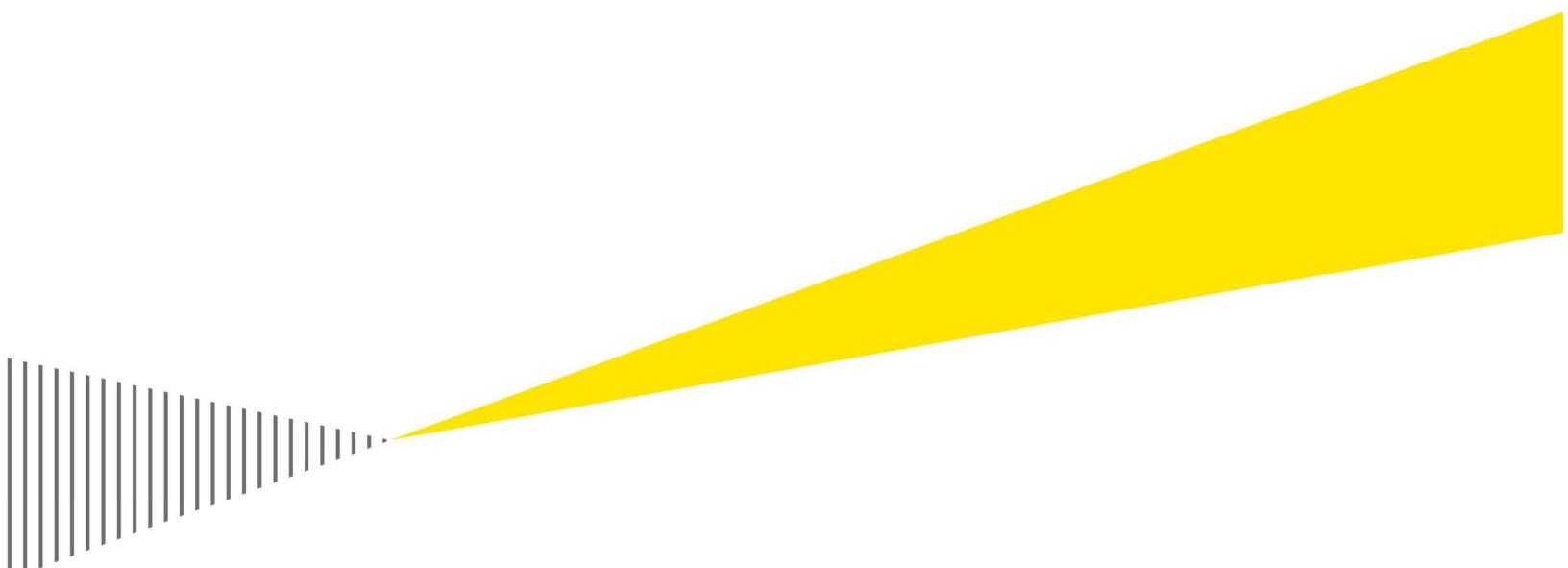


Government of  
Newfoundland and  
Labrador

*The Corner Brook Acute  
Care Hospital Project -  
Value for Money  
Assessment*



Building a better  
working world

## Limitations

Ernst & Young LLP ("EY") has been engaged to assess the value for money (the "CBH VFM Assessment") of the Corner Brook acute care hospital (the "CBH Project") and assist in the development of the value for money assessment and business case for the procurement of the CBH Project.

The CBH VFM Assessment was prepared on instructions from the Government of Newfoundland and Labrador ("GNL") solely for the purposes and use of GNL. It should not be relied upon for any other purpose. The CBH VFM Assessment is based on objective analysis and information provided to EY by GNL and third parties and does not necessarily represent EY's views, comments, conclusions and opinions.

The CBH VFM Assessment may not have considered issues relevant to any third parties. Any use such third parties may choose to make of the CBH VFM Assessment is entirely at their own risk and EY shall have no responsibility whatsoever in relation to any such use and to the fullest extent permitted by law we do not accept or assume responsibility to anyone other than GNL for our work, for this report or for the opinions formed.

As is common practice for reports of this nature, where the CBH VFM Assessment has been based on inquiries of, and discussions with, GNL and its consultants we have not undertaken audit, substantiation or verification procedures for such information, data and projections provided to us.

No obligation is assumed by EY to revise the CBH VFM Assessment to reflect any circumstances or information that become available subsequent to the date of this CBH VFM Assessment.

# 1. VFM Assessment Summary

EY has been engaged by GNL to assist in the development of the CBH VFM Assessment for the procurement of the CBH Project, i.e., a new acute care hospital project in Corner Brook.

## 1.1 Introduction

The CBH Project aims to provide modern health services to the citizens of Corner Brook and the western areas of the Province of Newfoundland and Labrador (the “Province”) through the construction of a modern healthcare facility.

The key purpose of this CBH VFM Assessment is to identify the procurement options for the delivery of the CBH Project, to analyze these options qualitatively and quantitatively and to recommend, based on the value for money (“VFM”) analysis, an appropriate procurement strategy.

## 1.2 Procurement options and qualitative analysis

The first step in the preparation of the CBH VFM Assessment was to consider the spectrum of alternative procurement delivery methods for the CBH Project and screen these procurement options using criteria aligned to the goals and objectives of the CBH Project in order to determine a short-list on which to run more detailed quantitative analysis and investigation.

Through an EY facilitated workshop on 31st August 2016 and 1st September 2016 (the “Options Workshop”), key GNL representatives (the “GNL Team”) developed a long-list of the key procurement options which could be used to procure the CBH Project. These options ranged from the traditional procurement method (Design Bid Build) through to Design, Build, Finance, Operate and Maintain and included:

- Design Bid Build (“DBB”)
- Design Build (“DB”)
- Construction Management (“CM”)
- Design Build Finance (“DBF”)
- Design Build Finance Maintain (“DBFM”)
- Design Build Finance Operate Maintain (“DBFOM”)

As part of the Options Workshop, the GNL Team developed a list of qualitative criteria (the “Evaluation Criteria”) which would be used to assess each procurement option in order to determine which procurement option(s) most closely meet the strategy and objectives of GNL. These Evaluation Criteria included:

*Project objectives:*

- Timeliness
- Long-term planning flexibility
- Long-term asset quality
- Environmental sustainability
- Parking
- Care driven design
- Maximise availability of the facilities
- Innovation and efficiency
- Partnerships with local community
- Province directly delivers patient care

*Procurement objectives:*

- Maximise competition
- Fairness, transparency and integrity
- Cost certainty
- Risk transfer
- Labour considerations
- Payment stream
- Ownership
- Balance sheet treatment and impact on credit rating

A weighting was attributed to each of the Evaluation Criteria in order to reflect its relative importance. An exercise was then carried out (the “Multi Criteria Analysis”) which involved scoring each procurement option based on its fit with and ability to ensure achievement of the Evaluation Criteria.

A summary of the scoring allocated to each evaluated procurement option relative to the agreed criteria based on this scoring methodology follows:

Table 1.1 – Qualitative Scoring of Procurement Options

Criterion	DBB	DB	CM	DBF	DBFM	DBFOM
Weighted Score	114.0	128.0	125.0	134.0	148.0	145.0

It was found that the procurement option which most closely met the Evaluation Criteria overall was DBFM. Accordingly the GNL Team selected the DBFM option for detailed quantitative evaluation.

In line with Canadian best practice for the evaluation of alternative service delivery options such as DBFM, one of the traditional procurement methods was also carried forward for quantitative evaluation in order to assess whether the DBFM procurement option is likely to represent VFM in comparison to how the Department of Transportation and Works would typically procure such a project.

The GNL Team noted that they expected that the DB procurement option would have been utilized for the CBH Project in the absence of consideration of alternative service delivery methodologies. After consideration of all the relevant factors, the GNL Team decided that the DB procurement method be carried forward as the public sector comparator.

## 1.3 Quantitative analysis

A detailed quantitative analysis was undertaken in respect of the short-listed procurement options (i.e., DB and DBFM, collectively the “Procurement Options”), which involved developing the key assumptions underlying the analysis including project costs, assessment of project risks and financial and economic assumptions, etc.

VFM is determined by estimating and comparing the net present value (“NPV”) of the costs of a given project scope under the Procurement Options.

### 1.3.1 Financial Model

The quantitative analysis involved developing financial models for the Procurement Options to determine their NPV’s and adjusting the results for differences in the value of risks retained in each option.

### 1.3.2 Risk Analysis

A key component of the quantitative analysis was a detailed risk assessment of the Procurement Options. This involved the participation of the GNL Team as well as external advisors in a detailed risk workshop (the “Risk Workshop”) facilitated by EY held on 20 – 22 September 2016.

Following the Risk Workshop, EY performed stochastic analysis on the risk register developed at the Risk Workshop (the "Risk Register") to establish the appropriate risk adjustment applicable to the Procurement Options.

### 1.3.3 Government funding

An appropriately sized contribution by GNL towards the capital development costs during construction or at substantial completion of the CBH Project provides significant financial savings for GNL in the project without materially impacting risk transfer. As such, it was assumed for the base case in this analysis that GNL would make a substantial completion payment at the start of operations in the amount of 50% of capital and development costs.

## 1.4 VFM Results

Using the approach, methodology and assumptions described above, the results indicate that adopting a DBFM procurement route instead of the traditional DB procurement methodology would provide greater VFM, reducing the NPV of expected costs by 7%.

### 1.4.1 Sensitivity analysis

The sensitivity of results to key variables was analyzed. We found that the VFM results were largely unaffected by realistic changes in these key variables.

## 1.5 Recommendation

Based on the results of the qualitative and quantitative analysis undertaken to complete the CBH VFM Assessment, EY recommends that GNL use the DBFM methodology to procure the CBH Project.

## 1.6 Timetable and team development

A summary of the proposed timetable for the contemplated DBFM procurement process is shown below.

Table 1.2 – Procurement Schedule Summary

Indicative procurement Schedule	
Task / Milestone	Timing
Project Development	
Issue RFP for Advisory Services	February 2017
Award Advisory Services	April 2017
Procurement Phase	
Issue RFQ for DBFM Team	Fall 2017
Approval of Shortlist for DBFM Team	Winter 2018
Issue RFP for DBFM Contract	Winter / Spring 2018
RFP Submissions	Fall 2018
Approval and announcement of Proposed Private Sector Partner	Winter 2019
Financial Close	Winter 2019
Construction and Operation Phase	
Commence Construction	Spring 2019
Occupancy of new facility	Fall 2023

EY recommends that GNL put in place a suitable project team (including both internal resources and external advisors and consultants as required) and governance structure to undertake a DBFM procurement process for the CBH Project.

About EY

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