# Swift Current Long-Term Care Centre

# Public-Private Partnership

# Value for Money Assessment

**April 2015**

CYPRESS HEALTH REGION

SaskBuilds

# PURPOSE OF THIS REPORT

The purpose of this report is to provide key information about the Swift Current Long-Term Care Centre project. This report provides an overview of the Project and describes the process for selecting the design-build-finance-maintain (DBFM) public-private partnership (P3) procurement delivery method. Additionally, this report outlines the competitive selection process and provides key information about the final Project Agreement and the Value for Money (VFM) assessment.

The Government of Saskatchewan is committed to a high standard of disclosure as part of its accountability for the delivery of P3 projects in the province. Ministries, regional health authorities, and other government agencies are publicly accountable for projects through regular budgeting, auditing and reporting processes. SaskBuilds is accountable for the contents of this project report.

# ABBREVIATIONS

See the glossary of terms in Appendix A for these and other definitions.

| | |
|---|---|
| ASP | Annual Service Payment |
| DBB | Design-Bid-Build |
| DBFM | Design-Build-Finance-Maintain |
| NPV | Net Present Value |
| P3 | Public-Private Partnership |
| RFP | Request for Proposals |
| RFQ | Request for Qualifications |
| VFM | Value for Money |

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# EXECUTIVE SUMMARY

On July 3, 2013, the Government of Saskatchewan and the Cypress Health Region announced that the 225-bed Swift Current Long-Term Care Centre project would proceed as a design-build-finance-maintain (DBFM) P3. The procurement process, led by SaskBuilds, began on August 14, 2013 with the Request for Qualifications (RFQ) phase.

Three teams were shortlisted for the Request for Proposals (RFP) phase on November 27, 2013: Integrated Team Solutions, Plenary Health, and Willow Healthcare Partners. On July 17, 2014, the government and the Cypress Health Region announced Plenary Health as the Preferred Proponent (Project Co.). Plenary Health comprises these companies as a single entity: Plenary Canada Ltd., PCL Construction Management Inc., Johnson Controls Canada Limited Partnership, and Stantec Architecture Ltd. The Cypress Health Region signed the 30-year contract (not including construction) with Plenary Health on September 10, 2014.

The new facility will replace three aging long-term care centres that are in poor physical condition and no longer provide the appropriate physical environment to meet modern long-term care standards.

## Innovation

Residents, families, and staff were involved in the early stages of the design to ensure that the facility will create a home-like environment for the residents and be suitable for resident-and-family-centered care. Their input was incorporated into the design specifications and provided to proponent teams during the competitive selection process. Plenary Health delivered design innovations that will achieve a home-like, resident-and-family-centered environment and will optimize operational efficiencies. The facility will feature small resident homes that create a community feel and encourage social interaction among residents and the surrounding community.

## Value for Money

To select the best procurement approach for the Project, a Value for Money (VFM) assessment was completed, which compared the P3 approach to a traditional design-bid-build (DBB) procurement approach. Using a P3 approach, the net present value (NPV) of the total Project cost was $108.5 million, compared $125.0 million for a traditional DBB. This represents a $16.5 million (or 13.2%) savings over the 30-year term (not including construction). Cost savings were achieved through construction and design innovations, life-cycle optimization, risks shifted from the public to the private sector, and a fixed-price contract.

## Fairness Advisor

An independent and expert external Fairness Advisor was engaged to monitor the competitive selection process and concluded that it was fair and impartial. A summary of the Fairness Advisor's findings are included in Appendix B.

# 1. PROJECT OVERVIEW

## 1.1 Project Background

Replacing the existing Swift Current Care Centre, Prairie Pioneers Lodge, and Palliser Regional Care Centre long-term care facilities was a top priority for the Cypress Health Region. The existing facilities are old and in poor physical condition with significant infrastructure and mechanical challenges. They can no longer provide the appropriate physical environment to meet modern long-term care standards.

The new long-term care facility will be the latest addition to a site that will include schools, the Cypress Regional Hospital, and the City of Swift Current's recreation facilities including a leisure aquatic centre and an indoor field house.

The Cypress Health Region will own the building and health region staff will continue to provide services to the residents.


*Rendering: Facility's main entrance*

## 1.2 Project Goals

The goals of the Project included the following:

- Replace three outdated existing facilities with one facility able to accommodate forecasted population growth;
- Provide a facility that supports best practices in long-term care service delivery;
- Provide a facility with a home-like atmosphere for residents;
- Optimize capital and operating efficiencies over the long-term; and,
- Provide a facility that enhances staff recruitment and retention.

The Project is also aligned with the goals of the *Saskatchewan Plan for Growth*:

- *"Addressing the infrastructure challenge and building for growth"* by replacing three outdated long-term care centers in Swift Current to address aging health infrastructure in the province. The additional bed capacity will prepare the Cypress Health Region for increasing demands for long-term care services in the future.

*Rendering: Interior view*

### 1.3 Design Innovations

The facility will feature 21 resident homes, each with 10 private resident rooms and washrooms, and one hospice house to accommodate 15 residents. The small-community design encourages social interaction among residents and enables staff to provide high quality patient and family-centered care.

Access to natural light from resident homes and access to outdoor gardens and green space were important design considerations. Residents will enjoy large windows and interesting views of garden areas that will enhance their living experience in the facility. The single level, semi-circular design was developed with shorter corridors and fewer corners to optimize wheelchair access and efficiency of staff movement. Residents will enjoy added privacy with rooms facing the green spaces and distances between homes exceeding building standards.

The innovative design also incorporates smart technology through the use of handheld communication devices, charting tablets, resident wandering prevention systems, and ceiling lifts in every room.

# 2. PROJECT DELIVERY OPTIONS

## 2.1 Methodology

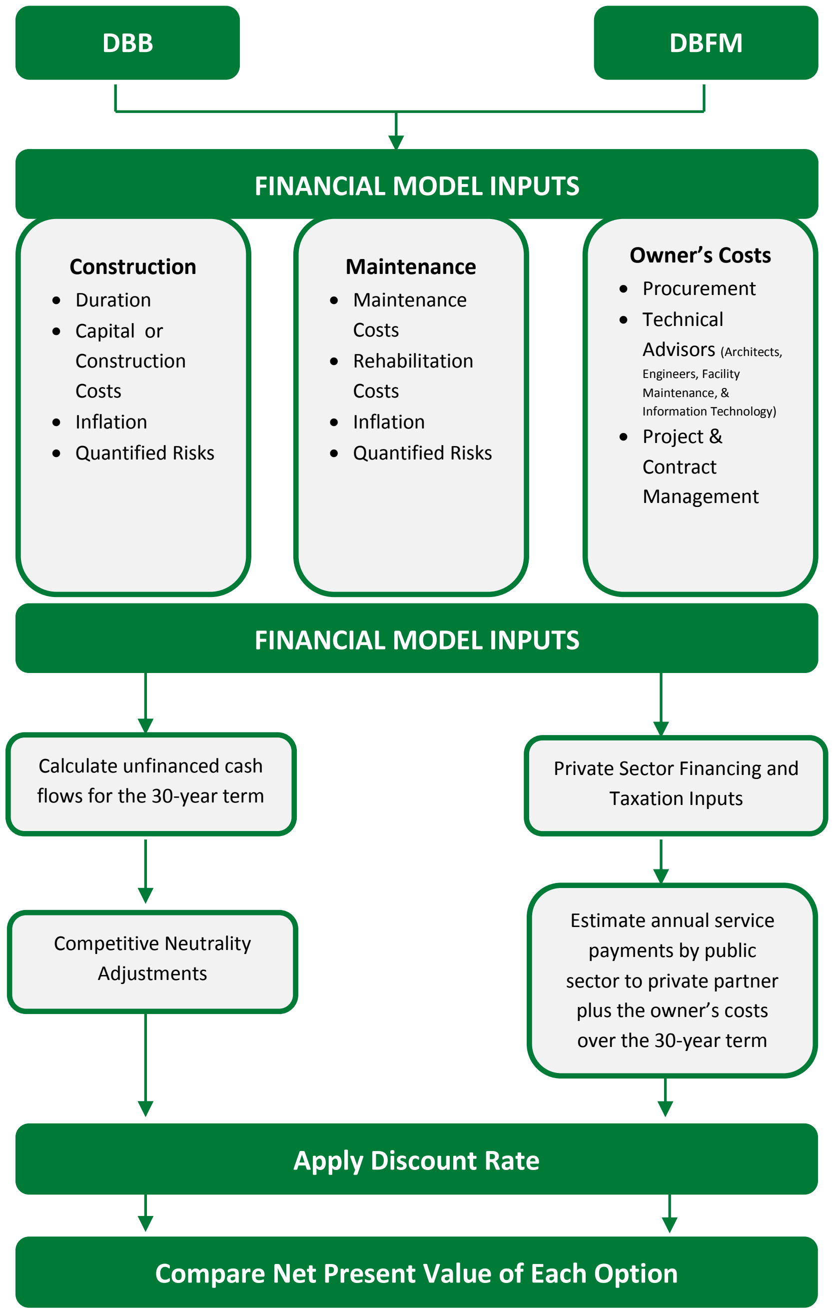
To select the best procurement approach for the Project, SaskBuilds completed an analysis of the procurement options to determine which approach delivered the greatest VFM (both quantitative and qualitative).

A VFM assessment was completed to compare the risk-adjusted costs of the two procurement options: traditional DBB and DBFM P3. The purpose of the VFM assessment was to identify the procurement option that would provide the greatest value through the design, construction, and maintenance phases of the Project. A financial model was developed in order to compare which approach generated the greatest VFM.

The VFM assessment process included a comprehensive risk analysis to identify and quantify the risks retained by the public sector under each procurement option. Other costs were also incorporated including: design, construction and maintenance related costs; major maintenance (renewal and rehabilitation and replacement of building components); and transaction costs (legal, financial, fairness, technical advisors, project management, and contract management fees). Model specific adjustments were made to ensure a fair comparison between procurement options. For example, the DBB model was adjusted for competitive neutrality, to account for differences in tax treatment and insurance costs between the public and private sectors.

The difference in timing and cash flows between procurement options was another important consideration in the analysis. For an accurate comparison, a discount rate was applied to the projected future cash flows. This process allows procurement methods with different cash flows impacts – such as all payments made in the first year of a 30-year period versus payments spread over the 30 years – to be compared on a like-for-like basis. Figure 2-1 illustrates the financial modeling approach used to compare procurement models.

FIGURE 2-1: PROCUREMENT MODEL COMPARISON



## 2.2 Procurement Options

In its procurement options analysis, the Government compared the DBB approach to the DBFM approach. The two options are described in the following sections:

**Design-Bid-Build Model**

DBB is the most common procurement delivery model used by the Government of Saskatchewan to design and build infrastructure. Using this model, the Cypress Health Region would hire private sector architects and consultants to design the facility. The Cypress Health Region would then issue a tender for the construction. The construction contractor would build the facility based on the architect's specifications. The Region would make monthly progress payments to the contractor based on the level of construction completeness.

Since the design is procured separately from construction, the Cypress Health Region would retain the risk for any errors or omissions in the design. As well, the Region would retain key construction risks such as schedule, construction, and life cycle maintenance costs. Schedule delays or unexpected increases in cost would result in a cost to the Region, not to the contractor. Further, the contractor is only tasked with building the facility and is not involved with the facility post-construction. In this case, the Region would own and operate the facility and be responsible for all facility maintenance and life cycle costs.

**Design-Build-Finance-Maintain Model**

DBFM is a P3 delivery model in which a private partner, comprising a group of companies (architect, construction contractor, maintenance provider, and lender/equity provider) would be hired to design, construct, finance and maintain a facility as part of a long-term contract. The contract term is typically 30 years plus the construction period. This approach would involve a two-stage competitive selection process: RFQ and RFP.

The DBFM model is based on financial incentives for Project Co to deliver on-time and on-budget construction and ongoing maintenance. The risks for changes to design, construction cost and schedule, and maintenance and life cycle costs are transferred to Project Co. The Cypress Health Region would retain greater control over Project Co's performance since the annual service payments (ASP) would be performance based.

There is also the potential for additional innovations having one team design, build and maintain the facility. This is because the nature of the long-term relationship creates an added incentive to use high quality materials and design choices.

The Cypress Health Region would continue to own and operate the facility as it would under the DBB model. At the end of the contract term, the facility's condition must meet required standards prescribed in the Project Agreement.

## 2.3 Procurement Options Analysis Result

The VFM assessment revealed that the DBFM approach provided greater VFM compared to the traditional DBB approach for this Project. See the VFM assessment in chapter 6 for more detail. Based on this assessment, the provincial government determined that DBFM was the best procurement option to pursue.

# 3. COMPETITIVE SELECTION PROCESS

## 3.1 Procurement Process

SaskBuilds used a procurement process based on national best practice. This rigorous, open, transparent and fair process included two distinct phases: RFQ and RFP.

## 3.2 Request for Qualifications

The RFQ is the first of two stages of procurement. In this phase, proponents were qualified based on their financial capacity to undertake the project, as well as the strength and relevance of their project experience. A shortlist of no more than three proponents was invited to advance to the next phase of procurement.

Five teams submitted proposals during the RFQ phase. The RFQ Evaluation Committee, which included representatives from SaskBuilds, the Ministry of Health, the Cypress Health Region, and external expert advisors, selected the three teams in Table 3-1 to advance to the next phase.

**TABLE 3-1: SHORTLISTED PROPONENT TEAMS**

| Proponent Team | Design | Construction | Financing | Maintenance |
|---|---|---|---|---|
| **Integrated Team Solutions** | Montgomery Sisam Architects Inc. and Aodbt Architecture & Interior Design | EllisDon Corporation | EllisDon Capital Inc. and Fengate Capital Management Ltd. | ACML |
| **Plenary Health** | Stantec Architecture Ltd. | PCL Construction Management Inc. | Plenary Group (Canada) Ltd. | Johnson Controls Canada Limited Partnership |
| **Willow Healthcare Partners** | Kasian Architecture Interior Design and Planning Ltd. | Bird Design-Build Construction Inc. and Wright Construction Inc. (Joint Venture) | Concert Infrastructure Investment Corp., Carillion Private Finance and Bird Capital Ltd. | Carillion Canada Inc. |

### 3.3 Request for Proposals

The RFP is the second and final stage of procurement. During this phase, the shortlisted proponent teams' designs and financial proposals were evaluated to ensure they met the required technical specifications.

The proposals were evaluated by the RFP Evaluation Committee, which included representatives from SaskBuilds, the Ministry of Health, the Cypress Health Region, and external expert advisors. A Preferred Proponent was selected based on the greatest value for the people of Saskatchewan, which considered cost and added valued gained through innovation in design and construction. Plenary Health was selected as the Preferred Proponent based on criteria that considered the amount of the bid, as well as the total qualitative value generated for taxpayers through innovations in design, construction and maintenance.

### 3.5 Project Timeline

SaskBuild's detailed assessment of the Project's suitability for the P3 model began in April 2013 and concluded with a recommendation to proceed to procurement in June 2013. In this time, SaskBuilds and its expert external advisors completed the assessment to demonstrate the Project would deliver Value for Money as a P3 and refreshed the VFM at various points in the process. Table 3-2 provides an overview of the steps that were taken and the timeline for the Project.

**TABLE 3-2: PROJECT TIMELINE**

| Action | Timeline |
|---|---|
| Due diligence period (pre-procurement) | April – June 2013 |
| Request for Qualifications (RFQ) period | August – October 2013 |
| RFQ evaluation period | October – November 2013 |
| Request for Proposals (RFP) period (shortlist announced November 2013) | November 2013 - June 2014 |
| Business-to-business networking and information session | December 17, 2013 |
| RFP evaluation period | May – July 2014 |
| Selection of Plenary Health as private partner (Preferred Proponent) | July 17, 2014 |
| Project Agreement signing (Financial Close) | September 10, 2014 |
| Construction period | September 2014 – May 2016 |
| Contract period (not including construction) | 30 years |

### 3.4 Fairness Advisor

A fairness advisor, Joan M. Young, McMillan LLP, was engaged to monitor the competitive selection process and offer an assessment about the procedures and whether or not the competitive selection process was carried out in a fair and reasonable manner. The fairness advisor was provided access to all documents, meetings, and information related to the evaluation processes throughout the RFQ and RFP stages.The fairness advisor issued reports for both the RFQ and the RFP stages of the competitive selection process. The report of the fairness advisor concluded that, "*the Swift Current Long-Term Care Project team members, and their advisors, followed the procedures and fairly applied the evaluation criteria specified in the procurement documents. Where judgment and interpretation were allowed or required, the*

*Project Team exercised reasonable judgment and made interpretations in a fair and impartial manner;"* and "*I am satisfied that I was provided with the appropriate access and information to render this fairness opinion.*"

A summary of the fairness advisor's report is located in Appendix B and the full reports are available at [www.saskbuilds.ca/projects](www.saskbuilds.ca/projects).

*Rendering: Night view*

# 4. PROJECT AGREEMENT OVERVIEW

**TABLE 4-1: QUICK FACTS**

| QUICK FACTS | |
|---|---|
| Private Partner (Project Co.) | Plenary Health |
| Project Owner | Cypress Regional Health Authority |
| Construction Complete | Spring 2016 |
| Term of the Project Agreement | 30 years (not including construction) |
| VFM Net Present Value of the Project | $108.5 Million |

## 4.1 Profile of the Private Sector Partner

Plenary Health is the private partner (Project Co.) for the Swift Current Long-Term Care Centre. It is a consortium of companies consisting of the following key members:

- **Consortium Lead – Plenary Group (Canada) Ltd.**
  Plenary Health serves as the consortium lead. As the lead, it will oversee all aspects of the Project, including: financing, planning, design, construction, maintenance, and performance monitoring for the contract term.

- **Equity Provider – Plenary Group (Canada) Ltd.**
  Plenary Group (Canada) Ltd. will provide 100% of the equity in the Project.

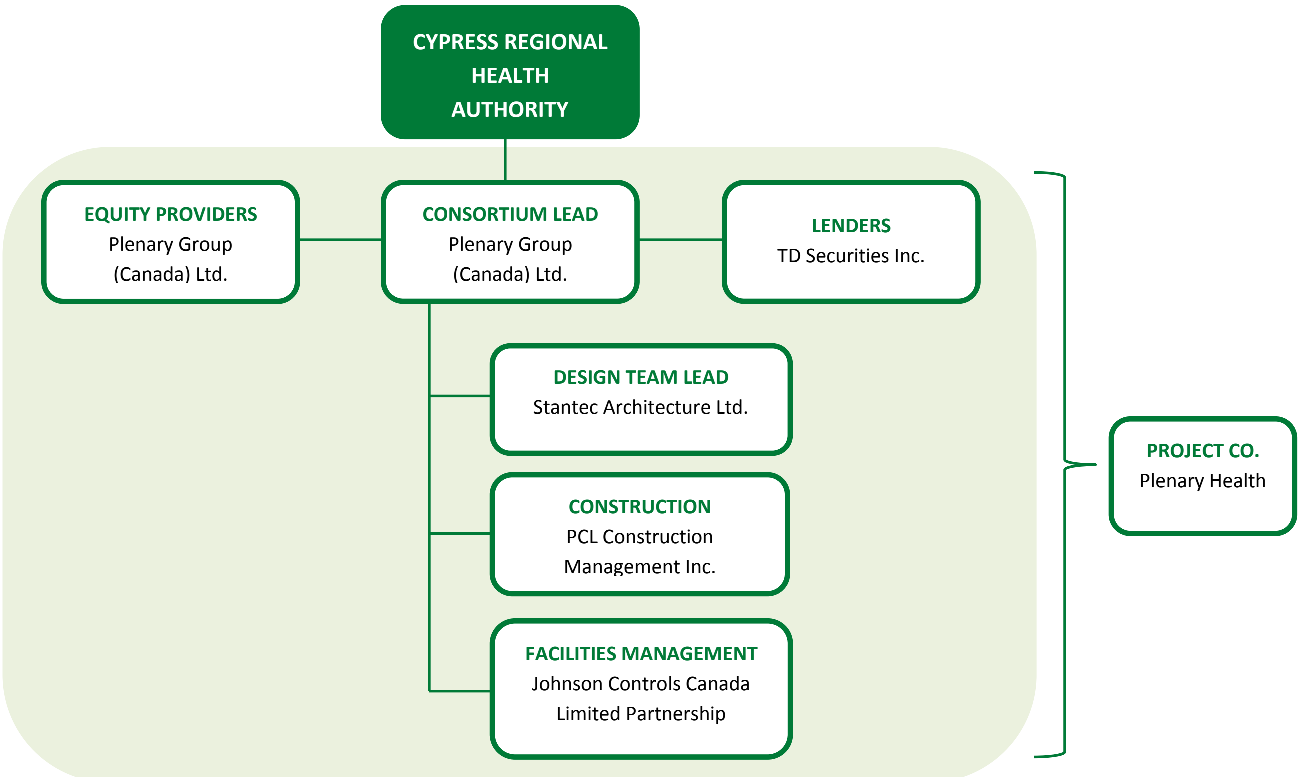
- **Lender – TD Securities Inc.**
  TD Securities Inc. will provide 100% of the senior debt capital for the Project.

- **Design – Stantec Architecture Ltd.**
  As the design lead, Stantec Architecture Ltd. will be responsible for the design of the long-term care centre.

- **Construction – PCL Construction Management Inc.**
  PCL Construction Management Inc. will have primary responsibility for the Project's design-build requirements, and where necessary, subcontractors will perform some of the design-build activities.

- **Facility Maintenance Services – Johnson Controls Canada Limited Partnership**
  Johnson-Controls Canada Limited Partnership will have primary responsibility for the maintenance and life cycle deliverables.

**FIGURE 4-1: RELATIONSHIP BETWEEN CYPRESS HEALTH REGION AND PLENARY HEALTH**




## 4.2 Key Terms of the Project Agreement

The contract between the Cypress Health Region and Plenary Health includes a less than two-year construction period and a 30-year maintenance period. The responsibilities under the terms of the Project Agreement are as follows:

**Plenary Health Responsibilities**

- Finance the construction over the contract term;
- Complete the design and construction of the facility by May 2016;
- Provide facility maintenance and life cycle services as specified in the contract;
- Develop and implement a renewal plan to ensure building systems meet the performance requirements; and,
- Hand back maintenance for the facility to the Cypress Health Region in 2046 ensuring the buildings meet conditions prescribed in the contract.

**Cypress Health Region Responsibilities**

- Own the Swift Current Long-Term Care Centre;
- Continue to deliver health care services to residents with regionally employed staff;
- Remain publicly accountable for delivering health services within their jurisdiction; and,
- Provide ‘soft maintenance’ services, such as housekeeping, laundry, food and nutritional services etc.

## 4.3 Project Costs

The total NPV calculation in the VFM assessment of the 30-year contract is $108.5 million in 2014 dollars. The Cypress Health Region will make average monthly cash payments of $776,000 over the 30-year contract (not including construction). The cash payments include the payments for the capital cost, financing, maintenance and rehabilitation of the facility. Capital payments are fixed, while maintenance and renewal payments are indexed.

**Accounting Treatment**

The P3 capital asset and the amount owing for the liability of the private financing are recorded over the construction period as a percentage of completion as the asset is constructed. The accounting value for the asset is the total of the provincial capital contributions paid during or on completion of construction (in nominal dollars at the point of payment) and the present value of repayments over time to repay the private financing. These repayments are discounted at the Province's borrowing rate at the date of signing of the Project Agreement to the date the P3 capital asset is available for use.

*Rendering: View from Woodrow Lloyd Place*

## 4.4 Quality Performance and Monitoring

Plenary Health's performance will be monitored continuously throughout the contract term. A number of mechanisms have been established to achieve this:

**Construction Period**

- During construction an Independent Certifier is responsible for reviewing construction progress.
- The Construction Period Joint Committee, comprising of the Cypress Health Region, Plenary Health and SaskBuilds, will meet monthly to discuss matters relating to the facility and to review the reports of the Independent Certifier.

**Operating Period**

- The Operating Period Joint Committee, comprising the Cypress Health Region, Plenary Health and SaskBuilds, will meet monthly to review performance throughout the life of the contract.
- Payment deductions will apply where performance does not meet contractual specifications and requirements.
- The Cypress Health Region will perform inspections and testing to check reports and ensure the requirements continue to be met.
- Plenary Health's lender will also review performance during the operations period.

**Performance-Based Payment**

- Payments are performance-based, which means they can be reduced in the event Plenary Health does not meet the performance standards of the contract. This provides a level of protection for taxpayers who will not pay for services that are not provided. For example, if the heating or cooling systems are not working and are not repaired within the allowed timeframe, the monthly payment would be reduced.

**Contract Completion**

- The Cypress Health Region and Plenary Health will assess the facility, starting three years prior to contract expiry, to ensure the facility is in the condition specified in the contract. Financial penalties will be applied if the facility is not handed over in the specified condition.
- After the contract expires, the Cypress Health Region will assume responsibility for maintaining and renewing the facility.

## 4.5 Adjustment to Payments

The Project Agreement allows for adjustments to the ASP to reflect specific circumstances, including:

- *Change in Law*: if there is a discriminatory change in law, the ASP may be adjusted to leave Plenary Health in no better or worse position than if that change in law had not occurred.
- *Deductions*: the monthly ASP payment may be reduced if Plenary Health does not meet the performance requirements outlined in the Project Agreement. Deductions will vary depending on the incidents' severity and duration.
- *Indexation*: the services component of Project Agreement is indexed by the consumer price index (CPI) with periodic adjustments to the payment through benchmarking.

### 4.6 Risk Allocation Summary

An important advantage of a P3 is the opportunity to appropriately allocate risks to the party or parties best able to manage them. In some cases, Plenary Health is the appropriate party to manage a risk, whereas in others it may be the Cypress Health Region, or a shared risk between the two parties. The Project Agreement includes detailed risk allocation provisions over the construction period and 30-year maintenance term. This approach transfers key risks to Plenary Health, such as construction, cost, and schedule, and adds value through design and private sector innovation. Table 4-2 summarizes the key risk allocation between the Cypress Health Region and Plenary Health:

**TABLE 4-2: RISK ALLOCATION SUMMARY FOR DBFM**

| RISK | Retained by Cypress Health Region | Transferred to Plenary Health |
|---|---|---|
| Government approval | ✓ | |
| City approvals, building & development permits | | ✓ |
| Procurement – schedule delay | ✓ | |
| Scope changes (owner initiated) | ✓ | |
| Construction delays (owner initiated) | ✓ | |
| Construction delays (Plenary Health initiated) | | ✓ |
| Construction – labour shortage | | ✓ |
| Construction – surrounding facilities | | ✓ |
| Geotechnical | | ✓ |
| Design errors or omissions | | ✓ |
| Quantity of estimate errors | | ✓ |
| Weather related construction delay | | ✓ |
| Commissioning delays | | ✓ |
| Unresolved deficiencies | | ✓ |
| Latent defect - construction | | ✓ |
| Inaccurate measurement of asset expected life | | ✓ |
| Facility (hard) maintenance costs – operator | | ✓ |
| Life cycle | | ✓ |
| Interest base rate – pre-Financial Close | ✓ | |
| Change in law | ✓ | ✓ |
| Force majeure | ✓ | ✓ |

# 5. VALUE FOR MONEY ASSESSMENT

The VFM assessment compares the NPV of the estimated risk-adjusted cost of the Project delivered under DBFM delivery model relative to the traditional DBB delivery model. In 2013, a preliminary VFM assessment was undertaken to assess the viability of the Project as a P3. The final VFM was completed following Financial Close and included changes in estimated costs that occurred from the initial assessment. The final VFM also incorporated costs outlined in Plenary Health's financial proposal. A summary of the final report is provided in this section, with the complete report prepared by the Project's financial advisor, Deloitte LLP, in Appendix C.

## 5.1 Quantitative Measures of Value

This VFM assessment used NPV as of June 16, 2014, when final financial bids were received. It included the costs to design, build, finance, and maintain the facility for the 30-year term. It also included the impact of risk transfer and excluded costs common to both methods, such as land costs, furniture, and equipment.

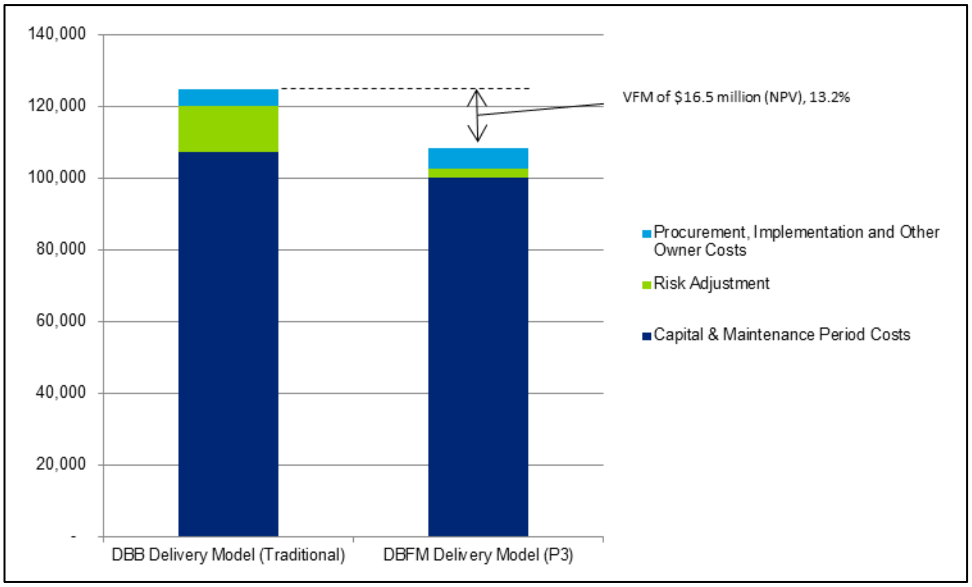
The NPV of the total cost of the Project delivered using the DBFM was $108.5 million. The estimated NPV of the Project delivered using the DBB approach was $125 million. A comparison of these numbers is provided in Table 5-1. Value for money is achieved because the cost of construction and the cost of the risks the provincial government carries are less than the cost of the traditional approach. The final Project Agreement is estimated to achieve value for taxpayer's dollars of $16.5 million or a 13.2% savings using the DBFM delivery model.

A number of factors contribute to the VFM generated by the DBFM delivery model including: competitive construction pricing, scheduling, integrating design, build and finance teams, and efficient allocation of risk. For the analysis, an inflation assumption of 2.5% was used. The NPV of the figures described in the table was developed using a discount rate of 6.9%. It was based on the discount rate used for the preliminary VFM assessment.

**TABLE 5-1: VALUE FOR MONEY ASSESSMENT**

| NET PRESENT VALUE ($000) | DBB OPTION | FINAL PROJECT COST |
|---|---|---|
| Capital & Maintenance Period Costs | 107,623 | 100,374 |
| Risk Adjustment | 12,660 | 2,367 |
| Procurement, Implementation and Other Owner Costs | 4,784 | 5,811 |
| **Total** | **125,067** | **108,552** |
| Cost Differential | 16,515 | |
| Percentage Savings | 13.2% | |

**FIGURE 5-1.: VALUE FOR MONEY – COST COMPARISONS**




Source: Swift Current Long-Term Care Centre Project Value for Money Report, Deloitte LLP.

*See Appendix A: Glossary of Terms for Procurement, Implementation and Other Owner Costs, Risk Adjustment, and Capital & Maintenance Period Costs.*

## 5.2 Qualitative Measures of Value

There are also qualitative measures of value that contribute to the efficiencies with the Project, including:

**30-year Maintenance and Renewal Period:** This period gives the government and Cypress Health Region assurance that the facility will be maintained in good condition for 30-years. The P3 contract transfers facility maintenance (e.g. roof repair, HVAC systems, windows etc.) from the Cypress Health Region to Plenary Health for the term of the agreement. This effectively provides a 30 year warranty for the facility, with no deferred maintenance at the end the contract.

**Better Workforce Management:** The upfront planning period associated with a P3 allows Plenary Health time to effectively coordinate and secure the supply of labour, equipment, and materials. Further, in a P3, Project Co. functions as one continuous, single contractor to manage the design, construction, and operational phases. A DBB does not offer this single point of accountability and project management.

# APPENDIX A: GLOSSARY OF TERMS

**Annual Service Payment (ASP):** The mechanism by which a private partner in a public-private partnership is compensated over the term of the agreement. Specified by the terms of the Project Agreement, an ASP is paid to the private partner for capital and maintenance costs, as well as their required rate of return.

**Capital & Maintenance Period Costs (Base Costs):**
DBB Model (traditional) – The estimated costs to the Authority for procuring the design and construction of the Project using a traditional DBB method, financing the project, and maintaining the Project for a period of 30 years.

P3 Model – Plenary Health's bid price for designing, building, and maintaining the Project for a 30 year term.

**Competitive Neutrality:** The competitive advantages that accrue to the government as a result of public-sector ownership are neutralized through a series of adjustments to permit a fairer comparison of non-public sector alternatives.

**Design-Bid-Build (DBB):** The traditional procurement approach where government hires an architect to design a facility, and then hires a construction contractor to build it. Once the facility is built, the public sector operates it and maintains it, typically by awarding numerous individual contracts for repairs and renewal. The government pays for the construction of the facility by making progress payments or by making capital grants to entities such as regional health authorities. Provincial grant funding is also used to operate and maintain the facility.

**Discount Rate:** The rate used to equalize varying cash flows in different procurement methods so that like-for-like comparisons can be made. The rate, expressed as a percentage, reduces the value of future dollars in relation to present dollars.

**Financial Close:** The point in the procurement process where negotiations with a Preferred Proponent are finalized and a Project Agreement is executed allowing construction to begin.

**Independent Certifier:** Independent, third party certifier engaged jointly by the owner and the private partner to verify and certify whether certain conditions of the Project Agreement are met.

**Life Cycle:** The long-term requirements to maintain and rehabilitate an asset.

**Net Present Value (NPV):** The current value of a future sum of money. To assess long-term projects, NPV is commonly used to compare the value of money over time, adjusting for interest rate changes and inflation. NPV is produced by applying an interest rate and an inflation rate (collectively called the "discount rate") to a future sum. The amount and timing of cash flows differ in the two options (traditional and P3) for designing and constructing the facility and the calculation of NPV accounts for those differences.

**Performance Specification:** Criteria developed by the asset owner that define the output and performance levels required in the construction and life cycle maintenance stages of the project. These specifications ensure that the project is completed to the owner's satisfaction and service delivery needs.

**Preferred Proponent:** A proponent selected from a shortlist of bidders to enter into negotiations with a project owner to reach Financial Close and deliver a project.

**Project Agreement:** A legally binding document that sets out the requirements for the delivery of an asset under a P3 in terms of cost, schedule and life cycle performance that typically govern the performance - based payment of the ASP to a private partner.

**Procurement, Implementation and Other Owner Costs:** The Authority's costs related for financial and technical advisors as well as the estimated future costs of managing the Project under the traditional and P3 method. The Authority's costs under P3 are lower since many of the project management functions are performed by Plenary Health.

**Project Co:** The consortium of companies selected as Preferred Proponent at the end of the Request for Proposals stage. This consortium will enter into a contract with the owner to carry out the design-development, construction, commissioning, and maintenance phases of the project.

**Public-Private Partnership (P3):** An alternative way to build public assets such as healthcare facilities, roads, and schools in a timely and cost effective manner. P3s typically generate savings and value for taxpayers when the projects are complex and large – in the $100 million dollar and higher range.

**Risk Adjustment:**
The quantified value of project risks carried by the Authority under the DBB (traditional) and P3 models.

**Request for Proposals (RFP):** The stage of procurement where the government issues a closed invitation to qualified bidders to submit formal proposals to deliver a project.

**Request for Qualifications (RFQ):** The stage of procurement where the government issues an open invitation to private sector entities interested in submitting proposals for the Request for Proposals stage. The RFQ stage is used to qualify bidders to move forward to the RFP stage.

**Value for Money (VFM) Assessment:** Measures whether a P3 is the best option for a particular project. In the case of the Swift Current Long-Term Care Centre, the assessment compared the estimated costs of building and maintaining the same long-term care centre using two different methods: traditional and P3. The difference between these costs – measured in NPV – is the VFM. For a P3 to provide value, the P3 must cost less than the traditional approach over the life of the contract.

# APPENDIX B:

# INDEPENDENT

# FAIRNESS ADVISOR REPORT

# mcmillan


| | |
|---|---|
| Reply to the Attention of | Joan M. Young |
| Direct Line | 604.893.7639 |
| Direct Fax | 604.893.2672 |
| Email Address | joan.young@mcmillan.ca |
| Our File No. | 1004241-220846 |
| Date | October 14, 2014 |


SaskBuilds
720-1855 Victoria Avenue
Regina, SK S4P 3T2

Attention: Rupen Pandya, President and CEO, SaskBuilds

Dear Sirs/Mesdames:

Re: Fairness Report for the Swift Current Long-Term Care Centre Project Procurement

I was retained to provide fairness advisory services for the above mentioned project on August l, 2013.

My engagement covered the procurement process from the issuance of the Request for Qualifications (RFQ) to the conclusion of procurement with the selection of the Preferred Proponent.

The terms of engagement stated that as Fairness Advisor, I was asked to do the following:

- Act as an independent observer with respect to the fairness of the implementation of the Project's procurement processes;
- Provide advice to the Project Team on matters of fairness;
- Be available to proponents to answer queries relating to fairness; and
- Provide formal written reports at specific points during the procurement process as described.

The activities of the Fairness Advisor were self-determined and included:

- Reviewing Project RFQ and Request For Proposal (RFP) documentation and commenting on whether and the extent to which the process described may potentially cause a fairness issue (recognizing the Fairness Advisor was not acting as procurement counsel to the project);
- Observing and/or monitoring that consideration, communications, and responses undertaken during the Project RFQ and RFP process were undertaken in accordance with the RFQ and RFP terms;
- Observing and/or monitoring bilateral discussions and meetings;
- Observing and/or monitoring the Project RFQ and RFP evaluation process; and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- Observing and/or monitoring relevant (as determined by the Fairness Advisor) meetings where proponent comparisons are made and criteria, weighting and rating systems are applied.

My role as Fairness Advisor was not to validate the Evaluation Committee's recommendation of the shortlisted Proponents, but rather to provide oversight and assurances regarding the processes applied in making the recommendations. I met these responsibilities by undertaking the steps I felt were most appropriate to meet my mandate.

I found both the RFQ and RFP processes were conducted in a fair manner in accordance with the procedures established in the RFQ and RFP stages. I am satisfied that:

- The Swift Current Long-Term Care Project team members, and their advisors, followed the procedures and fairly applied the evaluation criteria specified in the procurement documents; and

- Where judgment and interpretation were allowed or required, the Project Team exercised reasonable judgment and made interpretations in a fair and impartial manner.

I am satisfied that I was provided with the appropriate access and information to render this fairness opinion.

Yours truly,

Joan M. Young*

JMY/rl
*Law Corporation

# APPENDIX C:

# DELOITTE

# VALUE FOR MONEY REPORT

Deloitte.

# SaskBuilds

# Swift Current Long-Term Care Centre Project

# Value for Money Report

**April, 2015**

# Table of contents

# 1. Introduction

## 1.1 Introduction

The Cypress Regional Health Authority (the “Region") has recently signed the Design-Build-Finance-Maintain (“DBFM”) public-private partnership (“P3”) project agreement for the Swift Current Long-Term Care Centre Project (the “Project”) with Plenary Health (the “Successful Proponent”). This report summarizes the procurement process employed and presents the value for money (“VFM”) estimate corresponding to the Successful Proponent’s proposal to the Region. The VFM assessment entails the comparison of the net present value (“NPV”) of the risk-adjusted project cost estimate for a traditional delivery model with that for the P3 delivery model.

## 1.2 Limitations

This report was prepared for the exclusive use of the SaskBuilds Corporation (“SaskBuilds”), and is not to be reproduced or used without the written permission of Deloitte with the exception of its use with regard to the procurement process for the Project. No third party is entitled to rely, in any manner or for any purpose, on this report. Deloitte’s services may include advice or recommendations, but all decisions in connection with the implementation of such advice and recommendations shall be the responsibility of, and made by SaskBuilds.

This report relies on certain information provided by SaskBuilds and third parties, and Deloitte has not performed a review of this information of any type. This report does not constitute an audit conducted in accordance with generally accepted auditing standards, an examination or compilation of, or the performance of agreed upon procedures with respect to prospective financial information, an examination of or any other form of assurance with respect to internal controls, or other attestation or review services in accordance with standards or rules established by the CPA or other regulatory body.

# 2. Selection of Delivery Model

## 2.1 Delivery Model Assessment

In 2012, an initial analysis was conducted by the Region that explored a number of P3 delivery models against the traditional Design-Bid-Build (“DBB”) delivery model including: Design-Build-Finance (“DBF”), Design-Build-Finance-Maintain (“DBFM”), and Design-Build-Finance-Operate-Maintain (“DBFOM”). The analysis compared a number of characteristics of each of the models including:

- **Allocation of risk and responsibilities** for design, construction, financing, maintenance, operations, major maintenance / life cycle for the Project;
- **Business and operations impacts** including the impact on ability to incorporate “Lean Design”, technical, maintenance and life cycle , acceptability, implementation, timing, financial and other impacts; and
- **VFM** against a public sector comparator based on the DBB delivery model.

The DBFM delivery model was selected based on this due diligence process. A supplemental VFM analysis was then conducted by SaskBuilds and its expert external advisors to compare the total estimated risk adjusted costs of the Project delivered under the DBFM delivery model relative to the traditional DBB delivery model. This analysis, completed in 2013, confirmed that a DBFM delivery model could be expected to provide positive VFM. This result allowed the Project to proceed to the procurement process.

# 3. Summary of Procurement Process

## 3.1 Procurement Process Overview

The Region, working with SaskBuilds, implemented a procurement process in accordance with SaskBuilds' P3 Framework to select a P3 partner for the Project. Key milestones and outcomes of the procurement process are summarized below.

| Stage | Timelines | Outcomes |
|---|---|---|
| Request for Qualifications (RFQ) | • **RFQ period**<br>August – October 2013<br>• **RFQ evaluation period**<br>October – November 2013 | Five teams provided submissions in response to the RFQ. The RFQ Evaluation Committee, which included representatives from SaskBuilds, the Ministry of Health, the Region, and expert external advisors selected the three teams to advance to the next phase based on the results of the evaluation of the submissions. |
| Request for Proposals (RFP) | • **RFP period**<br>November 2013 – June 2014<br>• **RFP evaluation period**<br>May – July 2014 | A preferred proponent was selected based on an evaluation of the technical and financial submissions using the evaluation criteria defined in the RFP. |

## 3.2 Procurement Process Result

Plenary Health was selected by the RFP Evaluation Committee, which included representatives from SaskBuilds, the Ministry of Health, the Region, and expert external advisors based on the evaluation of the technical and financial submissions using the evaluation criteria defined in the RFP.

# 4. Value for Money

## 4.1 Value for Money Assessment

The VFM assessment entails the comparison of the NPV of the estimated risk-adjusted cost of the Project delivered under DBFM delivery model relative to the traditional DBB delivery model. A preliminary VFM assessment was undertaken in 2013 as noted in Section 2.1. The final VFM was developed following the conclusion of the procurement process (i.e. once financial close had been reached) and took into account changes in estimated costs that occurred in the intervening time, and reflected costs outlined within the Successful Proponent's financial proposal.

The form of the financial proposal was defined by the Region in the RFP, and consisted of the following monthly payment streams over the 30 year project agreement term:

- Capital payments (identical monthly payments stated in nominal dollars)
- Facility maintenance payments (monthly payments for maintenance stated in 2014 dollars)
- Lifecycle payments (monthly payments for planned rehabilitation or replacement stated in 2014 dollars)

To complete the final VFM analysis, the DBFM delivery model costs were updated to reflect the total cost of payments over the 30 year term using the amounts contained in the Successful Proponent's financial proposal (reflecting the Successful Proponent's actual cost of long term borrowing as determined at Financial Close on September 10, 2014). The traditional DBB delivery model costs were updated to reflect refinements to key cost parameters from the time of the preliminary VFM assessment referenced in Section 2.1.

The discount rate used to calculate the NPV for the purpose of the final VFM was 6.9%, based on the discount rate that was used for the preliminary VFM assessment. March 31, 2014 was used as the NPV base date. The estimated NPV of risk-adjusted costs of the Project delivered through the DBB delivery model is calculated using the financial model developed for the preliminary VFM assessment and reflects updated cost estimates as noted above. The estimated NPV of risk-adjusted costs of the Project expected through the DBFM delivery model is a combination of payments to be made to the Successful Proponent as noted above and other costs that are borne directly by the Region.

The comparison between the estimated risk-adjusted cost of the Project for the delivery models is as follows:

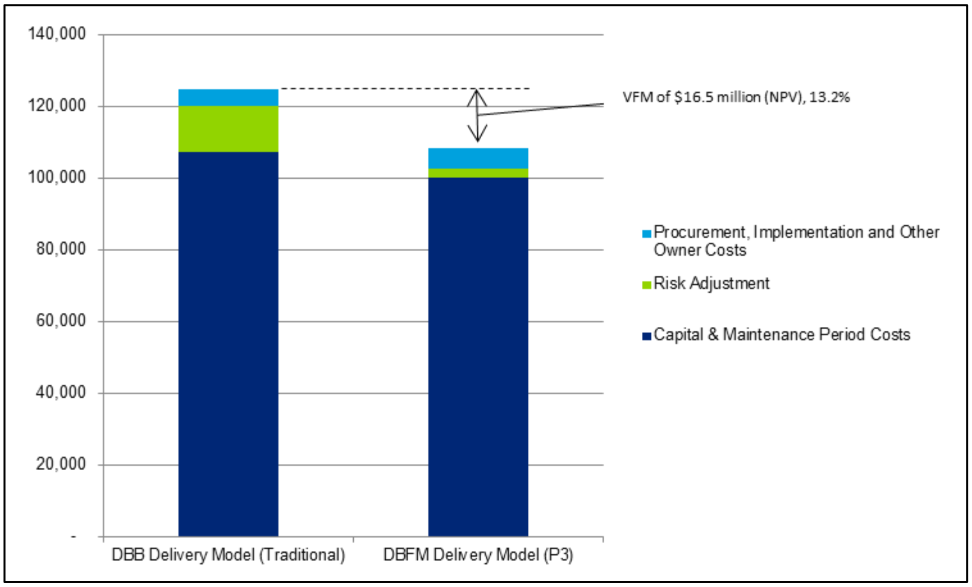
**Figure 1: Final Value for Money Estimate (NPV, $000's)**

| DBB Delivery Model (Traditional) | | DBFM Delivery Model (P3) | |
|---|---|---|---|
| Capital & Maintenance Period Costs | 107,623 | Capital & Maintenance Period Costs | 100,374 |
| Risk Adjustment | 12,660 | Risk Adjustment | 2,367 |
| Procurement, Implementation and Other Owner Costs* | 4,784 | Procurement, Implementation and Other Owner Costs | 5,811 |
| **Total DBB Costs** | 125,067 | **Total DBFM Costs** | 108,552 |
| | | **VFM ($)** | 16,515 |
| | | **VFM (%)** | 13.2% |

**This includes a Tax Competitive Neutrality Adjustment*

The chart below illustrates the key components of the final VFM estimate.

**Figure 2: Final Value for Money Illustration**




In summary, it is estimated that the Project as executed by the Successful Proponent will result in savings in NPV terms of approximately $16.5 million or 13.2% relative to the traditional DBB delivery model.

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