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# Obtaining Value for Money in Hospital Projects

The Canadian Society of Value Analysis

Creating Value

October 28, 2008

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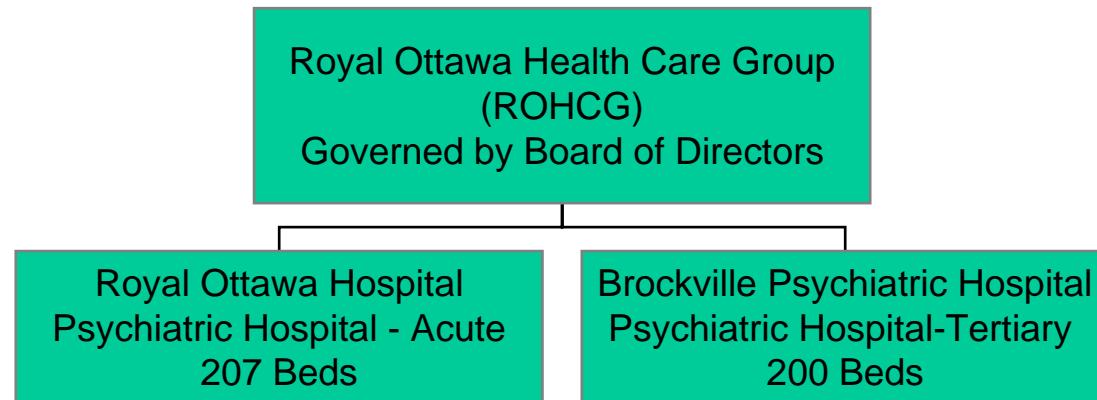
# The Royal Ottawa Hospital Re-development Project

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A Pilot Alternate Funding Procurement  
Project

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# Royal Ottawa Health Care Group



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# Change in Mandate for Royal Ottawa Hospital

## **Existing Mandate**

- Acute Mental Health
- Emphasis on Inpatient service delivery
- Serving the Ottawa Area

## **New Mandate**

- Tertiary Mandate serving severely ill
  - Emphasis on community service delivery & partnerships
  - Serving all of Eastern Ontario
  - Added emphasis on Forensic Psychiatry
  - Education and Research
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# The Project

## Management Team

- GBZW, Project Manager
  - PricewaterhouseCoopers, LLP
  - Perley-Robertson, Hill & McDougall LLP
  - Murphy Hilgers/Moffat Kinoshita
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# A New ROH Functional Program

- Functional Program and capital requirement analysis completed



# The Existing Royal Ottawa Hospital Facility



# The Existing Royal Ottawa Hospital Facility



# The Existing Royal Ottawa Hospital Facility



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# Business Case Recommendation

Included two major issues :

- What to Build
- Financing Options



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# Business Case – What to Build?

## Renovation Option

- \$115 million capital and transition
- No operating efficiencies
- 7+ years, ongoing disruption
  
- Estimated costs in 1999 \$Cdn

## New Facility

- \$87 million capital and transition
  - \$4 + million operational savings
  - 2.5 years to complete
  
  - Estimated costs in 1999 \$Cdn
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# The Master Plan

- The old institution model replaced with a highly flexible facility, a new focus on outpatient care, research and education

Parkin Architects Ltd



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# Business Case Financing Options

- Traditional Approach
  - Alternate Funding Procurement
  - And options in between
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# Capital Funding Challenges in Healthcare in Ontario

At the time:

- Between \$7 and \$9 Billion required for modernization and capacity expansion for Ontario hospitals.
- Provincial capital grant program for hospital redevelopment was in the range of \$400 Million annually.

Source : Ontario Hospital Association "Capital Planning and Investment in Ontario Hospitals, November 2003.

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# Financing Options for ROH

## **Traditional Method**

- Competition for scarce resources
  - Broad base of competing priorities
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# Financing Options for ROH

## **Alternate Financing Method**

- Positive history with Private Sector for facilities management services
  - Governance & Management belief in process
  - Broader ranging AFP made sense with proviso of clear line between facility and clinical services
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# Financing Options for ROH

## **Alternate Financing Method Con't)**

- Supportive community
  - Methodology used in other public sectors and in other country's health care solutions, eg UK.
  - Methodology was supported by government policy platform
  - Facility resembles commercial office and related space
  - Size right and land available on the existing site
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# Financing Option Selected

## Alternative Financing Model Public Private Partnership

In December, 2001 the Royal Ottawa Hospital received approval from the Province, as one of two pilot projects in the province, to proceed with an alternate approach to its hospital redevelopment.

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# Ten Principles to Guide the Redevelopment Process

- The Board established ten Principles to guide the redevelopment decision making and process.
  - The Principles articulate the ROHCG's commitments throughout the process.
  - Process heavily scrutinized by community, unions, politicians, bureaucrats, etc.
  - Alignment of communications plan
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# Ten Principles

- Publicly administered model,
  - Excellent quality specialized services
  - Optimize cost and quality objectives
  - Value for Money
  - Best practice model for delivery of healthcare
  - Client-centered health care
  - Accountability and risk management.
  - Co-location of complementary activities
  - Partner with strong community commitment
  - Protection of healthcare funding
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# Value for Money Benchmark (VFMB)

- The VFMB is used by government to make decisions, by testing “whether a private investment proposal offers value for money in comparison with the most efficient form of public procurement.” <sup>(1)</sup>

(1) Partnerships Victoria Public Sector Comparator Technical Note, Department of Treasury and Finance, State of Victoria, 2001, Page 1, Section 1.1

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# Developing the VFMB

- VFMB developed based on:
    - Research similar transactions locally and internationally and examples of VFMB models used elsewhere
    - Consultation with advisors
    - Ministry of Health and Long Term Care experience
  - VFMB estimates the expected risk adjusted cost of redeveloping and providing support services for the ROHCG under a traditional scenario.
  - This became the basis for evaluation of costs of redevelopment under an alternative model.
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# Value For Money

- Risks are allocated to those best able to manage
  - Full integration of life-cycle costs
  - Predictability of costs and funding by ensuring whole-of-life costing and budgeting are considered
  - Optimum opportunities for innovation based on output specifications
  - Opportunities for revenue generation and utilization of assets
  - Long term contracts for infrastructure services frees up Senior management to focus on healthcare service delivery
  - Alignment of payment with benefits – payments begin when output specifications are achieved.
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# The Selected Consortium

## **The Healthcare Infrastructure Company of Canada**

- EllisDon Corporation
  - Borealis Infrastructure Management Inc.
  - Carillion Canada
  - Parkin Architects Limited
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# The New Royal Ottawa Hospital



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# The ROH Redevelopment Project

- Lease grounds from the ROH
  - Design and build the new facility
  - Finance the facility (combination of debt & equity)
  - Facility manage and operate the facility
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# Project Agreements

- Public Paramountcy Agreement
  - Project Charter
  - Variations Agreement
  - Development and Construction Agreement
  - Ground Lease
  - Base Building Lease
  - Facility Services Agreement
  - Human Resources Agreement
  - Compensation on Termination
  - Future Development Agreement
  - Security for Performance
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# Ministry of Health and Long Term Care Involvement

- Review and approve agreements
  - Authority to proceed at each phase
  - Alternate methodology required new policy be developed for funding
    - capital and operating that parallel agreements
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# Key Milestones

- Dec, 2001 Cabinet approval to proceed with PPP
  - Jun, 2002 Request for Qualifications (RFQ) Issued
  - Sep, 2002 Shortlist of RFQ Proponents Issued
  - Dec, 2002 Request for Proposal (RFP) Issued
  - Mar, 2003 RFP Submissions Due
  - May, 2003 Selection of Preferred Proponent
  - July, 2004 Commercial Close
  - Dec, 2004 Financial Close
  - Nov, 2006 Occupancy of New Facility
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# Delivery of the new Royal Ottawa Mental Health Centre

## The Success Story

- Calming and pleasant environment
  - Delivery ahead of schedule
  - Delivery on budget
  - New name and new image
  - Significant interest in and learning from realizing this pilot model
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# Royal Ottawa Hospital Project Contact Information

## **Questions?**

Maureen Moore : [maureen.moore@sympatico.ca](mailto:maureen.moore@sympatico.ca)

Project website: [www.royalottawahospital.com](http://www.royalottawahospital.com)

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