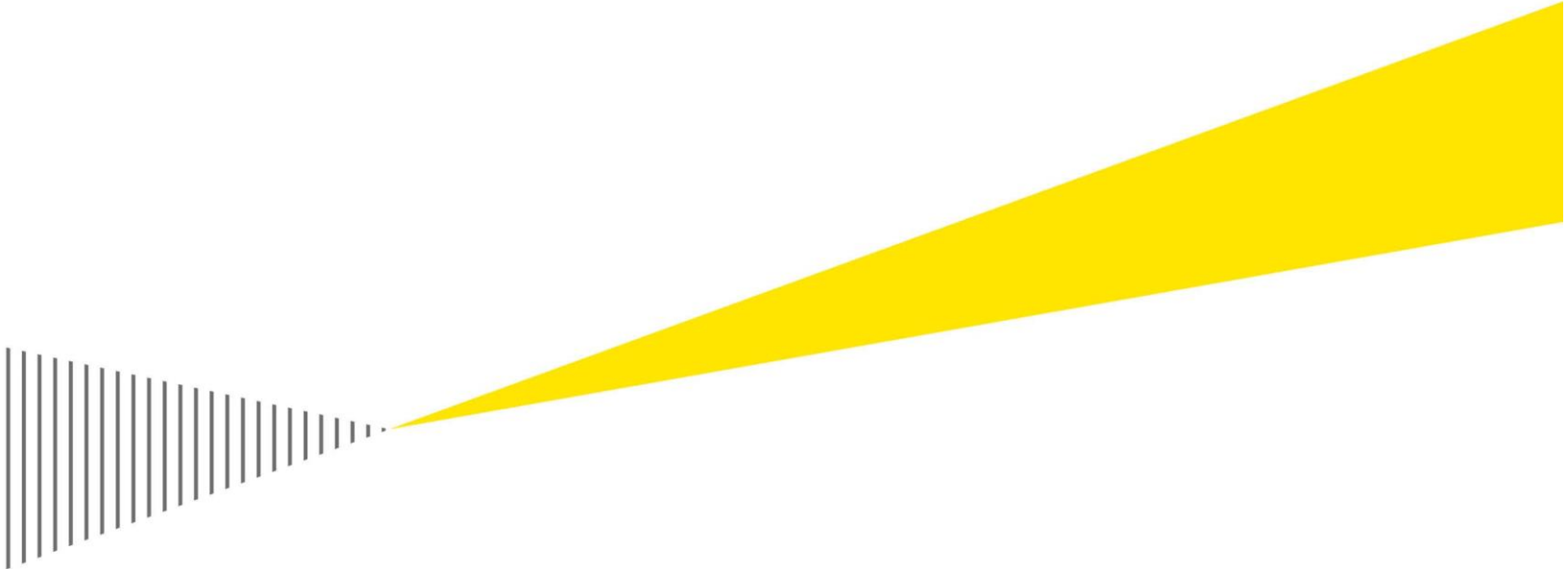


Government of
Newfoundland and
Labrador
*New Adult Correctional
Facility Project - Value for
Money Assessment*

September 2018



Limitations

Ernst & Young Orenda Corporate Finance Inc. (“EY”) has been engaged by the Government of Newfoundland and Labrador (“GNL”) to assess the value for money (“VFM”) of a range of potential procurement options and assist in the development of the VFM assessment for the procurement of a New Adult Correctional Facility (“NACF”) in Newfoundland and Labrador (“the Project”).

The NACF VFM Assessment was prepared on instructions from GNL solely for the purposes and use of GNL. It should not be relied upon for any other purpose. The NACF VFM Assessment is based on objective analysis and information provided to EY by GNL and third parties and does not necessarily represent EY’s view, comments, conclusions and opinions.

The NACF VFM Assessment may not have considered issues relevant to any third parties. Any use such third parties may choose to make of the NACF 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 NACF 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 NACF VFM Assessment to reflect any circumstances or information that become available subsequent to the date of this NACF VFM Assessment.

1. VFM Assessment Summary

Ernst & Young Orenda Corporate Finance Inc. (“EY”) has been engaged by the Government of Newfoundland and Labrador (“GNL”) to assist in development of the value for money (“VFM”) assessment for the procurement of a New Adult Correctional Facility (“NACF”) in Newfoundland and Labrador (“the Project”).

1.1 Introduction

The Project is a proposed facility to replace Her Majesty’s Penitentiary (“HMP”) in St. John’s.

The proposed facility would enhance and expand the scope of correctional services currently available in the province, having a Building Gross Area of approximately 21,000 m² with 387 inmate beds. The facility includes the development of male and female housing units, various inmate services, health programs/clinics and support staff facilities, among other items.

The proposed site is planned to be within the metropolitan area of St. John’s, Newfoundland and Labrador, or its vicinity.

The key purpose of this NACF VFM Assessment is to identify the procurement options for the delivery of the Project, to analyze these options qualitatively and quantitatively and to recommend, based on the VFM analysis, an appropriate procurement strategy.

1.2 Procurement options and qualitative analysis

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

Through an EY-facilitated workshop (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 NACF Project. These options ranged from the traditional procurement method (Design Bid Build) through to full outsourcing (private sector provision).

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/schedule certainty
- ▶ Long-term planning flexibility
- ▶ Long-term asset quality
- ▶ Environmental sustainability
- ▶ Parking/public transit accessibility
- ▶ Safety/security driven design
- ▶ Long term security considerations
- ▶ Maximise availability of the facilities
- ▶ Innovation and efficiency
- ▶ Holistic program service delivery
- ▶ Local participation

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	Design Bid Build	Build Finance	Design Build	Design Build Finance	Design Build Finance Maintain	Design Build Finance Operate Maintain
Weighted score	145	144	147	160	174	170

It was found that the procurement option which most closely met the Evaluation Criteria overall was Design Build Finance Maintain (“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 GNL would typically procure such a project.

GNL noted they expected that the Design Bid Build (“DBB”) procurement option would have been utilized for the Project in the absence of consideration of alternative service delivery methodologies, and the DBB procurement method was therefore carried forward as the public sector comparator (“PSC”).

1.3 Quantitative analysis

A detailed quantitative analysis was undertaken in respect of the short-listed procurement options (i.e., DBB and DBFM, 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 was 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 NPVs 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 participation of the GNL Team as well as external advisors in a detailed risk workshop (the “Risk Workshop”).

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.

1.4 VFM Results

Using the approach, methodology and assumptions described above, the results indicate that adopting a DBFM procurement route instead of the traditional DBB procurement methodology would provide greater VFM, reducing the NPV of expected costs by 11.9%.

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 NACF VFM Assessment, EY recommends that GNL use the DBFM methodology to procure the NACF Project.

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 NACF Project.

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