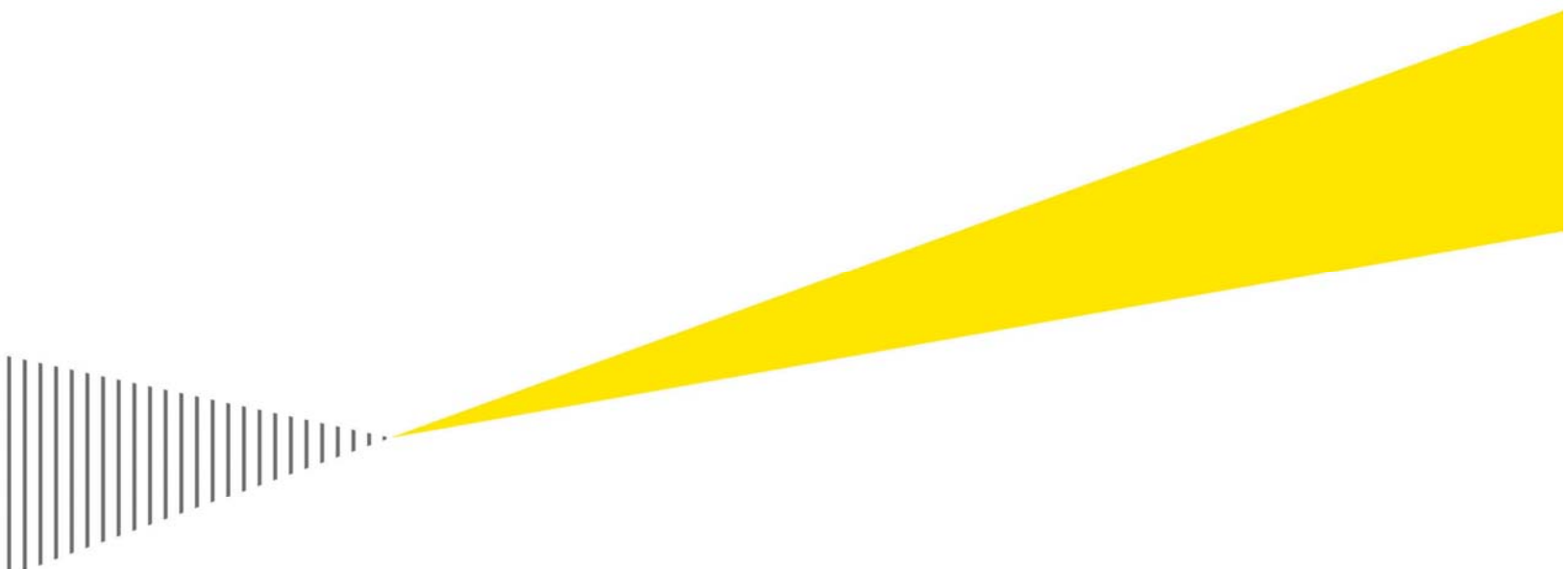


Government of
Newfoundland and
Labrador
*New Adult Mental Health
Facility Project - Value for
Money Assessment*



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 the for the New Adult Mental Health Facility ("NAMHF") at the Health Sciences Centre ("HSC") site in St. John's, Newfoundland and Labrador ("the Project").

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

1. VFM Assessment Summary

EY has been engaged by GNL to assist in the development of the NAMHF VFM Assessment for the procurement of the Project.

1.1 Introduction

The Project aims to provide modern mental health services through the consolidation of all adult mental health inpatient services at the HSC campus in a new building which is anticipated to be connected to the existing HSC. The new facility is expected to be constructed on the site of the existing Agnes Cowen Hostel which is anticipated to be demolished prior to commencement of the Project. The Project includes a new parkade to be constructed on the HSC site along with a new hostel to replace the Agnes Cowen Hostel.

The key purpose of this NAMHF 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 VFM analysis, an appropriate procurement strategy.

1.2 Procurement options and qualitative analysis

The first step in the preparation of the NAMHF VFM Assessment was to consider the spectrum of alternative procurement delivery methods for the NAMHF Project and screen these procurement options using criteria aligned to the goals and objectives of the NAMHF 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 NAMHF 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
- ▶ 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
- ▶ Integration with campus facilities and services
- ▶ 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	Design Build	Design Build Finance	Design Build Finance Maintain	Design Build Finance Operate Maintain
Weighted score	130.0	144.0	157.0	174.0	170.0

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 the Department would typically procure such a project.

GNL noted they expected that the Design Build (“DB”) procurement option would have been utilized for the Project in the absence of consideration of alternative service delivery methodologies and the DB 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., DB 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 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").

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 DB procurement methodology would provide greater VFM, reducing the NPV of expected costs by 12.3%.

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 NAMHF VFM Assessment, EY recommends that GNL use the DBFM methodology to procure the NAMHF 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	
Preparation of NAMHF VFM Assessment (Business Case)	April 2018
Approve procurement approach	June 2018
Procurement Phase	
Issue RFQ for DBFM contractor	November 2018
Issue RFP for DBFM and draft Project Agreement	Spring 2019
Approval and announcement of proposed private sector partner	Winter 2020
Financial close	Spring 2020
Construction and Operation Phase	
Commence construction	2020
Commence operations	2023 / 2024

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 NAMHF Project.

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