Obtaining Value for Money in Hospital Projects

The Canadian Society of Value Analysis
Creating Value
October 28, 2008
The Royal Ottawa Hospital Re-development Project

A Pilot Alternate Funding Procurement Project
Royal Ottawa Health Care Group

Royal Ottawa Health Care Group (ROHCG) Governed by Board of Directors

Royal Ottawa Hospital Psychiatric Hospital - Acute 207 Beds

Brockville Psychiatric Hospital Psychiatric Hospital-Tertiary 200 Beds
## 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
The Project Management Team

- GBZW, Project Manager
- PricewaterhouseCoopers, LLP
- Perley-Robertson, Hill & McDougall LLP
- Murphy Hilgers/Moffat Kinoshita
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
Business Case Recommendation

Included two major issues:

- What to Build
- Financing Options
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
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
Business Case
Financing Options

- Traditional Approach
- Alternate Funding Procurement
- And options in between
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.”
Financing Options for ROH

Traditional Method

- Competition for scarce resources
- Broad base of competing priorities
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
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
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.
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
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
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.” (1)

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

The Healthcare Infrastructure Company of Canada

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

Questions?

Maureen Moore : maureen.moore@sympatico.ca

Project website: www.royalottawahospital.com