



Report of the Auditor General
of Québec
to the National Assembly
for 2010-2011

Special report
dealing with the watch over the projects
to modernize Montréal's University Health Centers

Highlights

Cover photo
Parliament Building, *Daniel Lessard*, National Assembly Collection

Over the last few years, we have carried out three watches concerning the projects to modernize Montréal's University Health Centers (UHC) in order to inform parliamentarians of the main risks associated to these projects. We are continuing our work to obtain the assurance that decision-makers will have the necessary information to make informed decisions when they are called upon to make choices that will have repercussions for the next thirty years.

Objectives of Our Watch

The purpose of our watch concerning the major projects to modernize Montréal's UHC is to obtain the assurance that they are unfolding according to the main conditions of success for the management of major projects and the requirements established by the Ministère de la Santé et des Services sociaux (MSSS) relating to the infrastructures of Québec's social-health network.

We paid special attention to the value-added analyses justifying the choice of delivery methods. We wanted to obtain the assurance that the revised analyses for the Centre de recherche du Centre hospitalier de l'Université de Montréal (CRCHUM) and the McGill University Health Care Centre (MUHC) projects had taken our previous recommendations into account.

We also examined the actions taken by the stakeholders to obtain the assurance that the projects still meet their objectives in terms of compliance with the scope and budgetary guidelines, and that the governance structure of the projects contributes to their successful accomplishment.

Summary of the findings

Value-added analysis of the public-private partnerships. We continue to be of the opinion that the value-added analyses of the public-private partnerships (PPP) revised by Infrastructure Québec (IQ) for the MUHC and CRCHUM projects still do not permit to conclude that the PPP delivery method is more economical than having the public sector carry out the projects using the conventional method.

Indeed, the new value-added analyses for these projects are based on several of the same assumptions that we had deemed inappropriate or unfounded in the past.

In addition, the analysis of the revised value in 2009 of the CRCHUM as well as the information presented to decision-makers leads to the conclusion that the PPP method is the more economical delivery method. This analysis contains two major inaccuracies.

First inaccuracy: a major error in the analysis model, which in presenting a \$33.8 million variance, results in showing that the PPP delivery method is preferable to the conventional method, whereas in the absence of this error, the conventional method is more economical by at least \$10.4 million.

Indeed, IQ assumed that the new building constructed according to the conventional method by the public sector would have an asset maintenance and renewal deficit corresponding to a Facility Condition Index of 20 percent beginning in its first year of service. Yet it is impossible for a new building to have a maintenance deficit beginning in its first year of use.

In addition, the maintenance deficit level under the conventional method assumed by IQ is not very realistic since it results in a Facility Condition Index of up to 66% after 30 years. In most cases, authorities take action to prevent deficits from exceeding a certain limit. Experts in this field believe that an Index of 15 to 20 percent is already considered very high in real-life situations.

Second inaccuracy: The information sent to the decision-makers having selected the PPP delivery method indicates that a simulation of the results with a discount rate of 6.5 percent and with no asset maintenance and renewal deficit was carried out. This simulation was never done. In reality, if such a simulation had been carried out, the effect of these two assumptions on the results of the value analysis would have considerably increased the aforementioned \$10.4 million advantage offered by the conventional method in comparison with the PPP method.

At the MUHC, the proposal of the successful bidder for the Glen Campus project provides for a change in the financing structure (payment of the costs of the parking lot as work progresses) and in the responsibility for the operation of the parking lot (transfer to a third party). However, a new comparison between the PPP delivery method and the conventional method to take this change into account was not done by IQ with a view to confirming the choice of delivery methods.

The extension of the call for proposals from January to March 2010 in order to allow bidders to submit revised proposals in accordance with the budgetary guidelines gave rise to the approval of a large number of derogations (18 and 66 for the two bidders for the MUHC, 325 for the only bidder competing for the CRCHUM). The effect of these derogations and changes on the results of the comparison between the conventional method and the PPP delivery method was not evaluated, making it impossible to determine if the PPP delivery method proposals accepted in March 2010 are more advantageous in comparison with the conventional method.

Harmonization of project parameters (scope, costs and timeline). Despite the changes to the projects, there has been no follow-up on the clinical plans and the Year 1 operating budgets by the Agence de la santé et des services sociaux de Montréal (ASSSM) since their approval. Consequently, the MSSS does not have the assurance that the initially established objectives will be achieved.

Yet the MSSS has indications that suggest that the changes made to the projects will exert upward pressures on the authorized operating budgets.

Moreover, the approval of the increase of the affordability criteria for the component under the PPP delivery method of the CRCHUM and the MUHC projects was treated separately, without having a vision of the projects as a whole.

If one considers the increase in the affordability criteria, the capital cost estimates now exceed by at least \$108.4 million the \$5.2 billion announced in March 2004, not counting future estimate revisions for the Centre hospitalier de l'Université de Montréal (CHUM) and the Centre hospitalier universitaire Sainte-Justine (CHUSJ) projects, the components of the MUHC not carried out under the PPP delivery method, the financial impact of the withdrawal of the Montréal Neurological Hospital from the Mountain Campus in the CUSM project, and the real content of the chosen proposals.

Governance. The complexity of the governance structure still does not promote, in some cases, the accountability of the UHC, the executive director and IQ. Risks are still present in this respect.

Conclusion. The signing of the PPP contracts for the CRCHUM and MUHC projects, the duration of which is 30 years, was done or will be done without having a vision of the projects as a whole in terms of their global costs and the operating budgets that will be necessary for these new institutions.

The results of our watch described in this fourth report on the projects to modernize Montréal's UHC and in the three previous ones too often show that the conditions of success for the management of capital asset projects of this scope are not always present and that the management of these projects does not meet the requirements established by the MSSS in its planning of infrastructure investments, notably that the needs match the service proposal and that the identified solutions are supported by rigorous analyses.

Recommendations

This section presents the recommendations made in our report. It should be noted that, for information purposes, the number of the paragraphs in question is indicated in parentheses.

We reiterated the recommendations found in our 2009 report to Infrastructure Québec and to the Secrétariat du Conseil du trésor (34).

We recommended to the Secrétariat du Conseil du trésor that it specifies the notion of public-private partnership potential so that projects of a similar nature are subject to comparable analyses (35).

We recommended to Infrastructure Québec that it:

- obtain the assurance that an update of the value-added analyses is made for future projects in order to take into account changes to the projects and their effects on public sector comparators, if any, before recommending the signing of a partnership agreement (57);
- implement tangible measures to disclose and document potential conflict-of-interest or undue-advantage situations in compliance with the requirements of the calls for proposals (89).

We recommended to the Ministère de la Santé et des Services sociaux that it obtain the assurance that:

- the parameters of the projects are established and harmonized earlier in the process for future projects;
- the documents used to support decision-making for the continuation of the projects or the progression to the next stage include a section dealing with:
 - adherence to the approved work (clinical plan);
 - the costs of the projects in their entirety, even if they are carried out in several phases and according to different completion methods;
 - compliance to the capital asset and Year 1 operating budgets (73).
- the governance structure of Montréal's University Health Centers projects is reviewed to ensure that stakeholders better assume their responsibilities. (83)

Entitie's Comments

The entities had the opportunity to provide comments; they are listed at the end of this chapter. We wish to point out that they accepted all of the recommendations. The French version of the full report is available on our following website at <http://www.vgq.qc.ca>.



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