

# Value For Money: Development of Transitional Care Facilities

## Departments of Health and Wellness, Public Works, Nova Scotia Health, and Build Nova Scotia

### Key Messages

- Although we acknowledge the significant challenges and pressures that exist throughout the healthcare system, addressing them should not promote a culture where expediency takes precedence over appropriate due diligence and value for money.
- Purchase of Hogan Court property for \$34.5 million did not demonstrate adequate due diligence to obtain value for money. Steps included an inadequate market scan of alternatives, a purchasing arrangement which reduced the Province's ability to minimize costs, and a valuation not based on the condition of the building at acquisition.
- Significant adaptability and design concerns leading to delays in project timelines, increases to construction and equipment costs totaling \$17.4 million, and a reduction in service capacity.
- Approximately \$81 million in untendered contracts for the development of transitional care facilities were not in compliance with provincial procurement protocols.

### Why We Did This Audit

- Nova Scotia is experiencing significant healthcare delivery challenges.
- Government has placed a high priority on investing in healthcare services across the province. The 2023-24 budget included an estimated \$6.5 billion in healthcare spending, nearly half of the Province's total spending budget.
- The Province's 2023-24 Capital Plan includes an investment of \$532 million to advance healthcare projects. With such significant investment, it is imperative projects consider value for money.
- Concerns were raised regarding the price paid by the Province for the purchase of the Hogan Court property and the suitability of converting the structure to a transitional care facility.

### Steps taken to acquire Hogan Court property demonstrated a lack of due diligence and value for money considerations

- The purchase of the Hogan Court property was a highly unusual transaction. We identified the following significant concerns with the steps taken to purchase and convert the property:
  - Inadequate market assessment of alternative locations
  - Memorandum of Understanding signed between Nova Scotia Health (NSH) and Developer A, rather than the property owner, reduced the Province's ability to minimize costs
  - Insufficient due diligence including no assessment of suitability of the property for conversion and the reliance on an appraisal report which assumed the Hogan Court property was fully constructed
  - Property described as approximately 90 per cent complete not independently verified prior to purchase
  - \$15 million conversion budget approved without detailed cost estimates
  - Property purchased for \$34.5 million, including \$875,000 to reimburse property owners for deed transfer taxes and contract break fees
  - Construction work procured by alternative procurement sole source process instead of publicly tendered
  - Fire Marshal approval issued more than 10 months after the January 2023 property purchase
  - Originally, the facility was expected to add 75 to 80 beds to the healthcare system, which was later reduced to 68 beds due to building design limitations
  - Limitations on patient profile in the care environment at Hogan Court
- Purchase of Hogan Court property for \$34.5 million did not demonstrate adequate due diligence in order to obtain value for money

## **Inappropriate use of alternative procurement practices to accelerate the development of transitional care facilities**

- Initial alternative procurement practices and approvals supported the award of \$400,000 in construction management services for the Hogan Court facility, however:
  - Subsequently, an untendered \$10.6 million amendment for the construction work was approved, even though the conditions supporting the original alternative procurement circumstance no longer applied and the amendment related to a different scope of work.
  - The contract was signed November 1, 2023, months after on-site work began. Construction costs and completion timeline had not yet been finalized in the construction management contract.
- Architectural services appropriately awarded up to \$650,000 through alternative procurement, however:
  - No signed contract until August 24, 2023, despite nearly \$300,000 in payments already made.
  - Critical responsibilities missing from the final contract with the architect.
- Third-party operator alternative procurement process for the operation of the facility valued at \$67.5 million not in compliance with Sustainable Procurement Protocols
- Advisory services up to \$18 million provided by a single provider did not follow an established procurement process
  - As of November 1, 2023, \$860,000 in advisory services paid for acquisition assistance, development, and operational readiness of Hogan Court property
- \$3 million initial planning and site work contract for Bayers Lake transitional care facility not in compliance with alternative procurement guidelines
  - Changes in estimated cost for Bayers Lake transitional care facility may need further approval by government

## **Weaknesses in alternative procurement practices at Procurement Division of Service Nova Scotia**

- Alternative procurement circumstances not appropriately assessed
- No formal sign-off by Procurement Division for amended alternative procurement forms
- No conflict-of-interest disclosure requirements for the approvers of alternative procurements
- Inaccurate and inappropriate details on alternative procurement awards posted on public procurement portal