INTEGRATED LIEN PROJECT DELIVERY AGREEMENT – WHAT/WHY IS IT?

Bill Preston

Five Hills Health Region has brought this contractual governance model to Saskatchewan. Come and share lunch with the Saskatoon Chapter of CSC:

Speaker: Chris Boychuk, Q.C.
McDougall Gauley
Location: Ramada Conference Room
29th and Idylwyld
11:30 a.m., Thursday, February 28
For tickets, email: moara@spsd.sk.ca

Chris, a contractual traditionalist, is now walking this new contractual journey with the Health Region for construction of a new acute care hospital at Moose Jaw. He will share with you his views on whether this model will reduce the inefficiencies and increase the value to the owner over what would have been achievable by using a traditional contract model. For now, let me give you a bit of a sketch of **what an Integrated Project Delivery model is**.

The Five Hills' November/11 RFP highlighted the following project requirements:

- Achieved value as defined by our patients' search for perfection.
- Design for a "cellular" healthcare service provided by lean integrated care teams.
- Reduce patient in-hospital travel time by 40%.
- Total space required is 17,800 square meters.
- Reduce energy consumption to 75% of National Energy Code.
- 74 patient rooms + 32 examination/treatment rooms.
- Assume site subsurface requires no special water management nor foundation issues.
- Meet or better total design and construction target costs of $73,962,500.00 (excl. of tax).

These requirements were assembled by Five Hills with the assistance of David Chambers who is familiar with the IPD model which was used for building the Sutter Health Centre in Sacramento, California. For it, a $5.5 billion target cost for construction and design was used; and, the proponents of IPD are convinced that Sutter was completed under budget, quicker, and contained more innovative value to the owner than could have been achieved by a traditional contract model. How is IPD different?

CONTRACT OBJECTIVES

- Stimulate (not simply by using fancy words) collaboration, communication, and creativity.
- Reward increases in project value to the owner.
- Share risks.

- No one participant can force others in the shared risk pool to accept unwanted parties or risks.

EARLY INVOLVEMENT OF PARTICIPANTS

- Early, after the concept stage and before the detailed design stage, assemble the Participants which might include the following: prime consultant, significant sub-consultants, contractor, significant subcontractors, and possibly suppliers.

- The Participant's group should consist of those who have the opportunity to provide creative value + altogether account for between 50% and 66% of the design and build direct costs.

- The greater the diversity among the Participants, the better the information concerning pricing, design, and constructability alternatives.

- Each Participant must be approved by all others.

- Each Participant should be represented by an individual who is both committed and knowledgeable.

- Woodshed to a short list the issues that a representative may refer to their senior management.

SHARED RISK/REWARD

- During design and construction, Participants are paid only pre-agreed direct unit costs until distribution of the risk/profit pool.

- In Saskatchewan, the Participants must decide how to deal with statutory holdback.

- This risk/profit pool covers all of the Participants' risks not transferred to either the owner, insurance, or bonding.

- Avoid skewing to one party's control the Participants' group's design and construction decisions.

- The risk/profit pool covers all cost overruns to the maximum of the Target Cost price and thereafter, excess overruns become the risk of the owner.

REDUCED LIABILITY EXPOSURE

- All claims except intentional, knowing wrongs are waived among the Participants.

- This safety net is designed to stimulate creativity and communication while reducing pricing for uninsurable risks.

- ADR minimizes the risks of litigation costs.

COMPENSATION

- Compensation must be fair to stimulate both efficiency and creativity.
- Once the Participants' Agreement is made (usually before detailed design), no participant can increase their profit by increasing or decreasing their work.
- During performance, the Participants will only be paid agreed direct cost for units of work.
- Every Participant's savings and profits are accumulated in the risk pool and held until completion; and this value less cost overruns is then divided among the Participants as per their earlier arranged Participants' Agreement.
- In determining each Participant's direct costs, care must be taken to include direct marginal administration costs, but not profit in the unit pricing.
- The Participants determine the Target Price which should be less than that likely proffered by use of a traditional contract model.
- Target Price is not amended unless the owner increase of the work.
- The Participants' direct costs are guaranteed.

CONCLUSION

Presently, because the IPD model involves a substantial upfront investment, it is being used for projects with a Target Price of greater than $40 million. But as members of our industry become more familiar, this upfront investment will shrink and make the IPD available for lower-priced projects. For now, come and share lunch with Chris and Construction Specifications Canada at the **Ramada on Thursday, February 28 at 11:30 a.m. Ask Chris all your questions.** You're all welcome.