LRT Valley Line - Value for Money Update

Recommendation:

That the April 14, 2016, Integrated Infrastructure Services report CR_3521, be received for information.

Report Summary

Value-for-Money Updates have been undertaken during the project procurement process to ensure that the Valley Line LRT – Stage 1 project continues to demonstrate Value-for-Money as a Public-Private-Partnership (P3) project delivery model. Based on the analysis undertaken, the project continues to demonstrate positive Value-for-Money of 21%.

Report

Value-for-Money refers to the potential total project cost difference, in net present value terms (construction and lifecycle), between pursuing the project as a P3 project rather than using a delivery method led by the public sector. The City has undertaken Value-for-Money updates at key stages during the project's development and procurement phase to better ensure that the Valley Line LRT – Stage 1 project continued to demonstrate Value-for-Money as a P3 project.

The Valley Line LRT - Stage 1 Value-for-Money assessment compared the delivery of the project as a Design-Build project (the public sector comparator) against the assumed delivery of the project as a P3 project (known as the shadow bid). For the public sector comparator, it was assumed that the design and build responsibility for the project would be transferred to a private contractor, while the City would retain responsibility to procure the light rail vehicles and Edmonton Transit System would take responsibility for operations and maintenance. For the shadow bid, it was assumed that the design, build, vehicle supply, operations & maintenance for a 30-year period, and partial financing responsibility is all transferred to a private contractor.

Value-for-Money assessments utilize assumptions about the future macro and local economy, probabilistic risk assessment, financial modelling, and sensitivity analysis, to enable this comparison and an understanding of the potential range of Value-for-Money that the project may generate. The incremental difference between the public sector comparator and the shadow bid is referred to as the Value-for-Money. If the shadow bid costs are assessed to likely be lower than the public sector comparator, the P3 project is said to likely be able to deliver positive Value-for-Money.

The business case for the project was completed in April 2012 and noted that the pursuit of the project as a P3 was likely to generate positive value for money due to:

- Opportunities for greater innovation by including all relevant parties in the project delivery and reducing interfaces (designers, constructors, operators, and maintainers are all "in it together")
- Opportunities for life-cycle costing drive the decisions between upfront capital investment and long term maintenance
- Optimal risk allocation and significant reduction in interface risks, reducing the City's potential risk exposure
- Strong competitive tension among international teams drives best pricing for the City

Following City Council's decision to pursue the project as a P3 and in line with best P3 procurement practice, the City determined that updates to the Value-for-Money assessment would be performed during the procurement process and a final Value-for-Money assessment to be prepared after financial close of the Project has been achieved. Administration has included its Executive Summary of the project's Value-for-Money Assessment in Attachment 1.

The City has been supported throughout the procurement phase by its P3 Process and Financial Advisor, KPMG, who has undertaken this Value-for-Money assessment with the support and input of the City and its Owners' Engineer team. KPMG's Value-for-Money report is contained in Attachment 2.

This Value-for-Money Update (Final) incorporates the financial information for the preferred proponent in lieu of the City developed shadow bid model, together with the City's assessment of its costs and retained risk analysis for other project related works.

As of April 2016, the Value-for-Money Update (Final) includes an approximate 21% value savings over the construction and 30 year operating period, if delivered as a P3 rather than as Design-Build.

The City must act in accordance with the P3 project agreement in order to fully attain the identified potential Value-for-Money. This includes limiting the potential for taking back various project risks, by diligently managing interfaces with other City projects and by limiting scope changes.

Budget/Financial Implications

Finalization of the Project Agreement and related documents, and Financial Close was reached on February 11, 2016. The Project Agreement includes capital costs that will be funded by capital profile 11-66-1673, and operating, maintenance, and renewal costs that are to be funded as per the Valley Line LRT funding plan approved by Council on October 20, 2015.

Attachments

1. Valley Line LRT - Stage 1 - Value for Money Report (prepared by KPMG)
2. Valley Line LRT Stage 1 - Executive Summary – Project Scope and Value for Money Assessment

Others Reviewing this Report

- T. Burge, Chief Financial Officer and General Manager, Financial & Corporate Services
- D. Wandzura, General Manager, City Operations