

**Standing Committee on The Alberta Heritage Savings Trust Fund Act**

**Tuesday, August 18, 1981**

*Chairman: Dr. Reid*

*9:33 a.m.*

MR CHAIRMAN: Good morning, ladies and gentleman. If the committee can come to order we'll try to start the business relatively promptly.

This morning we have the Minister of Hospitals and Medical Care, the Hon. David Russell. He has brought with him three members of his staff, who I'll get him to introduce in a moment or two. I don't know if the minister is going to have some introductory remarks before we go to a question and answer type period. That is up to the minister to decide.

If possible, I would like to adjourn at 11:30, whether or not we are completed at that time, in order to allow members some time prior to this afternoon's meeting at 1:30 to do any other business they may have. Will that fit in with your schedule, Mr. Minister?

MR RUSSELL: Yes.

MR CHAIRMAN: If you would like to introduce your staff and if you wish to make any preliminary remarks, please go ahead.

MR RUSSELL: Thank you, Mr. Chairman. The people I have with me this morning: on my far right the relatively new deputy minister of the department, Dr. Lloyd Grisdale. Dr. Grisdale was formerly executive director of the Cross cancer hospital, and I thought it would be very useful for him to be here this morning. On my immediate right is Sharon Prediger who was here last year and is a research program consultant for the department. Sharon's taking an extra day with the department to be with us today. She's leaving very shortly for Fort McMurray to take up a job with a nice, new hospital there. On my left is George Beck, ADM of finance and budget control for the department. Those are the people who are here to help me answer your questions.

By way of introductory comments, members will recall that under the Alberta Heritage Savings Trust Fund our department has five projects, three of a strictly capital nature: the Alberta Children's hospital in Calgary, the Southern Alberta Cancer and Specialty Services Facility in Calgary, and the Walter C. Mackenzie Health Sciences here in Edmonton. The two applied research programs are now in their last year: applied research for cancer and applied research for heart. We have a report that was just recently received from the Provincial Cancer Hospitals Board on the last year's operation of the cancer research programs. We'll hand that out if it's of use to the members. Some statistical data in there will probably be useful for them.

By way of explanation, I think the members know that the applied research funding for the programs that have been established for cancer and heart have been given a solid ongoing basis. By a decision last year it was confirmed that most of these established programs will be ongoing now and built into the ongoing budget of the department. So for the cancer programs I think there are some seven or perhaps eight established programs that will be ongoing and will have that commitment. They'll be in the regular supply vote -- I think

it's number three -- of the department next year when the estimates are brought forward to the Assembly. It's the intention to extend the Heritage Savings Trust Fund votes for another four years beyond their expiry next spring for the remaining projects in the cancer research programs. The idea of this is to give the scientists and doctors who have become involved in those research programs some guarantee of financial stability and commitment that their projects will be finished and that those that are good ones by way of ongoing treatment programs in an applied research way, that have been built into the hospitals, will now become a confirmed part of those hospitals' operations.

The same policy is applying to heart research, and the eight established projects that were built up during the past four and a half years in various hospitals throughout the province will be kept going. As I mentioned at the committee hearings last year, the heart research by its nature was slower to get off the ground and a little more difficult to get established. But the hospitals and the programs within those hospitals are now well established and all should be a hundred per cent completed by April 1982. Again it's our intention to build ongoing operating funds into the global budgets of those particular hospitals to keep those programs going. In addition there are important evaluation exercises going on by the two universities with respect to those applied research programs. Again there will be a four-year commitment of ongoing evaluation funds built into Vote 1 in the department budget.

By way of introductory remarks that's sort of the status of our applied research. In summary, we're looking at the last year of it now, which will be finished next April. We're very pleased with the way the hospitals and the doctors throughout Alberta have responded to the two programs, both in cancer and in heart. The trips I've made to various institutions to see specific programs have been very worth while. I'm sure many of you have also visited them and have the same impression I have.

Switching now from research to the three capital projects, two of them are very near completion. In fact we could say the children's hospital is completed. They've made the physical move into the new building, and the official opening is September 10 of this year. It was a fixed tender award, and aside from the limited number of change orders and changes in scope that were approved for the hospital board, the project has come in on budget. The thing that will be affected by inflation is the untendered equipment and furnishings necessary for the hospital. That's being affected by inflation and the fact that the hospital is being upgraded in status. By agreement of the two boards in Calgary, the Foothills hospital is closing its pediatric ward and all pediatric services from there will be transferred to the children's hospital. I should say in passing, because we're dealing with the same kind of issue in Edmonton at the present time, it was a decision that was not taken without a great deal of debate and argument and very strong feelings expressed on both sides of the argument. In any event that means an upgrading to a tertiary level for the children's hospital and that will be reflected in the equipment budget that will be brought before the Legislature at some future time. But I think we can safely say that the actual building of the facility, the agreement on programming, and the commissioning of the hospital are successfully done.

There's a similar story for the Southern Alberta Cancer and Specialty Services Facility. Again, it's virtually finished and will come in within a few dollars of the figure I gave you last year. It was forecast 88 point something million dollars to completion. I believe I told the committee it

was going to be a \$90 million project, and I believe that's true. Again, it had some changes in scope and direction, but the two boards -- the Foothills board and the Provincial Cancer Hospitals Board -- were always able to reach agreement, and that will provide a very excellent service to the southern Alberta region when it's operative sometime after October 23, the official opening day.

The Walter C. Mackenzie Health Sciences Centre, the one here at the university, is much larger in scope than the two previously mentioned capital projects, so the opportunities for changes in scope and for the effects of inflation to be felt are certainly there in larger numbers. During the fall session last year I mentioned that because of some of the signals we were getting with respect to cost overruns and the slowing down of the construction schedule, I was having an audit done, and that was done. I asked the Provincial Auditor to conduct an audit on the operations over there. He presented a very thorough and a very excellent report to me. I went over that with the board of the hospital. I think the findings of that audit are well known to the members of the Legislature who are here because in January this year the board had a news conference to describe what was going on. In summary, they said that because of changes in scope and construction difficulties due to labor disputes, materials shortages, et cetera -- those kinds of things -- there had been a considerable cost overrun in the project in the neighborhood of \$40 million to that date. As other building owners and managers throughout the province, they were struggling with the effects of inflation.

The Auditor had gone on to identify some breakdowns in details of project management. In fairness to the board, I must say that they have responded very quickly to those breakdowns identified, and there has been a pretty substantial reorganization and replacement of some personnel at the project.

As far as the government is concerned, we've asked them to take a direction, in consultation with the implementation committee for the project, to try to get a better feel for what the future holds and have asked them to continue their planning, get all their planning and design work done for phase two, complete the construction for phase one, and within the next few months we will be giving a decision to the board as to whether or not the government is prepared to support phases two and three of the project. There's no question that phase one will be finished, but phases two and three are still in a matter of abeyance. If it's decided, because of identified advantages, that it makes sense to go on with phase two, that would be the recommendation to the Legislature. If not, it would mean revamping the existing buildings over there in lieu of building a new phase two.

Phase three is still a question mark. That is the issue of whether or not the additional beds that were lost as a result of the reconstruction project should be replaced. That's where we are on that one.

We're talking about a larger range of dollars for the Mackenzie Health Sciences Centre than we were for the other two projects. We're presently in the range of \$360 million for the Mackenzie Health Sciences Centre in 1980 dollars, whereas the figures I quoted for the other projects were \$31.5 million for the children's hospital and approximately \$90 million for the Southern Alberta Cancer Centre.

Perhaps I should stop there, Mr. Chairman, to see if there are any questions arising from what I've said.

MR CHAIRMAN: Thank you, Mr. Minister.

MR RUSSELL: Mr. Chairman, how would you like these cancer progress reports handed out?

MR CHAIRMAN:: Perhaps we could distribute them.

MR RUSSELL: Okay.

MR NOTLEY: Mr. Chairman, on the Mackenzie centre you indicated a total figure of \$360 million in 1980 dollars. Do we have any information as to the increase? I remember when it was first discussed before the committee in 1977, I think the figure we were looking at at the time was somewhere a little over \$100 million. What does that \$360 million encompass? Is that all three phases? Or are we just talking about the first phase.

MR RUSSELL: That's phases one and two. None of the figures I'm dealing with make any reference to phase three.

MR NOTLEY: What's the estimated cost of phase three? Do we have any estimates at all?

MR RUSSELL: No. We have no estimate on that. It's simply a policy question now of whether or not another 150-bed wing ought to be added.

MR NOTLEY: When will you be making a decision on phase two?

MR RUSSELL: The board has indicated that they can have all the planning completed for phase two by March of next year. So we would want to make that decision before March, otherwise we'd be holding them up.

MR NOTLEY: What will be the estimated cost of phase two? What part of that \$360 million will be phase two?

MR RUSSELL: I can get that for you in just a minute. In 1980 dollars it's \$125 million, 124 point something. But this is the problem that has plagued all the parties on that Mackenzie Health Sciences Centre since its inception, and it's a very hard message to get through to the public as to what is the cost. When we look at 1977 dollars, even without a change or expansion of scope of the project, just the inflation to those '77 dollars, of course, balloons the cost tremendously. That's always been our difficulty: to get a fine estimate of what the exact cost is going to be. So we're very careful when we say: 1980 dollars, 125 million. But already we've passed 1981 so that figure has probably expanded 15 per cent although no construction has happened. It's just what's happening in the construction world today. And that's the difficulty we're having.

MR NOTLEY: In actual fact we'd be looking at something over \$400 million now to complete.

MR RUSSELL: In real dollars that's probably closer to the right range, yes.

MRS FYFE: Mr. Chairman, I wonder if the minister would give just in very general terms the nature of the Walter Mackenzie Health Sciences Centre, how it differs from a regular hospital complex. I think there's been a lot of

mention of the costs and the name of the building but not too much as to the nature of this facility.

MR RUSSELL: The two university-associated hospitals -- Foothills in Calgary and Mackenzie Health Sciences -- are the major what we call tertiary or third level referral centres for the province. All the cases that require the more complex treatment, assessment, or diagnosis are sent to those two hospitals. So they're really the major service hospitals insofar as levels of sophistication are concerned for all the other hospitals in Alberta, in fact for many people living outside Alberta. In addition to that, the Mackenzie Health Sciences Centre is a major teaching hospital, and it's also a major centre of medical research. Again that hospital, in conjunction with Foothills in Calgary, is intended to be the physical centre of the medical research activities that will go forward under the medical research foundation. So it's quite different from, say, the Misericordia, or the Holy Cross in Calgary, as a level two community hospital -- very specialized. Because of that, the equipment, the rooms, and the staffing are much more expensive on a unit basis than your typical hospitals, and the per-day operating costs reflect that.

MRS FYFE: Thank you. If I may ask a question in another area, Mr. Chairman, related to the two areas of applied cancer research and applied heart research. Do you have any indication as to the number of projects that are approved compared to the applications you receive for funding?

MR RUSSELL: Yes, we have that information. I think it's in the front of the cancer report that was just handed out.

MRS FYFE: If I have the material, I can look it up.

I'd like to ask another question then. Based on the comments you made that these two areas would be continued, has there been any consideration of research into other disease areas, such as multiple sclerosis, cystic fibrosis, or areas other than these two?

MR RUSSELL: No, there hasn't. These were the two programs that were specifically identified early on before any funding generally went to the broader field of medical research. So these are very specific. It was set up five years ago as a five-year program for what they called applied research in cancer and heart treatment, and it's limited to that. I'd expect the topics you mentioned will be fully covered under the medical research trust.

Myrna, on page five of that report I handed out is a summary of the requests received each year and the number of approvals beside them.

MRS FYFE: Just following up on that if I may, Mr. Chairman. On the number that have been approved compared to the requests received -- is it based partly on the fact that some projects do not meet the criteria of the program or, secondly, the funds have been expended for any particular period of time?

MR RUSSELL: No, there's been no shortage of funds. In fact there's usually a surplus left each year which is rolled over into the next year so that the funds are all there for spending or investment. It's the former reason, that the adjudication committee doesn't feel that the applications always meet the criteria of the program.

MRS FYFE: Thank you, Mr. Chairman.

MR R SPEAKER: Mr. Chairman, to the minister. In terms of the Walter Mackenzie facility, there had been a request I understand from the hospital board requesting more beds. The projections made with regard to hospital beds go back to 1974. There was also indication or information to me that the minister is looking at late August or September in making a decision with regard to additional beds. Could the minister comment on that?

MR RUSSELL: Yes. The hospital is anxious to know whether or not the government would support the request for the additional 150 beds. We asked the board for their submission, putting forward their argument which was in favor of the beds. I've recently received that, and it's being assessed by the implementation committee and by officials in the department. Because of the specialized nature of the hospital and the fact that we're committed to another 800 to 1,000 beds in the community hospitals in other quadrants of Edmonton, the question is whether or not it makes sense, economically or medically, to go forward with a hospital that size. That's the question before us at the present time.

The other date I mentioned, March 1982, is when they'll have their physical planning and architectural drawings done for phase two. So the extra beds are phase three, but they would like to have that policy decision known by the end of the summer.

MR R SPEAKER: Will the minister attempt to reach that date, or will there be an announcement to that effect by the end of the summer?

MR RUSSELL: Yes, we're programming to that deadline.

MR MACK: Mr. Minister, having regard to all the contingencies with regard to Walter C. Mackenzie, would you feel that it would be feasible even to consider at this point of time not to proceed with phase two on the Walter C. Mackenzie since all the planning and the determinations, at least to this point of time -- if we did not proceed with phase two it could perhaps cause far greater problems out there than to proceed, both in terms of economics as well as in terms of being able to achieve the goals as the major referral centre for this region.

MR RUSSELL: That's a very excellent question and one which we put to the board because if phase two should not go ahead, there has to be an alternative to it, which is making use of the existing buildings that are over there now and tying them into the new phase one. The board did a feasibility report of that, and it's possible to do that. We've all agreed that it's possible. Whether or not it's desirable is another question. So there are some very difficult issues facing the parties involved in the construction of that project: which will be the best way to go in the long term interests of Albertans who will be using the facility.

MR MACK: Thank you. Mr. Chairman, to the minister. Does the feasibility study have any indicators with regard to economics, as to what the pluses and minuses might be with respect ultimately to the citizens of the province in relation to economics, if in fact there were major renovations to the existing facilities as opposed to going with the new structure?

MR RUSSELL: As I recall, there is a saving in dollars, although it's relatively small, in going the renovation route as opposed to the brand new construction. Those kinds of debates are always difficult to deal with because on the one hand people say: you have a perfectly good building, why tear it down; and on the other hand the proponents of advanced and new facilities will make their argument and show that you can do the two for very close to the same number of dollars. It's a difficult issue. That's why we've made the commitment to the hospital board that they will have an answer by the time they've finished their planning. So they're proceeding with their planning on the assumption and hope that the plans will be used.

MR CHAIRMAN: Can I ask something from the Chair? In the event that they are looking at using the present University hospital, how much of that present building is in actual fact feasibly convertible to modern usage attached to phase one? Some of that building is pretty old.

MR RUSSELL: There are a number of buildings involved, all in different stages of good repair and compliance with codes and safety. So some would have to be abandoned in any case, whether or not phase two does go ahead as new construction. Others could be upgraded, some with a great deal of money and work and others with with a minor amount of money and work. I have available a list of the specific buildings and components that the board assessed, but it's that kind of judgment that was made.

MR NOTLEY: Mr. Chairman, to the minister. Is it possible to have some of this information made available to the committee in terms of the process you're going through now as to whether or not we decide to go phase two. I gather it's \$125 million in 1980 dollars, which would be \$150 million now and who knows down the road. Would it be possible to supply the members of the committee with, for example, the buildings? When I think of the University hospital, I think of one big complex. But I think the chairman's question is relevant. Would it be possible for the committee to have some information as to what we're looking at more specifically?

MR RUSSELL: I thought I had that with me. If I don't, I can certainly get it for you. If somebody else has another question I think I can dig that out in a minute.

MR CHAIRMAN: Has anybody else got another question?

MR PAHL: Thank you, Mr. Chairman. I might have missed it, but is there a long-term commitment to the applied cancer and applied heart disease research? It has been extended, but I missed just to what extent.

MR RUSSELL: Yes, there is. The programs that have been established under both subjects are being rolled in at the end of next year to the global budgets of the hospitals involved. In addition there will be special votes for continuing the evaluation of the programs as necessary. In the case of cancer, there will also be a continuation of Heritage Savings Trust Fund votes for those programs not yet established in hospitals.

MR PAHL: Supplementary to that, Mr. Chairman, will parts of those funded projects become part and parcel of the activity of the Mackenzie Health Sciences Centre? Will those applied research projects, or at least parts of

them, become ultimately attached to the Walter C. Mackenzie Health Sciences Centre? What is the integration, if you will, of the capital building versus the applied research? Does it all come together at some point at the Mackenzie centre?

MR RUSSELL: Not necessarily. For example, there are heart projects under way at, I believe, seven or eight hospitals throughout Alberta. There are cancer projects under way at several hospitals as well. Sharon, do you have the numbers with respect to the details?

MS PREDIGER: For the university?

MR RUSSELL: Yes.

MS PREDIGER: There are four for the university: one, a cardiac catheterization lab, which will be moved over to the new centre, they think somewhere next year or late in '83; a coronary care unit, which at the present time is going to be staying in the old University hospital, not the new health sciences centre, until some decision about phase two is made; a pediatric cardiology area, which will be staying in the old hospital as well; and the cardiovascular surgery component, which will be moving over into the new health sciences centre with the rest of the operating room, et cetera.

MR PAHL: Thank you, Mr. Chairman. My point to all this is: are you in some way through applied research committed to phase two and possibly other phases? I wanted to get some appreciation for the relationship of the two commitments. I think I have it.

MR RUSSELL: Mr. Chairman, I was looking for the answer to Mr. Notley's question, and I don't know if this would be meaningful if you're not familiar with the site conditions over there. Here's part of the report the board gave me saying, should phase two not proceed the hospital would be required to upgrade the existing facilities on the assumption that the facilities would extend their life cycles between 15 and 20 years. If you can use your imagination, the laundry and the Wells Pavilion would be demolished. The 1912 and 1929 kitchen stores building would be demolished and replaced. The CSB, provincial lab, and the 1950-57 buildings would be upgraded to reasonably meet current functional and building standards. The Mewburn Pavilion would have to be upgraded to provide interim beds during the renovations. Site utilities, site landscaping, and surface parking would be provided. Equipment would be prepared in the same order of magnitude.

So that gives you an idea of the alternative to tearing all those things down and replacing them with one new structure, which is called phase two.

MR NOTLEY: Do you have an estimate of that cost, Mr. Minister, compared to the \$125 million?

MR RUSSELL: The range in order of cost is a difference of about \$25 million for the two phases. In other words, on the one hand you would get two brand new components, phase one and phase two. On the other alternative you'd get one new component, phase one, with upgraded and some replacement of existing buildings for phase two. The difference is estimated to be a saving of \$25 million if you go the latter way.



MR PAHL: Mr. Chairman, supplementary to Mr. Notley's remarks, I wonder if we're coming up against any of the province's historical sites when we tear down 1912 buildings?

MR RUSSELL: We probably are.

MR CHAIRMAN: I'd like to ask a question from the Chair to do with it. In phase one, the part that is presently under construction, how many beds are there in phase one and how many beds in phase two, approximately?

MR RUSSELL: Phase one has 290 patient beds and 100 hostel beds. It's the old staff residence that's being converted to a hostel. Phase two has 553 patient beds and another 25 hostel beds.

MR CHAIRMAN: So what we are looking at in phase one is essentially a relatively small number of beds but most of the technical facilities for a projected 850-bed hospital.

MR RUSSELL: That's right. And most of the teaching facilities are in phase one as well.

MR SINDLINGER: Mr. Chairman, Mr. Russell, of all the projects in the capital projects division relative to your department, only one, the Alberta Heritage Foundation for Medical Research Endowment Fund, was not initiated in 1976-77. I'm wondering, inasmuch as this morning you indicated there were changes in scope and direction for some of these projects, if your department could provide the committee with a review, beginning '76-77, of these projects, identifying the various changes in scope and direction.

MR RUSSELL: Yes, that could be done. It's probably a little more difficult to do it for the Mackenzie Health Sciences Centre because the thing is going over a 10-year construction period. The medical facts of life are that equipment, programs, and ideas change during that period, and the board and the medical people are trying to respond to every new development that does come along. I could very quickly give you a summary of the changes in scope for the other two by memory.

MR SINDLINGER: Mr. Russell, rather than doing that and taking the time here, I wonder if you would consider having your department draw up a detailed list of those changes in scope, and as well as doing that, identifying the changes in cost due to changes in scope so that we could differentiate between the change in cost relative to scope and the change in cost relative to inflation.

MR RUSSELL: It won't be a very long list for the other two: four or five items in total I would think. We'll do that.

MR SINDLINGER: I'd like to carry on from there too if I could, please, Mr. Chairman. I recall last year when you appeared before the committee, in response to questions from Mrs. Fyfe and Mr. Clark relative to cost control, you weren't certain what types of monitoring systems were in place to ensure that the cost the Legislature allocated for these things was in fact used for those purposes. Inasmuch as you've held an audit on the Mackenzie Health Sciences Centre, and there have been recommendations for reorganization in cost control and management, is there any formal mechanism now in place for

your department to ensure that funds allocated by the Legislature are used as they are intended to be used?

MR RUSSELL: Oh yes. That's in place for all capital projects in the department by way of contract, and there are checks at various stages through the development of a contract: when programs are being developed, when architectural contract drawings are being developed so that the thing can be built. Again when the building itself is built, it's checked to see that it conforms to the program and to the drawings that were agreed to. Coupled with that is the commitment to ongoing operating budgets, and this is a system that's working fairly well.

The only additional element that you have in these capital projects has been the role of the implementation committee, which is an interdepartmental committee of senior officials from a variety of appropriate departments, to oversee the contract implementation of the two university projects.

MR SINDLINGER: Mr. Russell, you earlier indicated that there were breakdowns in details of project management in regard to the Mackenzie Health Sciences Centre. If these checks were being conducted through various stages at that time, these things in my judgment would not have happened, and I'm wondering if you've identified the weakness in your control management and have taken remedial steps. One of the concluding observations we made at this time last year was, borrowing from the medical profession, that preventive medicine was a lot better than remedial medicine, and you very succinctly agreed by saying yes.

MR RUSSELL: Well, of course I still agree, and as soon as the Provincial Auditor had identified areas of weakness, the board, in consultation with our department, I think very quickly took steps to reorganize and plug those weaknesses. For example, a new contract was drawn up with the architectural consortium that had been hired. They had been working on a cost-plus basis, billing for their time. So although there was no breaking or assaulting of the contract, I think there was an abuse of it, and the overrun on the architects' fees because of that was substantial.

You had the same kind of situation with respect to the project management company's contract, and that's been changed. I think you had a weakness in the project manager, who was an employee of the hospital, insofar as changed orders and changes in scope of the project were concerned.

There was a lack of discipline with respect to the role of the user groups, and you can imagine what a building would be like, for example, if everybody in this room was going to the architect and offering comments and saying, this needs to be bigger or this needs to be smaller. The architect would respond by doing drawings on a cost-plus basis. All our concerns in this room should be funnelled through the chairman, and he should be the one who speaks to the architect. And I use that as an example of the kinds of things that were going on. As a result, the project has fallen a year behind construction schedule, and it's proceeding at one-quarter speed. So the board now has the challenge to make up as much of the lost time as they can and get the thing going full tilt again. So it means the production of drawings and the bringing on to the site of the various trades at an accelerated rate again.

MR SINDLINGER: Just as a final summary comment, I'd like to thank you for making the commitment to give us a review of the changes in scope over the last five years of these projects funded here, and might just ask you, if I

could please, if you could have your department make its best effort to give that to the committee prior to us submitting our report so we could include it in that as well.

MR RUSSELL: Yes. Aside from any difficulties we might have with the Mackenzie Sciences Centre, which is just in the middle of everything now, that other statement should be to you very quickly, Mr. Chairman.

MR MACK: I'd like to refer back if I may, Mr. Chairman, to the minister, on the renovation of the existing facilities versus the new. For greater clarification with respect to the estimate, is it an estimate or is it in fact a firm assessment of the renovation cost in terms of the stated saving?

MR RUSSELL: It's an estimate, and you're working one estimate against another estimate. Somebody has done an estimate for renovation, and somebody else has done one for new construction. We've also hired outside cost consultants to come in and check all these estimates. In some cases we have three estimates, everybody giving their best guess for what they think will be the cost of something that may not be built and completed for another five years. That's very difficult in today's volatile construction atmosphere. So they're ranges and comparative ranges that I'm quoting to the committee now.

MR MACK: The purpose of reverting to this, Mr. Chairman, to the minister, is, although I've not been involved to a very major extent but to some extent, renovations have trepidations within themselves because of the unknowns. If they go on a cost basis then quite often they certainly overrun in cost as well as in terms of the initial estimates because there are many unknown components which are not perceived by whoever is doing the estimate in the first instance.

MR RUSSELL: That's right, and that's compounded by the size of these contracts. The advice I've been given by people in the field is that it's really futile to consider one fixed-sum tender for a project if it exceeds in the order \$60 million to \$70 million because of the limited number of contractors available to take on a job of that size and because of the built-in hedges bidders are going to have to take with respect to what will happen to their costs in a two- or three-year fixed construction period. So the tendency has been for boards and their consultants to recommend project management and try to get projects out in a group of smaller tenders for fixed prices where both the bidders and the owners have some degree of reliability. But that means proceeding with a project over a period of years, not really knowing what the final outcome will be, and trying to balance that with taking two or three years to get everything down on paper and then committing a builder to a three- or four-year construction contract. I think you can see the difficulties there.

MR. PAHL: Mr. Chairman, I assume in the absence of any remarks from the chairman that we will make the request for reports, and if we have de facto accepted the request of the hon. Member for Calgary Buffalo for a report, I wonder if the minister would consider not only looking at the changes in scope and the changes due to inflation in the project, but perhaps indicate some cost increases that would be by nature of a slowdown in the schedule. Because if you have a contract with a person who is in a holding pattern because of something else, then I think that implies a cost overrun that couldn't fairly

be applied to scope changes or inflation. If that's a meaningful number, I'd like to have that added.

My supplementary point or question is to clarify that, with respect to the Walter C. Mackenzie Health Sciences Centre, the manager would be, I assume, the University of Alberta hospital board.

MR RUSSELL: They're the owners, and then they hire the various parties I've mentioned.

MR PAHL: Are they responsible for managing the project?

MR RUSSELL: As owners they have that ultimate responsibility, yes.

MR PAHL: So that if there's, if you will, a breakdown of management systems, that would be attributable to their . . . They and their managers are ultimately responsible. Is that not correct?

MR RUSSELL: Yes.

MR NOTLEY: Mr. Chairman, just a couple of points that concern me a bit. While ultimately the University hospital board is the owner, we're dealing with public funds, and I recall in 1977 and 1978 when the trust fund committee spent a good deal of time on the cancer centre in Calgary and the overruns there. At that time things seemed to be looking fairly promising at Walter C. Mackenzie, and we were given a figure -- I'm just going from memory here -- somewhere around \$100 million. I assume that was phase one, not phases two and three. But I was a little concerned at the minister's response that how we could get into the problems we did with project management -- one year behind and quarter speed. One of the problems was a contract with the company doing the project management itself. How can we get into that difficulty? It's fine to say it's the University hospital board, but in fact it's public funds, and the department has to have ultimate responsibility for how those public funds from the heritage trust fund are invested.

MR RUSSELL: Well, part of what you're asking, Mr. Chairman, relates to the dilemma of hospital funding in Alberta generally in which, with few exceptions, the province is responsible for 100 per cent of capital and operating costs but has none of the ownership or administrative responsibility, unless it's a provincial hospital. So there's that theoretical or organizational difficulty to begin with.

More specifically, at Mackenzie of course we wouldn't be asking these questions if everything had gone perfectly. We'd probably have the same kind of organization with similar kinds of contracts, and there'd be no concern. In this case, with the value of hindsight, we can see collectively where contracts perhaps should have been different, where communications between various groups might have been more disciplined. But having been alerted to the fact that something was going wrong, getting the Auditor in, and doing an exhaustive examination at approximately the midway point, I think we're effectively correcting those things. Nobody planned it to happen that way, but as soon as there was a hint that something was wrong, I believe all the groups involved that are responsible took all the steps they could to quickly make corrections.

MR NOTLEY: What puzzled me, Mr. Minister, was with project management one would think that the whole purpose of project management is to make sure we bring together and co-ordinate the various people who are working, and the idea that you've just got all these people independently going to the architect and doing this and suggesting that, is an appalling situation. It really distresses me that that would occur over a period of what must have been several years.

MR RUSSELL: Well, in fairness, I don't know how much that happened. It was identified that the user groups were doing it. I don't believe that it's limited just to the Mackenzie Sciences Centre. I know from my own job that doctors and other staff members in all kinds of hospitals that have construction projects under way throughout the province take advantage of every opportunity to get in their two-bits worth. That's only human nature. The larger the project, the more difficult it is to control that. That's been one of the symptoms that was identified over there. They're being more disciplined now with their user groups. They have to be, and they recognize that. But it was happening.

MR NOTLEY: Have there been any changes in some of the firms that have been contracted? For example, you mentioned the architectural firm and overruns. Have we decided to make changes in terms of who was doing the architectural work as a consequence of the overruns? Or is it just a different contract with the existing firm or firms?

MR RUSSELL: It's a different contract with the same firms. I think you see the difficulty in changing architects in midstream. There would be an incredible amount of catch-up work for some new firm to come in, and it would probably cost more in the long run. I think the board effectively renegotiated a new and different contract for a fixed fee basis with the architectural consortium that does have a retroactive feature to it so that the final fee takes into consideration the funds already paid to them. So although the firm got paid very handsomely during the first phase of the work, they're going to be paid less to make up the same ultimate percentage fee in the end. I think the board was very good at negotiating that contract.

MR R SPEAKER: The minister has mentioned the Auditor's report and also a report with regard to the comparative costs of a new or renovated phase two of the Mackenzie hospital. Would those reports be available to the committee, or could they be made available to the committee? For some reason, can they not be?

MR RUSSELL: That's the report: what I read to you.

MR R SPEAKER: That's the total extent of it?

MR RUSSELL: I suppose the hospital probably has more working documents within their own institution where they worked up those prices, and I haven't got those yet. But the report giving the various alternatives that we asked for -- the part of it on costs is what I read to you.

MR R SPEAKER: With regard to the southern Alberta children's hospital, did the project come within budget? There was some indication that it was \$10 million more than was originally projected.

MR RUSSELL: The hospital was built on a fixed contract basis, and it has come in pretty well on budget. There are indications that they are going to need more money to equip the hospital. That's as a result of two reasons: the equipment will be ordered and purchased at a time that has seen incredible inflation in that kind of stuff; and because the hospital in the last few months had its category upgraded as a result of Foothills closing their pediatric ward, they're going to get more, and more sophisticated, equipment. So I'm expecting a fairly substantial extra bill for the equipment.

We did approve a couple of scope changes, and those will be listed in the report Mr. Sindlinger asked for, which amount to probably less than \$2 million. I'm going by memory now, but I would say that the construction project per se came in on budget.

MR R SPEAKER: The furnishings and equipment you're looking at, would that come from the capital projects division?

MR RUSSELL: Yes. I expect to have the details of what that final request will be in time for our heritage fund estimates in the fall session.

MR SINDLINGER: Mr. Chairman, a supplementary question here first, prior to my question, relative to Mr. Speaker's. Did I understand you just to say that for the Mackenzie Health Sciences Centre the change in cost due to change in scope was \$2 million out of a total of a \$40 million overrun?

MR RUSSELL: No. I was referring to the children's hospital.

MR SINDLINGER: In regard to the \$40 million overrun at Mackenzie Health Sciences Centre, can you identify the change in cost due to change in scope?

MR RUSSELL: Tom, I do have that information but don't have it at my fingertips. It would probably be better to put it in that statement you asked for.

MR SINDLINGER: Mr. Chairman, in regard to the cost overrun again, most project estimates contain a contingency factor. Did this project estimate contain a contingency factor and, if so, what percentage of the total project was it?

MR RUSSELL: There are various contingencies for components of the building. Generally they seem to run at 5 per cent.

MR SINDLINGER: Is the contingency factor the only place in the budget estimates or the project estimates where allowance could possibly be made for inflation?

MR RUSSELL: No. What we've been doing with inflation is annually doing two things: looking back at the past year historically at the cost of the building and giving confirmation that that is the new approved cost of the project and, at the same time, trying to estimate what inflation will be for the next year. There's a lot of information that Public Works, Transportation, and ourselves have available as far as factors to be applied in computing inflation. Then you come back the following year again, see if your projection has been right, adjust your base price, and give another approved inflation factor for the next year. We've done that for the last three years.

MR SINDLINGER: Mr. Chairman, a final question then to Mr. Russell. These changes in scope, did they occur once funds had been already appropriated from the Legislature for a specific purpose?

MR RUSSELL: Yes, they would in some cases. So I would have to come back and get the necessary funding for that the following budget request.

MR SINDLINGER: Would that approval that you would seek after that be ex post facto?

MR RUSSELL: What does that mean?

MR SINDLINGER: Would the funds be actually expended for a purpose other than which they were initially designated, and then approval sought after they were expended?

MR RUSSELL: I'm trying to think if there would be a case like that. There was one instance on the children's hospital where I know that happened. Because of site conditions and the fact that the builder was there and closing off a hole, a decision had to be made whether or not we would approve another \$1.3 million. I did that and then came to the Legislature at the following session to get the funds.

MR SINDLINGER: Thank you, Mr. Russell.

MR R SPEAKER: [Inaudible] indication from the minister. In the report for the Alberta Children's Provincial General hospital, will that be the official title of the hospital in Calgary, the children's hospital? Or will it be called the southern Alberta children's hospital?

MR RUSSELL: I thought somebody would ask that question this morning because I've seen both names myself. I went back through the files this morning. The board has always called themselves the Alberta children's hospital. I guess there was a period when the government was trying to apply the name southern Alberta children's hospital. But on their letterhead, both back in 1975 and again last week, they've always called themselves the Alberta children's hospital, and I think that's what their official name is.

MR CHAIRMAN: Are there any other members of the committee with any questions for the minister or his staff?

I'd like to thank the minister and his staff for coming and the explanations they've given. It's been an interesting discussion, and even as somebody who's not been personally involved in the program but very interested in it, I've learned quite a lot.

Just to clarify, subsequent to the request by Mr. Sindlinger and Mr. Pahl's clarification of it, the report that has been asked for is one to indicate changes in cost since the original concepts were brought to the Legislature: changes due to change in scope, changes due to the inflation factor, and also changes that may be due to changes in schedule resulting from delays. I presume that applies in particular to the Mackenzie centre.

MR RUSSELL: I was going to mention, Mr. Chairman, the third one will be very difficult to get. It will be guesswork. But the first two -- change in scope

is very straightforward and the results of inflation I think are historic and are straightforward. The last one, the slowdown in schedule, will be a guess.

MR PAHL: Mr. Chairman, it would suit my purposes if it is difficult -- had you envisaged lumping all increases in those two categories, scope and inflation? That would serve the same purpose.

MR RUSSELL: I can get those very easily.

MR PAHL: Okay. It doesn't matter.

MR CHAIRMAN: [Inaudible] be satisfactory because changes in schedule are in actual fact going to cost more because of inflation really.

MR RUSSELL: Yes. That would just be a guess, Milt.

MR SINDLINGER: Just for clarification, Mr. Chairman. When you concluded your remarks, you indicated just for the Mackenzie Health Sciences Centre. The request I had made was for all the programs under the heritage fund program from their conception to date.

MR CHAIRMAN: That was my understanding of what I was saying. I was referring only to the delays and changes in schedule as they apply to the Mackenzie centre, because the other ones have been pretty much on schedule. Agreed?

MR RUSSELL: Thank you.

MR CHAIRMAN: The committee is adjourned and will meet at 1:30 with the Associate Minister of Public Lands and Wildlife.

*The meeting adjourned at 10:40 p.m.*