

The Risks and Rewards of Healthcare Facility Construction

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The healthcare industry has spent about \$150 billion on facility construction over the past five years, and spending will continue even in this tough economy. The challenge of today's tight money has a silver lining—the market is more competitive, and prices of construction labor, materials, and supplies are starting to come down. The key to effectively moving forward with facility construction is to scrupulously identify and aggressively manage your construction risks.

Risks include the possibility of suffering harm or loss and can impact the achievement of your construction project objectives, including schedule, scope, or budget. Some examples of project risks:

- **Contractor risks** may result

from contractors' failure to perform their work because of factors that are either within their control (for example, technical competency) or outside their control (such as weather or labor strikes).

- **Technology risks** may result from a failure to integrate technically complicated emergency systems, high-tech equipment, or seismic requirements in new state-of-the-art facilities.
- **Schedule risks** may result from inadequate planning, poor communication, delays in decision making, failure to identify long-lead equipment ordering requirements, changes in scope, or unanticipated events (such as the discovery

of asbestos in the wing you plan to renovate).

- **Complexity risks** may result from renovations conducted while facilities continue to operate, adding complexity to planning, phasing, infection control, patient care, jump space, and move-in conditions.
- **Compliance risks** may result from inadequate accounting for earmarked funds as required by lenders or donors.
- **Multiple stakeholder risks** may result from conflicts between administration, executives, doctors, nurses, researchers, patients, designers, major donors, and others.

All projects have risk or exposure that may affect whether your construction project is delivered on time, on budget, and with the desired program elements. Healthcare projects often have more risk because of their unique engineering, construction, and equipment requirements. Common exposures we've found in healthcare construction include inadequately defined project requirements, scope creep, overcharges, and costly practices. We also encounter excessive change-order costs, claims and disputes, and duplicate or unallowable charges. Too often we see inaccurate project financial records and reports, inadequate re-

view of project expenditures, and noncompliance with contract billing requirements.

Here are several practices we recommend to help reduce your construction project exposures:

First and foremost, build the right team. Your project managers and support staff must have the appropriate construction expertise to achieve project success. Where the work is highly complex or technical in nature, pursue long-term relationships with preferred service providers to supplement your team.

Second, create a solid project control environment that will enable your project delivery team's success. This includes well-defined reporting lines, key project controls that are specified in policies and procedures, and third-party audits to ensure project costs are

compliant and measure the performance of project controls. In addition, establish communication processes so that team members and project stakeholders can understand construction performance and make timely decisions.

Third, plan the project well to attain desired results. Ensure your contractor is working with your design team to achieve desired constructability and prevent unnecessary change orders. Rely on your construction auditor to support your contract negotiations, securing beneficial contract terms and rates, and to build in contract charge controls. Where possible, standardize major design elements to cut down permit review time and aggregate buying power by planning bulk purchases. Conduct constructability reviews as well as value engineering and risk analyses. Releasing bid packages early

and phasing contracting can help make the numbers manageable, especially when costs are escalating. And vigilant claims management can reap huge benefits at the back end of a project.

We're also finding that independent audits of construction expenditures and performance are becoming an integral and unavoidable part of quality assurance for healthcare construction projects at project inception, periodically during construction, and at project close-out. These construction audits on average produce savings of \$15 for every \$1 spent on audit fees.

Building cutting-edge healthcare facilities is essential to our society's quality of life. But we need to develop wisely and responsibly. That's why prudent risk management must be part of the process. If implemented properly, it can serve



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