



**KPMG LLP**  
**Chartered Accountants**  
McCallum Hill Centre, Tower II  
1881 Scarth Street, 20th Floor  
Regina Saskatchewan S4P 4K9  
Canada

Telephone (306) 791-1200  
Fax (306) 757-4703  
Internet www.kpmg.ca

Mr. Mark Cooper  
President  
Saskatchewan Construction Association  
320 Gardiner Park Court  
Regina, SK, Canada S4V 1R9

August 27, 2014

Dear Mr. Cooper:

### **Re: Study of Saskatchewan's Non-Residential Construction Cost Drivers - Recommendations**

Our recent study of non-residential construction cost drivers in Saskatchewan set out four key target outcomes:

- An improved understanding of how Saskatchewan cost drivers compare to other selected jurisdictions.
- An improved awareness of cost inflators, to aid in managing cost increases.
- An improved understanding of key factors influencing decision making related to capital construction projects.
- An improved ability to design policies and programs to improve Saskatchewan's competitiveness.

The first three outcomes have been addressed in our recent report to you. This letter provides our observations and recommendations with regard to the fourth desired project outcome, i.e. improving the ability of the SCA and Ministry of the Economy to design policies and programs to improve Saskatchewan's competitiveness.

### **Improving Saskatchewan's Competitiveness**

In the course of conducting our research, we identified areas of opportunity that may help improve Saskatchewan's non-residential construction cost competitiveness. These areas for consideration include:

- **Increasing the supply and availability of construction labour** - Adopting a more coordinated and systematic approach towards facilitating construction labour migration and retention in the province. This includes consideration of specific programs to attract international construction labourers where possible. Considerations for labour retention may include incentives such as:
  - Incentive programs for skilled labourers migrating into the province.
  - Incentives or other personnel retention initiatives that may include deferred financial rewards and job progression guarantees for labour. This may help mitigate employee turnover and labour migration out of the province.
  - Incentives for retaining senior labour beyond their normal retirement dates.
- **Improving labour skill and productivity levels** - Increasing access to high quality professional training and certification covering a broader spectrum of skills, and within shorter training

timeframes where possible, leading to an increase in skilled labour competency, and higher labour efficiency. Conditional and appropriately designed subsidies against training and certification costs may help, as well as apprenticeship programs that bridge the generation gap in skills, and help alleviate some of the concerns in productivity and quality of workmanship.

- **Improving access to market information** – Continuing to provide owners and contractors with robust data to help them react more swiftly to changes in the economic landscape. This could include further developing the Construction Data Warehouse, establishing a mechanism for maintaining and expanding it, and opening access to it to both industry and the public (through online access, monthly bulletins, etc.).

This information will foster a more efficient market, by helping contractors understand market trends, risks and make business decisions that increase their competitiveness and accordingly result in a more efficient market and higher competition.

- **Encouraging market engagement** – Undertaking industry outreach campaigns in order to build better information flow between project owners and the construction industry. This might take place in the form of sector-wide conferences, special-interest groups, and publications both at the industry level and within sub-sectors.

The focus of these events would be to encourage debate and an exchange of ideas between market players around project financial risks and costs. This enables contractors to build a better understanding of the risks and trends that project owners are confronting and offer adapted solutions to those risks. It also enables project owners to understand the drivers behind the construction industry's project costing approaches, practices, and risks, and identify ways to mitigate those issues.

In addition, an effort may be made to identify specific solutions to discrete cost drivers within industry sub-sectors, such as the high costs of contractor mobilization in remote sites, and the impacts of short construction seasons in Saskatchewan. Solutions, incentives and partnerships could be sponsored to resolve such issues. For example, prefabrication that favours fast deployment with minimal labour costs. Also as an example, partnerships could be struck to encourage non-financial solutions and incentives to attract labour to these sites, through improved quality of facilities and levels of comfort.

- **Educating project owners on pricing, procurement methods and incentives** - Generating and disseminating relevant and easy-to-use information on adapted procurement solutions that meet the needs of project owners and the particulars of the Saskatchewan market. Our research identified a lack of understanding among some project owners of the options available to them, notably in terms of contract and procurement, timing of engagement with the market, as well as commercial, financial and pricing tools available to them to mitigate project costing risks. Specifically:
  - Taking full advantage of the life-cycle stages of a project: Ensuring projects are fully assessed and priced at every stage of the life cycle, such as concept, preliminary design, and detailed design. Adequate project management practices at these check-points enable owners to take full advantage of processes such as value engineering, risk management, constructability reviews, and market engagement, prior to committing to fixed price construction contracts.
  - Encouraging project owners to take full advantage of the contracting and pricing models available, including options for contractors to share risk and reward on project cost and outcomes.
  - Engaging construction managers at earlier stages of the project, and ensuring their fees are tied to actionable cost-saving recommendations they bring to the project team.

- Opening major projects to international competition, helping raise the profile of Saskatchewan as an attractive destination for construction contracting.
- **Broadening local contractors' abilities to participate in alternative procurement projects –** Raising awareness and preparedness through forums specifically designed towards mid-size contractors and subcontractors, to help them familiarize with the requirements of forthcoming alternative procurement contracts. These forums would not only provide technical education, but could also facilitate the building of linkages between Saskatchewan contractors and their peers in other provinces and markets, and enable them to proactively prepare for alternative procurement bids.

For example, partnerships may be put in place to identify the specific constraints faced within the sector (such as labour mobilization costs in remote mining sites), and initiatives could be designed to reduce those costs through partnerships or incentives that favour prefabrication.

### **Suggested Next Steps**

The next steps for this study include working with stakeholders and decision-makers to assess potential policies and programs to improve Saskatchewan's competitiveness and attractiveness for new investments in the areas of non-residential construction. We trust the report and this letter provide a useful basis for this process, and would appreciate the opportunity to discuss how we can bring our teams' demonstrated successes in similar contexts in Western Canada to help the SCA and MoE in such endeavours.

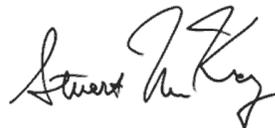
We appreciate this opportunity to have worked with the Saskatchewan Construction Association and the Ministry of the Economy, and would be delighted to provide further assistance as required.

Yours truly,



Bruce Willis, FCA  
KPMG Business Advisory Services

(306) 791-1209



Stuart MacKay  
President, MMK Consulting

(604) 484-4620