



making projects
happen

Value for Money Assessment

Providence Care Hospital



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December 12, 2013

Private and confidential

Martin Lavoie, VP of Transaction Finance
Infrastructure Ontario
777 Bay Street, 9th Floor
Toronto, ON M5G 2C8
Canada

Dear Mr. Lavoie,

Subject: Value for Money Assessment at Financial Close Stage – Providence Care Hospital

Deloitte LLP (“Deloitte” or “We”) has prepared the Preferred Proponent Stage Value for Money (“VFM”) assessment for the Providence Care Hospital Project (“Project”) at the Financial Close stage, in accordance with Infrastructure Ontario’s (“IO”) value for money assessment methodology outlined in *Assessing Value for Money: A Guide to Infrastructure Ontario’s Methodology* which is consistent with approaches used in other jurisdictions.

The VFM assessment is based on a comparison of the net present costs (“NPC”) for the Project under:

1. The traditional delivery approach, as reflected in the Public Sector Comparator (PSC) model; and
2. The Alternative Finance and Procurement approach (AFP), as reflected in the Preferred Bid at Financial Close.

The VFM assessment was compiled using the following information (collectively the “Information”) within the VFM model:

1. A Risk Matrix developed for IO by Altus Group and adapted to reflect the Project specific risks;
2. Cost and other input assumptions extracted from the Preferred Bid at Financial Close; and
3. Other VFM model assumptions developed by IO and its external advisors.

While Deloitte did not audit or attempt to independently verify the accuracy or completeness of the Information, Deloitte confirms, based on our familiarity with VFM methodologies in other jurisdictions and current market data, that IO’s VFM methodology is reasonable, yields a fair estimate of value for money and that the Information has been appropriately used in the VFM model. The VFM assessment demonstrates that the AFP approach will provide an estimated value savings of 18.5% in comparison to the traditional delivery approach, using a 2.93% discount rate.

Yours very truly,

Deloitte LLP



August 20th, 2013

Phil Goodfellow, Project Manager
Infrastructure Ontario 777
 Bay Street, 6th Floor
 Toronto, ON M5G 2C8

Dear Mr. Goodfellow:

**Re: The Request for Proposals to Design, Build, Finance and Maintenance of the
 Providence Care Hospital Project Infrastructure Ontario - RFP No. OILC-12-476P**

Knowles was retained as the Fairness Monitor for IO's procurement of the services to design, build, finance and maintenance of the Providence Care Hospital Project, with the responsibility for monitoring the procurement process of the project's RFQ, and RFP processes. This fairness summary letter will cover the RFP process. Our conclusions are based on our first hand observations of the RFQ and RFP processes, from the development of the RFQ document prior to issuance, through to the completion of the RFP evaluation process and identification of the highest ranked Proponent, who subsequently upon approval shall be named as the First Negotiations Proponent as per RFP section 8.1. Our review also took into account the documents, policies and provincial procurement directives applied during the RFQ and RFP processes and information issued to the Proponents or provided to us by the IO project or procurement representatives.

Our monitoring in the capacity as Fairness Monitor for the RFP process was strictly limited to:

- Strict monitoring of IO's practices to ensure consistency with the stipulations of the RFP and supporting Project Specific Output Specifications (PSOS) document which guided both the Sponsors and Proponents behaviour during the RFP open period. We take the stipulations of the RFP as a standard against which to audit the process.
- Review and adherence to the RFP document and all applicable processes described therein.
- Review and adherence to the document amendment process
- Review and adherence to the RFI Process
- Review and adherence to the CCM process and communicated Proponent feedback, and timelines scheduled and adjusted during the RFP open period.
- Review and adherence of the RFC Process
- Review and adherence to the Evaluation Process as per the RFP and supporting internal policies and methodologies of the Sponsors, which identified through the Final Proposal Score the highest ranked Proponent.

Specifically:

- We provided fairness related recommendations to the project Sponsors, project management and procurement team members as requested or deemed necessary throughout the duration of the procurement process.
- We monitored the adherence of IO staff and external advisors to conflict of interest, communication and

confidentiality requirements procedures established by IO documents and processes, of which no issue was brought to our attention.

- Similarly we monitored the adherence of the Proponents during the course of the RFP process thus far to ensure that all conflict of interest, communication and confidentiality requirements as per the RFP were not compromised. To our knowledge, there was only one (1) instance when an issue arose which we were notified of and were satisfied that the way in which IO had responded to the matter was sufficient.
- We attended all Commercially Confidential Proponent Meetings, excluding the first round of facilities management CCM's and one (1) all Proponents Site Meeting on Refurbishment Works.
- We attended the Evaluation Training, Consensus and Evaluation Committee due diligence Meetings which took place.
- We monitored communications with Proponents made privy to us by the RFP contacts (including all written documentation via email, the e-builder project documentation management data room established for the project, which included all addendums, RFI's issued prior to RFP close. We reviewed all RFC's issued post submission receipt to the Proponents and subsequent responses back to IO for review during the evaluation process, to ensure that only appropriate and justifiable RFC's were being issued and reviewed by both the Proponents and the Evaluators.
- We reviewed the development of the Evaluation Framework, which identified amongst other items, the evaluation approach and application of the evaluation criteria as per the RFP requirements, the scoring workbook for each evaluation category with weightings and the defined rating scoring matrix and evaluation methodology with regards to innovations and thresholds prepared which was approved post submission receipt but prior to the distribution of Proponent submissions to the Evaluators.
- We attended the mandatory Evaluator Training Session presentation led by procurement, prior to RFP close and submission receipt, which guided and supported the RFP evaluation process, and indicated the standard for which the evaluation participants took their direction. We monitored the adherence and application of the evaluation criteria, terms and conditions, and definitions, posted in the RFP document, which were used to evaluate the Proponent responses.
- We provided oversight of the consistency of appropriate Applicant treatment throughout evaluation. We monitored that the qualifications and preparedness of the evaluation team were generally appropriate to execute their roles as needed.
- We objectively reviewed the diligence of the evaluation process and its participants.
- During the RFP open period we reported to IO's Providence Care Hospital Project, Project Manager, and the Procurement Lead. In addition, we reported to the Evaluation Committee performing the due diligence function for the RFP evaluation process.

As a result of the RFP process:

- Three (3) substantially compliant and timely proposals were submitted to IO's RFP process, and moved forward into IO's evaluation process in accordance with Section 6 of the RFP for the purposes of review and scoring.
- Following the administrative completeness review, all Proponents were requested to present their proposed solution at a Final Design Presentation Meeting for which each was provided a single business day each, to present to the Project Sponsors.
- Following this review the Planning Design and Compliance Teams technical Compliance Review was conducted, as were subsequent subject matter experts technical system reviews which resulted in the production of indicative reports for the Evaluation Committees review and consideration to ultimately determine whether a proposal was materially compliant or not as per the requirements of the project.
- As a result, all three (3) proposals continued to move forward into the evaluation process.

At this stage of the RFP, all aspects of the proposals submitted were evaluated and scored against the scoring criteria in the RFP and defined scoring matrix as described in the Evaluation Framework which supported the evaluation process, with a specific group of evaluators assigned to review the following:

- Technical (1) Design Submission Evaluation (70% threshold)
 - (250 points available)
 - One (1) Proponent did not meet successfully meet this threshold.
- Technical (2) Operations Plan Submission Evaluation (60% threshold)
 - (140 points available)
 - Evaluation of all applicable Operation Innovations.
 - all Proponents successfully met this threshold.
- Technical (3) Planning and Procurement Plan Submission Evaluation (60% threshold)
 - (110 points available)
 - all Proponents successfully met this threshold.
- Financial – Guaranteed Price (450 points), Quality of Financing Plan (50 points) (60% threshold)
 - (500 points available)
 - Plus+ any incorporated NPV adjustments as a result of any Proponents Accepted Innovations, Accepted Preferred Innovations, and Accepted Sustainable Energy Innovation.

This provided a total of 1000 points available for the base submission, and up to an additional 30 bonus points available through the non-mandatory Preferred Innovation Submission process for Sustainable Energy, for which the preferred Innovation criteria and specifications were detailed in RFP Schedule 3, part 3. However as a result of the Sponsors evaluation methodology in the Evaluation Framework and criteria as described in the RFP to evaluate the acceptance of this innovation, no Proponents were awarded bonus points during the evaluation process.

As a result of the Technical and Financial Evaluation Sub-committee consensus processes, and presentation to the Evaluation Committee on August 14th-16th, 2013, an approval of the RFP results and identification of the highest ranked Proponent was achieved. Knowles confirms that the identified highest ranked Proponent did successfully satisfy all evaluation required thresholds of the RFP evaluation process and is in fact the highest scoring Proponent in this process to do so. Our recommendations were based on the encouraged adherence to the principles of fairness and the internal policies of the Sponsors for which we monitored. For the purposes of this report, our services ended at the identification of the completion of the evaluation process, and identification of the highest ranked Proponent to be recommended as the First Negotiations Proponent.

As Fairness Monitors we can attest that the overall process followed was generally consistent with the stipulations of the RFP version 4.0 document and general principles of fairness for which the Sponsors strived towards throughout the duration of the procurement process. We provide an independent assurance that the RFP process was conducted in accordance with the provisions of the RFP and subsequent documents issued during the process which met the established principles of fairness, openness and transparency. In conclusion, we can attest that, RFP, and Evaluation Framework established to reflect the Sponsors requirements, and methodology applied during this procurement process was conducted in a procedurally fair, open and transparent manner.

Sincerely,



Andrea Robinson, Fairness Monitor
Consultant, Knowles Consultancy Services Inc.

Artist's conception of Providence Care Hospital



Courtesy of Parkin Architects

Highlights of Providence Care Hospital:

Size	<ul style="list-style-type: none"> Approximately 630,000+ square feet
Number of beds	<ul style="list-style-type: none"> Capacity for 270 inpatient beds
Patient benefits	<p>A state-of-the-art facility with a full range of health services including:</p> <ul style="list-style-type: none"> 100% single patient rooms adjoining private, accessible washrooms and showers Outpatient clinics, a rehabilitation gym, indoor heated therapy pool accessible to inpatients, outpatients and community groups Natural lighting, smart, efficiently designed living spaces and access to the outdoors Seamless integration of new technology and security measures
Environmentally Sustainable Design	<p>Leadership in Energy and Environmental Design (LEED®) Silver certification. Highlights include:</p> <ul style="list-style-type: none"> building materials with recycled content and a 75 per cent diversion rate for construction waste from the landfill reducing indoor water use by 35 per cent using highly efficient plumbing fixtures including low-flush toilets, faucets and showers minimizing solar heat gain by installing reflective roofing enhanced occupant health by use of low-emitting materials for adhesives and sealants; paints and coatings and carpets design elements that respond to climate conditions including: prevailing winds, site orientation, seasonal sun paths and precipitation, surface water drainage and solar gain

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Summary

Providence Care Hospital supports the Province of Ontario's long-term infrastructure plan to repair, rebuild and renew the province's roads and highways, bridges, public transit, schools and post-secondary institutions, hospitals and courthouses in communities across Ontario.

Over the last six years, the Province has averaged \$10 billion in infrastructure investments per year. In June 2011, the Province launched its new long-term infrastructure plan – *Building Together*. The Province expects to continue significant investments in public infrastructure, and will begin by investing more than \$35 billion over the next three years.

Infrastructure Ontario plays a key role in procuring and delivering infrastructure projects, on behalf of the Province. When Infrastructure Ontario was created, its mandate included using an alternative financing and procurement (AFP) method to deliver large, complex infrastructure projects. In June 2011, the Province expanded Infrastructure Ontario's role to deliver projects of various sizes, including ones suitable for an AFP delivery model, as well as other delivery models.

The new Providence Care Hospital is being delivered under the Province's AFP model.

The project consists of building a new 270 (120 specialized mental health, 100 complex continuing care, 50 rehabilitation) bed hospital with ambulatory care programs supported by therapeutic and administrative functions estimated at approximately 630,000+ square feet with room to expand on the hospital site to meet future needs.

The public sector retains ownership, control and accountability for Providence Care Hospital.

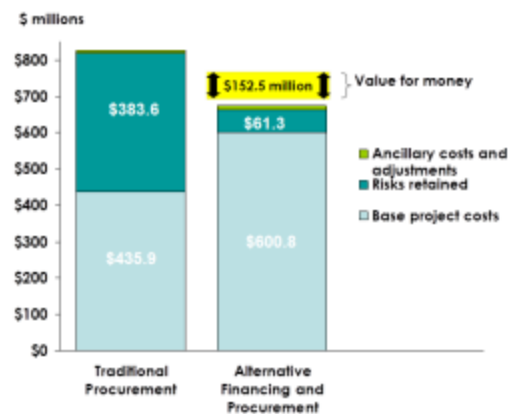
The purpose of this report is to provide a summary of the project scope, the procurement process and the project agreement, and to demonstrate how value for money was achieved by delivering Providence Care Hospital through the AFP process.

The value for money analysis refers to the process of developing and comparing the total project costs under two different delivery models expressed in dollar values measured at the same point in time.

Value for money is determined by directly comparing the cost estimates for the following two delivery models:

Model #1 Traditional project delivery (Public sector comparator)	Model #2 Alternative Financing and Procurement
Total project costs that would have been incurred by the public sector to deliver an infrastructure project under traditional procurement processes.	Total project costs incurred by the public sector to deliver the same infrastructure project with identical specifications using the AFP approach.

The cost difference between model #1 and model #2 is the estimated value for money for this project. **The value for money assessment of Providence Care Hospital project indicates estimated cost savings of 18.5 per cent or \$152.5 million, by using the AFP approach in comparison to traditional delivery.**



Deloitte completed the value for money assessment of the Providence Care Hospital project. Their assessment demonstrates projected cost savings of 18.5 per cent by delivering the

project using the AFP model, versus what it would have cost to deliver the project using a traditional delivery model.

Knowles Consultancy Services acted as the Fairness Monitor for the project. They reviewed and monitored the communications, evaluations and decision-making processes associated with the Providence Care Hospital project, ensuring the fairness, equity, objectivity, transparency and adequate documentation of the process. Knowles Consultancy Services certified that these principles

were maintained throughout the procurement process (please see letter on page 3).

Infrastructure Ontario is working with Providence Care to develop the new hospital, which will remain publicly owned, publicly controlled and publicly accountable.

Project description

Background

Ontario's public infrastructure projects are guided by the five principles set out in the provincial government's *Building a Better Tomorrow Framework*, which include:

1. public interest is paramount;
2. value for money must be demonstrable;
3. appropriate public control and ownership must be preserved;
4. accountability must be maintained; and
5. all processes must be fair, transparent and efficient.

Project Scope

Providence Care is southeastern Ontario's leading provider of aging, mental health and rehabilitative care and services. Affiliated with Queen's University, it is a centre for health education and research, and a member of the Council of Academic Hospitals of Ontario. Providence Care is sponsored by the Catholic Health Corporation of Ontario.

The new, 630,000+ square foot hospital will provide inpatient beds, programs and services. Features and enhancements of the new hospital will be state-of-the-art and will improve the experience of patients and their families and care givers as well as hospital medical staff and support workers.

The hospital will be built to the highest Ministry of Health and Long-Term Care standards for patient care and patient safety while being fully accessible.

The new Providence Care Hospital will strive to be an environment that is:

- Patient, client and family centred – enabling maximum independence, and supporting individuals on their journeys of recovery and transition from hospital back to the community.
- A great place to learn – where students, staff and volunteers have opportunities to pursue education and research.

- A great place to work – where hospital staff can collaborate and work effectively in a supportive environment.
- Flexible in its design – so that the new building can meet current and future needs.
- A community asset – environmentally sustainable and welcoming to the public.

The new 270-bed hospital will be made up of 120 specialized mental health, 100 complex continuing care and 50 rehabilitation beds

Every unit will feature single patient rooms, and each room will have a private three-piece patient washroom. Each patient room will be equipped with a patient lift and be fully wheelchair accessible.

There will be nine inpatient units in the new hospital. Each unit will be divided into 10-bed clusters, and each cluster will have its own space for dining, recreation and therapy activities. Three 10-bed clusters make up a unit.

One of the design principles for the new hospital is to maximize natural lighting and views throughout. The current plan provides inpatient spaces and patient rooms that maximize the views of the outdoors. Each unit will also have access to the outdoors, either through ground-level access or a terrace.

Job Creation

The project will help provide economic stimulus by creating and supporting hundreds of jobs. At the peak of construction, it is estimated that 350 workers will be on site daily.

Competitive selection process timeline

Providence Care has entered into a project agreement with Integrated Team Solutions to design, build, finance and maintain Providence Care Hospital. The procurement stages for the project were as follows:

March 6, 2012

Request for Qualifications

In 2010, Infrastructure Ontario and Providence Care issued a request for qualifications for the project. Three building teams were pre-qualified:

Integrated Team Solutions

- Developer: EllisDon Inc.
- Design: Parkin Architects / Adamson Architects Associates
- Construction: EllisDon Corporation
- Facilities management: Johnson Controls
- Financial Advisor: Scotiabank

Plenary Health

- Developer: Plenary Group
- Design: Cannon Design
- Construction: PCL Contractors Canada Inc.
- Facilities management: Honeywell
- Financial Advisor: RBC Capital Markets

Providence Alliance for Caring Environments

- Developer: Carillion Canada Inc., Concert Infrastructure
- Design: IBI Group Limited
- Construction: Carillion Construction Inc. / M. Sullivan & Son Ltd.
- Facilities management: Carillion Canada Inc.
- Financial Advisor: CIBC Capital Markets

December 21, 2012

Request for Proposals

A request for proposals (RFP) was issued to the pre-qualified proponents, setting out the bid process and proposed project agreements to design, build, finance and maintain the project.

Proposal submission

The RFP period closed on June 27, 2013. Three bids were received. The bids were evaluated using the criteria set out in the RFP.

Preferred proponent notification

Integrated Team Solutions was selected as the successful RFP proponent based on predetermined

criteria, including technical requirements such as project management and construction plan, works schedule, equipment procurement and coordination plan, transition and commissioning plan. Their selection was also based on operation plan, design requirements such as clinical functionality, general functionality, design quality and technical quality, as well as price and financial backing, in accordance with the evaluation criteria set out in the RFP.

Integrated Team Solutions includes:

- Developer: EllisDon Inc.
- Design: Parkin Architects / Adamson Architects Associates
- Construction: EllisDon Corporation
- Facilities management: Johnson Controls
- Financial Advisor: Scotiabank

December 13, 2013

Commercial and Financial Close

A project agreement between Integrated Team Solutions and Providence Care was announced.

December 2013 – fall 2016

Construction

During the construction period, the builder's construction costs will be funded by its lenders in monthly instalments based on the construction program set out by EllisDon Inc.

Construction will be carried out in accordance with the project agreement. The project will be overseen by a joint building committee made up of representatives from Infrastructure Ontario and Providence Care.

Completion and payment

Integrated Team Solutions will receive a payment from the Province when the project reaches substantial completion, which is expected in fall 2016. This payment will be followed by monthly service payments over a 30-year period for construction of the facility, building maintenance, lifecycle repair and renewal and project financing.

Summer 2016- fall 2046

Maintenance

Integrated Team Solutions will maintain Providence Care Hospital for 30 years and be responsible for building maintenance, repair and lifecycle replacement during that period

Project agreement

Legal and commercial structure

The Province entered into a project agreement with Integrated Team Solutions, comprising approximately 36 months of construction and a 30-year maintenance timeframe. Under the terms of the project agreement, Integrated Team Solutions will:

- design and build the hospital;
- finance the construction and capital costs of the new hospital over the term of the project;
- obtain a third-party independent certification that the hospital is built;
- provide facility management and lifecycle maintenance for the 30-year service period under pre-established maintenance performance standards in the project agreement; and
- ensure that, at the end of the contract term, the building meets the conditions specified in the project agreement.

The Province will make monthly payments to Integrated Team Solutions, based on performance requirements defined in the project agreement. The Province will not commence these payments until the new hospital is substantially completed. Moreover, if Integrated Team Solutions does not meet the standards set in the agreement, it will face financial deductions.

The province will make a substantial completion payment of \$200 million for the new hospital once built. Integrated Team Solutions will be paid an average of \$20 million each year for a 30-year period for the construction of the facility, building maintenance, lifecycle repair and renewal, as well as project financing.

Providence Care Hospital will be publicly owned and publicly controlled. The hospital will continue to be publicly funded and publicly administered – this is non-negotiable for the Government of Ontario and more importantly, for the people of Ontario.

The building and maintenance team will be granted a licence to access the site in order to provide the construction and facility maintenance services over the term of the agreement. However, as noted above, the new facility will at all times remain publicly owned and the building and maintenance team are contractually bound to follow the terms of the project agreement.

Facility management and maintenance

Facility management

These are services associated with the day-to-day management of the physical facility, such as maintaining the elevator, electrical and mechanical systems, ventilation systems and other similar maintenance work.

Lifecycle maintenance

Lifecycle maintenance represents the total cost of replacing, refurbishing and refreshing building structure and systems over their useful life. With respect to this project, “lifecycle costs” will involve the replacement of the facility’s base building elements that have exceeded their useful life (e.g., floor finishes and certain mechanical and electrical components); these components must be left in a state acceptable to the government at the completion of the 30-year maintenance agreement. Lifecycle costs are typically capital costs.

Construction and completion risk

All construction projects have risks. Some project risks are retained in varying magnitude by the public sector. Examples of risks retained by the public sector under either the AFP or traditional model include planning, unknown site conditions, changes in law, public sector initiated scope change, and force majeure (shared risk).

Under the AFP model, some key risks that would have been retained by the public sector are contractually transferred to Integrated Team Solutions. On a traditional project, these risks and resource availability can lead to cost overruns and delays. Examples of risks transferred to the private sector under the AFP project agreement include:

Construction price certainty

Integrated Team Solutions will finance and construct the new facility. Integrated Team Solutions will receive a payment from the government at substantial completion, which is expected in fall 2016. This payment will be followed by monthly service payments over a 30-year period for construction of the facility, building maintenance, lifecycle repair and renewal and project financing.

Integrated Team Solutions' payment may only be adjusted in very specific circumstances, agreed to in advance and in accordance with the detailed variation (or change order) procedures set out in the project documents.

Scheduling, project completion and delays

Integrated Team Solutions has agreed to reach substantial completion of the hospital by fall 2016.

The construction schedule can only be modified in very limited circumstances, in accordance with the project agreement. Integrated Team Solutions' final payment will not commence until substantial completion (i.e., until it has completed building the new hospital and it has been certified as complete by an independent consultant).

Costs associated with delays that are the responsibility of EllisDon Corporation must be paid by Integrated Team Solutions.

Site conditions and contamination

Integrated Team Solutions accepted the site and the site conditions and shall not be entitled to make claims against the Province on any grounds relating to the site. Furthermore, Integrated Team Solutions is responsible for remediation of any contamination at the site that was disclosed in or could have been reasonably anticipated from the environmental report or any of the geotechnical reports, or that is caused by Integrated Team Solutions or any of its parties.

Development approvals

Integrated Team Solutions is responsible for applying, obtaining, maintaining, renewing and complying with all development approvals.

Mechanical and electrical systems responsibility

Integrated Team Solutions shall be responsible for:

- any issues with respect to the functionality, durability, maintainability and lifecycle cost of the mechanical and electrical systems specified in their design, including whether such systems will be adequate to meet the output specifications on a consistent basis for the duration of the operational term; and
- the operation and periodic replacement of all elements of the facility, whether part of the mechanical and electrical systems or otherwise, including finishes, seals, structural components, hardware and building fabric, as required to achieve the output specifications for the duration of the operational term.

Construction financing

Integrated Team Solutions is required to finance the construction of the project until the hospital is substantially complete. Integrated Team Solutions will be responsible for all increased financing costs should there be any delay in them reaching substantial completion. This shifts significant

financial risk to Integrated Team Solutions in the case of late delivery.

Commissioning and facility readiness

Integrated Team Solutions must achieve a prescribed level of commissioning of the new hospital at substantial completion and must coordinate the commissioning activity within the agreed-upon construction schedule. This ensures Providence Care will receive a functional building facility at the time payments to Integrated Team Solutions commence. Integrated Team Solutions will work closely with Providence Care to facilitate transition from other facilities.

Activity protocols

Integrated Team Solutions and Infrastructure Ontario have established a schedule for project submittals taking into account the time for review needed by Infrastructure Ontario's compliance architect.

This protocol mitigates against Integrated Team Solutions alleging delay as a result of an inability to receive responses in a timely manner in the course of the work.

Change order protocol

In addition to the variation procedure set out in the project documents, Infrastructure Ontario's protocols set out the principles for any changes to the project work/scope during the construction period, including:

- requiring approval and processing of change orders from Infrastructure Ontario and Providence Care;
- specifying the limited criteria under which change orders will be processed and applied;
- timely notification of change orders to Infrastructure Ontario;
- approval by Infrastructure Ontario for owner-initiated scope changes; and
- approval by Infrastructure Ontario for any change order.

Facilities maintenance risk

As part of the project agreement, key risks associated with the maintenance responsibility (including life-cycle renewal) of the hospital over the 30-year service period have been transferred to Integrated Team Solutions. Integrated Team Solutions' maintenance of the building's lifecycle repair and renewal must meet the performance requirements set out in the project agreement. Under the project agreement, Integrated Team Solutions faces deductions to its monthly payments if it does not meet its performance obligations.

In addition to the transfer of the above key risks to Integrated Team Solutions under the project documents, the financing arrangement entered into between Integrated Team Solutions and its lenders ensures that the project is subject to additional oversight, which may include:

- an independent budget review by a third-party cost consultant;
- monthly reporting and project monitoring by a third-party cost consultant; and
- the requirement that prior approval be secured for any changes made to the project budget in excess of a pre-determined threshold.

Achieving value for money

For the Providence Care Hospital project, Deloitte's value for money assessment demonstrates a projected cost savings of 18.5 per cent, or \$152.5 million, by using the alternative financing and procurement approach, as compared to the traditional procurement approach.

Deloitte was engaged by Infrastructure Ontario to independently assess whether – and, if so, the extent to which – value for money will be achieved by delivering this project using the AFP method. Their assessment was based on the value for money assessment methodology outlined in *Assessing Value for Money: A Guide to Infrastructure Ontario's Methodology*, which can be found at www.infrastructureontario.ca. The approach was developed in accordance with best practices used internationally and in other Canadian provinces, and was designed to ensure a conservative, accurate and transparent assessment. Please refer to the letter from Deloitte on page 2.

Value for money concept

The goal of the AFP approach is to deliver a project on time and on budget and to provide real cost savings for the public sector.

The value for money analysis compares the total estimated costs, expressed in today's dollars and measured at the same point in time, of delivering the same infrastructure project under two delivery models - the traditional delivery model (public sector comparator or "PSC") and the AFP model.

Model #1 Traditional project delivery (Public sector comparator)	Model #2 Alternative Financing and Procurement
Total project costs that would have been incurred by the public sector to deliver an infrastructure project under traditional procurement processes.	Total project costs incurred by the public sector to deliver the same infrastructure project with identical specifications using the AFP approach.

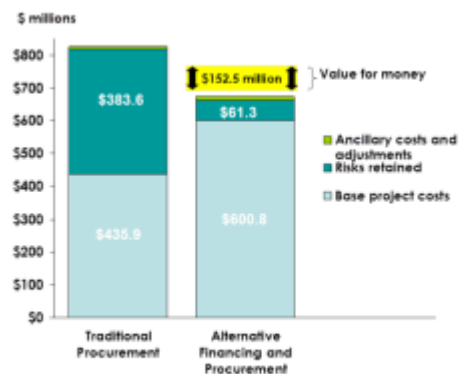
The cost difference between model #1 and model #2 is referred to as the value for money. If the total

cost to deliver a project under the AFP approach (model #2) is less than the total cost to deliver a project under the traditional delivery approach (model #1), there is said to be positive value for money. The value for money assessment is completed to determine which project delivery method provides the greatest level of cost savings to the public sector.

The cost components in the VFM analysis include only the portions of the project costs that are being delivered using AFP. Project costs that would be the same under both models, such as land acquisition costs, furniture, fixtures and equipment, are excluded from this VFM calculation.

The value for money assessment is developed by obtaining detailed project information and input from multiple stakeholders, including internal and external experts in project management and construction project management. Components of the total project costs under each delivery model are illustrated below:

The VFM assessment of the Providence Care Hospital project indicates estimated cost savings of 18.5 per cent, or \$152.5 million, by using the AFP approach in comparison to traditional delivery.



It is important to keep in mind that Infrastructure Ontario's value for money calculation methodology does not attempt to quantify a broad range of qualitative benefits that may result from

using the AFP delivery approach. For example, the use of the AFP approach will more likely result in a project being delivered on time and on budget. The benefits of having a project delivered on time cannot always be accurately quantified.

These qualitative benefits, while not expressly quantified in this value for money analysis, are additional benefits of the AFP approach that should be acknowledged.

Value for money analysis

For a fair and accurate comparison, the traditional delivery costs and AFP costs are present-valued to the date of financial close to compare the two methods of delivering a design, build, finance and maintain project at the same point in time. It is Infrastructure Ontario's policy to use the current public sector rate of borrowing for this purpose to ensure a conservative and transparent analysis. For more information on how project costs are time-valued and the value for money methodology, please refer to *Assessing Value for Money: A Guide to Infrastructure Ontario's Methodology*, which is available online at www.infrastructureontario.ca.

Base costs

Base project costs are taken from the price of the contract signed with Integrated Team Solutions and include all construction, maintenance and financing costs. The base costs between AFP and the traditional delivery model mainly differ as follows:

1. Under the AFP model, the private party charges an additional premium as compensation for the risks that the public sector transfers to them under the AFP project documents. In the case of traditional delivery, the private party risk premium is not included in the base costs as the public sector retains these risks.
2. The financing rate that the private sector is charged under AFP is higher than the financing rate of the public sector and is not included in the traditional delivery base costs.

In the case of the AFP model, the base costs are extracted from the price agreed among the parties

under the project agreement. For the hospital project, these were \$600.8 million.

If the traditional model had been used for the hospital project, base costs are estimated to be \$435.9 million.

Risks retained

Historically, on traditional projects, the public sector had to bear costs that go beyond a project's base costs.

Project risks are defined as potential adverse events that may have a direct impact on project costs. To the extent that the public sector retains these risks, they are included in the estimated project cost.

The concept of risk transfer and mitigation are keys to understanding the overall value for money assessment. To estimate and compare the total cost of delivering a project under the traditional delivery versus the AFP method, the risks borne by the public sector (which are called "retained risks") should be identified and accurately quantified.

Comprehensive risk assessment not only allows for a detailed value for money analysis, but also helps Infrastructure Ontario and the public sector sponsors to determine the party best able to manage, mitigate and/or eliminate the project risks and to appropriately allocate those risks under the project documents.

Under the traditional delivery method, the risks retained by the public sector are significant. As discussed on pages 14-15, the following are examples of risks retained by the public sector under the traditional delivery method that have been transferred under the project agreement to Integrated Team Solutions:

- design compliance with the output specifications;
- construction price certainty;
- scheduling, project completion and potential delays;

- design co-ordination;
- site conditions and contamination;
- development approvals;
- design and lifecycle responsibility;
- mechanical and electrical systems responsibility;
- construction financing;
- schedule contingency;
- coordination of equipment procurement installation;
- commissioning and facility readiness; and
- activity protocols.

Examples of these risks include:

- *Design coordination/completion:* Under the AFP approach, the builder is responsible for design coordination activities to ensure that the facility is constructed in full accordance with the design in the project agreement. The builder is responsible for inconsistencies, conflicts, interferences or gaps in these design documents, particularly in the plans drawings and specifications; and for design completion issues that are specified in these design documents but erroneously left out.
- *Scheduling, project completion and delays:* Under the AFP approach, the builder has agreed that it will provide the facility for use by Providence Care by a fixed date and at a pre-determined price. Therefore, any extra cost (financing or otherwise) incurred as a result of a schedule overrun caused by the builder will not be paid by the province, thus providing the builder a clear motivation to maintain the project's schedule. Further oversight includes increased upfront due diligence and project management controls imposed by the builder and the builder's lender.

Infrastructure Ontario retained an experienced, third-party construction consulting firm, Altus Helyar, to develop a template for assessing the project risks that the public sector relinquishes under AFP compared to the traditional approach. Using data from actual projects as well as its own knowledge

base, the firm established a risk profile under both approaches for infrastructure facilities.

It is this generic risk matrix that has been used for validating the risk allocation for the specific conditions of the hospital project.

Using the AFP model reduces these risks to the public sector. For example, had this project been delivered using the traditional approach, design coordination risks that arise would be carried out through a series of change orders issued during construction. Such change orders would, therefore, be issued in a non-competitive environment, and would typically result in a significant increase in overall project costs for the public sector.

The added due diligence brought by the private party's lenders, together with the risk transfer provisions in the project documents result in overall cost savings as these transferred risks will either be better managed or completely mitigated by Integrated Team Solutions .

A detailed risk analysis of the project concluded that the average value of project risks retained by the public sector under traditional delivery is \$367.4 million. The analysis also concluded that the average value of project risks retained by the public sector under the AFP delivery model decreases to \$61.3 million.

For more information on the risk assessment methodology used by Infrastructure Ontario, please refer to Altus Helyar's Risk Assessment Template DBFM projects, available at www.infrastructureontario.ca.

Ancillary costs and adjustments

There are significant ancillary costs associated with the planning and delivery of a large complex project that vary depending on the project delivery method.

For example, there are costs related to each of the following:

- *Project management:* These are essentially fees to manage the entire project. Under the AFP approach, these fees will also include Infrastructure Ontario costs.
- *Transaction costs:* These are costs associated with delivering a project and consist of legal, fairness and transaction advisory fees. Architectural and engineering advisory fees are also incurred to ensure the facility is being designed and built according to the output specifications.

The ancillary costs are quantified and added to both models for the value for money comparison assessment. Both project management and transaction costs are likely to be higher under AFP given the greater degree of up-front due diligence. The ancillary costs for the project under the traditional delivery method are estimated to be \$7 million as compared to \$12 million under the AFP approach.

An adjustment is made when estimating costs under traditional delivery. This adjustment is referred to as competitive neutrality and accounts for items such as taxes paid under AFP that flow back to the public sector and are not taken into account under the traditional model, and private sector insurance premiums that can be used as a proxy for valuing insurance costs when the public sector self-insures under the traditional method. In the case of this project, this adjustment is made by adding \$16.2 million to the traditional delivery costs (i.e. on the PSC side).

For a detailed explanation of ancillary costs, please refer to *Assessing Value for Money: A Guide to Infrastructure Ontario's Methodology*, which is available online at www.infrastructureontario.ca

The analysis completed by Deloitte concludes that the additional costs associated with the AFP model are more than offset by the benefits which include: a much more rigorous upfront due diligence process, reduced risk to the public sector, and controls imposed by both the lenders and Infrastructure Ontario's standardized AFP procurement process.

Once all the cost components and adjustments are determined, the aggregate costs associated with each delivery model (i.e., traditional delivery and AFP) are calculated, and expressed in Canadian dollars, as at financial close. In the case of the Providence Care Hospital project, the estimated traditional delivery cost (i.e. PSC) is \$826.6 million as compared to \$674.1 million under the AFP delivery approach.

The positive difference of \$152.5 million or 18.5 per cent represents the estimated value for money by using the AFP delivery approach in comparison to the traditional delivery model.

Calculating value for money