Ontario

INFRASTRUCTURE ONTARIO

VALUE FOR MONEY ASSESSMENT

ROYAL VICTORIA HOSPITAL
PHASE I EXPANSION PROJECT

www.infrastructureontario.ca

ERNST & YOUNG

Ernst & Young Orenda
Corporate Finance Inc.
Ernst & Young Tower
222 Bay Street, P.O. Box 251
Toronto, Ontario M5K 1J7

Tel: 416 864 1234
Fax: 416 943 3365
ey.com/ca

March 24, 2009

PRIVATE & CONFIDENTIAL

Mr. Craig Lorentz
Project Manager, Project Finance
Infrastructure Ontario
777 Bay Street, 9th Floor
Toronto, ON M5G 2C8

Dear Mr. Lorentz:

Re: Value for Money Analysis – Royal Victoria Hospital

Ernst & Young Orenda Corporate Finance ("EYOCF") has prepared the Value for Money ("VFM") assessment for the Royal Victoria Hospital Project. The analysis was prepared following an Infrastructure Ontario ("IO") VFM analytical framework, which is generally consistent with approaches used in other jurisdictions.

The VFM assessment is based on a comparison of the total project costs at substantial completion of the Royal Victoria Hospital Project under:

1. The Traditional delivery approach, as reflected in the Public Sector Comparator ("PSC") model; and

2. The Alternative Financing and Procurement ("AFP") model estimation of the total project costs, as reflected by the Successful Proponent's proposed costs.

The VFM assessment as noted above was prepared using the following information (collectively the "Information") within the VFM model:

i. A Risk Matrix developed for IO by Altus Helyar and adjusted to reflect project specific risks; and

ii. Construction cost estimates provided by the Successful Proponent. Cost and other VFM model assumptions as provided by IO.

The cost information and underlying assumptions were not independently audited or verified for accuracy or completeness.

ERNST & YOUNG

Based on our understanding of IO's VFM methodology, we can confirm that, the Information has been appropriately used in the VFM model. The results of the VFM assessment demonstrate an estimated VFM cost savings of 12.2% by using the AFP to deliver the Project in comparison to using the traditional delivery approach.

Yours sincerely,

ERNST & YOUNG ORENDA CORPORATE FINANCE INC.

Tim Philpotts
Senior Vice President
604 891-8255

Knowles
A Hill International Company

11 March 2009

Vernita Tsang, Legal Counsel
Infrastructure Ontario
777 Bay Street, 6th Floor
Toronto, ON M5G 2C8

Dear Ms. Tsang:

Re: **Royal Victoria Hospital**
<u>Infrastructure Ontario RFP No. OIPC-08-23-M064</u>

Knowles Consultancy Services Inc. was retained to provide fairness monitoring services for the above-mentioned project. Our role was to review Infrastructure Ontario's procurement process from submission to the evaluation of proposals. This was done to ensure that the process was in accordance with the provisions of the RFP document.

Only parties that were pre-qualified through the project's Request for Qualifications process that preceded the RFP were eligible to participate.

Our conclusions are based on our first hand observations of the process, the documents used and information provided by the procurement project team.

In our capacity as fairness monitor, we:

- Took the process as outlined in the RFP as our point of reference;
- Attended the site visits and all meetings with proponents;
- Monitored communications with proponents; and,
- Monitored the evaluation process.

As Fairness Monitor we can attest that the overall process followed was consistent with the stipulations of the RFP. This includes the following:

- Diligence applied to the overall evaluation process;
- Consistent application of the evaluation criteria among proponents as well as the use of only the published criteria in performing the evaluation;
- General consistency of treatment of proponents; and,
- Communications with proponents.

Evaluators employed were appropriately qualified. IO staff and external advisors adhered to conflict of interest and confidentiality requirements.

In conclusion, we can attest that, within the framework established by the RFP document, the evaluation process was conducted in a procedurally fair, open and transparent manner.

As a result of the procurement process:

- Two proposals were received from the pre-qualified proponents for this competition; and,
- The evaluation committee exercised its discretion to commence the negotiations process.

Yours truly,
Knowles Consultancy Services Inc.

Don Solomon

cc. Michael Killeavy

Royal Victoria Hospital
Artist's rendering

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Summary

ReNew Ontario 2005-2010 is a $30-billion-plus strategic infrastructure investment plan to modernize, upgrade and expand Ontario's public infrastructure.

Infrastructure Ontario is an essential component of the *ReNew Ontario* plan. The Crown Corporation delivers large infrastructure projects using alternative financing and procurement (AFP) and ensures that new infrastructure projects are delivered on time and on budget.

The expansion project at Royal Victoria Hospital is being delivered under the AFP model.

The project includes:

- the Simcoe Muskoka Regional Cancer centre, which is expected to log more than 60,000 patient visits in its first year
- capacity for 101 additional inpatient beds
- an Emergency Department that will triple in size and have a trauma unit, isolation ward and mental health crisis team
- an expanded laboratory
- a Diagnostic Imaging department that will double in size to increase patient flow and privacy
- two additional operating rooms that are larger than existing suites for complex surgeries
- a dedicated seven-bed Coronary Care Unit for critically ill cardiac patients
- expansion space for two future patient care units.

Once completed, the Royal Victoria Hospital project will help ensure timely access to services and meet the needs of the region's growing population.

The public sector retains ownership, control and accountability for the hospital, including the new facilities.

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 the Royal Victoria Hospital project through the AFP process.

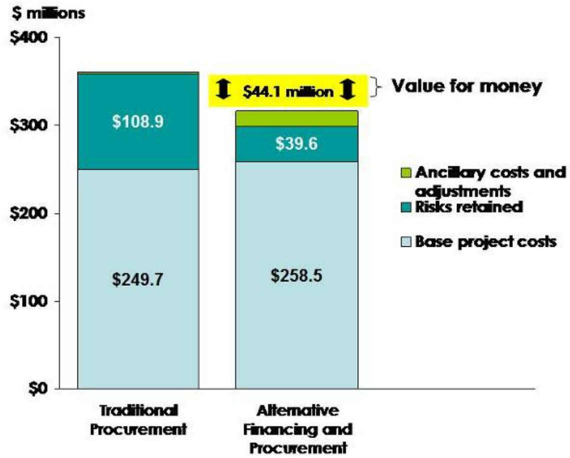
The value for money analysis refers to the process of developing and comparing the total project costs, expressed in dollars measured at the same point of time and related to two delivery models.

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 the Royal Victoria Hospital project indicates estimated cost savings of 12.2 per cent or $44.1 million, by using the AFP approach in comparison to traditional delivery.



> *"By adding the Simcoe Muskoka Regional Cancer Centre to Royal Victoria Hospital, we're bringing care closer to home for patients across our region."*
>
> -Janice Skot, President and CEO, Royal Victoria Hospital

Ernst & Young Orenda Corporate Finance Inc. completed the value for money assessment of the Royal Victoria Hospital project. Their assessment demonstrates projected cost savings of 12.2 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 Inc. acted as the Fairness Monitor for the project. They reviewed and monitored the communications, evaluations and decision-making processes associated with the Royal Victoria Hospital project, ensuring the fairness, equity, objectivity, transparency and adequate documentation of the process. Knowles Consultancy Services Inc. certified that these principles were maintained throughout the procurement process (please see letter on page 4).

Infrastructure Ontario will work with Royal Victoria Hospital on the redevelopment of the hospital, which will remain publicly owned, publicly controlled and publicly accountable.

Project description

Background

ReNew Ontario 2005-2010 is a $30-billion-plus strategic infrastructure investment plan to modernize, upgrade and expand Ontario's public infrastructure.

Infrastructure Ontario is an essential component of the *ReNew Ontario* plan. The Crown Corporation was created in 2005, to ensure that infrastructure projects are delivered on time and on budget.

Under the *ReNew Ontario* plan, projects are assigned to Infrastructure Ontario by the provincial government, which uses a made-in-Ontario project delivery model called Alternative Financing and Procurement (AFP). AFP brings private-sector expertise, ingenuity and rigour to the process of managing and renewing Ontario's public infrastructure while shifting risks associated with cost and schedule overruns away from the public sector.

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.

Royal Victoria Hospital

Founded in 1891 as the Barrie General Hospital, Royal Victoria Hospital has grown to become the largest hospital in Simcoe County, serving a huge geographical area that includes Simcoe County, Muskoka and Parry Sound.

While the programs and services offered by RVH are vast, it specializes in cancer care, surgical services – particularly orthopedic surgery including Simcoe County's Arthroplasty Intake Clinic for Total Joint Disease – and mental health services. Royal Victoria Hospital is also the site of the region's Enhanced District Stroke Centre.

Royal Victoria Hospital has a team of more than 200 physicians and 2,100 staff members, and benefits from the outstanding support of 1,100 volunteers. The current site on Georgian Drive was opened in 1997, housing just fewer than 300 beds.

Job Creation

The expansion project will create economic value as skilled tradespeople, subcontractors and their suppliers benefit from the capital investment. At the peak of construction more than 200 workers will be on site daily.

Project Scope

Royal Victoria Hospital's Phase 1 Expansion Project will double the size of the existing facility and will include the addition of the Simcoe Muskoka Regional Cancer Centre. This new cancer centre will provide comprehensive care to more than 2,000 newly diagnosed cancer patients throughout Simcoe County and the District of Muskoka.

The project will nearly double the size of the existing hospital, adding more than 400,000 square feet of new space.

Competitive selection process timeline

Royal Victoria Hospital has entered into a project agreement with Vanbots, a Division of Carillion Construction Inc., to build and finance their redevelopment project. The procurement stages for the project were as follows:

October 25, 2007

Request for Qualifications

In 2007, Royal Victoria Hospital and Infrastructure Ontario issued a request for qualifications (RFQ) for the redevelopment project. Six proponents were qualified:

- Bondfield Construction
- Carillion Canada Inc.
- EllisDon Corporation
- PCL Construction
- Pomerleau Inc.
- Vanbots Construction

June 16, 2008

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 build and finance the project.

Proposal submission

The RFP period closed on October 31, 2008. Three bids were received by Infrastructure Ontario and Royal Victoria Hospital. The bids were evaluated using the criteria set out in the RFP.

February 2009

Preferred proponent notification

Vanbots, a division of Carillion Construction Inc., (Vanbots/Carillion) was selected as the successful RFP proponent on the basis of its proposed price and project schedule, in accordance with the evaluation criteria set out in the RFP.

February 2009

Commercial and financial close

A project agreement was executed by Vanbots/Carillion and Royal Victoria Hospital.

Financing for Vanbots/Carillion to complete the project was arranged by Banco Espirito Santo de Investimento SA; National Australia Bank Limited; Norddeutsche Landesbank Gironzentrale; Bank of Montreal; CIT Financial Ltd.; National Bank of Canada Inc.; and Toronto Dominion Bank.

National Bank Financial served as financial advisor, and CIT Financial Limited acts as Administrative Agent to the banks.

February 2009

Construction

Construction began in February 2009. During the construction period, the builder's construction costs will be funded through financing, which will be paid in monthly instalments based on the construction program set out by Vanbots/Carillion.

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 Royal Victoria Hospital and Infrastructure Ontario.

Completion and payment

Completion and payment will be in two stages for the Royal Victoria Hospital project.

The first payment will be made upon completion of the new addition and cancer centre, which is expected to be in October 2011, through funding from the Ministry of Health and Long-Term Care and the Hospital's fundraising efforts. It is anticipated that the project will reach substantial completion in April 2013, at which time the remaining amount of the project costs will be paid by Royal Victoria Hospital through funding from the Ministry of Health and Long-Term Care and the Hospital's fundraising efforts.

Hospital Capital Funding

The local share is the portion of funding for which a hospital is responsible. Since the ministry's capital cost-sharing policy for hospital projects does not cover 100 per cent of all costs incurred, not all elements of a project are eligible for ministry cost-sharing.

The provincial portion of eligible construction costs is 90 per cent and 100 per cent of eligible costs for longer term mental health.

Hospitals are responsible for:

- 10 per cent of the eligible construction costs and associated ancillary costs
- 100 per cent of components of the project that are ineligible for ministry cost-sharing
- 100 per cent of the costs associated with the purchase of new and replacement furniture and equipment, excluding some radiation therapy equipment, longer-term mental health and chronic kidney disease equipment.

These costs for which the hospital is responsible are otherwise known as the local share. In the past, ministry capital cost share rates varied from 50 per cent to 70 per cent depending on the project.

Project agreement

Legal and commercial structure

Royal Victoria Hospital entered into a project agreement with Vanbots/Carillion to carry out the construction and financing of the project. Under the terms of the project agreement, Vanbots/Carillion will:

- build the Royal Victoria project, which will be completed in spring 2013;
- provide a financing package for project construction; and
- ensure that, at the end of construction, the building meets the requirements specified in the project agreement.

Royal Victoria Hospital will remain publicly owned, publicly controlled and publicly accountable, including the new facilities constructed as a result of the project.

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 the private sector. These risks, such as design co-ordination and resource availability, could have led to cost overruns and delays in traditional projects. Other examples of risks transferred to the private sector under the AFP project agreement include:

Construction price certainty

Vanbots/Carillion will construct the facilities at Royal Victoria Hospital for a guaranteed maximum price of $258.5 million, including financing costs. The builder's guaranteed maximum price for the hospital may only be adjusted in very specific circumstances, agreed to in advance, in accordance with the change order procedures set out in the project agreement.

Scheduling, project completion and delays

At Royal Victoria Hospital, the builder has agreed to reach interim completion of the construction by October 2011 and substantial completion by April 2013. The construction schedule can only be modified in very limited circumstances, in accordance with the project agreement. Payment for the project will not commence until interim completion (i.e., until the interim work has been completed in accordance with the project agreement).

Costs associated with delays that are the responsibility of the builder must be paid by the builder.

Design co-ordination

The project agreements provide that Vanbots/Carillion is responsible for all design coordination activities to ensure that the facilities are constructed in accordance with the design.

Costs associated with design coordination that are the responsibility of the builder must be paid by the builder.

Construction financing

Vanbots/Carillion is required to finance the construction of the project until the facility reaches substantial completion and is turned over to Royal Victoria Hospital. The project agreement provides that the builder will be responsible for all increased financing costs resulting from any builder delay in reaching substantial completion. This shifts significant financial risk to the builder and is a strong incentive to prevent late delivery.

Schedule contingency

The project documents provide the hospital with a schedule contingency, also known as a schedule cushion, which shields Royal Victoria Hospital for delay costs for which the hospital is responsible. While delays caused by the hospital are expected to be minimal, the schedule cushion provides Royal

Victoria Hospital with some protection from the risk of delay claims by the builder.

Commissioning and facility readiness

Vanbots/Carillion must achieve a prescribed level of commissioning of the new facility at substantial completion and must co-ordinate the commissioning activity within the agreed upon construction schedule. This ensures that Royal Victoria Hospital will receive a functional facility at the time payment is made.

Activity protocols

Vanbots/Carillion and the consultants from Royal Victoria Hospital have established a schedule for project submittals by the builder, taking into account the time for review needed by the hospital's consultants.

This protocol mitigates against the builder 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 change order protocol with Royal Victoria Hospital sets out the principles for any changes to the project work/scope during the construction period, including:

- requiring review and approval of change orders from Royal Victoria Hospital;
- specifying the limited criteria under which change orders will be processed and applied;
- timely notification of potential change orders to Infrastructure Ontario;
- timely review by Infrastructure Ontario for owner-initiated scope changes;
- approval by Infrastructure Ontario for any change orders that exceed pre-determined thresholds; and
- approval by Infrastructure Ontario when the cumulative impact of the change orders exceed a pre-determined threshold.

In addition to the above key risks being transferred to the builder under the project documents, the financing arrangement entered into between Vanbots/Carillion 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;
- the requirement that change orders must be within the project contingency or funded by Royal Victoria Hospital; 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 Royal Victoria Hospital, Ernst & Young Orenda Corporate Finance Inc.'s value for money assessment demonstrates a projected cost savings of 12.2 per cent, or $44.1 million, by using the alternative financing and procurement (AFP) approach, as compared to the traditional procurement approach.

Ernst & Young Orenda 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 Ernst & Young Orenda Corporate Finance Inc. 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 future 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.

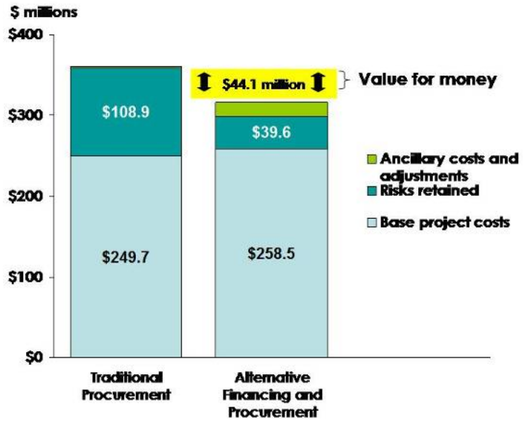
The cost difference between model #1 and model #2 is referred to as the value for money. If the total cost to deliver a project under the AFP approach (model #2) is less than the total cost to deliver a project under the traditional delivery approach (model #1), there is said to be positive value for 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 hospital project management and construction project management.

Components of the total project costs under each delivery model are illustrated below:

The value for money assessment of the Royal Victoria Hospital project indicates estimated cost savings of 12.2 per cent or $44.1 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. For example, it would be difficult to put a dollar value on the people of Ontario gaining access to an expanded health care facility sooner than would be the case with a traditionally delivered project.

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 future-valued to substantial completion to compare the two methods of delivering a Build-Finance 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 about assessing using future value and 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 Vanbots/Carillion, and include all construction 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 is higher than the financing rate of the public sector and not included in the traditional model 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 Royal Victoria Hospital, this is $258.5 million.

If the traditional model had been used for this project, base costs for Royal Victoria Hospital are estimated to have been $249.7 million.

Risks retained

The public sector has always had to bear costs that go beyond a project's base costs. Total project costs exceed base costs in large part due to contingencies for the project risks.

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 is key 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 fulsome value for money analysis, but also helps Infrastructure Ontario and the public sector sponsors ensure that the party best able to manage, mitigate and/or eliminate the project risks is allocated those risks under the project documents.

Under the traditional delivery method, the risks retained by the public sector are significant. As discussed on pages 13 to 14, the following are examples of risks retained by the public sector under the traditional delivery method. Below are risks transferred to the builder under the project agreement using the AFP model:

- construction price certainty;
- scheduling, project completion and potential delays;
- design co-ordination;
- construction financing;
- schedule contingency;
- 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 facilities are constructed in full accordance with the design in the project agreement. The builder is responsible for inconsistencies, conflicts, interferences or gaps in the contract documents particularly in the plans, drawings and specifications; and for design completion issues that are specified in the contract documents but erroneously left out in the drawings and specifications.
- *Scheduling, project completion and delays:* Under the AFP approach, the builder has agreed that it will provide the facility for use by Royal Victoria Hospital 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 public sector, thus providing the builder 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.

Under a traditional approach, design coordination risks that materialize during construction would be managed through a series of change orders. 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. AFP reduces and transfers these risks and related costs, to the private sectors.

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 the private sector builder.

Infrastructure Ontario retained an experienced, third-party construction consulting firm, Altus Group Limited, to develop a template for assessing the project risks that the public sector assumes 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 Royal Victoria Hospital project.

A detailed risk analysis of the Royal Victoria Hospital project concluded that the average value of project risks retained by the public sector under traditional delivery is $108.9 million. The analysis also concluded that the average value of project risks retained by the public sector under the AFP delivery model decreases to $39.6 million.

For more information about the risk assessment methodology used by Infrastructure Ontario, please refer to Altus Group Limited's *Build-Finance Risk Analysis and Risk Matrix*, 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 could 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 built according to 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 Royal Victoria Hospital project, under the traditional delivery method are estimated to be $1.9 million as compared to $6.4 million under the AFP approach.

For the Royal Victoria Hospital project a further adjustment of $12.1 million has been made under the AFP model to reflect additional notional public financing costs resulting from the interim payment, scheduled in October 2011, to the builder, covering the period between completion of the new addition and cancer centre, and the project substantial completion, expected in April 2013.

It is important to note that the interim payment at completion of the new addition and cancer centre is a one time payment that will only be made at the successful completion of this clearly defined phase; as well, the project risk allocation is not materially affected.

An adjustment is also 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. In the case of the Royal Victoria Hospital project, this adjustment is made by adding $0.2 million to the traditional delivery costs (i.e. on the PSC side).

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

Calculating value for money

The analysis completed by Ernst & Young Orenda Corporate Finance Inc. concludes that the additional costs associated with the AFP model are more than offset by its benefits, which include: a much more rigorous upfront due diligence process, reduced risk to the public sector and more stringent controls imposed by both the lender's and Infrastructure Ontario's standardized AFP procurement process and oversight.

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 substantial completion date.

In the case of the Royal Victoria Hospital project, the estimated traditional delivery cost (i.e. PSC) is $360.6 million as compared to $316.6 million under the AFP delivery approach.

The positive difference of $44.1 million or 12.2 per cent represents the estimated value for money by using the AFP delivery approach in comparison to the traditional delivery model.