



# Value for Money Assessment

Etobicoke General Hospital  
Phase 1 Patient Tower Project

May 2016

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# I. EXECUTIVE SUMMARY

This report provides a summary of the procurement process for William Osler Health System’s Etobicoke General Hospital Phase 1 Patient Tower project and demonstrates how value for money was achieved by delivering the project using Infrastructure Ontario’s (IO) Alternative Financing and Procurement approach.

## ► Infrastructure Ontario

IO is a Crown agency owned by the Province of Ontario that provides a wide range of services to support the Ontario government’s initiatives to modernize and maximize the value of public infrastructure and realty. Projects delivered by IO are guided by five key principles: transparency, accountability, value for money, public ownership and control, and public interest are paramount.

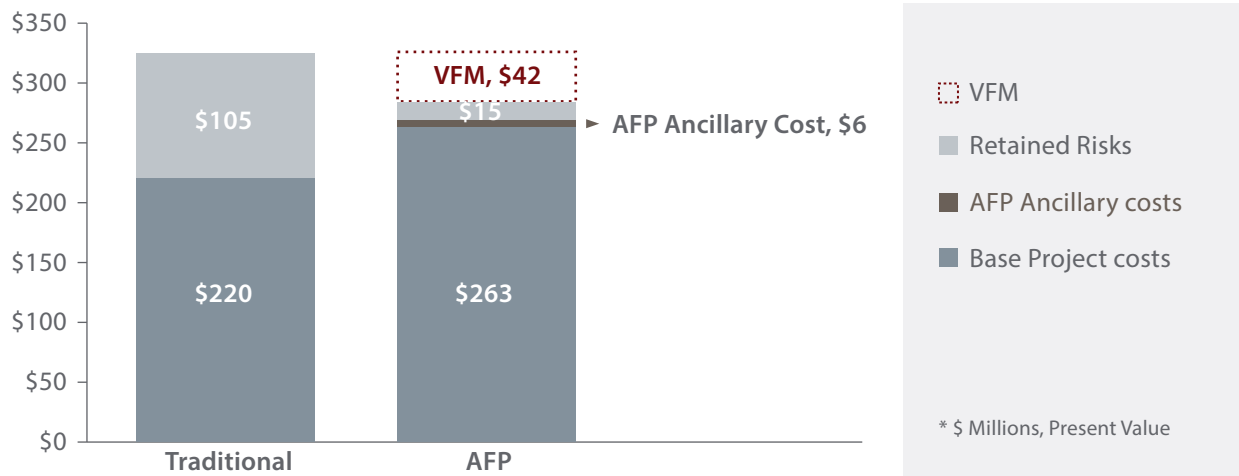
## ► Alternative Financing and Procurement in Ontario

IO delivers public infrastructure projects using a project delivery model called Alternative Financing and Procurement (AFP). The AFP model brings together private and public sector expertise in a unique structure that transfers to the private sector partner the risk of project cost increases and scheduling delays typically associated with traditional project delivery. 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.

All projects with a cost greater than \$100 million are screened for their suitability in being delivered as an AFP project. The decision to proceed with an AFP delivery model is based on both qualitative considerations (e.g., size and complexity of the project) and a quantitative assessment. The quantitative assessment, called Value for Money (VFM), is used to assess whether the AFP delivery model will achieve greater value to the public compared to a traditional public sector delivery model. VFM compares the estimated total project costs of delivering public infrastructure using AFP relative to the traditional delivery model.

## ► Achieving Value for Money

The VFM assessment of the Etobicoke General Hospital Phase 1 Patient Tower project indicates an estimated cost savings of \$41.7 million or 12.8% percent (in present value terms) by using the AFP approach compared to traditional delivery.



## I. EXECUTIVE SUMMARY

### ► External Review

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As part of the procurement process and VFM assessment, three external parties were retained by IO:

- Deloitte LLP was retained to complete the VFM assessment,
- SEG Management Consultant Inc. acted as the Fairness Monitor for the project, and
- Stantec acted as the Technical Advisor for the project.

## II. PROJECT HIGHLIGHTS

### ➤ Etobicoke General Hospital Phase 1 Patient Tower



Courtesy of HDR Architecture Associates, Inc.

<b>Purpose</b>	The Phase 1 Patient Tower Project, involving the construction of a new four-storey wing, will add approximately 250,000 square feet of space to the existing facility and house the services most urgently needed by the Etobicoke community.
<b>Project Owner</b>	William Osler Health System
<b>Private Partner</b>	Etobicoke Healthcare Partnership
<b>Location</b>	Etobicoke
<b>Project Type</b>	Design-Build-Finance-Maintain
<b>Infrastructure Type</b>	Health Care
<b>Contract Value</b>	\$330 million
<b>Construction Period</b>	2016 to 2018
<b>Length of Project Agreement</b>	30 years
<b>Estimated Value for Money (Present Value)</b>	\$41.7 million or 12.8%

### ➤ Background

William Osler Health System is a hospital system “Accredited with Exemplary Standing,” serving 1.3 million residents of Brampton, Etobicoke, and surrounding communities within the Central West Local Health Integration Network. Osler’s emergency departments are among the busiest in Canada and its labour and delivery program is one of the largest in the province. William Osler Health System Foundation builds and fosters relationships in order to raise funds to support William Osler Health System’s capital, education and research priorities at Brampton Civic Hospital, Etobicoke General Hospital and the new Peel Memorial Centre for Integrated Health & Wellness.

## II. PROJECT HIGHLIGHTS

### ► Objectives

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Through the Moving Ontario Forward plan, the province is investing in health care projects that will provide Ontarians with access to high quality health care close to home.

### ► Project Scope

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The Etobicoke General Hospital Phase 1 Patient Tower Project, involving the construction of a new four-storey wing, will add approximately 250,000 square feet of space to the existing facility and house the services most urgently needed by the Etobicoke community. Project features include:

- a larger, state-of-the-art emergency department to better meet the community's need for high-quality emergency care
- an ICU/CCU nearly four times larger than the current space
- larger patient rooms filled with natural light that provide privacy and space to accommodate family members
- a maternal newborn unit with birthing suites and a specialized Level II nursery for patients with non-life-threatening complications
- an ambulatory procedures unit featuring procedure/operating rooms, pre- and post-op preparation and recovery areas and dedicated clinic spaces, including a respiratory clinic

The Phase 1 Patient Tower Project will focus on sustainable design and construction with the goal of achieving Leadership in Energy and Environmental Design (LEED®) Silver certification. LEED® buildings focus on healthy indoor environments, reduced greenhouse gas emissions and efficient use of energy, water and other resources.

### ► Economic Benefits & Job Creation

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The Etobicoke General Hospital Phase 1 Patient Tower project is a significant economic opportunity for local suppliers and contractors. At the peak of construction, Etobicoke Healthcare Partnership estimates that more than 300 workers will be on site daily.

### III. ACHIEVING VALUE FOR MONEY

Value for money assessment for the Etobicoke General Hospital project demonstrates a project cost savings of

**\$41.7 million or 12.8%**

The VFM assessment methodology is outlined in *Assessing Value for Money – An Updated Guide to Infrastructure Ontario’s Methodology*, which can be found at [www.infrastructureontario.ca](http://www.infrastructureontario.ca).

#### ► Value for Money Concept

The VFM compares the estimated total-risk adjusted project costs, expressed in dollars measured at the same point in time, of delivering the same infrastructure project under two delivery models: the Traditional Design, Bid, Build (DBB) model and the AFP model.

##### MODEL # 1:

###### Traditional Delivery (PSC)

Estimated costs to the public sector of delivering an infrastructure project using a traditional procurement delivery model.

Total risk-adjusted costs are known as the Public Sector Comparator or PSC Costs.

##### MODEL # 2:

###### AFP Delivery

Estimated costs to the public sector of delivering the same project to the identical specifications using the AFP delivery model.

Total risk-adjusted costs are known as AFP Costs.

$$\left\{ \text{Value for Money \$} = \text{PSC Costs} - \text{AFP Costs} \text{ or } \text{Value for Money \%} = \frac{(\text{PSC Costs} - \text{AFP Costs})}{\text{PSC Cost Costs}} \right\}$$

The difference between the total estimated PSC costs and the total estimated AFP costs is referred to as VFM. Positive VFM is demonstrated when the cost of delivery under AFP is less than PSC.

#### ► Calculating Value for Money – Inputs & Assumptions

The VFM is assessed and refined throughout the entire procurement process to reflect updated information and Etobicoke General Hospital Phase 1 Patient Tower actual bid costs. All costs and risks in this report are expressed in present value terms and have been discounted back to present terms.

The VFM assessment relies on a number of inputs and assumptions, including:

- 1. Base Project Costs
  - ▼ 1.1. Adjusted Base Costs (design, construction, lifecycle and maintenance)
  - ▼ 1.2. Financing Costs
- 2. AFP Ancillary Costs
- 3. Retained Risks

### III. ACHIEVING VALUE FOR MONEY

#### 1. Base Project Costs

##### ▼ 1.1. Calculation of Base Costs

Traditional Delivery Model (PSC)		AFP Delivery Model	
Base Costs adjusted for:	(\$)	Base Costs adjusted for:	(\$)
Innovation Factor	N/A	Innovation Factor	↓ to Construction Costs
<b>Adjusted Base Costs</b>	<b>Base Costs (\$) +/- Adjustments</b>	<b>Adjusted Base Costs</b>	<b>Base Costs (\$) +/- Adjustments</b>
Estimated Savings / (Costs) in Base Costs under the AFP Model			PSC – AFP

Base costs in this scenario include design and construction cost. In the estimation of base costs, IO relies on external cost consultants to estimate the costs of the project. This becomes the starting point for both the PSC and AFP models. These costs are then adjusted for:

- ▶ An innovation factor – the VFM methodology includes an innovation factor which recognizes that the base cost of the AFP model will be lower than the PSC model as a result of:
  - ▶ the use of performance-based specifications in AFP projects allow contractors to consider innovative and alternative ways to deliver a project, such that project costs are lower as compared to a traditional delivery which uses more prescriptive specifications; and,
  - ▶ an increased competitive environment on AFP projects which have resulted in cost reductions.

##### ▼ 1.2. Financing Costs

Traditional Delivery Model (PSC)		AFP Delivery Model	
<b>Financing Costs</b>	Public sector notional financing costs	<b>Financing Costs</b>	Private sector financing costs
Estimated Savings / (Costs) from Financing under the AFP Model			PSC – AFP

One of the common elements of the AFP model is the use of private finance for some or all of the project period. Under the traditional delivery model, the public sector makes progress payments throughout construction. Whereas under the AFP model, the government pays a portion of construction costs during construction as interim payments and/or pays the entire amount at the end of the construction period. Financing costs are reflected as follows:

- ▶ Traditional Delivery Model or PSC – the public sector notionally incurs an “opportunity cost” for having paid earlier as compared to the AFP model. The notional public sector financing cost is calculated at the current Provincial cost of borrowing or weighted average cost of capital. This cost is also reflected in the discount rate used to assess and compare the project costs.



### III. ACHIEVING VALUE FOR MONEY

- ▶ AFP Delivery Model – the private sector party borrows at private financing rates to pay for project costs during construction and carries that financing until fully repaid by the public sector. This private sector financing cost is ultimately passed through to the public sector as a cost and reflected in the AFP model.

#### 2. AFP Ancillary Costs

Traditional Delivery Model (PSC)		AFP Delivery Model	
AFP Ancillary Costs	N/A	AFP Ancillary Costs	AFP costs
Estimated Savings / (Costs) from Financing under the AFP Model			PSC – AFP

There are significant costs associated with the planning and delivery of a large complex project. The VFM methodology quantifies the incremental ancillary costs arising under the AFP delivery model only. Ancillary costs typically incurred include legal, capital markets, fairness, transaction, and the cost of IO services.

#### 3. Retained Risks

Traditional Delivery Model (PSC)		AFP Delivery Model	
Retained Risks	PSC costs	Retained Risks	AFP costs
Estimated Savings / (Costs) from Retained Risks under the AFP Model			PSC – AFP

The concepts of risk transfer and mitigation are key to understanding the overall VFM assessment. To estimate and compare the total cost of delivering a project under the traditional delivery model versus the AFP model, the risks borne by the public sector, which are called “retained risks”, are identified and quantified. Details on how retained risks are identified and quantified are in Assessing Value for Money – An Updated Guide to Infrastructure Ontario’s Methodology, which can be found at [www.infrastructureontario.ca](http://www.infrastructureontario.ca)

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 under both delivery models, they are included in the estimated cost under the PSC and AFP model as “retained risks”. Risks retained under the AFP model are lower than risks retained by the public sector under the PSC model. This reflects the transfer of certain project risks from the public sector to the private sector and the appropriate allocation of risk between the public and private sectors based on the party best able to manage, mitigate, and/or eliminate the project risk.

As a result of a comprehensive risk assessment, the following are examples of key project risks that have been transferred or mitigated under the project agreement to Etobicoke Healthcare Partnership:

- ▶ Project Schedule – risk of a longer construction period and resulting in a higher total program cost.
- ▶ Scope Changes During Construction (directed by owner) – risk that the scope of work is changed by the owner during construction.
- ▶ Due Diligence (by the owner in preparation of tender in RFP) – risk that an insufficient level of due diligence is undertaken and communicated to the proponents, resulting in reduced tolerance to risk and higher bid price.

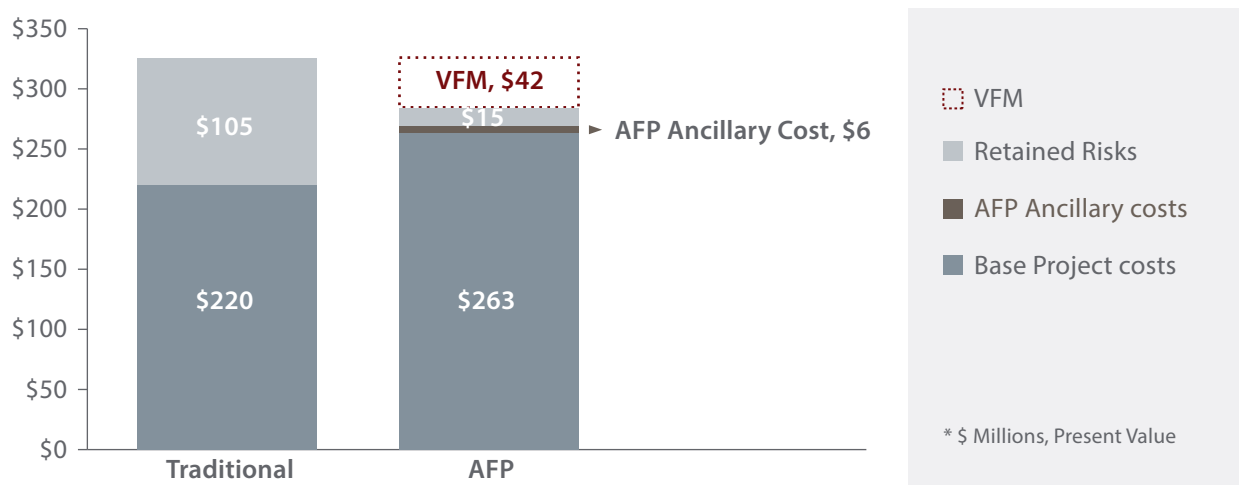
### III. ACHIEVING VALUE FOR MONEY

- ▶ Quality Management – risk associated with meeting design standards and codes as they relate to long-term asset performance.

#### ▶ Etobicoke General Hospital Phase 1 Patient Tower Project Value for Money Results

The VFM assessment of the Etobicoke General Hospital Phase 1 Patient Tower project indicates an estimated cost savings of \$41.7 million or 12.8 per cent by using the AFP approach compared to traditional delivery.

Traditional Delivery Model (PSC)	\$ Millions, Present Value	AFP Delivery Model	\$ Millions, Present Value
I. Base Project Costs (Adjusted Base Costs + Financing)	\$220.3	I. Base Project Costs (Adjusted Base Costs + Financing)	\$263.3
II. AFP Ancillary Costs	N/A	II. AFP Ancillary Costs	\$5.5
III. Retained Risks	\$105.1	III. Retained Risks	\$14.8
<b>Total</b>	<b>\$325.4</b>	<b>Total</b>	<b>\$283.7</b>
Estimated Value for Money (cost difference)		\$41.7	
Estimated Percentage Savings		12.8%	



#### ▶ External Review

Deloitte completed the VFM assessment for the project. Their assessment demonstrates projected cost savings of 12.8 percent by delivering the project using the AFP model versus what it would have cost to deliver the project using a traditional delivery model (see letter on page 14).

SEG Management Consultants acted as the Fairness Monitor for the project. They reviewed and monitored the communications, evaluations and decision-making processes associated with the project, ensuring the fairness, equity, objectivity, transparency and adequate documentation of the process. SEG Management Consultants certified that these principles were maintained throughout the procurement process (see letter on page 15).

## IV. PROJECT AGREEMENT

### ► Highlights of the Project Agreement

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The Project Agreement signed between IO, William Osler Health System and Etobicoke Healthcare Partnership defines the obligations and risks of all parties involved. Key highlights that pertain to the construction terms are below:

- **Contract Price Certainty** – A \$330 million fixed-price contract (without inflation) fixed-price contract to design, build, finance and maintain the Etobicoke General Hospital Phase 1 Patient Tower project. Any extra costs incurred as a result of a schedule overrun caused by Etobicoke Healthcare Partnership will not be paid by the Province.
- **Scheduling, Project Completion and Delays** – Etobicoke Healthcare Partnership has agreed to a substantial completion date of June 2018. The schedule can be modified in limited circumstances, in accordance with the terms of the Project Agreement. Etobicoke Healthcare Partnership has the obligation to mitigate impact on the Project schedule as much as possible on the occurrence of particular delays, as specified in the Project Agreement. A sizeable payment will be made by the Province at substantial completion, providing further incentive for Etobicoke Healthcare Partnership to complete construction on time.
- **Site Conditions and Contamination** – Etobicoke Healthcare Partnership is responsible for maintaining and managing and where required, remediating any contamination, at the Site. This includes contamination that was disclosed from Site Condition Reports or readily apparent/ discoverable from inspecting the Site, or that is caused by Etobicoke Healthcare Partnership or any of its parties.
- **Construction Financing** – Etobicoke Healthcare Partnership is required to finance the construction of the project.
- **Commission and Facility Readiness** – Etobicoke Healthcare Partnership must achieve a prescribed level of commissioning at substantial completion within the agreed-to schedule. This ensures Etobicoke General Hospital Phase 1 Patient Tower will be able to achieve operational service in late 2018.

## V. COMPETITIVE SELECTION PROCESS

The procurement process for the Etobicoke General Hospital Phase 1 Patient Tower project, from RFQ to Financial Close, took 19 months to complete.

After concluding a fair and competitive procurement process, William Osler Health System and IO entered into a project agreement with Etobicoke Healthcare Partnership to design, build, finance and maintain the project.

### ► Procurement Process

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#### i. Request for Qualifications | October 23, 2014

- ▶ William Osler Health System and IO issued a Request for Qualifications (RFQ) to solicit interested parties to design, build, finance and maintain the Phase 1 Patient Tower project.
- ▶ In December 2014, the RFQ period closed and the Sponsors received statements of qualifications from 4 teams.
- ▶ RFQ submissions were evaluated by IO and William Osler Health System. High standards were set to ensure the shortlisted teams exceeded the technical and financial standards required for this complex and large project. The evaluation process resulted in three proponents being shortlisted.
  - ▶ EllisDon Infrastructure Healthcare
  - ▶ Etobicoke Healthcare Partnership
  - ▶ Plenary Health

#### ii. Request for Proposals | May 7, 2015

- ▶ A Request for Proposals (RFP) was issued to the shortlisted proponents, setting out the bid process and proposed project agreement for the project.
- ▶ The proponents spent approximately 7 months to prepare high-quality, competitive submissions.

#### iii. Proposal Submission | July 24, 2015

- ▶ The RFP period closed on November 19, 2015 and 3 proponents submitted bids on time.
- ▶ May – November 2015: bids were evaluated using criteria as set out in the RFP by an Evaluation Committee comprised of subject matter experts from IO, William Osler Health System and technical consultants enlisted by the Sponsors. The evaluation process resulted in Etobicoke Healthcare Partnership receiving the highest score.
- ▶ In February, 2016, the ‘first-ranked proponent’ – also referred to as the First Negotiations Proponent – Etobicoke Healthcare Partnership was notified of their standing.

#### iv. Preferred Proponent Notification | March 22, 2016

- ▶ After successful negotiations with the First Negotiations Proponent, Etobicoke Healthcare Partnership was selected as the preferred proponent. Etobicoke Healthcare Partnership best demonstrated the ability to meet the specifications outlined in the RFP, including technical requirements, construction schedule, price and financial backing.

## V. COMPETITIVE SELECTION PROCESS

### v. Commercial and Financial Close | May 6, 2016

- ▶ Upon conclusion of negotiations and once a financing rate was set, a Project Agreement (contract) was executed between Etobicoke Healthcare Partnership and William Osler Health System on May 6, 2016.
- ▶ The Etobicoke Healthcare Partnership team, includes the following entities:

#### Developers

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- ▶ Axiom Infrastructure Canada
- ▶ DIF Infra 4 Canada Ltd.

#### Constructor

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- ▶ Walsh Canada

#### Architect

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- ▶ HDR Architecture Associates Inc.

#### Financial Advisor

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- ▶ Brookfield Securities LP

#### Facility Manager

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- ▶ ENGIE Services Inc.

### ▶ Construction and Maintenance Phases

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### vi. Construction Phase | 2016 - 2018

- ▶ The construction phase began in May 2016 upon signing of the contract and will be carried out in accordance with the project agreement and the builder's schedule as approved by the Sponsors.
- ▶ During the construction period, the builder's construction costs will be funded through their own lending arrangements, which will be paid in monthly installments based on the construction program set out by Etobicoke Healthcare Partnership.
- ▶ Project construction will be overseen by William Osler Health System and IO.

### vii. Payment

- ▶ Etobicoke Healthcare Partnership is scheduled to receive a substantial completion payment expected in July 2018.



## VI. CONCLUSION

This report provides a project overview and summary of the procurement process for the Etobicoke General Hospital Phase 1 Patient Tower project, and demonstrates that a VFM of \$41.7 million or 12.8 percent will be achieved by using the AFP approach compared to traditional delivery.

Going forward, IO, William Osler Health System and Etobicoke Healthcare Partnership will continue to work together to ensure the successful delivery of the Phase 1 Patient Tower project while ensuring value for the public is protected.



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June 7<sup>th</sup>, 2016

**Private and confidential**

Divya Shah, SVP of Transaction Finance  
Transaction Finance  
Infrastructure Ontario  
777 Bay Street, 9<sup>th</sup> Floor  
Toronto, ON, M5G 2C8  
Canada

Dear Ms. Shah,

**Subject: Financial Close Stage Value for Money Analysis – William Osler Health System:  
Etobicoke General Hospital Project**

Deloitte LLP (“Deloitte” or “We”) has prepared the Financial Close Stage Value for Money (“VFM”) assessment for the William Osler Health System: Etobicoke General Hospital Project (the “Project”), in accordance with Infrastructure Ontario’s (“IO”) value for money assessment methodology outlined in *Assessing Value for Money: An Updated Guide to Infrastructure Ontario's Methodology - March 2015*.

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 (AFP) approach, as reflected in the Preferred Proponent’s Bid at Financial Close.

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

1. A Base 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 Proponent’s Bid at Financial Close;
3. Other VFM model assumptions provided by IO.

While Deloitte did not audit or attempt to independently verify the accuracy or completeness of the Information, Deloitte confirms, based on our familiarity with IO’s VFM methodology, 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 12.8% in comparison to the traditional delivery approach, using a 2.12% discount rate.

Yours very truly,

Deloitte LLP

17 February 2016

Infrastructure Ontario  
 1 Dundas Street West  
 Suite 2000, Toronto  
 Ontario M5G 2L5

**Attention:** Michael Inch  
 Vice-President, Procurement

Dear Michael:

SEG Management Consultants were engaged as the Fairness Monitor to review, observe and confirm the processes of communication, evaluation and decision-making associated with the procurement process for the Request for Proposals for the William Osler Health System - Etobicoke General Hospital Phase I Patient Tower Project (RFP #14-430P) issued by Infrastructure Ontario. Our role related to ensuring openness, fairness, consistency and transparency from the RFQ transition through to the conclusion of the Project RFP process.

SEG hereby presents its final procurement fairness attest report to Infrastructure Ontario at the conclusion of this final stage in the procurement process, describing how the procurement process has complied with requirements. The following chart included below is in accordance with Infrastructure Ontario's procurement guidelines. It summarizes our involvement and findings:

Stage	Task	Fair (Yes / No)
1.	Procurement documents were made available in an open and equitable manner	Yes
2.	The RFP open period was consistent with the Procurement Framework	Yes
3.	The procurement documents, including the evaluation tools, were reviewed and were deemed to be consistent with the guidelines established by Infrastructure Ontario and the Procurement Framework	Yes
4.	Mandatory meetings were clearly identified in the procurement documents and there were no meeting on the procurement that the Proponents were not notified of	Yes
5.	Answers were made available to all Proponents for all questions that were submitted	Yes
6.	There was a forum/process through which Proponents could make complaints	Yes
7.	Infrastructure Ontario confirmed that the requisite information would be made available regarding the results of the procurement	Yes
8.	All participants confirmed that they would adhere to the conflict of interest and confidentiality requirements	Yes



Stage	Task	Fair (Yes / No)
9.	Protocols were in place to control access to information as appropriate, including protection of Commercially Confidential information	Yes
10.	Proponents confirmed their adherence to the conflict of interest and confidentiality requirements in their submissions	Yes
11.	<ul style="list-style-type: none"> <li>The time and place of the closing were clearly identified in the procurement documents</li> <li>The submissions were logged and recorded upon receipt, clearly identifying those that were submitted on time</li> <li>The pricing was contained in a separate envelope and any Mandatory requirements were adhered to for the proposals that were evaluated</li> </ul>	Yes
12.	There was a protocol in place to ensure that document confidentiality was maintained	Yes
13.	The evaluation criteria and process were included in the RFP	Yes
14.	The evaluation and scoring guideline were finalized before the Closing	Yes
15.	The composition of the evaluation committee adhered to the Procurement Procedures	Yes
16.	Evaluators were trained on the evaluation tools	Yes
17.	The pricing envelopes were opened only for Proponents who met the requirements of the procurement process according to the RFP	Yes
18.	Evaluations were done in an unbiased manner and in accordance with the Evaluation Framework	Yes
19.	The selection of the "First Negotiation Proponent" was approved according to the RFP documents and Evaluation Framework	Yes
20.	Debriefings are to be provided for all unsuccessful Proponents and are to be offered for the successful Proponent.	Yes

### **Observations and Findings**

The procurement process is established clearly in Infrastructure Ontario's guidelines. The evaluation process and criteria described in the procurement documents were applied consistently and equitably. In the final evaluation discussions, the evaluators demonstrated that they had been diligent in their responsibilities, that they were able to support their individual evaluation assessments and that they held no bias for or against any Respondent. There were no unresolved issues at the RFP stage of the procurement. Consensus was reached and confirmed by all evaluators. An official record was produced to document the evaluation and scoring consensus decisions, including the supporting rationale.

### **Conclusion**

As the Fairness Monitor Consultant for the William Osler Health System - Etobicoke General Hospital Phase I Patient Tower Project (RFP #14-430P), issued by Infrastructure Ontario, we certify that the principles of openness, fairness, consistency and transparency have been, in our opinion, properly established and maintained throughout the procurement process. Furthermore, we were not made aware of any issues that emerged during the process that would impair the fairness of this initiative.

SEG Management Consultants Inc.



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Greg Dadd  
Vice-President, Procurement and Fairness Advisory Services  
SEG Management Consultants

Cc: Yaprak Berktin  
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**Infrastructure Ontario**

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