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VALUE FOR MONEY ASSESSMENT

WOODSTOCK GENERAL HOSPITAL

December 18, 2008

Private and confidential

Ms. Carole Malo
Infrastructure Ontario
777 Bay Street, Suite 900
Toronto ON M5G 2C8

Dear Ms. Malo

Subject: Re: Value for Money Analysis at Financial Close – Woodstock General Hospital

Deloitte & Touche LLP (“Deloitte” or “We”) has prepared the Value for Money (“VFM”) assessment for the Woodstock General Hospital (“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.

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

- i. A Risk Matrix developed for IO by the Altus Group and adapted to reflect project specific risks for the Project; and
- ii. Cost and other input assumptions extracted from the Preferred Bid.

The VFM assessment submitted to you on December 18, 2008, demonstrates that the AFP approach will provide an estimated value savings of 17.4% (in comparison to the traditional delivery approach), using a 4.54% discount rate.

While we did not audit or attempt to independently verify the accuracy or completeness of the Information, we confirm, 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.

Yours very truly,

Deloitte & Touche LLP

Gianni Ciuffo
Partner
Deloitte & Touche LLP

13 February 2009

Graham McLeod
Vice President, Project Legal Services
Infrastructure Ontario
777 Bay Street, 6th Floor
Toronto, ON M5G 2C8



Re: Woodstock General Hospital AFP Project

Dear Graham,

Knowles Consultancy Services Inc. was retained to provide fairness advisory services for the above-mentioned project. Our role on the project was to provide advice pertaining to the fairness of the procurement processes. We were retained in 2007 and provided these services for the initial Request for Qualifications and the Request for Proposals.

The Woodstock General Hospital project consists of a 178-bed publicly owned and operated community hospital designed to serve the local needs of the Woodstock community. The Facility will house acute inpatient medical/surgical, critical care, maternal/child/women's health, complex continuing care, and a mental health and rehabilitation unit.

Specifically, we provided advice to Infrastructure Ontario with regard to:

- Wording of the RFP document;
- Proponent Consultations;
- Adequacy of communications to Proponents;
- Adequacy of notification of changes in requirements;
- Confidentiality and security of Proposals and evaluations;
- Qualifications of the evaluation team;
- Compliance with the process;
- Objectivity and diligence respecting the evaluations;
- Proper use of assessment tools; and
- Conflict of Interest;

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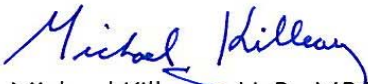
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In our capacity as Fairness Monitor we undertook the following tasks:

- Attended the site visit and all meetings with Proponents;
- Monitored all communications with Proponents;
- Provided advice on the drafting of the procurement documents with a view to ensuring a fair process; and,
- Monitored the evaluation process.

In conclusion, based on our findings, we are satisfied that the Woodstock General Hospital procurement processes were conducted in a procedurally fair, open, and transparent manner. All Proposals received were evaluated against the evaluation criteria published in the procurement documents. We detected no bias either for or against any particular Proponent in the application of the evaluation criteria.

Yours truly,
KNOWLES CONSULTANCY SERVICES INC.



Michael Killeavy, LL.B., MBA, P.Eng., ACI Arb.
Managing Consultant

WOODSTOCK GENERAL HOSPITAL ARTIST'S RENDERING



Parkin Architects

Highlights of the new hospital:

Square footage	350,000 square feet
Number of single patient rooms	More than 60 per cent
Environmentally Sustainable Design	Building will be LEED Certified

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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 ensures that new infrastructure projects are delivered on time and on budget.

The Woodstock General Hospital project is being delivered under the Province's Alternative Financing and Procurement (AFP) model.

Woodstock General Hospital is a community health care facility providing primary care to more than 55,000 people and specialty services to more than 100,000 people within Oxford County. It has been serving the community since 1895. The hospital currently has 140 doctors with privileges and approximately 700 staff members.

Woodstock General Hospital's new three-storey state-of-the-art facility will replace the aging, existing community hospital in Woodstock and bring expanded regional programs and services to Woodstock and Oxford County.

Woodstock General Hospital will be a new facility with capacity of up to 178 beds, providing patients and staff with a high quality healing environment and the latest technology in bedside services and communications. At 350,000 square feet, the new hospital will more than double the size of the current facility.

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 Woodstock General Hospital project through the AFP process.

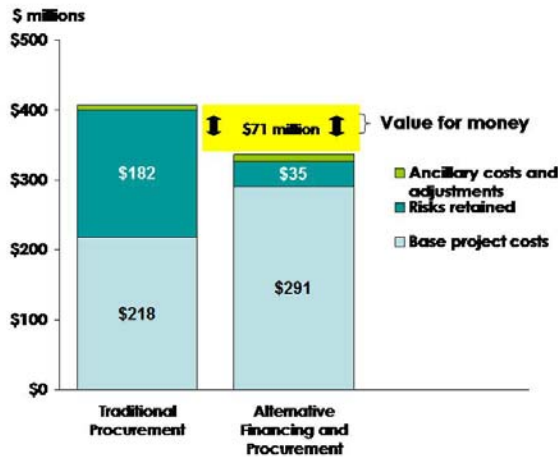
The value for money analysis refers to the process of developing and comparing the total project costs under two different delivery models expressed in dollar values measured at the same point in time.

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 the Woodstock General Hospital project indicates estimated cost savings of 17.4 per cent or \$71.0 million, by using the AFP approach in comparison to traditional delivery.



Deloitte & Touche LLP completed the value for money assessment of the Woodstock General Hospital project. Their assessment demonstrates projected cost savings of 17.4 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 Woodstock General 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 Woodstock General Hospital on the development of the new hospital, which will remain publicly owned, publicly controlled and publicly accountable.

"The new hospital will meet our growing community's demand for quality health care, in a modern and spacious facility. With new services, more space and technologically advanced equipment, we will be able to better serve our patients and their families for generations to come."

-Natasa Veljovic, President and CEO, Woodstock General Hospital

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. A *ReNew Ontario* Progress Report was released in July 2007 and is available at www.ontario.ca/mei.

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.

Woodstock General Hospital

Woodstock General Hospital, a community health care facility providing primary care to more than 55,000 people and specialty services to over 100,000 people within Oxford County, has been serving the community since 1895.

Woodstock General Hospital's new state-of-the-art facility will consist of more than 350,000 square feet of hospital space on a 25 acre site in the south end of the city. The new facility will provide increased clinical services, including critical care, complex continuing care, palliative care, ambulatory clinics and emergency medicine.

Job Creation

The new hospital will also create economic value as skilled tradespeople, subcontractors and their suppliers benefit from the capital investment. At the peak of construction approximately 200 workers will be on site daily.

Project Scope

The new Woodstock General Hospital will replace the existing facility and will include a full-range of clinical services and programs such as:

- A new inpatient rehabilitation program, in partnership with community agencies;
- A diagnostic Imaging (DI) department using the latest in digital imaging technologies for diagnosis and to reduce patient wait times;
- Surgical services;
- Inpatient medical/surgical beds;
- Critical care and complex continuing care;
- A maternal/child/women's health unit;
- Inpatient and outpatient mental health services;
- Pharmacy and laboratory services;
- Cardio-respiratory services;
- Physiotherapy and rehab services.

Competitive selection process timeline

Woodstock General Hospital has entered into a project agreement with Integrated Team Solutions (ITS) to build, finance and maintain their project. The ITS team includes EllisDon Corporation., LPF Infrastructure Fund, Honeywell International Inc., CIT Financial Ltd., Sun Life Assurance Company of Canada, the Great West Life Assurance Company and Industrial Alliance Insurance and Financial Services Inc. The procurement stages for the project were as follows:

June 5, 2007

Request for Qualifications

In 2007, Woodstock General Hospital and Infrastructure Ontario issued a request for qualifications (RFQ) for the project. Three building teams were short-listed:

Integrated Team Solutions (ITS)

- EllisDon Corporation
- LPF Infrastructure Fund
- Honeywell
- CIT Financial
- Sun Life Assurance Company of Canada
- Great West Life Assurance Company
- Industrial Alliance

Plenary Health

- Plenary Group
- PCL Constructors
- Johnson Controls
- TD Securities Inc.

Carillion

- Carillion Canada Inc.
- Vanbots Construction Corporation
- Halifax Bank of Scotland
- Sumitomo Mitsui Banking Corporation
- Dexia Crédit Local S.A., Canada Branch

January 8, 2008

Request for Proposals

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

Proposal submission

The RFP period closed on June 17, 2008. Three bids were received by Infrastructure Ontario and Woodstock General Hospital. The bids were evaluated using the criteria set out in the RFP.

August 25, 2008

Preferred proponent notification

ITS was selected as the successful RFP proponent based on predetermined evaluation criteria set out in the RFP, including construction schedule, technical requirements, price, operational and management plans and financing backing.

September and October 2008

Commercial and financial close

A project agreement was executed by ITS and Woodstock General Hospital.

Financing for ITS to complete the project was arranged by CIT Financial and includes the following financial partners:

- LPF Infrastructure Fund
- Sun Life Assurance Company of Canada
- Great West Life Assurance Company
- Industrial Alliance Insurance and Financial Services Inc.

October 2008 – June 2011

Construction

Following the finalization of the documents, construction began in October 2008. 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 Corporation.

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 Woodstock General Hospital and Infrastructure Ontario.

Completion and payment

It is anticipated that the project will reach substantial completion in June 2011, at which time Woodstock General Hospital will make a lump sum payment to ITS, which will be followed by monthly service payments for construction of the facility, building maintenance, lifecycle repair and renewal and project financing.

Project costs will be paid by Woodstock General Hospital through funding from the Ministry of Health and Long-Term Care and the Woodstock General Hospital's fundraising efforts.

2011 – 2041

Maintenance

ITS will maintain the new hospital for 30 years and be responsible for building maintenance, repair and lifecycle replacement, and for providing services such as grounds-maintenance, snow and ice management and security during that period.

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

Woodstock General Hospital entered into a project agreement with ITS, comprising approximately 32 months of construction and a 30-year maintenance timeframe. Under the terms of the project agreement, ITS will:

- build the new Woodstock General 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 new hospital is built;
- provide facility management and lifecycle maintenance for the new hospital and certain other services 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.

Woodstock General Hospital will make monthly payments to ITS, based on performance requirements defined in the project agreement. Woodstock General Hospital will not commence these payments until the new hospital is substantially completed. Moreover, if ITS does not meet the standards set in the project agreement, it will face financial deductions.

ITS will be paid a lump sum payment of \$18.45 million at substantial completion as well as an average \$19.36 million each year (paid on a monthly basis), including a partial inflation indexation at an estimated 2 per cent per year, subject to certain adjustments for benchmarking, market testing and inflation changes.

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

The building and maintenance team will be granted a licence to access the site and hospital in order to provide the construction and facility maintenance services over the term of the agreement. However, as noted above, the new hospital 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

Facility management refers to 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 –Hospital? 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, 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 ITS. On a traditional project, these risks and the risk of 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

ITS will finance and construct the new hospital. Once construction is completed, they will be repaid over 30 years for construction and financing. Hard facility management and lifecycle maintenance costs will be included in the monthly payments. ITS's 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

ITS has agreed to reach substantial completion of the facilities by June 2011.

The construction schedule can only be modified in very limited circumstances, in accordance with the project agreement. Payments to ITS's 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 ITS will be at ITS's own cost.

Development approvals

ITS is responsible for applying, obtaining, maintaining, renewing and complying with all development approvals.

Mechanical and electrical and building systems responsibility

ITS shall be responsible for:

- 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

ITS is required to finance the construction of the project until the new hospital is substantially complete and Woodstock General Hospital can occupy the facility. ITS will be responsible for all increased financing costs resulting from any ITS

caused delays in achieving substantial completion. This shifts significant financial risk to ITS for late delivery.

Commissioning and facility readiness

ITS must achieve a prescribed level of commissioning of the new hospital at substantial completion and must co-ordinate the commissioning activities within the agreed upon construction schedule. This ensures that Woodstock General Hospital will receive a functional facility at the time payments to ITS commence. ITS will also work closely with Woodstock General Hospital to facilitate transition from the existing facility to the new facility.

Activity protocols

ITS and Woodstock General Hospital's design team have established a schedule for project submittals taking into account the time for review needed by the hospital's design team.

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

Project Scope Change 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 Woodstock General Hospital;
- 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 Woodstock General Hospital-initiated scope changes;
- approval by Infrastructure Ontario for any change orders which exceed pre-determined thresholds; and
- approval by Infrastructure Ontario when the cumulative impact of the change orders exceed a pre-determined threshold.

Facilities maintenance risk

As part of the project agreement, key risks associated with the maintenance responsibility (including life-cycle renewal) of the new health-care facility over the 30-year service period have been transferred to ITS. ITS must implement its maintenance of the building and the lifecycle repair and renewal program in a manner that meets the performance requirements set out in the project agreement. Under the project agreement, ITS 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 ITS under the project documents, the financing arrangement entered into between ITS 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 Woodstock General Hospital, Deloitte & Touche LLP's value for money assessment demonstrates a projected cost savings of 17.4 per cent, or \$71.0 million, by using the alternative financing and procurement (AFP) approach, as compared to the traditional procurement approach.

Deloitte & Touche LLP 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 & Touche LLP 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.

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.

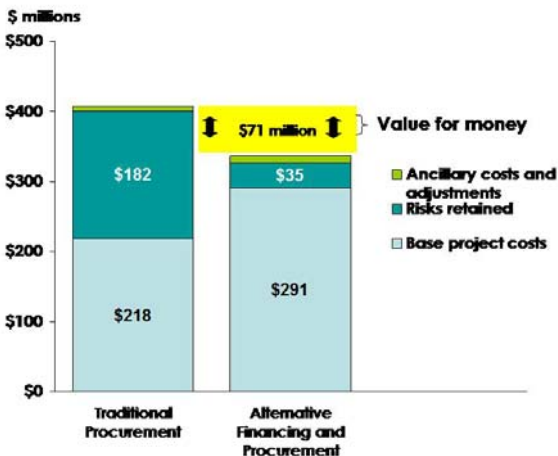
The cost components in the VFM analysis include only the portions of the project costs that are being delivered using AFP. Project costs that would be the same under both models, such as land acquisition costs, furniture, fixtures and equipment, are excluded from this VFM calculation.

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 Woodstock General Hospital project indicates estimated cost savings of 17.4 per cent or \$71.0 million, by using the AFP approach in comparison to traditional delivery.

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.



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. 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 present-valued to the date of financial close to compare the two methods of delivering a 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 project agreement signed with ITS, 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 Woodstock General Hospital project, these were \$290.7 million.

If the traditional model had been used for the Woodstock General Hospital project, base costs are estimated to be \$218.0 million.

Risks retained

Historically, on traditional projects, the public sector had to bear costs that go beyond a project's base costs because of the contingencies necessary developed to respond to 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 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 13-15, 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 ITS:

- construction price certainty;
- scheduling, project completion and potential delays;
- schedule contingency
- design co-ordination;
- lifecycle responsibility;
- mechanical and electrical systems responsibility;
- development approvals;
- construction financing;
- schedule contingency;
- coordination of equipment procurement and installation;
- commissioning and facility readiness;
- activity protocols; and
- construction financing.

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 Woodstock General 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 Woodstock General Hospital, 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 Group Limited, 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 Woodstock General 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 agreement result in overall

cost savings as these transferred risks will either be better managed or completely mitigated by ITS.

A detailed risk analysis of the Woodstock General Hospital project concluded that the average value of project risks retained by the public sector under traditional delivery is \$182.2 million. The analysis also concluded that the average value of project risks retained by the public sector under the AFP delivery model decreases to \$35.1 million.

For more information on the risk assessment methodology used by Infrastructure Ontario, please refer to Altus Group Limited's Risk Assessment Template for DBFM or BFM 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 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 Woodstock General Hospital project under the traditional delivery

method are estimated to be \$5.1 million as compared to \$10.7 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 the Woodstock General Hospital project, this adjustment is made by adding \$2.2 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

Calculating value for money

The analysis completed by Deloitte & Touche LLP 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 Woodstock General Hospital project, the estimated traditional delivery cost (i.e. PSC) is \$407.5 million as compared to \$336.5 million under the AFP delivery approach.

The positive difference of \$71.0 million or 17.4 per cent represents the estimated value for money by using the AFP delivery approach in comparison to the traditional delivery model.