



Value for Money Assessment

St. Thomas Elgin General Hospital
Emergency, Ambulatory and Mental Health Redevelopment Project

July 2016

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I. EXECUTIVE SUMMARY

This report provides a summary of the procurement process for the St. Thomas Elgin General Hospital Emergency, Ambulatory and Mental Health Redevelopment 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.

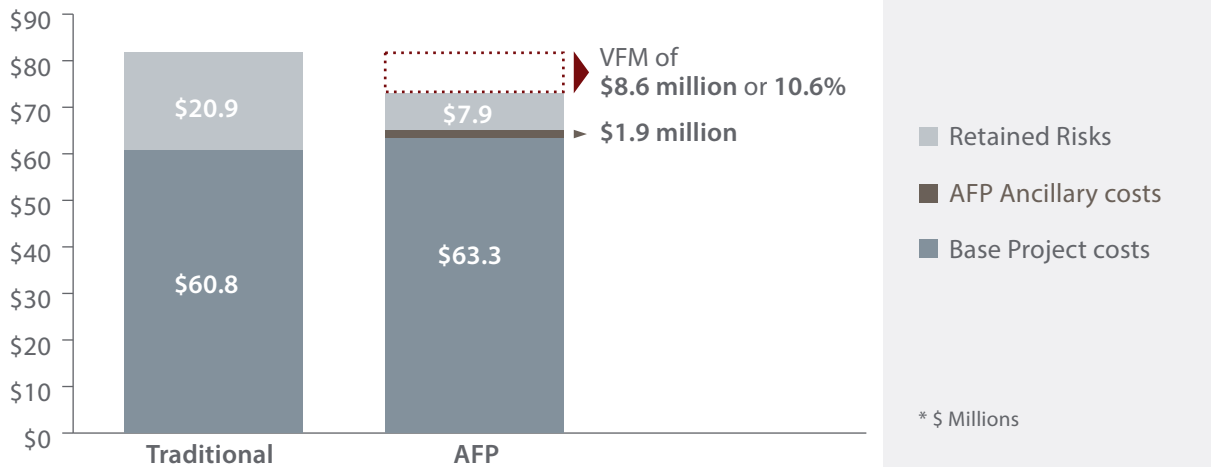
► Alternative Financing and Procurement in Ontario

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 St. Thomas Elgin General Hospital indicates an estimated cost savings of \$8.6 million or 10.6% percent by using the AFP approach compared to traditional delivery.



I. EXECUTIVE SUMMARY

► External Review

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

- Deloitte was retained to complete the VFM assessment,
- P1 Consulting acted as the Fairness Monitor for the project, and
- Montgomery Sisam/Kahler Slater acted as the Technical Advisor for the project.

II. PROJECT HIGHLIGHTS

➤ St. Thomas Elgin General Hospital



Courtesy of Montgomery Sisam/Kahler Slater

Purpose	To deliver the St. Thomas Elgin General Hospital expansion and redevelopment project. This redevelopment is the largest single project in the six-decade history of the St. Thomas Elgin General Hospital
Project Owner	St. Thomas Elgin General Hospital
Private Partner	EllisDon Infrastructure STEGH Inc. (EllisDon)
Location	St. Thomas
Project Type	Build-Finance
Infrastructure Type	Health Care
Contract Value	\$63 million
Construction Period	2015 to 2018
Length of Project Agreement	3 years
Estimated Value for Money	\$8.6 million or 10.6%

➤ Background

The St. Thomas Elgin General Hospital is a 166-bed facility providing comprehensive 24-hour coverage in Internal Medicine, Surgery, Obstetrics, Pediatrics, Anesthesia, Emergency and Family Medicine.

➤ Objectives

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.



II. PROJECT HIGHLIGHTS

➤ Project Scope

The project involves a three-storey addition to the northwest side of the current hospital building. The new addition will be approximately 106,000 square feet and will include:

- ▶ a new emergency department;
- ▶ surgical suite;
- ▶ medical devices reprocessing department;
- ▶ acute mental health unit with 15 inpatient beds and ambulatory services; and
- ▶ ambulance garage.

➤ Economic Benefits & Job Creation

The project is generating economic stimulus by creating and supporting jobs. At the peak of construction, EllisDon estimates that 125 workers will be on the site daily, with more opportunities for subcontractors as the project progresses.

III. ACHIEVING VALUE FOR MONEY

Value for money assessment for the St. Thomas Elgin General Hospital project demonstrates a project cost savings of:

\$8.6 million or 10.6%

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.

► 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 DBB 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 St. Thomas Elgin General Hospital actual bid costs.

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
Adjusted Base Costs	Base Costs (\$) +/- Adjustments	Adjusted Base Costs	Base Costs (\$) +/- Adjustments
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 (DBF and DBFM projects only) – the VFM methodology typically 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.
 - ▶ for the purposes of the STEGH project, an innovation factor was not applied to VFM given this project was procured under IO’s Build Finance (BF) model. This is consistent with IO’s VFM methodology.

▼ 1.2. Financing Costs

Traditional Delivery Model (PSC)		AFP Delivery Model	
Financing Costs	Public sector notional financing costs	Financing Costs	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:

III. ACHIEVING VALUE FOR MONEY

- ▶ 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.
- ▶ 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

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 EllisDon:

- ▶ 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.

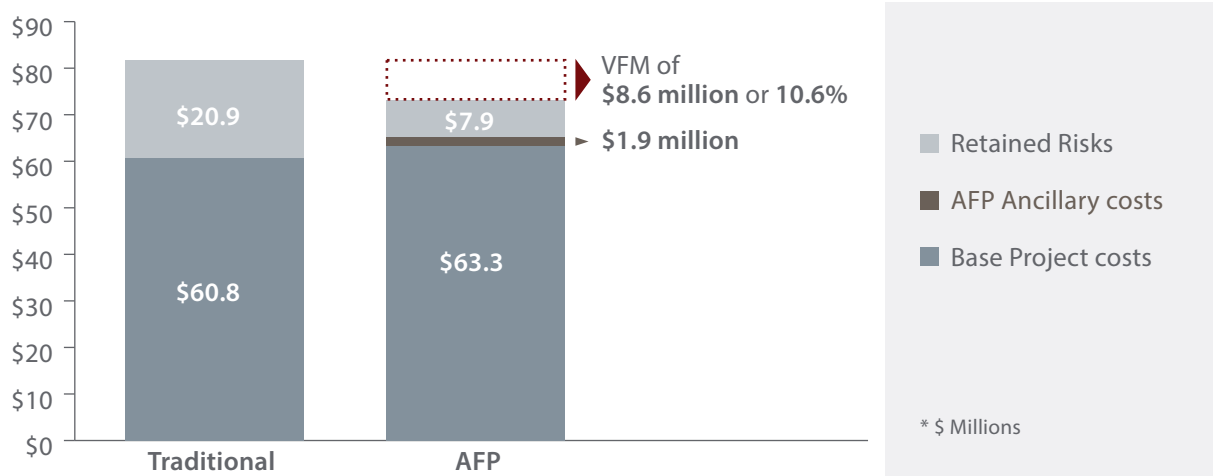
III. ACHIEVING VALUE FOR MONEY

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

▶ St. Thomas Elgin General Hospital Value for Money Results

The VFM assessment of the St. Thomas Elgin General Hospital indicates an estimated cost savings of \$8.6 million or 10.6 per cent by using the AFP approach compared to traditional delivery.

Traditional Delivery Model (PSC)	\$ Millions	AFP Delivery Model	\$ Millions
I. Base Project Costs (Adjusted Base Costs + Financing)	\$60.8	I. Base Project Costs (Adjusted Base Costs + Financing)	\$63.3
II. AFP Ancillary Costs	N/A	II. AFP Ancillary Costs	\$1.9
III. Retained Risks	\$20.9	III. Retained Risks	\$7.9
Total	\$81.7	Total	\$73.1
Estimated Value for Money (cost difference)		\$8.6	
Estimated Percentage Savings		10.6%	



III. ACHIEVING VALUE FOR MONEY

➤ External Review

Deloitte completed the VFM assessment for the project. Their assessment demonstrates projected cost savings of 10.6 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 17).

P1 Consulting 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. P1 Consulting certified that these principles were maintained throughout the procurement process (see letter on page 15).

IV. PROJECT AGREEMENT

► Highlights of the Project Agreement

The Project Agreement signed between St. Thomas Elgin General Hospital and EllisDon defines the obligations and risks of all parties involved. Key highlights that pertain to the construction terms are below:

- **Contract Price Certainty** – A \$63.3 million fixed-price contract (without inflation) fixed-price contract to build and finance the St. Thomas Elgin General Hospital. Any extra costs incurred as a result of a schedule overrun caused by EllisDon will not be paid by the Province.
- **Scheduling, Project Completion and Delays** – EllisDon has agreed to a substantial completion date of November 2017. The schedule can be modified in limited circumstances, in accordance with the terms of the Project Agreement. Project Co 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 EllisDon to complete construction on time.
- **Site Conditions and Contamination** – EllisDon 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 EllisDon or any of its parties.
- **Construction Financing** – EllisDon is required to finance the construction of the project.
- **Commission and Facility Readiness** – EllisDon must achieve a prescribed level of commissioning at substantial completion within the agreed-to schedule. This ensures St. Thomas Elgin General Hospital will be able to achieve operational service in November 2017.

V. COMPETITIVE SELECTION PROCESS

The procurement process for the St. Thomas Elgin General Hospital project, from RFQ to Financial Close, took 15 months to complete.

After concluding a fair and competitive procurement process, St. Thomas Elgin General Hospital entered into a project agreement with EllisDon to build and finance the project.

► Procurement Process

i. Request for Qualifications | August 13, 2014

- St. Thomas Elgin General Hospital and IO issued a Request for Qualifications (RFQ) to solicit interested parties to build and finance the St. Thomas Elgin General Hospital.
- In September 2014, the RFQ period closed and the Sponsors received statements of qualifications from six teams.
- RFQ submissions were evaluated by IO and St. Thomas Elgin General Hospital. 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 four proponents being shortlisted.
 - Bondfield Construction Company Limited
 - Elite Construction Inc.
 - EllisDon Infrastructure STEGH Inc.
 - Pomerleau Inc.

ii. Request for Proposals | March 10, 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 four months to prepare high-quality, competitive submissions.

iii. Proposal Submission | July 24, 2015

- The RFP period closed on July 24, 2015 and two proponents submitted bids on time.
- July – September 2015: bids were evaluated using criteria as set out in the RFP by an Evaluation Committee comprised of subject matter experts from IO, St. Thomas Elgin General Hospital and technical consultants enlisted by the Sponsors. The evaluation process resulted in EllisDon Infrastructure STEGH Inc. receiving the highest score.
- In September 2015, the ‘first-ranked proponent’ – also referred to as the First Negotiations Proponent – EllisDon Infrastructure STEGH Inc. was notified of their standing.

iv. Preferred Proponent Notification | October 16, 2015

- After successful negotiations with the First Negotiations Proponent, EllisDon Infrastructure STEGH Inc. was selected as the preferred proponent. EllisDon Infrastructure STEGH Inc. 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 | November 13, 2015

- ▶ Upon conclusion of negotiations and once a financing rate was set, a Project Agreement (contract) was executed between EllisDon Infrastructure STEGH Inc. and St. Thomas Elgin General Hospital on November 13, 2015.
- ▶ The EllisDon Infrastructure STEGH Inc. team, including identified subcontractors, comprises more than 9 companies:

Construction:

- ▶ EllisDon Design-Build
- ▶ Besterd Mechanical
- ▶ Al Gordon Electric
- ▶ Otis Canada
- ▶ Hi-Tek Drywall and Acoustics
- ▶ Sherwood Windows
- ▶ George and Asmussen
- ▶ J-AAR Excavating

Financial Advisors:

- ▶ EllisDon Capital Inc.

▶ Construction and Maintenance Phases

vi. Construction Phase | 2015 – 2018

- ▶ The construction phase began in November 2015 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 EllisDon.
- ▶ Project construction will be overseen by St. Thomas Elgin General Hospital and IO.

vii. Payment

- ▶ EllisDon will receive a substantial completion payment expected in November, 2017.



VI. CONCLUSION

This report provides a project overview and summary of the procurement process for the St. Thomas Elgin General Hospital project, and demonstrates that a VFM of \$8.6 million or 10.6 percent will be achieved by using the AFP approach compared to traditional delivery.

Going forward, IO, St. Thomas Elgin General Hospital and EllisDon Corporation will continue to work together to ensure the successful delivery of the St. Thomas Elgin General Hospital while ensuring value for the public is protected.

November 9th, 2015

Mr. Michael Inch
Vice President, Procurement
Infrastructure Ontario
777 Bay Street, 9th Floor
Toronto, Ontario M5G 2C8

Subject: RFP to Build and Finance the St. Thomas Elgin General Hospital (“STEGH”) Emergency, Ambulatory and Mental Health Redevelopment Project (“the Project”) RFP No. 14-368P

Dear Mr. Inch:

P1 Consulting was retained to perform fairness auditing services and provide an independent attestation on the RFP procurement process. Our mandate was to review and monitor the bid documents and communications, provide advice on best practices, review and monitor the evaluation and decision-making processes that are associated with the RFP to ensure fairness, equity, objectivity, transparency and adequate documentation throughout the evaluation process.

Infrastructure Ontario issued, in conjunction with St. Thomas Elgin General Hospital, a Request for Proposals to Build and Finance the Project.

The new hospital addition will comprise of approximately 103,500 square feet and will be constructed to the north-west of the current hospital building. The new hospital addition will be connected to the existing hospital on three levels by a corridor link and a new 1 storey direct link between the new emergency department and the existing diagnostic and imaging department. The Project also includes a separate mechanical plant outbuilding constructed to service the Existing Facility and the redevelopment, which will be connected via underground trenches to both the new addition and the Existing Facility. The scope includes limited renovations to the Existing Facility corridors on the ground level and the areas affected by the new link connections and mechanical / electrical / communication system tie-ins to the Existing Facility. The new addition will include a new Emergency Department, Surgical Services, and a new 15 bed schedule 1 Mental Health inpatient unit including an outdoor terrace and outpatient department. Support areas include a new main Sterile Processing Department (SPD) in the lower level and shelled space for future programs. Site works for the Project include a new parking and drop of area as well as reconfiguration of the driveway and parking on the existing Emergency Department area as well as landscaping and exterior signage.

In our role as Fairness Monitor, P1 Consulting made certain that the following steps were taken to ensure a fair and open process:

P1 Consulting Inc.

- Compliance with the requisite procurement policies and procedures and the laws of tendering for the acquisition of services relating to public sector procurement;
- Adherence to confidentiality of bids, and the evaluation process;
- Objectivity and diligence during the procurement process in order to ensure that it was conducted in an open and transparent manner;
- Proper definition and use of evaluation procedures and assessment tools in order to ensure that the process was unbiased;
- Compliance of project participants with strict requirements of confidentiality during the procurement and evaluation processes;
- Security of information;
- Oversight to provide a process where all bidders were treated fairly.

The Fairness Monitor actively participated in the following steps in the process to ensure that fairness was maintained throughout:

- Project kick-off meeting
- Review session of the draft RFP Documents
- Commercially Confidential Meetings with the Proponents
- Site and facility visits by the Proponents
- Review of the RFP Addenda
- Review of evaluation process and guideline
- Proposal receipt, bid evaluation and selection of the Negotiation Proponents

As the Fairness Monitor for the **St. Thomas Elgin General Hospital Emergency, Ambulatory and Mental Health Redevelopment Project**, we certify that, at the time at which this report was prepared, the principles of fairness, openness, consistency and transparency have, in our opinion, been maintained throughout procurement process. Furthermore, no issues emerged during the process, of which we were aware, that would impair the fairness of this initiative.

Yours truly,



Jill Newsome
Lead Fairness Commissioner





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December 11th, 2015

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Private and confidential

Divya Shah, VP of Transaction Finance
Transaction Finance
Infrastructure Ontario
777 Bay Street, 9th Floor
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Dear Ms. Shah,

Subject: Financial Close Stage Value for Money Analysis – St. Thomas Elgin General Hospital Project

Deloitte LLP (“Deloitte” or “We”) has prepared the Financial Close Stage Value for Money (“VFM”) assessment for the St. Thomas Elgin General Hospital Project (the “Project”), in accordance with Infrastructure Ontario’s (“IO”) value for money assessment methodology (“VFM Methodology”) outlined in *Assessing Value For Money: An Updated Guide to Infrastructure Ontario’s Methodology*. The VFM Methodology appears consistent with approaches used in other jurisdictions.

The VFM assessment is based on a comparison of the estimated total project costs at substantial completion 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 Adjusted Shadow Bid.

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 Successful 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 the application of VFM methodologies, that the Information has been appropriately used in the VFM model. The VFM assessment demonstrates that the AFP approach will provide estimated value savings of 10.6% in comparison to the traditional delivery approach.

Yours very truly,

Deloitte LLP



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