Ontario

INFRASTRUCTURE ONTARIO

VALUE FOR MONEY ASSESSMENT

ROUGE VALLEY HEALTH SYSTEM'S AJAX AND PICKERING HOSPITAL PHASE I REDEVELOPMENT PROJECT

KPMG LLP
Suite 3300 Commerce Court West
PO Box 31 Stn Commerce Court
Toronto ON M5L 1B2

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

Infrastructure Ontario
777 Bay Street
Toronto, Ontario
M5G 2C8
Attn: Carole Malo

Re: Final Value for Money Assessment – Rouge Valley Health Systems Project

Dear Ms. Malo:

KPMG LLP ("KPMG") has prepared the Value for Money ("VFM") assessment for the Rouge Valley Health Systems Project ("Project") at the Financial Close stage, in accordance with our letter of engagement with Infrastructure Ontario ("IO") and IO's methodology *Assessing Value for Money: A Guide to Infrastructure Ontario's Methodology*. This methodology is consistent with approaches used in other jurisdictions.

The VFM assessment is based on a comparison of the 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 approach ("AFP"), incorporating the Successful Bidder's proposed costs.

The VFM assessment was calculated using the following information (collectively the "Information") within the VFM model:

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

ii. Cost and other input assumptions extracted from the bid submitted by the Successful Bidder and other VFM model assumptions as provided by IO.

We have not audited or attempted to independently verify the reasonableness, accuracy or completeness of the Information.

Based on our understanding of IO's VFM methodology, we can confirm that, the Information has been appropriately used in the VFM model, and that the VFM assessment demonstrates the AFP approach provides estimated cost savings of 12.80% in comparison to the traditional delivery approach.

Yours very truly

Will Lipson

KPMG LLP

Will Lipson
Managing Director
Toronto, Ontario
October 10, 2007

September 27th, 2007

Mr. Steven Richards
Vice President, Project Legal Services
Infrastructure Ontario
777 Bay Street, 6th Floor
Toronto, Ontario M5G 2C8

Subject: Rouge Valley Ajax Pickering Hospital – Phase I Redevelopment Project RFP No.: OIPC-07-15-I014

Dear Mr. Richards:

P1-Consulting was engaged on October 19th, 2006 to act as the Fairness Commissioner for this procurement process (RFQ and RFP) to review and monitor the communications, evaluations and decision-making processes that were associated with the procurement process for the **Rouge Valley Ajax Pickering Hospital – Phase I Redevelopment Project** in terms of ensuring fairness, equity, objectivity, transparency and adequate documentation of the evaluation process.

The primary objective of the Rouge Valley Ajax Pickering Hospital – Phase I Redevelopment Project is to renew, revitalize and expand a publicly-owned facility while incorporating private sector innovation and expertise, using Infrastructure Ontario's build finance model. The RFP process was used to select a pre-qualified proponent to expand and redevelop approximately 140,000 square feet of new and/or renovated space for services.

The project consists of a new Emergency Department with capacity for 60,000 patient visits per year, a 30-bed Complex Continuing Care Unit, a new expanded laboratory, nine more beds in the adult inpatient area of mental health, and redesigned space for the Diagnostic Imaging and Cardiac Diagnostic areas. There will also be a new ambulatory care unit which will provide space for outpatient clinic visits, a fracture clinic, outpatient procedures, medical day care and pre-admit visits.

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

- 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, as applicable, 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 conflict of interest and confidentiality during the procurement and evaluation processes;
- Security of information;
- Prevention of any conflict of interest amongst evaluators on the selection committee;

Property One Consulting Inc.

86 Centrepointe Drive, Ottawa, Ontario, Canada K2G 6B1 T: (613) 723-0060 F: (613) 723-9720

Property One Consulting Inc.

- Oversight to provide a process where all Bidders were treated fairly.

The Fairness Commissioner 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 RFQ and RFP Documents
- Commercially Confidential Meetings with the pre-qualified Bidders by interested Bidders
- Site and facility visits by the Proponent
- Review of the RFQ and RFP Addenda
- Review of evaluation process and guideline
- Proposal receipt, bid evaluation and selection of the Negotiation Proponents
- Oversight of the Negotiation Process

The final step in the process, which we oversaw, was for the Sponsors to select the Preferred Proponent. Aecon Buildings (a division of Aecon Construction Group Inc.) was advised that they were the Preferred Proponent on August 24, 2007.

As the Fairness Commissioner for the **Rouge Valley Ajax Pickering Hospital – Phase I Redevelopment Project**, we certify that, to date, 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,

Louise Panneton
Lead Fairness Commissioner

Rouge Valley Health System - Ajax and Pickering Hospital
Architect's Rendering

Stantec Architecture Limited

Phase I Expansion of Services at the
Rouge Valley Health System's Ajax and Pickering Hospital

Highlights

	Current	At completion	Increase
Emergency room capacity (patient visits)	42,000	60,000	43%
Mental health beds	20	29	45%
Complex continuing care beds	10	30	100%+
Hospital size (square feet)	252,620	327,620	30%

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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. The Rouge Valley Health System's Ajax and Pickering Hospital Phase I Redevelopment Project is being delivered under *ReNew* using the Province's Alternative Financing and Procurement (AFP) delivery model.

The Ajax and Pickering Hospital Phase I Redevelopment Project will enable the Rouge Valley Health System to accommodate Durham Region's expanding population of some 529,000 residents and deliver more effective family centred health care for a broad range of health conditions and needs.

The project renews the hospital by renovating more than 65,000 square feet and expanding the facility by more than 75,000 square feet.

This will give the hospital a new and expanded Emergency Department, redesigned Diagnostic Imaging and Cardiac Diagnostic areas, a new Ambulatory Care Unit, Complex Continuing Care Unit and expanded laboratory and mental health services.

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 Rouge Valley Health System's Ajax and Pickering Hospital Phase I Redevelopment Project through the AFP process.

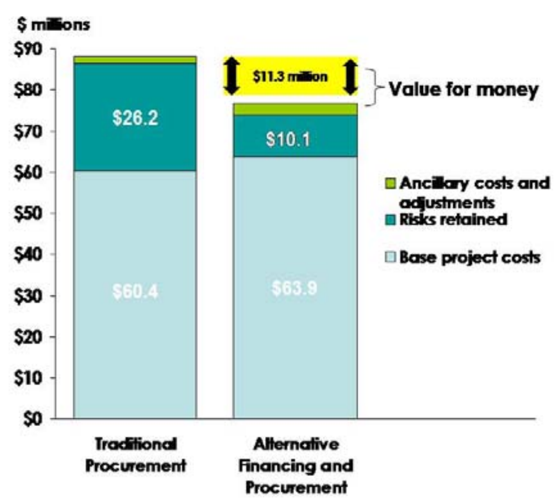
The value for money analysis refers to the process of developing and comparing the total project costs, expressed in dollars measured at the same point in time and related to two delivery models.

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

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

The cost difference between model #1 and model #2 is the estimated value for money for this project.

The value for money assessment of the Rouge Valley Health System's Ajax and Pickering Hospital Phase I Redevelopment Project indicates estimated cost savings of 12.8 per cent or $11.3 million, by using the AFP approach in comparison to the traditional delivery model.



> *"We are looking forward to our project's completion and to the expansion of services available for all members of our growing community."*
> Rik Ganderton, President and CEO of Rouge Valley Health System

KPMG LLP completed the value for money assessment of this project. Their assessment demonstrates projected cost savings of 12.8 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 (see page 2).

Property One Consulting acted as the Fairness Monitor for the project. They reviewed and monitored the communications, evaluations and decision-making processes associated with the Rouge Valley Health System's Ajax and Pickering Hospital Phase I Redevelopment Project, ensuring fairness, equity, objectivity, transparency and adequate documentation of the process. Property One Consulting certified that these principles were maintained throughout the procurement process (see pages 3-4).

Infrastructure Ontario will work with the Rouge Valley Health System on the expansion and redevelopment of the Ajax and Pickering Hospital, which will remain publicly owned, publicly controlled and publicly accountable.

New Ambulance and Emergency Walk-in Entrances

New East Entrance

New Diagnostic Imaging Centre

Project description

Background

ReNew Ontario 2005-2010 is a $30 billion-plus strategic infrastructure investment plan to modernize, upgrade and expand Ontario's infrastructure. An update *to ReNew Ontario* was released in July 2007 and is available at www.pir.gov.on.ca

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.

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*:

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.

Rouge Valley Health System Ajax and Pickering Hospital

With more than 840 staff, the Rouge Valley Health System's Ajax and Pickering Hospital provides care for a broad spectrum of health conditions for the communities of east Toronto (Scarborough), Ajax, Pickering, Whitby, Durham Region and more.

The hospital's Emergency Department manages more than 40,000 visits annually. Other services include diagnostic and cardiac imaging, an Ambulatory Care Unit for outpatient clinic visits, a fracture clinic, outpatient procedures, medical day care and pre-admit visits.

The Government of Ontario approved redevelopment of the Ajax and Pickering Hospital to be delivered under the AFP model in its 2005-2006 Capital Plan to reduce patient wait times and enhance access to services.

Job Creation

The redevelopment project will also create economic value as skilled tradespeople, subcontractors and their suppliers benefit from the capital investment. Over the construction period, there will be an estimated 75 workers on site daily.

Project Scope

The Rouge Valley Health System's Ajax and Pickering Hospital Phase I Redevelopment Project will renew the hospital by renovating more than 65,000 square feet and expanding the facility by adding more than 75,000 square feet.

This redevelopment project will give the hospital a new and expanded Emergency Department and redesigned diagnostic imaging and cardiac diagnostic areas. There will also be a new Ambulatory Care Unit, an expanded laboratory and increased capacity in mental health from 20 to 29 beds.

Complex Continuing Care beds will have increased capacity for up to 30 beds for patients who are transitioning from acute care to long-term care or to their home.

Overall, the hospital's size will increase from 252,620 square feet to 327,620 square feet or by 30 per cent.

Competitive selection process timeline

The Rouge Valley Health System has entered into a project agreement and a guaranteed maximum price contract with Aecon Buildings to complete and finance the redevelopment project. The procurement stages for the project were as follows:

November 3, 2006

Request for Qualifications

In 2006, the Rouge Valley Health System and Infrastructure Ontario issued a request for qualifications for the expansion and redevelopment of the Ajax and Pickering Hospital. Five bidders were qualified:

- Aecon Buildings
- Bondfield Construction Co. Ltd.
- Carillion Canada Inc.
- EllisDon Corp.
- Vanbots Construction Corp.

February 8, 2007

Request for Proposals

A request for proposals (RFP) was issued to the pre-qualified proponents, setting out the bid process, proposed project agreement and guaranteed maximum price contract to build and finance the project.

Bid submission

Bids were submitted by RFP proponents in June 2007 and evaluated by Infrastructure Ontario and the Rouge Valley Health System using the criteria set out in the RFP.

August 24, 2007

Preferred proponent notification

Aecon Buildings was selected as the successful RFP proponent on the basis of its proposed price and project schedule, in accordance with the evaluation criteria set out in the RFP.

August – October 2007

Commercial and financial close

The guaranteed maximum price contract was executed by Aecon Buildings and the Rouge Valley Health System.

Financing for Aecon Buildings to complete the project was arranged by Stonebridge Financial Corporation.

October 2007 – Summer 2010

Construction

Construction began in October 2007. During the construction period, the builder's construction costs will be funded by its lending group as arranged by Stonebridge Financial Corporation through monthly drawdown requests from Aecon Buildings. Construction will be carried out in accordance with the guaranteed maximum price contract. The project will be overseen by a joint building committee made up of representatives from Aecon Buildings, the hospital and Infrastructure Ontario.

Completion and payment

It is anticipated that the project will reach substantial completion in summer 2010 at which time the construction financing will be repaid by the Rouge Valley Health System through funding from the Ministry of Health and Long-Term Care and the Hospital's fundraising efforts.

Hospital Capital Funding

The provincial government's hospital capital funding policy announced in June 2006 simplifies the Ministry of Health and Long-Term Care's funding formula. In the past, the Ministry's capital cost share rates varied from 50 per cent to 80 per cent, depending on the project. The provincial government's portion of the construction costs will now equal 90 per cent of eligible construction costs. Under this new policy, hospitals will be responsible for 10 per cent of the eligible construction costs - otherwise known as their local share - as well as the costs associated with the purchase of new and replacement equipment.

Project agreement

Legal and Commercial Structure

The Rouge Valley Health System entered into a project agreement and a guaranteed maximum price contract (project documents) with Aecon Buildings to carry out the construction and financing of the project. Under the terms of the project documents, Aecon Buildings will:

- build the Ajax and Pickering Hospital Phase I Redevelopment Project, which will be completed in summer 2010;
- provide a financing package for project construction; and
- ensure that, at the end of construction, the building meets the requirements specified in the project documents.

The Rouge Valley Health System's Ajax and Pickering Hospital will remain publicly owned, publicly controlled and publicly accountable, including the new facilities constructed as a result of the project.

Construction and completion risk

Key risks associated with the construction of the facilities have been transferred to the builder and away from the public sector by way of the project documents, including:

Construction price certainty

Aecon Buildings will construct the facilities for a guaranteed maximum price of **$63.9 million,** including financing costs. The builder's guaranteed maximum price may only be adjusted in very specific circumstances, agreed to in advance, in accordance with the change order procedures of the project documents.

Scheduling, project completion and delays

Aecon Buildings has agreed to reach substantial completion of construction of the facilities by summer 2010. The construction schedule can only be modified in very limited circumstances, in accordance with the project documents. The Rouge Valley Health System's repayment of the construction financing will not commence until substantial completion (i.e., until Aecon Buildings has completed building the project and it has been certified complete by Rouge Valley's consultant).

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

Design co-ordination

The guaranteed maximum price contract provides that Aecon Buildings is responsible for all design coordination activities to ensure that the facilities are constructed in accordance with the design. Under the traditional model, the costs of these risks would have been borne by the Rouge Valley Health System.

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

Construction financing

Aecon Buildings is required to finance the construction of the project until the facility is turned over to the Rouge Valley Health System. The project documents provide that the builder will be responsible for all increased financing costs resulting from any builder delay in reaching substantial completion. This shifts significant financial risk onto the builder for late delivery.

Schedule contingency

The project documents provide the Rouge Valley Health System with a 30-day schedule contingency, also known as a schedule cushion, which shields the Rouge Valley Health System for up to 30 days of delay costs for which the hospital is responsible. While delays caused by the Rouge Valley Health System are expected to be minimal, the schedule cushion provides the hospital with some protection from risk of delay claims by the builder.

Commissioning and facility readiness

Aecon Buildings must achieve a prescribed level of commissioning of the new facility at substantial completion and must co-ordinate the commissioning activity within the agreed upon construction schedule. This assures the Rouge Valley Health System that it will receive a functional facility at the time it pays for the work.

Activity protocols

Aecon Buildings and the Rouge Valley Health System consultant, Stantec Architecture Limited, are required to establish a schedule for project submittals by the builder, which takes into account the timing for issuance of supplemental instructions by the Rogue Valley Health System's consultant. This protocol mitigates against the builder alleging delay as a result of an inability to receive supplemental instructions in a timely manner in the course of the work.

In addition to the above key risks being transferred to the builder under the project documents, the financing arrangement entered into between Aecon Buildings and Stonebridge Financial Corporation ensures that the project is subject to additional oversight, which may include:

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

Change order protocol

In addition to the variation procedure set out in the project documents, Infrastructure Ontario's change order protocol with the Rouge Valley Health System sets out the principles for any changes to the project work/scope during the construction period, including:

- requiring processing and approval of change orders from the Rouge Valley Health System;
- 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 hospital-initiated scope changes;
- approval by Infrastructure Ontario for any change order which exceeds pre-determined thresholds; and
- approval by Infrastructure Ontario when the cumulative impact of the change orders exceed a pre-determined threshold.

Achieving value for money

KPMG's value for money assessment demonstrates a projected cost savings of 12.8 per cent, or $11.3 million, by using the Alternative Financing and Procurement (AFP) approach to deliver the Rouge Valley Health System project, as compared to the traditional procurement approach.

KPMG 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 result. Please refer to the letter from KPMG 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 Ontario's taxpayers.

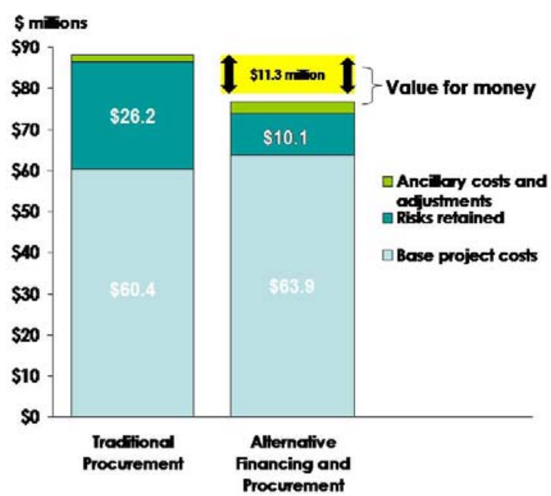
The value for money analysis compares the total estimated costs, expressed in future dollars and measured at the same point in time, of delivering the same infrastructure project under two delivery models – the traditional delivery model (public sector comparator or "PSC") and the AFP model.

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

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

The cost components in the VFM analysis include only the portions of the project costs that are being delivered using AFP. Project costs that would be the same under traditional delivery or AFP, 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:



It is important to keep in mind that Infrastructure Ontario's value for money calculation methodology does not attempt to quantify a broad range of qualitative benefits that may result from using the AFP delivery approach. For example, the use of the AFP approach will more likely result in a project being delivered on time and on budget. The benefits of having a project delivered on time cannot always be accurately quantified. For example, it would be difficult to put a dollar value on the people of Ontario gaining access to an expanded health care facility sooner than would be the case with a traditionally delivered project.

Other qualitative benefits relate to the existence of Infrastructure Ontario – a central organization to coordinate the development of a number of large infrastructure projects. Infrastructure Ontario has standardized documents, increased up-front due diligence and applies best practices to each of its projects; however, it would be difficult to fully quantify these benefits.

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 and AFP costs are future-valued to substantial completion to compare the two methods of delivering a Build Finance project at the same point in time. It is Infrastructure Ontario's policy to use the current public sector rate of borrowing for this purpose to ensure a conservative and transparent analysis. For more information on how project costs are future-valued and the value for money methodology, please refer to *Assessing Value for Money: A Guide to Infrastructure Ontario's Methodology*, which is available online at www.infrastructureontario.ca.

Base costs

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

1. Under the AFP model, the private party charges an additional premium as compensation for the risks that the public sector has transferred 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 costs are higher under AFP because the financing rate that the private sector is charged is higher than the financing rate of the public sector.
3. The AFP base costs include taxes that are separately adjusted for under a competitive neutrality item.

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 Rouge Valley Health System's Ajax and Pickering Hospital Phase I Redevelopment Project, this was $63.9 million.

If the traditional model had been used for the Rouge Valley Health System project, base costs are estimated to have been $60.4 million.

Risks retained

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

Project risks may be 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 model versus the AFP method, the risks borne by the public sector (which are called "retained risks") should be identified and accurately quantified.

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

Under the traditional delivery method, the risks retained by the public sector are significant. As discussed on page 11, 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 the builder:

- potential cost overruns;
- construction price certainty;
- design co-ordination;
- construction financing;
- scheduling, project completion and potential delays;
- commissioning and facility readiness; and
- activity protocols.

Examples of these risks include:

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

Under the traditional approach, these risks would have been borne by the public sector. For example, design coordination risks that materialize would be carried out through a series of change orders issued during construction. Such change orders would, therefore, be issued in a non-competitive environment, and would typically result in a significant increase in overall project costs for the public sector.

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

A detailed risk analysis of the Rouge Valley Health System project concluded that the average value of project risks retained by the public sector under traditional delivery is \$26.2 million. The analysis also concluded that the average value of project risks retained by the public sector under the AFP delivery model decreases to \$10.1 million.

For more information on the risk assessment methodology used by Infrastructure Ontario, please refer to Altus Helyar's *Build-Finance Risk Analysis* *and Risk Matrix*, available at www.infrastructureontario.ca.

Ancillary costs and adjustments

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

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

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

The ancillary costs are quantified and added to both models for the value for money comparison assessment. Both project management and transaction costs are likely to be higher under AFP given the greater degree of up-front due diligence. The ancillary costs for the Rouge Valley Health System project, under the traditional delivery method are estimated to be $1.5 million as compared to $3 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. In the case of the Rouge Valley Health System project, this adjustment is made by adding $0.2 million to the traditional delivery costs (i.e. on the PSC side).

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

Calculating value for money

The analysis completed by KPMG 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 substantial completion date. In the case of the Rouge Valley Health System's Ajax and Pickering Hospital Phase I Redevelopment Project, the estimated traditional delivery cost is $88.3 million as compared to $77 million under the AFP delivery approach.

The positive difference of $11.3 million or 12.8 per cent represents the estimated value for money by using the AFP delivery approach in comparison to the traditional delivery model.