



## VALUE FOR MONEY ASSESSMENT

# WAYPOINT CENTRE FOR MENTAL HEALTH CARE REDEVELOPMENT PROJECT (FORMERLY MENTAL HEALTH CENTRE PENETANGUISHENE)



# Raymond Chabot Grant Thornton

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Attn: James Cahill

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ISO 9001:2008

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## **RE: FINAL VALUE FOR MONEY ASSESSMENT- MENTAL HEALTH CENTRE PENETANGUISHENE - REDEVELOPMENT**

Dear Mr. Cahill:

Raymond Chabot Grant Thornton ("RCGT") has prepared the Value for Money ("VFM") assessment for the Mental Health Centre Penetanguishene ("MHCP") – Redevelopment Project ("Project") at the Financial Close stage. The VFM assessment was conducted in accordance with IO's methodology *Assessing Value for Money: A Guide to Infrastructure Ontario's Methodology*, which is broadly consistent with approaches used for similar projects in other jurisdictions.

The VFM assessment is based on a comparison of the net present costs at Financial Close for the Project under:

1. the traditional delivery approach, as reflected in the Public Sector Comparator ("PSC") component of the VFM model; and
2. the Alternative Finance and Procurement ("AFP") approach, based on the Project Agreement signed between MHCP and the Successful Proponent.

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

- i. a Risk Matrix developed for IO by Altus Group and adapted by IO to reflect Project specific risks;
- ii. costs and other input assumptions extracted from the bid submitted by the Successful Proponent; and
- iii. other VFM model assumptions provided by IO.

The VFM assessment demonstrates that the AFP approach will provide an estimated value saving of 15.7% in comparison with the traditional delivery approach.

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, that IO's VFM methodology is reasonable, yields a fair estimate of VFM and that the Information has been appropriately used in the VFM Model.

Yours very truly,

A handwritten signature in blue ink that reads "S. J. Pickering". The signature is written in a cursive style with a large, looping flourish at the end of the name.

Raymond Chabot Grant Thornton  
Sam Pickering  
Partner  
February 28, 2011

April 29, 2011

Mr. Tariq Taherbhai  
Vice President, Project Legal Services  
**Infrastructure Ontario**  
777 Bay Street, 6<sup>th</sup> Floor  
Toronto, Ontario M5G 2C8

**Subject: Mental Health Centre Penetanguishene Forensic Building Project RFP OIPC-10-45-1008**

Dear Mr. Taherbhai:

P1-Consulting acted as the Fairness Monitor to review and monitor the communications, evaluations and decision-making processes that were associated with the procurement process for the **Mental Health Centre Penetanguishene Forensic Building Project** (the “Project”) in terms of ensuring fairness, equity, objectivity, transparency and adequate documentation of the evaluation process.

The primary objective of the Mental Health Centre Penetanguishene Forensic Building Project is to renew, revitalize and expand a publicly-owned facility while incorporating private sector innovation and expertise, using Infrastructure Ontario's design, build, finance and maintain (DBFM) model. The RFP process was used to select a pre-qualified proponent to design, build, finance and maintain the Project.

The Project is expected to result in a new 200 bed state of the art forensic facility to replace, then demolish the 160-bed Oak Ridge and Brebeuf buildings. It is anticipated that the new construction is to have the following features:

- Above ground living units
- Approximately 330,000 square feet
- An outdoor recreation space
- Connection to the current Administration and Toanche Buildings

In our role as Fairness Monitor, 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;

*P1 Consulting Inc.*



- 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 to avoid conflict of interest and to protect confidentiality during the procurement and evaluation processes;
- Security of information;
- Prevention of any conflict of interest amongst evaluators on the selection committee; and
- Oversight to provide a process where all Bidders were treated fairly.

P1 Consulting as Fairness Monitor actively participated in the following steps in the process to ensure that fairness was maintained throughout:

- Project kick-off meeting;
- Review session for the Draft RFP Documents;
- Commercially Confidential Meetings with the pre-qualified Proponents;
- Site and facility visits by the Proponents;
- Review of the RFP Addenda;
- Review of evaluation process and guideline documents;
- Proposal receipt, bid evaluation and selection of the Negotiation Proponents; and
- Oversight of the Negotiation Process.

The final step was for the Sponsors to select the Preferred Proponent. Integrated Team Solutions (ITS) was advised that they had been selected the Preferred Proponent on November 22<sup>nd</sup>, 2010 in accordance with the RFP.

As the Fairness Monitor for the **Mental Health Centre Penetanguishene Forensic Building Project**, we certify that, at the time of Financial Close, 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,



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Rob Lowry  
Lead Fairness Monitor



## Waypoint Centre for Mental Health Care Redevelopment Project (Formerly Mental Health Centre Penetanguishene) Artist's Rendering



**Integrated Team Solutions**

### **Project Highlights**

Built on the hospital's existing site, the Waypoint Centre for Mental Health Care (formerly Mental Health Centre Penetanguishene) hospital will replace the existing 160-bed Oak Ridge facility and the 20-bed Brebeuf facility, offering a larger, more modern space for treatment and care of people with mental health disorders who have had involvement with the criminal justice system. Once complete, the new facility will consolidate Waypoint Centre for Mental Health Care into a more efficient, integrated complex.

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## Summary

**The Waypoint Centre for Mental Health Care project (formerly Mental Health Centre Penetanguishene) supports the Province of Ontario's long-term infrastructure plan to repair, rebuild and renew the province's roads and highways, bridges, public transit, schools and post secondary institutions, hospitals and courthouses in communities across Ontario.**

Over the last six years, the Province has averaged \$10 billion in infrastructure investments per year. In June 2011, the Province launched its new long-term infrastructure plan – *Building Together*. The Province expects to continue significant investments in public infrastructure, and will begin by investing more than \$35 billion over the next three years.

Infrastructure Ontario plays a key role in procuring and delivering infrastructure projects, on behalf of the Province. When Infrastructure Ontario was created, its mandate included using an alternative financing and procurement (AFP) method to deliver large, complex infrastructure projects. In June 2011, the Province expanded Infrastructure Ontario's role to deliver projects of various sizes, including ones suitable for an AFP delivery model, as well as other delivery models.

The Waypoint Centre for Mental Health Care project is being delivered under the Province's alternative financing and procurement (AFP) method.

The project includes:

- new construction of a state-of-the-art forensic mental health care facility
- the expanded hospital will replace the existing 160-bed Oak Ridge facility and the 20-bed Brebeuf building consolidating Waypoint Centre for Mental Health Care into a more efficient, integrated building complex

Once completed, Waypoint Centre for Mental Health Care will be better able to meet the needs of the growing population and enhance access to essential health-care services.

**The public sector retains ownership and control for the hospital.**

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 Waypoint Centre for Mental Health Care Redevelopment Project through the AFP process.

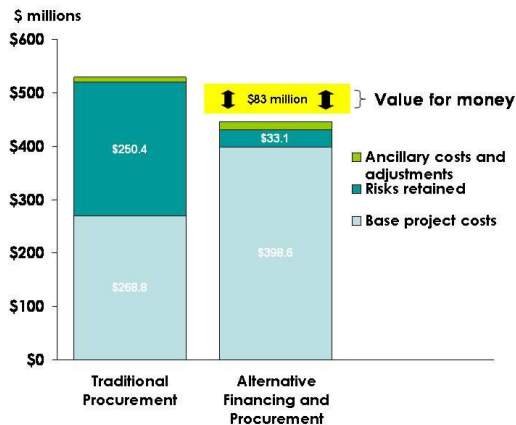
The value for money analysis refers to the process of developing and comparing the total project costs, expressed in dollars measured at the same point of time and related to two delivery models.

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

<b>Model #1 Traditional project delivery (Public sector comparator)</b>	<b>Model #2 Alternative financing and procurement</b>
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.





Infrastructure Ontario will work with Waypoint Centre for Mental Health Care on the development of the new hospital, which will remain publicly owned and publicly controlled.

**The value for money assessment of the Waypoint Centre for Mental Health Care Redevelopment Project indicates the AFP approach provides estimated cost savings of 15.7 per cent or \$83.0 million.**

*“Our patients are one step closer to receiving specialized treatment and care in a modern, state of the art hospital.”*

— Carol Lambie, President and CEO, Waypoint Centre for Mental Health Care

Grant Thornton completed the value for money assessment of the Waypoint Centre for Mental Health Care project. Its assessment demonstrates projected cost savings of 15.7 per cent by delivering the project using the AFP model, in comparison to a traditional delivery model.

P1 Consulting acted as the Fairness Monitor for the project. They reviewed and monitored the communications, evaluations and decision-making processes associated with the Waypoint Centre for Mental Health Care Redevelopment 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.

## Project description

### **Background**

**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.

Infrastructure Ontario has the task of delivering the Waypoint Centre for Mental Health Care on time and on budget. The Waypoint Centre for Mental Health Care will be delivered using an Alternative Financing and Procurement (AFP) delivery model - a made-in-Ontario approach to project delivery. 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.

### **Waypoint Centre for Mental Health Care**

Waypoint Centre for Mental Health Care is a 312-bed psychiatric hospital located on Georgian Bay in the Town of Penetanguishene. Waypoint Centre for Mental Health Care provides an extensive range of both acute and longer-term psychiatric inpatient and outpatient services to all of Simcoe County, part of Dufferin County and the southern

portion of Muskoka/Parry Sound. In addition, Waypoint Centre for Mental Health Care provides the province's only maximum secure forensic hospital for clients served by both the mental health and justice systems.

Waypoint Centre for Mental Health Care aims to achieve Leadership in Energy and Environmental Design (LEED®) Gold certification for construction of the new hospital. LEED® standards focus on healthy indoor environments, reduced greenhouse gas emissions and efficient use of energy, water and other resources.

### **Job Creation**

The project will create hundreds of construction jobs through the employment of local trades and construction related suppliers. At the height of construction, as many as 300 workers are expected to be on site daily. Labour and materials for the project will be drawn largely from the Midland-Barrie-Simcoe areas and the surrounding communities.

### **Project Scope**

Built on the hospital's existing site, the new hospital will replace the existing 160-bed Oak Ridge facility and the 20-bed Brebeuf facility, offering a larger, more modern space for treatment and care of people with mental health disorders who have had involvement with the criminal justice system. Once complete, the new facility will consolidate Waypoint Centre for Mental Health Care into a more efficient, integrated complex.

## Competitive selection process timeline

Waypoint Centre for Mental Health Care has entered into a project agreement with Integrated Team Solutions (ITS) to design, build, finance and maintain its redevelopment project. The procurement stages for the project were as follows:

### **August 17, 2009**

#### *Request for Qualifications*

In 2009, Waypoint Centre for Mental Health Care and Infrastructure Ontario issued a request for qualifications (RFQ) for the redevelopment project.

Waypoint Centre for Mental Health Care and Infrastructure Ontario then evaluate and identify project teams that have the required design, construction and facilities management capability and experience, and the financial capacity to undertake a project of this size and complexity. This can take several months.

Three proponents were qualified for the Waypoint Centre for Mental Health Care project:

- **Carillion Health Solutions-** Carillion Canada Inc., Vanbots, a division of Carillion Construction Inc., Parkin Architects Limited, Read Jones Christoffersen, TMP Consulting Engineers, Crossey Engineering Ltd., JMR Electric, Siemens Building Technologies
- **Integrated Team Solutions-** EllisDon Corporation, Fengate Capital Management Ltd., Cannon Design, Mulvey & Banani International Inc., Honeywell Limited (Canada), National Bank Financial Inc., Univex (Ontario) Limited, Stephenson Engineering Limited
- **Plenary Health-** Plenary Group Canada, PCL Constructors Canada, Johnson Controls, Innisfree, HCP, HDR, Halsall Associates, Smith and Andersen, Plan Group, Modern Niagara, RBC Capital Markets, Lobo, Vipond

### **February 2, 2010**

#### *Request for Proposals*

A request for proposals (RFP) was issued to the pre-qualified proponents, setting out the bid process

and proposed project agreements to design, build, finance and maintain the project.

#### *Proposal submission*

The RFP period closed on August 17, 2010. Three bids were received by Infrastructure Ontario and Waypoint Centre for Mental Health Care. The bids were evaluated using the criteria set out in the RFP. It takes several months to evaluate bidders' proposals and then negotiate a final contract.

### **November 22, 2010**

#### *Preferred proponent notification*

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

### **January 28, 2011**

#### *Commercial and financial close*

A project agreement was executed by Integrated Team Solutions and Waypoint Centre for Mental Health Care.

The building team, led by Integrated Team Solutions represents a joint venture between EllisDon Corporation and Fengate Capital Management Ltd., with EllisDon also providing construction services and advised by National Bank Financial Inc. Long-term fixed rate financing is provided by Sun Life Assurance Company of Canada and The Canada Life Assurance Company and short-term financing is provided by National Bank of Canada and the Toronto-Dominion Bank. Equity is being provided by Fengate Capital Management on behalf of LPF Infrastructure Fund and OE Infrastructure Fund, and EllisDon Corporation.

### **February 2011**

#### *Construction*

Construction began in February 2011. During the construction period, the builder's construction costs will be funded through financing, which will be paid

in monthly instalments based on the construction program set out by Integrated Team Solutions.

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 Waypoint Centre for Mental Health Care and Infrastructure Ontario.

*Completion and payment*

Integrated Team Solutions will receive a payment from the hospital at substantial completion of the new Waypoint Centre for Mental Health Care hospital, which is expected in November 2013. The payment will be followed by monthly service payments over a 30-year period for construction and design of the facility, building maintenance, lifecycle repair and renewal and project financing.

**2013-2043**

*Maintenance*

ITS will maintain the new hospital for 30 years and be responsible for building maintenance, repair and lifecycle replacement during that period. For examples of lifecycle repair and maintenance refer to page 13.

**Hospital Capital Funding**

The provincial government's portion of the construction costs equals 100 per cent of eligible construction costs for tertiary mental health, and mental health programs transferring from former provincial psychiatric hospitals.

Hospitals are responsible for 100 per cent of the costs associated with the purchase of new and replacement equipment.

## Project agreement

### **Legal and commercial structure**

Waypoint Centre for Mental Health Care entered into a project agreement with Integrated Team Solutions, comprising approximately 43-months of construction and a 30-year maintenance timeframe. Under the terms of the project agreement, Integrated Team Solutions will:

- design and build the new Waypoint Centre for Mental Health Care 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 in accordance with the requirements in the project agreement;
- provide facility management and lifecycle maintenance for the new hospital 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.

Waypoint Centre for Mental Health Care will make monthly payments to Integrated Team Solutions, based on performance requirements defined in the project agreement.

Integrated Team Solutions will receive a payment from the hospital at substantial completion of the new hospital, which is expected in November 2013. This payment will be followed by monthly service payments over a 30-year period for construction of the facility, building maintenance, lifecycle repair and renewal and project financing.

Waypoint Centre for Mental Health Care will not commence these payments until the new hospital is substantially completed. Moreover, if Integrated Team Solutions does not meet the standards set in the agreement, it will face financial deductions.

**All Ontario hospitals will continue to be publicly owned and publicly controlled. Medical services in hospitals will continue to be publicly funded and publicly administered – this is non-negotiable for the Government of Ontario and more importantly, for the people of Ontario.**

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**

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 government 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, changes in law, public sector initiated scope change, and force majeure (shared risk).

Under the AFP model, some key risks that would have been retained by the public sector are contractually transferred to the private sector. These risks, such as design co-ordination and resource availability, could have led to cost overruns and delays in traditional projects. Other examples of risks transferred to the private sector under the AFP project agreement include:

#### Construction price certainty

Integrated Team Solutions will finance and construct the new mental health facility. Integrated Team Solutions will receive a payment from the Province at substantial completion of the new mental health facility, which is expected in late 2013. This payment will be followed by monthly service payments over a 30-year period for construction of the facility, building maintenance, lifecycle repair and renewal and project financing.

Integrated Team Solution'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 agreement.

#### Scheduling, project completion and delays

At Waypoint Centre for Mental Health Care, the builder has agreed to reach substantial completion by November 2013. The construction schedule can only be modified in very limited circumstances, in accordance with the project agreement. Payment for the project will not commence until substantial completion in accordance with the project agreement has been achieved.

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

#### Design co-ordination

The project agreements provide that Integrated Team Solutions is responsible for all design coordination activities to ensure that the facility is constructed in accordance with the design.

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

#### Construction financing

Integrated Team Solutions is required to finance the construction of the project until the new hospital is substantially complete and Waypoint Centre for Mental Health Care can occupy the facility. Integrated Team Solutions will be responsible for all increased financing costs should there be any delay in Integrated Team Solutions reaching substantial completion. This shifts significant financial risk to Integrated Team Solutions in the case of late delivery.

#### Schedule contingency

The project documents provide the hospital with a schedule contingency, also known as a schedule cushion, which shields Waypoint Centre for Mental Health Care for delay costs for which the hospital is responsible. While delays caused by the hospital are expected to be minimal, the schedule cushion provides Waypoint Centre for Mental Health Care with some protection from the risk of delay claims by the builder.

#### Mechanical and electrical systems responsibility

Integrated Team Solutions shall be responsible for:

- any issues with respect to the functionality, durability, maintainability and lifecycle cost of the mechanical and electrical systems specified in their design, including whether such systems will be adequate to meet the output specifications on a consistent basis for the duration of the operational term; and
- 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.

Commissioning and facility readiness

Integrated Team Solutions must achieve a prescribed level of commissioning of the new facility at substantial completion and must coordinate the commissioning activity within the agreed upon construction schedule. This ensures that Waypoint Centre for Mental Health Care will receive a functional facility at the time payment is made.

Activity protocols

Integrated Team Solutions and the consultants from Waypoint Centre for Mental Health Care have established a schedule for project submittals by the builder, taking into account the time for review needed by the hospital's consultants.

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

Change order protocol

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

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

Facilities maintenance risk

As part of the project agreement, key risks associated with the maintenance responsibility (including life-cycle renewal) of the new hospital over the 30-year service period have been transferred to Integrated Team Solutions. Integrated Team Solution's maintenance of the building's lifecycle repair and renewal must meet the performance requirements set out in the project agreement. Under the project agreement, Integrated Team Solutions 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 Integrated Team Solutions under the project documents, the financing arrangement entered into between Integrated Team Solutions 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

**Grant Thornton's value for money assessment demonstrates a projected cost savings of 15.7 per cent, or \$83.0 million, by using the alternative financing and procurement (AFP) approach, as compared to the traditional procurement approach.**

Grant Thornton 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. Its 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](http://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 Grant Thornton on page 1.

### Value for money concept

The goal of the AFP approach is to deliver a project on time and on budget and to provide real cost savings for the public sector.

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

<b>Model #1</b> <b>Traditional project delivery</b> <b>(Public sector comparator)</b>	<b>Model #2</b> <b>Alternative financing and procurement</b>
Total project costs that would have been incurred by the public sector to deliver an infrastructure project under traditional	Total project costs incurred by the public sector to deliver the same infrastructure project with identical specifications using the

procurement processes. | AFP approach.

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

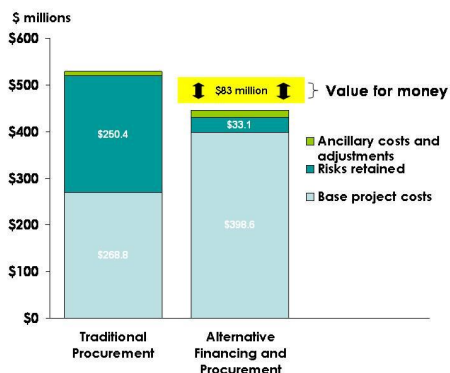
The cost components in the VFM analysis include only the portions of the project costs that are being delivered using AFP. Project costs that would be the same under both models, such as land acquisition costs, furniture, fixtures and equipment outside of the AFP contract are excluded from this VFM calculation.

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 Waypoint Centre for Mental Health Care Redevelopment Project indicates estimated cost savings of 15.7 per cent or \$83.0 million, by using the AFP approach in comparison to traditional delivery.**





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

These qualitative benefits, while not expressly quantified in this value for money analysis, are additional benefits of the AFP approach that should be acknowledged.

### Value for money analysis

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

### Base costs

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

1. Under the AFP model, the private party charges an additional premium as compensation for the risks that the public sector transfers to them under the AFP project documents. In the case of traditional delivery, the private party risk premium is not included in the base costs as the public sector retains these risks.
2. The financing rate that the private sector is charged is higher than the financing rate of the public sector and not included in the traditional model delivery base costs.

In the case of the AFP model, the base costs are extracted from the price agreed among the parties under the project agreement. For Waypoint Centre for Mental Health Care, this is \$398.6 million.

If the traditional model had been used for this project, base costs for Waypoint Centre for Mental Health Care are estimated to have been \$268.8 million.

### Risks retained

Historically, for projects delivered using a traditional delivery model, the public sector has always had to bear costs that go beyond a project's base costs. This is because contingencies were put in place to respond to risks (or unexpected events).

Project risks are defined as potential adverse events that may have a direct impact on project costs. To the extent that the public sector retains these risks, they are included in the estimated project cost. The concept of risk transfer and mitigation is key to understanding the overall value for money assessment.

To estimate and compare the total cost of delivering a project under the traditional delivery versus the AFP method, the risks borne by the public

sector (which are called "retained risks") should be identified and accurately quantified.

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

Under the traditional delivery method, the risks retained by the public sector are significant.

Below are risks transferred to the builder under the project agreement using the AFP model:

- design compliance with the output specifications;
- construction price certainty;
- scheduling, project completion and potential delays;
- design co-ordination;
- site conditions and contamination;
- development approvals;
- design and lifecycle responsibility;
- mechanical and electrical systems responsibility;
- construction financing;
- schedule contingency;
- coordination of equipment procurement installation;
- 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 facility is constructed in full accordance with the design in the project agreement. The builder is responsible for inconsistencies, conflicts, interferences or gaps in the contract documents particularly in the plans, drawings and specifications; and for design completion issues that are specified in the contract documents but erroneously left out in the drawings and specifications.

- *Scheduling, project completion and delays:* Under the AFP approach, the builder has agreed that it will provide the facility for use by Waypoint Centre for Mental Health Care by a fixed date and at a pre-determined price. Therefore, any extra cost (financing or otherwise) incurred as a result of a schedule overrun caused by the builder will not be paid by the public sector, thus providing the builder clear motivation to maintain the project's schedule. Further oversight includes increased upfront due diligence and project management controls imposed by the builder and the builder's lender.

Under a traditional approach, design coordination risks that materialize during construction would be managed through a series of change orders. Such change orders would, therefore, be issued in a non-competitive environment, and would typically result in a significant increase in overall project costs for the public sector. AFP reduces and transfers these risks and related costs, to the private sectors.

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

Infrastructure Ontario retained an experienced, third-party construction consulting firm, Altus Group to develop a template for assessing the project risks that the public sector assumes under AFP compared to the traditional approach. Using data from actual projects as well as its own knowledge base, the firm established a risk profile under both approaches for infrastructure facilities.

It is this generic risk matrix that has been used for validating the risk allocation for the specific conditions of the Waypoint Centre for Mental Health Care project.

A detailed risk analysis of the Waypoint Centre for Mental Health Care project concluded that the average value of project risks retained by the

public sector under traditional delivery is \$250.4 million.

The analysis also concluded that the average value of project risks retained by the public sector under the AFP delivery model decreases to \$33.1 million.

For more information about the risk assessment methodology used by Infrastructure Ontario, please refer to Altus Group Limited's *Build-Finance Risk Analysis and Risk Matrix*, available at [www.infrastructureontario.ca](http://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 Waypoint Centre for Mental Health Care project, under the traditional delivery method are estimated to be \$9.5 million as compared to \$14.1 million under the AFP approach.

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](http://www.infrastructureontario.ca).

### **Calculating value for money**

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

Once all the cost components and adjustments are determined, the aggregate costs associated with each delivery model (i.e., traditional delivery and AFP) are calculated, and expressed in Canadian dollars, as at substantial completion date.

In the case of the Waypoint Centre for Mental Health Care project, the estimated traditional delivery cost (i.e. PSC) is \$528.7 million as compared to \$445.7 million under the AFP delivery approach.

The positive difference of \$83 million or 15.7 per cent represents the estimated value for money by using the AFP delivery approach in comparison to the traditional delivery model.