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VALUE FOR MONEY ASSESSMENT

WOMEN'S COLLEGE HOSPITAL



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August 12, 2010

Private and confidential

Jim Cahill, VP of Project Finance
Infrastructure Ontario
777 Bay Street, 9th Floor
Toronto, ON, M5G 2C8
Canada

Dear Mr. Cahill,

Subject: Re: Value for Money Assessment at Financial Close Stage – Women’s College Hospital

Deloitte & Touche LLP (“Deloitte” or “We”) has prepared the Value for Money (“VFM”) assessment for Women’s College Hospital (“Project”) at the Financial Close stage, in accordance with Infrastructure Ontario’s (“IO”) value for money assessment methodology outlined in *Assessing Value for Money: A Guide to Infrastructure Ontario’s Methodology*, which is consistent with approaches used in other jurisdictions.

The VFM assessment is based on a comparison of the net present costs (“NPC”) for the Project under:

1. The traditional delivery approach, as reflected in the Public Sector Comparator (“PSC”) model; and
2. The Alternative Finance and Procurement approach (“AFP”), as reflected in the Preferred Bid.

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

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

The VFM assessment submitted to you on August 12, 2010, demonstrates that the AFP approach will provide an estimated value savings of 12.0% (in comparison to the traditional delivery approach), using a 3.64% discount rate.

While we did not audit or attempt to independently verify the accuracy or completeness of the Information, we confirm, based on our familiarity with VFM methodologies in other jurisdictions and current market data, that IO’s VFM methodology is reasonable, yields a fair estimate of value for money and that the Information has been appropriately used in the VFM Model.

Yours very truly,

Deloitte & Touche LLP

Deloitte & Touche LLP

Audit . Tax . Consulting . Financial Advisory .

Member of
Deloitte Touche Tohmatsu



Artist's Rendering of Women's College Hospital

Courtesy of Women's College Partnership

Highlights of the new Women's College Hospital

The Women's College Hospital redevelopment project involves the construction of a new 630,000 square foot hospital on the hospital's current Grenville Street site in downtown Toronto. The new hospital will replace existing, outdated buildings and consolidate most hospital services in one location, enabling innovation in ambulatory models of care and enhancing the hospital's stature as a leader in women's health care, research and education.

Health care benefits from the Women's College Hospital's project include:

- a state-of-the-art ambulatory facility designed with specialized clinics and surgical suites that integrate prevention, disease management, treatment, research and education, providing better patient flow, technology and an improved patient experience
- easily accessible hub of programs, clinics and services that enable teams of care providers to help prevent and manage patients' diseases and conditions, based on how women lead their lives
- consolidation of primary care, chronic disease management, surgical services, urgent care, gynaecology, diagnostics and mental health programs, all delivered in a flexible patient-centred, ambulatory model
- improved access to medical and diagnostic imaging services in an ambulatory setting
- comprehensive services in breast, thyroid and skin cancers to advance one-stop diagnostic, therapeutic and surgical services
- expansion of existing programs including two new operating rooms and an expanded Urgent Care Centre and Clinical Decisions Unit
- co-location of research, education and patient care spaces to create improved knowledge translation between researchers, educators and clinicians
- improved patient experience with more privacy and effective movement of people
- an increase in patient visits of more than 70 per cent annually

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Summary

ReNew Ontario 2005-2010 is a \$30-billion-plus strategic infrastructure investment plan to modernize, upgrade and expand Ontario's public infrastructure.

Infrastructure Ontario is an essential component of the *ReNew Ontario* plan. The Crown Corporation ensures that new infrastructure projects are delivered on time and on budget.

The new Women's College hospital is being delivered under the Province's Alternative Financing and Procurement (AFP) model.

The Women's College Hospital redevelopment project involves the construction by 2016 of a new 630,000 square foot hospital on the hospital's current Grenville Street site in downtown Toronto. The new hospital will replace existing, outdated buildings and consolidate most hospital services in one location.

Once its construction is complete, the new Women's College Hospital will be the first stand-alone ambulatory care hospital in Canada and one of very few world-wide. Through its innovative design, the new facility will promote advances in ambulatory models of care and enhance the hospital's stature as a leader in women's health care, research and education.

The new hospital has been designed with environmentally responsible and sustainable features in order to achieve certification under the Leadership in Energy and Environmental Design (LEED) Green Building Rating System.

The public sector retains ownership, control and accountability for the hospital, including the new facilities.

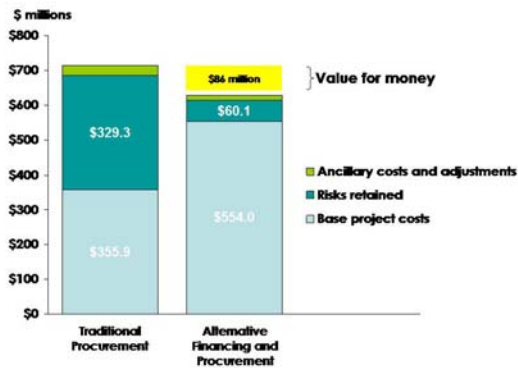
The purpose of this report is to provide a summary of the project scope, the procurement process and the project agreement, and to demonstrate how value for money was achieved by delivering the Women's College Hospital project through the AFP process.

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

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

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

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



The value for money assessment of the Women's College Hospital project indicates estimated cost savings of 12 per cent or \$86.0 million by using the AFP approach in comparison to traditional delivery.

Deloitte & Touche LLP (Deloitte) completed the value for money assessment of the Women's College Hospital project. Their assessment demonstrates projected cost savings of 12 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.

Property One Consulting Inc. acted as the Fairness Monitor for the project. They reviewed and monitored the communications, evaluations and decision-making processes associated with the Women's College Hospital project, ensuring the fairness, equity, objectivity, transparency and adequate documentation of the process. Property One Consulting certified that these principles were maintained throughout the procurement process.

Infrastructure Ontario will work with Women's College Hospital to build the new hospital, which will remain publicly owned, publicly controlled and publicly accountable.

Project description

Background

ReNew Ontario 2005-2010 is a \$30-billion-plus strategic infrastructure investment plan to modernize, upgrade and expand Ontario's public infrastructure.

Infrastructure Ontario is an essential component of the *ReNew Ontario* plan. The Crown Corporation was created in 2005, to ensure that infrastructure projects are delivered on time and on budget.

Under the *ReNew Ontario* plan, projects are assigned to Infrastructure Ontario by the provincial government, which uses a made-in-Ontario project delivery model called Alternative Financing and Procurement (AFP). AFP brings private-sector expertise, ingenuity and rigour to the process of managing and renewing Ontario's public infrastructure while shifting risks associated with cost and schedule overruns away from the public sector.

Ontario's public infrastructure projects are guided by the five principles set out in the provincial government's *Building a Better Tomorrow Framework*, which include:

- public interest is paramount;
- value for money must be demonstrable;
- appropriate public control and ownership must be preserved;
- accountability must be maintained; and
- all processes must be fair, transparent and efficient.

Women's College Hospital

Women's College Hospital is the first and only independent academic ambulatory care hospital in Ontario and the only hospital in Ontario with a primary focus on women's health. Fully affiliated with the University of Toronto, the hospital supports research in women's health and is a leader in the training of health-care providers within an ambulatory setting.

Project Scope

The Women's College Hospital redevelopment project will see the construction of a new hospital on the hospital's current downtown Toronto site in two phases, to allow for the continued operation of the hospital throughout the construction period. The first phase involves the construction of a clinical tower on the eastern half of the hospital site between 2010 and 2013. Once this structure is complete, the hospital's clinical operations will relocate to the new building to permit the second phase of construction, involving the demolition of the existing hospital and construction of the hospital's administrative, research and education components on the site's western half. Following completion of the second phase in late 2015, internal renovations will be made to consolidate the two phases by the final project completion date in early 2016.

The new multi-storey Women's College Hospital will contain clinical, surgical, research and educational facilities, as well as administrative and other non-clinical space, designed to support and promote innovative ambulatory programs and services. Designed differently than traditional hospitals, the new facility will not be built around in-patient wards and bedrooms but rather around specialized operating suites and clinical "neighborhoods" that integrate treatment, research and education. The new facility will allow an increase in patient visits of more than 70 per cent.

The new hospital has been designed with environmentally responsible and sustainable features in order to achieve certification under the Leadership in Energy and Environmental Design (LEED) Green Building Rating System.

Job Creation

The project will provide a sizeable boost to the regional and Ontario economies during construction by directly and indirectly supporting and creating hundreds of jobs, many of which will be in the Greater Toronto Area. At the peak of construction approximately 300 workers will be on site daily.

Competitive selection process timeline

Women's College Hospital has entered into a project agreement with Women's College Partnership to design, build, finance and maintain the project. The procurement stages for the project were as follows:

October 31, 2008

Request for Qualifications

In 2008, Women's College Hospital and Infrastructure Ontario issued a request for qualifications (RFQ) for the project. Three building teams were short-listed:

Integrated Team Solutions

- EllisDon / LPF Infrastructure Fund / Fengate
- Parkin Architects / HOK Architects
- EllisDon Construction
- Honeywell Ltd.

Women's College Health Partnership

- Innisfree / Acciona Infrastructure Canada / Aecon Concessions
- Adamson Associates / Kasian Architecture
- Acciona / Aecon
- Angus Consulting Management Services Inc.

Women's College Partnership

- Bilfinger Berger
- Perkins Eastman Black / IBI
- The Walsh Group / Bondfield Construction
- Black & McDonald / HSG Zander

July 13, 2009

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 February 17, 2010. Three bids were received by Infrastructure Ontario and Women's College Hospital. The bids were evaluated using the criteria set out in the RFP.

May 17, 2010

Preferred proponent notification

Women's College Partnership 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.

Women's College Partnership's team included Bilfinger Berger Project Investments, Perkins Eastman Black/IBI Group, The Walsh Group/Bondfield Construction and Black & McDonald/HSG Zander.

July 13, 2010

Commercial close

A project agreement was executed by Women's College Partnership and Women's College Hospital.

July 13, 2010

Financial close

Construction and long-term financing for the Women's College Hospital project is being provided by Banco Espirito Santo de Investimento, S.A., New York branch; Credit Agricole Corporate and Investment Bank; ING Capital LLC; and Société Générale.

August 2010 – March 2016

Construction

Construction began following the Financial Close agreement. During the construction period, the builder's construction costs will be funded by its lenders in monthly instalments based on the construction program set out by The Walsh Group/Bondfield Construction.

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 Women's College Hospital and Infrastructure Ontario.

April 2013 and September 2015

Completion and payment

Upon completion of the first phase of construction of the new hospital, the provincial government will make an interim completion payment to Women's College Partnership. Women's College Hospital will also begin partial monthly service payments for a 30-year period for construction of the facility, building maintenance, life-cycle repair and renewal, and project financing, based on performance requirements defined in the project agreement. Women's College Partnership will receive a further payment from the government at substantial completion of the second phase of construction, which is expected in September 2015, at which time the monthly service payments from the hospital will be adjusted to reflect the maintenance, repair and renewal costs of the full building. Should Women's College Partnership not meet the requirements set in the agreement, it will face financial deductions.

April 2013 – April 2043

Maintenance

Women's College Partnership will maintain the new hospital for 30 years and be responsible for building maintenance, repair and life-cycle replacement during that period.

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 now equals 90 per cent of eligible construction costs.

Hospitals are responsible for 10 per cent of the eligible construction costs, otherwise known as their local share, as well as 100 per cent of the costs associated with the purchase of new and replacement equipment.

Project agreements

Legal and commercial structure

Women's College Hospital entered into a project agreement with Women's College Partnership, comprising approximately 66 months of construction and a 30-year maintenance timeframe. Under the terms of the project agreement, Women's College Partnership will:

- design and build the Women's College Hospital project;
- finance the construction and capital costs of the new hospital over the term of the project;
- obtain a third-party independent certification that the new hospital is built;
- provide facility management and lifecycle maintenance for the new hospital 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.

Upon completion of the first phase of construction of the new hospital, the provincial government will make an interim completion payment to Women's College Partnership. Women's College Hospital will also begin partial monthly service payments for a 30-year period for construction of the facility, building maintenance, life-cycle repair and renewal, and project financing, based on performance requirements defined in the project agreement. Women's College Partnership will receive a further payment from the government at substantial completion of the second phase of construction, which is expected in September 2015, at which time the monthly service payments from the hospital will be adjusted to reflect the maintenance, repair and renewal costs of the full building. Should Women's College Partnership not meet the requirements set in the agreement, it will face financial deductions.

All Ontario hospitals will continue to be publicly owned, publicly controlled and publicly accountable. 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 Women's College Partnership. On a traditional project, these risks and resource availability can lead to cost overruns and delays. Examples of risks transferred to the private sector under the AFP project agreement include:

Construction price certainty

Women's College Partnership will finance and construct the new hospital. Women's College Partnership will receive payment from the hospital at phase one completion and at substantial completion of the new facility, which is expected in early 2016. 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.

Women's College Partnership's payment may only be adjusted in very specific circumstances, agreed to in advance and in accordance with the detailed variation (or change order) procedures set out in the project documents.

Scheduling, project completion and delays

Women's College Partnership has agreed to reach substantial completion of the facilities by early 2016.

The construction schedule can only be modified in very limited circumstances, in accordance with the project agreement. Payment to Women's College Partnership will not commence until completion of the first phase of construction of the new hospital (i.e., until it has completed building the hospital's first phase and it has been certified as complete by an independent consultant).

An additional level of due diligence and planning is required on a project such as this where construction will be taking place on a tight urban site adjacent to an operating hospital. Under these circumstances, construction activities must be carefully scheduled and phased to avoid any delays.

Costs associated with delays that are the responsibility of Women's College Partnership must be paid by Women's College Partnership.

Site conditions and contamination

Women's College Partnership accepted the site and the site conditions and shall not be entitled to make claims against Women's College Hospital on any grounds relating to the site. Furthermore, Women's College Partnership shall be responsible for remediation of any contamination at the site that was disclosed in or could have been reasonably anticipated from the environmental report or any of the geotechnical reports, or that is caused by Women's College Partnership or any of its parties.

Development approvals

Women's College Partnership is responsible for applying, obtaining, maintaining, renewing and complying with all development approvals.

Mechanical and electrical systems responsibility

Women's College Partnership 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.

Construction financing

Women's College Partnership is required to finance the construction of the project until the new hospital is substantially complete and Women's College Hospital can occupy the facility. Women's College Partnership will be responsible for all increased financing costs should there be any delay in Women's College Partnership reaching substantial completion. This shifts significant financial risk to Women's College Partnership in the case of late delivery.

Commissioning and facility readiness

Women's College Partnership must achieve a prescribed level of commissioning of the new hospital at substantial completion and must coordinate the commissioning activity within the agreed-upon construction schedule. This ensures that Women's College Hospital will receive a functional building facility at the time payments to Women's College Partnership commence. Women's College Partnership will work closely with Women's College Hospital to facilitate transition from the existing facilities to the new facility.

Activity protocols

Women's College Partnership and Infrastructure Ontario have established a schedule for project submittals taking into account the time for review needed by Infrastructure Ontario's compliance architect.

This protocol mitigates against Women's College Partnership 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 protocols set out the principles for any changes to the project work/scope during the construction period, including:

- requiring approval and processing of change orders from Women's College Hospital;
- specifying the limited criteria under which change orders will be processed and applied;
- timely notification of change orders to Infrastructure Ontario;
- approval by Infrastructure Ontario for owner-initiated scope changes;
- approval by Infrastructure Ontario for any change orders which exceed pre-determined thresholds; and
- approval by Infrastructure Ontario when the cumulative impact of the change orders exceed a pre-determined threshold.

Facilities maintenance risk

As part of the project agreement, key risks associated with the maintenance responsibility (including life-cycle renewal) of the new hospital over the 30-year service period have been transferred to Women's College Partnership. Women's College Partnership'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, Women's College Partnership 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 Women's College Partnership under the project documents, the financing arrangement entered into between Women's College Partnership and its lenders ensures that the project is subject to additional oversight, which may include:

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

Achieving value for money

For the Women’s College Hospital project, Deloitte’s value for money assessment demonstrates a projected cost savings of 12 per cent or \$86.0 million by using the alternative financing and procurement (AFP) approach, as compared to the traditional procurement approach.

Deloitte was engaged by Infrastructure Ontario to independently assess whether – and, if so, the extent to which – value for money will be achieved by delivering this project using the AFP method. Their assessment was based on the value for money assessment methodology outlined in *Assessing Value for Money: A Guide to Infrastructure Ontario’s Methodology*, which can be found at www.infrastructureontario.ca. The approach was developed in accordance with best practices used internationally and in other Canadian provinces, and was designed to ensure a conservative, accurate and transparent assessment. Please refer to the letter from Deloitte 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 today’s dollars and measured at the same point in time, of delivering the same infrastructure project under two delivery models - the traditional delivery model (public sector comparator or “PSC”) and the AFP model.

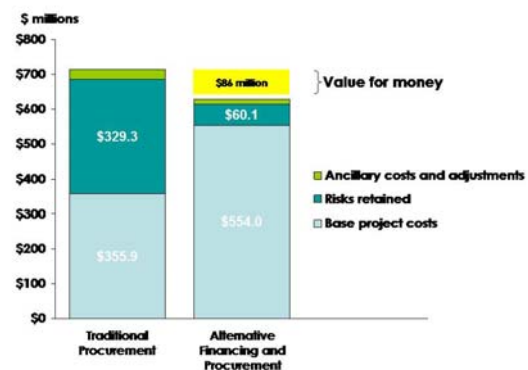
Model #1 Traditional project delivery (Public sector comparator)	Model #2 Alternative financing and procurement
Total project costs that would have been incurred by the public sector to deliver an infrastructure project under traditional procurement processes.	Total project costs incurred by the public 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 both models, such as land acquisition costs, furniture, fixtures and equipment, are excluded from this VFM calculation.

The value for money assessment is developed by obtaining detailed project information and input from multiple stakeholders, including internal and external experts in hospital project management and construction project management.

Components of the total project costs under each delivery model are illustrated below:



The value for money assessment of the Women’s College Hospital project indicates estimated cost savings of 12 per cent or \$86.0 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. It would be difficult to put a dollar value on the people of Ontario gaining access to an expanded health care facility sooner than would be the case with a traditionally delivered project. These qualitative benefits, while not expressly quantified in this value for money analysis, are additional benefits of the AFP approach that should be acknowledged.

Value for money analysis

For a fair and accurate comparison, the traditional delivery costs and AFP costs are present-valued to the date of financial close to compare the two methods of delivering a design, build, finance and maintain project at the same point in time. It is Infrastructure Ontario's policy to use the current public sector rate of borrowing for this purpose to ensure a conservative and transparent analysis. For more information on how project costs are time-valued and the value for money methodology, please refer to *Assessing Value for Money: A Guide to Infrastructure Ontario's Methodology*, which is available online at www.infrastructureontario.ca.

Base costs

Base project costs are taken from the price of the contract signed with Women's College Partnership, and include all construction, maintenance and financing costs. The base costs between AFP and the traditional delivery model mainly differ as follows:

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

2. The financing rate that the private sector is charged under AFP is higher than the financing rate of the public sector and is not included in the traditional delivery base costs.

In the case of the AFP model, the base costs are extracted from the price agreed among the parties under the project agreement. For the Women's College project, these were \$554.0 million.

If the traditional model had been used for the Women's College project, base costs are estimated to be \$355.9 million.

Risks retained

Historically, on traditional projects, the public sector had to bear costs that go beyond a project's base costs because of the necessary contingencies developed to respond to the project risks.

Project risks are defined as potential adverse events that may have a direct impact on project costs. To the extent that the public sector retains these risks, they are included in the estimated project cost.

The concept of risk transfer and mitigation is key to understanding the overall value for money assessment. To estimate and compare the total cost of delivering a project under the traditional delivery versus the AFP method, the risks borne by the public sector (which are called "retained risks") should be identified and accurately quantified.

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

Under the traditional delivery method, the risks retained by the public sector are significant. As discussed on pages 11-12, 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 Women's College Partnership:

- 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 these design documents, particularly in the plans, drawings and specifications; and for design completion issues that are specified in these design documents but erroneously left out.
- *Scheduling, project completion and delays:* Under the AFP approach, the builder has agreed that it will provide the facility for use by Women's College Hospital by a fixed date and at a pre-determined price. Therefore, any extra cost (financing or otherwise) incurred as a result of a schedule overrun caused by the builder will not be paid by Women's College Hospital, thus providing the builder a clear motivation to maintain the project's schedule. Further oversight includes increased upfront due diligence and project management controls imposed by the builder and the builder's lender.

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

It is this generic risk matrix that has been used for validating the risk allocation for the specific conditions of the Women's College Hospital project.

Using the AFP model reduces these results to the public sector. For example, had this project been delivered using the traditional approach, design coordination risks that arise would be carried out through a series of change orders issued during construction. Such change orders would, therefore, be issued in a non-competitive environment, and would typically result in a significant increase in overall project costs for the public sector.

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

A detailed risk analysis of the Women's College Hospital project concluded that the average value of project risks retained by the public sector under traditional delivery is \$329.3 million. The analysis also concluded that the average value of project risks retained by the public sector under the AFP delivery model decreases to \$60.1 million. This is a savings of \$269.2 million for Ontario taxpayers.

For more information on the risk assessment methodology used by Infrastructure Ontario, please refer to Altus Helyar's Risk Assessment Template DBFM projects, available at www.infrastructureontario.ca.

Ancillary costs and adjustments

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

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

- *Project management:* These are essentially fees to manage the entire project. Under the AFP approach, these fees will also include Infrastructure Ontario costs.
- *Transaction costs:* These are costs associated with delivering a project and consist of legal, fairness and transaction advisory fees. Architectural and engineering advisory fees are also incurred to ensure the facility is being designed and built according to the output 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 Women's College Hospital project under the traditional delivery method are estimated to be \$5.7 million as compared to \$14.1 million under the AFP approach.

An adjustment is made when estimating costs under traditional delivery. This adjustment is referred to as competitive neutrality and accounts for items such as taxes paid under AFP that flow back to the public sector and are not taken into account under the traditional model, and private sector insurance premiums that can be used as a proxy for valuing insurance costs when the public sector self-insures under the traditional method. In the case of the Women's College Hospital project, this adjustment is made by adding \$23.4 million to the traditional delivery costs (i.e., on the PSC side).

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

Calculating value for money

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

Once all the cost components and adjustments are determined, the aggregate costs associated with each delivery model (i.e., traditional delivery and AFP) are calculated, and expressed in Canadian dollars, as at financial close. In the case of the Women's College Hospital project, the estimated traditional delivery cost (i.e., PSC) is \$714.2 million as compared to \$628.2 million under the AFP delivery approach.

The positive difference of \$86.0 million or 12 per cent represents the estimated value for money by using the AFP delivery approach in comparison to the traditional delivery model.