



making projects  
happen

**VALUE FOR MONEY ASSESSMENT**

**ST. JOSEPH'S HEALTH CARE LONDON'S  
SPECIALIZED MENTAL HEALTH CARE  
AND FORENSIC MENTAL HEALTH CARE  
PROJECTS**



**KPMG LLP**  
Bay Adelaide Centre  
333 Bay Street, Suite 4600  
Toronto ON M5H 2S5

Telephone (416) 777-8500  
Fax (416) 777-8818  
Internet [www.kpmg.ca](http://www.kpmg.ca)

Infrastructure Ontario  
777 Bay Street  
Toronto, Ontario  
M5G 2C8  
Attn: Jim Cahill

**Re: Final Value for Money Assessment – Regional Mental Healthcare London and St. Thomas project**

---

Dear Mr. Cahill:

KPMG LLP (“KPMG”) has prepared the Value for Money (“VFM”) assessment for the Regional Mental Healthcare London and St. Thomas 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 the Financial Close Date 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 Group 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.



Page 2

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 12.16% in comparison to the traditional delivery approach.

Yours very truly

A handwritten signature in black ink that reads 'Will Lipson'.

KPMG LLP

Will Lipson  
*Managing Director*  
Toronto, Ontario  
April 12, 2011





# PRP International, Inc.

## *Fairness Monitor Services*

December 20, 2010

Mr. Lawrence Quinn  
Vice President, Project Delivery  
Infrastructure Ontario  
777 Bay Street, 6<sup>th</sup> Floor  
Toronto, ON M5G 2C8

Dear Mr. Quinn:

Subject: Letter Report of Fairness Monitor  
Request For Proposal's Phase  
St. Joseph's Health Centre – Regional Mental Health Care (London & St. Thomas) Project

PRP International, Inc., the Fairness Monitor, concludes that the Sponsors conducted the RFP and the evaluation of the Proposals received for this RFP, in accordance with the terms and conditions, the evaluation methodology and processes, and the decision making protocols, as disclosed in the RFP.

Accordingly, PRP International, Inc. attests that the determinations of:

1. Integrated Team Solutions, as the Highest Ranked Proponent and the selected Preferred Proponent,
2. Lend Lease Health Solutions – St. Joseph's, as the second ranked Proponent, and
3. AI Health Group, as a Proponent set aside from further consideration following the PDC Compliance Review,

were made in a fair (objective and competent) manner and consistent with the evaluation and selection processes set out in the RFP, issued January 18, 2010, and as amended by Addenda through to the RFP Closing Date of August 30, 2010. A summary Fact Sheet is attached.

Should you have any questions or require clarification of any matter contained in the report, please contact the undersigned.

Yours truly,

Peter Sorensen  
President

cc: Mr. Tariq Taherbhai

203 - 8 QUEEN STREET, SUMMERSIDE, PEI C1N 0A6  
TELEPHONE: 902.436.3930 FAX: 604-677-5409  
EMAIL: fairness@telus.net



**FACT SHEET TO FAIRNESS ATTESTATION**  
**Regional Mental Health Care (London & St. Thomas)**  
**RFP Procurement**

December 2010

**TO WHOM IT MAY CONCERN:**

**Background:**

- A Request for Proposal procurement transaction was conducted by Infrastructure Ontario (IO) and its client St. Joseph's Health Care (SJHC) (collectively, the Sponsors), for two Regional Mental Health Care Facilities (London & St. Thomas) (RMHC2), during the period January to November 2010;
- The evaluation and selection phase of the RFP provided for the evaluation of written submissions to determine a Preferred Proponent; and
- PRP International, Inc. was engaged, following an IO competitive procurement, to act as the Fairness Monitor for the Request for Qualifications and Request for Proposal phases.

**Summary Fairness Observations – RFP Evaluation:**

**Preamble:**

- A Fairness Framework guided the fairness monitoring of this procurement; some notable protocols are:
  - Fairness Monitor (Fairness) does not evaluate or read Proposals;
  - Fairness does not participate in the design of the RFP or Evaluation Framework – but must understand and be able to monitor and attest to the performance of the evaluation teams against the rules and processes established by IO; i.e. adherence to the evaluation and selection rules set out in the RFP and Evaluation Framework;
  - Requirement for disclosure of individual evaluator scores prior to consensus discussion and scoring;
  - Evaluations are conducted on a Proponent basis against the stated evaluation criteria and not by comparison to other Proponents (except when NPV scoring is required in the Financial Evaluation Team).

**Observations:**

- Excellent performance of the evaluation process:
  - Fairness acknowledged the inclusion of “independent evaluators” to the Design and Technical Evaluation Teams (DET and TET, respectively) vis-à-vis the Design Presentation Confidential Meetings process;
  - Competency of evaluators was evident;
  - Effective discussions were had in securing consensus;



**FACT SHEET TO FAIRNESS ATTESTATION**  
**Regional Mental Health Care (London & St. Thomas)**  
**RFP Procurement**

December 2010

- Effective engagement of Fairness in advance review of Request for Clarifications, notably, with respect to the Financial Evaluation Team's (FET) RFCs;
- All evaluation teams used the same rating scale (0-100 and its subdivisions); however, each team established a different standard for the "satisfactory" category but applied that standard consistently in their team, i.e. the TET had a minimum score requirement of 60% where the DET had a 70% requirement – thus, a debriefing of "good" for one team's results would not necessarily represent a "good" in the other team's results; and
- Evaluation Teams did arrive at their consensus scores on a Proponent basis; however, for the purposes of reporting out the consensus scores to the Evaluation Committee, the reporting is done by evaluation criteria resulting in the appearance of comparative consensus scores across Proponents – the presentation format is not inappropriate and is quite effective.

**Fairness Attestation:**

An Attestation as to the fair evaluation and selection of the selected Preferred Proponent, Integrated Team Solutions (ITS) is attached; with Fairness congratulations and a "job well done!"

**Fairness Monitor Team:**

The following individuals served on the PRP International, Inc. Fairness team:

- Peter Sorensen, Principal Monitor
- Sandro Benedetti, Monitor



## ARTIST'S RENDERING OF ST. JOSEPH'S SPECIALIZED MENTAL HEALTH CARE FACILITY IN LONDON



### Highlights of St. Joseph's Specialized Mental Health Care Facility in London

The new 398,000 square-foot facility will be constructed adjacent to St. Joseph's Parkwood Hospital in London. Its programs will accommodate services for:

- adolescent psychiatry
- assessment
- concurrent disorders
- geriatric psychiatry
- mood and anxiety disorders
- psychosis



REGIONAL MENTAL HEALTH CARE - LONDON  
Exterior Perspective - Main Elevation



## ARTIST'S RENDERING OF ST. JOSEPH'S FORENSIC MENTAL HEALTH CARE FACILITY IN ST. THOMAS



### Highlights of St. Joseph's Forensic Mental Health Care Facility in St. Thomas

The St. Thomas facility will be a new 194,000 square foot hospital for forensic mental health-care built on the existing lands in St. Thomas and will replace the current facility. It will provide specialized inpatient and outpatient services, including assessment, treatment, outreach and support services to individuals with a mental illness who have come into significant contact with the criminal justice system.



REGIONAL MENTAL HEALTH CARE - ST. THOMAS  
Aerial Perspective - View from South-West



# Table of Contents

Summary ..... 9  
Project description ..... 11  
Competitive selection process timeline ..... 12  
Project agreements ..... 13  
Achieving value for money ..... 17



## Summary

Over the last six years, the Province of Ontario has averaged \$10 billion in infrastructure investments per year. In June 2011, the Province launched its new long-term infrastructure plan. 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 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 AFP delivery or other delivery methods.

The new St. Joseph's Specialized Mental Health Care and Forensic Mental Health Care facilities are being delivered under the Province's Alternative Financing and Procurement (AFP) model.

St. Joseph's Specialized Mental Health Care facility will be constructed adjacent to St. Joseph's Parkwood Hospital in London. Its programs will accommodate services for:

- adolescent psychiatry
- assessment
- concurrent disorders
- geriatric psychiatry
- mood and anxiety disorders
- psychosis

St. Joseph's Forensic Mental Health Care facility in St. Thomas will be built on the existing land in St. Thomas and will replace the current facility. It will provide specialized inpatient and outpatient services, including assessment, treatment, outreach and support services to individuals with a mental illness who have come into significant contact with the criminal justice system.

The new hospitals will better support staff and a recovery model of care for patients by creating healing environments within a neighbourhood and community setting. The model promotes individual

growth and skill development enabling patients to return to community living more successfully.

### **The public sector retains ownership and control for the new hospitals.**

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 St. Joseph's Health Care London's Specialized Mental Health Care and Forensic Mental Health Care facilities 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.

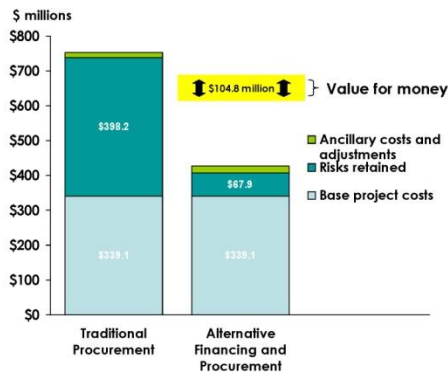
Value for money is determined by directly comparing the cost estimates for the following two delivery models:

<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.



The value for money assessment of St. Joseph's Health Care London's Specialized Mental Health Care and Forensic Mental Health Care facilities indicates estimated cost savings of 12.16 per cent or \$104.8 million, by using the AFP approach in comparison to traditional delivery.



KPMG LLP (KPMG) completed the value for money assessment of the St. Joseph's Health Care London's Specialized Mental Health Care and Forensic Mental Health Care facilities. KPMG's assessment demonstrates projected cost savings of 12.16 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.

PRP International Inc. acted as the Fairness Monitor for the project. They reviewed and monitored the communications, evaluations and decision-making processes associated with the St. Joseph's Health Care London's Specialized Mental Health Care and Forensic Mental Health Care facilities, ensuring the fairness, equity, objectivity, transparency and adequate documentation of the process. PRP International Inc. certified that these principles were maintained throughout the procurement process (please see letter on page 4).

Infrastructure Ontario will work with St. Joseph's Health Care London to develop the new mental health facilities, which will remain publicly owned and publicly controlled.



## 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 St. Joseph's Health Care London's Specialized Mental Health Care and Forensic Mental Health Care facilities on time and on budget. The St. Joseph's Health Care London's Specialized Mental Health Care and Forensic Mental Health Care facilities 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.

### Job Creation

The project will provide a sizeable boost to the regional and Ontario economies during construction by directly and indirectly supporting and creating thousands of jobs. At the peak of construction, it is estimated that 200 workers will be on each site daily.

### Project Scope

St. Joseph's Specialized Mental Health Care facility in London will be a new 398,000 square-foot facility and will be constructed adjacent to St. Joseph's Parkwood Hospital. Its programs will accommodate services for:

- adolescent psychiatry
- assessment
- concurrent disorders
- geriatric psychiatry
- mood and anxiety disorders
- psychosis

St. Joseph's Forensic Mental Health Care facility in St. Thomas will be a new 194,000 square-foot facility built on the existing land in St. Thomas and will replace the current facility. It will provide specialized inpatient and outpatient services, including assessment, treatment, outreach and support services to individuals with a mental illness who have come into significant contact with the criminal justice system.

The new facilities will better support staff and provide a recovery model of care for patients by creating healing environments within a neighbourhood and community setting. The recovery model promotes individual growth and skill development enabling patients to return to community living more successfully.

The St. Joseph's Health Care London's Specialized Mental Health Care and Forensic Mental Health Care facilities have been designed with environmentally responsible and sustainable features and will aim to achieve Leadership in Energy and Environmental Design (LEED) Gold certification for construction of the new facilities.



## Competitive selection process timeline

St. Joseph's Health Care London has entered into a project agreement with Integrated Team Solutions (ITS) to design, build, finance and maintain the two new facilities. The procurement stages for the project were as follows:

### **June 1, 2009**

#### *Request for Qualifications*

In June 2009, the St. Joseph's Health Care London and Infrastructure Ontario issued a request for qualifications (RFQ) for the project. Three building teams were short-listed:

- **AI Health Group, including:**
  - Innisfree Limited
  - Acciona S.A.
  - HCP Canada Ltd.
  - Acciona Infrastructures Canada Inc.
  - Walbridge Construction Canada Inc.
  - Kasian Architecture Ontario Limited
  - MAPP Architecture
  - MMM Group Limited
  - Vollmer Inc. - Sutherland-Schultz
  - E.S. Fox Limited
  - Black & McDonald Limited
  - Investec Limited
  
- **Integrated Team Solutions, including:**
  - EllisDon Corporation
  - Fengate Capital/LPF Infrastructure Fund
  - Honeywell Limited (Canada)
  - Parkin Architects Limited
  - Architects Tillmann Ruth Mocellin Inc.
  - Hastings and Aziz Consulting Structural Engineers Ltd.
  - The Mitchell Partnership Inc.
  - The Walter Fedy Partnership
  - Modern Niagara Toronto Inc.
  - Gordan Electric
  - Scotia Capital
  
- **Lend Lease Health Solutions – St. Joseph's, including:**
  - Lend Lease Canada Inc.
  - Stantec Consulting Ltd.
  - Johnson Controls Inc.
  - RBC Dominions Securities Inc.
  - Bondfield Construction Company Limited
  - McKay-Cocker Limited
  - J.M.R. Electric Ltd.

### **January 21, 2010**

#### *Request for Proposals*

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

#### *Proposal submission*

The RFP period closed on August 30, 2010. Three bids were received by St. Joseph's Health Care London and Infrastructure Ontario. The bids were evaluated using the criteria set out in the RFP.

### **December 2010**

#### *Preferred proponent notification*

Integrated Team Solutions (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.

### **March 11, 2011**

#### *Commercial and financial close*

A project agreement was executed by ITS and the St. Joseph's Health Care London.

The building team led by ITS represents a joint venture between EllisDon Corporation and Fengate Capital Management Ltd., with EllisDon also providing design build services. The facilities were designed by Parkin Architects and Architects Tillmann Ruth Mocellin. Honeywell Limited will provide facilities management. Scotia Capital acted as financial advisor to ITS.

### **April 2011**

#### *Construction*

During the construction period, the builder's construction costs will be funded by its lenders in - monthly instalments based on the construction program set out by EllisDon Corporation.

Construction will be carried out in accordance with the project agreement. The project will be overseen by a joint building committee made up of representatives from St. Joseph's Health Care London and Infrastructure Ontario.

*Completion and payment*

ITS will receive a payment from the province at substantial completion of each of the new St. Joseph's Specialized Mental Health Care facility in London, which is expected in October 2014, and the new St. Joseph's Forensic Mental Health facility in St. Thomas which is expected in April 2013. These payments will be followed by monthly service payments over a 30-year period for construction of the facilities, building maintenance, lifecycle repair and renewal and project financing.

*Maintenance*

ITS will maintain the two new facilities for 30 years and be responsible for building maintenance, repair and lifecycle replacement during that period.

"The state-of-the-art mental health care facilities in London and St. Thomas will help enhance the expert care we already provide patients. Hundreds of people have contributed to the plans to build these new facilities which will help provide dignity, comfort, and compassion as well as life affirming progress and skill development as patients' journey toward recovery."

— Dr. Gillian Kernaghan, President and CEO of St. Joseph's Health Care, London



# Project agreement

## Legal and commercial structure

Infrastructure Ontario entered into a project agreement with ITS, comprising approximately 44 months of construction for St. Joseph's Specialized Mental Health Care facility in London and approximately 26 months of construction for St. Joseph's Forensic Mental Health Care facility in St. Thomas and a 30-year maintenance timeframe for both facilities. Under the terms of the project agreement, ITS will:

- design and build the St. Joseph's Health Care London's Specialized Mental Health Care and Forensic Mental Health Care facilities;
- finance the construction and capital costs of the two new facilities over the term of the project;
- obtain a third-party independent certification that the two new facilities are built in accordance with the project agreement;
- provide facility management and lifecycle maintenance for the two new facilities for the 30-year service period under pre-established maintenance performance standards set out in the project agreement; and
- ensure that, at the end of the contract term, the building meets the conditions specified in the project agreement.

The Province will make monthly payments to ITS, based on performance requirements defined in the project agreement. The Province will not commence these payments until the terms and conditions set out in the project agreement have been met. Moreover, if ITS does not meet the standards set out in the agreement, it will face financial deductions.

ITS will receive a payment from the Province at substantial completion of each of the new St. Joseph's Specialized Mental Health Care facility in London, which is expected in October 2014, and the new St. Joseph's Forensic Mental Health Care facility in St. Thomas which is expected in April 2013.

These payments will be followed by monthly service payments over a 30-year period for construction of the facilities, building maintenance, lifecycle repair and renewal and project financing.

**The St. Joseph's Health Care London's Specialized Mental Health Care and Forensic Mental Health Care facilities will continue to be publicly owned and publicly controlled. Medical services in the facilities 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 construction and facility management team will be granted a licence to access the sites and facilities in order to provide the construction and facility maintenance services over the term of the agreement. However, as noted above, the two new facilities will at all times remain publicly owned and the construction and facility management team are contractually obligated 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 ITS. On a traditional project, these risks and resource availabilities can lead to cost overruns and delays. Examples of risks transferred to the private sector under the AFP project agreement include:

#### Construction price certainty

ITS will finance and construct the two new facilities. ITS will receive a payment from the Province at substantial completion of each the new St. Joseph's Specialized Mental Health Care facility in London, which is expected in October 2014, and the new St. Joseph's Forensic Mental Health Care facility in St. Thomas which is expected in April 2013. These payments 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.

The payment made to ITS 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

ITS has agreed to reach substantial completion of the new St. Joseph's Specialized Mental Health Care facility in London in October 2014 and the new St. Joseph's Forensic Mental Health Care facility in St. Thomas in April 2013. The construction schedule can only be modified in very limited circumstances, in accordance with the project agreement. The final payment made to ITS will not commence the terms and conditions set out in the project agreement have been met (i.e., until it has

completed building the new facilities and they have been certified as substantially complete by an independent consultant).

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

#### Design co-ordination

The project agreements provide that ITS is responsible for all design coordination activities to ensure that the facilities are 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

ITS is required to finance the construction of the project until the new facilities are substantially complete and St. Joseph's Health Care London's Specialized Mental Health Care and Forensic Mental Health Care can occupy the facilities. ITS will be responsible for all increased financing costs should there be any delay in ITS reaching substantial completion. This shifts significant financial risk to ITS in the case of late delivery.

#### Schedule contingency

The project documents provide the facilities with a schedule contingency, also known as a schedule cushion, which shields St. Joseph's Health Care London for delay costs for which the hospitals are responsible. While delays caused by the hospitals are expected to be minimal, the schedule cushion provides St. Joseph's Health Care London with some protection from the risk of delay claims by the builder.

#### Site conditions and contamination

ITS accepted the site and the site conditions and shall have highly limited recourse against the Province related to site conditions. Furthermore, ITS 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 ITS or any of its parties.

Development approvals

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

Mechanical and electrical systems responsibility

ITS 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 facilities, 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

ITS must achieve a prescribed level of commissioning of the new facilities at substantial completion and must co-ordinate the commissioning activity within the agreed-upon construction schedule. This ensures that the Province receives functional building facilities at the time payment to ITS commence. ITS will work closely with St. Joseph's Health Care London to facilitate transition from the existing facilities to the new facilities.

Activity protocols

ITS 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 ITS 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 Infrastructure Ontario and St. Joseph's Health Care London;
- specifying the limited criteria under which change orders will be processed and applied;
- timely notification of change orders to Infrastructure Ontario; and
- approval by Infrastructure Ontario for owner-initiated scope changes.

**Facilities maintenance risk**

As part of the project agreement, key risks associated with the maintenance responsibility (including lifecycle renewal) of the two new facilities over the 30-year service period have been transferred to ITS. ITS' maintenance of the building's lifecycle repair and renewal must meet the performance requirements set out in the project agreement. Under the project agreement, ITS faces deductions to its monthly payments if it does not meet its performance obligations.

In addition to the transfer of the above key risks to ITS under the project documents, the financing arrangement entered into between ITS and its lenders ensures that the project is subject to additional oversight, which may include:

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

## Achieving value for money

**For the St. Joseph’s Health Care London’s Specialized Mental Health Care and Forensic Mental Health Care facilities, KPMG LLP’s value for money assessment demonstrates a projected cost savings of 12.16 per cent, or \$104.8 million, by using the alternative financing and procurement (AFP) approach, as compared to the traditional procurement approach.**

KPMG LLP was engaged by Infrastructure Ontario to independently assess whether – and, if so, the extent to which – value for money will be achieved by delivering this project using the AFP method. Their assessment was based on the value for money assessment methodology outlined in *Assessing Value for Money: A Guide to Infrastructure Ontario’s Methodology*, which can be found at [www.infrastructureontario.ca](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 KPMG LLP on page 2.

### **Value for money concept**

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

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

<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 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.

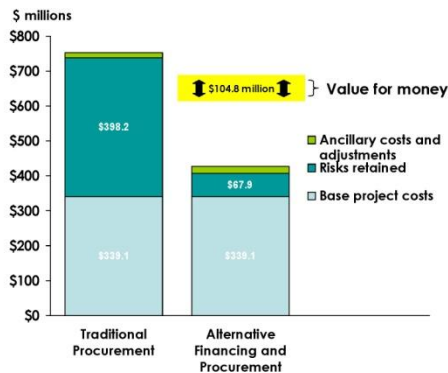
The value for money assessment is developed by obtaining detailed project information and input from multiple stakeholders, including internal and external experts in project management and construction project management.

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

**The value for money assessment of the St. Joseph’s Health Care London’s Specialized Mental Health Care and Forensic Mental Health Care facilities indicates estimated cost savings of 12.16 per cent**



or \$104.8 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.

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

### Base costs

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

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

In the case of the AFP model, the base costs are extracted from the price agreed among the parties under the project agreement. For the St. Joseph's Health Care London's Specialized Mental Health Care and Forensic Mental Health care facilities, base costs are estimated to be \$339.1 million.

If the traditional model had been used for the St. Joseph's Health Care London's Specialized Mental Health Care and Forensic Mental Health Care facilities, base costs are estimated to be \$339.1 million.

### Risks retained

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

Project risks are defined as potential adverse events that may have a direct impact on project costs. To the extent that the public sector retains these risks, they are included in the estimated project cost. The concept of risk transfer and mitigation is key to understanding the overall value for money assessment. To estimate and compare the total cost of delivering a project under the traditional delivery versus the AFP method, the risks borne by

the public sector (which are called “retained risks”) should be identified and accurately quantified.

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

Under the traditional delivery method, the risks retained by the public sector are significant. As discussed on pages 14, the following are examples of risks retained by the public sector under the traditional delivery method that have been transferred under the project agreement to ITS:

- 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 facilities for use by St. Joseph’s Health Care London’s Specialized Mental Health Care and Forensic 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 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.

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 St. Joseph’s Health Care London’s Specialized Mental Health Care and Forensic Mental Health Care facilities.

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 ITS.

A detailed risk analysis of St. Joseph's Health Care London's Specialized Mental Health Care and Forensic Mental Health Care facilities concluded that the average value of project risks retained by the public sector under traditional delivery is \$398.2 million. The analysis also concluded that the average value of project risks retained by the public sector under the AFP delivery model decreases to \$67.9 million.

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](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 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 St. Joseph's Health Care

London's Specialized Mental Health Care and Forensic Mental Health Care facilities under the traditional delivery method are estimated to be \$11.9 million as compared to \$ 19.4 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 St. Joseph's Health Care London's Specialized Mental Health Care and Forensic Mental Health Care facilities, this adjustment is made by adding \$4.2 million to the traditional delivery costs (i.e. on the PSC side).

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

#### **Calculating value for money**

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

Once all the cost components and adjustments are determined, the aggregate costs associated with each delivery model (i.e., traditional delivery and AFP) are calculated, and expressed in Canadian dollars, as at financial close. In the case of the St. Joseph's Health Care London's Specialized Mental Health Care and Forensic Mental Health Care facilities, the estimated traditional delivery cost (i.e. PSC) is \$862.3 million as compared to \$757.4 million under the AFP delivery approach.



The positive difference of \$104.8 million or 12.16 per cent represents the estimated value for money by using the AFP delivery approach in comparison to the traditional delivery model.