



making projects  
happen

Value for Money Assessment

South West Detention Centre



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

**Re: Final Value for Money Assessment – South West Detention Centre**

Dear Mr. Cahill:

KPMG LLP (“KPMG”) has prepared the Value for Money (“VFM”) assessment for the South West Detention Centre 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.

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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 5.90% 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  
May 10, 2011

KPMG LLP, a Canadian limited liability partnership, is the Canadian member firm of KPMG International, a Swiss cooperative.



March 21st, 2011

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

**Subject: South West Detention Centre ("SWDC") RFP No. OIPC-10-46-1009**

Dear Mr. Taherbhai:

P1-Consulting acted as the Fairness Commissioner to review and monitor the communications, evaluations and decision-making processes that were associated with the procurement process for the **South West Detention Centre ("SWDC") Project** in terms of ensuring fairness, equity, objectivity, transparency and adequate documentation of the evaluation process.

The primary objective of the South West Detention Centre ("SWDC") 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 model.

Infrastructure Ontario and the Ministry of Community Safety and Correctional Services (MCSCS) had initiated the design, build, finance project to build a new state-of-the-art correctional facility in Windsor, Ontario. The facility, when completed, will be a maximum security centre and will have capacity for 315 male and female offenders and will include general population, infirmary and segregation beds.

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;
- Objectivity and diligence during the procurement process in order to ensure that it was conducted in an open and transparent manner;
- Proper definition and use of evaluation procedures and assessment tools in order to ensure that the process was unbiased;
- Compliance of project participants with strict requirements of conflict of interest and confidentiality during the procurement and evaluation processes;
- Security of information;
- Prevention of any conflict of interest amongst evaluators on the selection committee;
- Oversight to provide a process where all Bidders were treated fairly.

**P1 Consulting Inc.**



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Mr. Taherbhai  
March 21<sup>st</sup>, 2011  
Page 2 of 2



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

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

The final step which we oversaw in the process, was the selection of the Preferred Proponent. On February 4, 2011 Infrastructure Ontario informed Forum Social Infrastructure that they had been selected as the preferred proponent.

As the Fairness Monitor for the **South West Detention Centre ("SWDC") Project**, we certify that, at the time at which this report was prepared, the principles of fairness, openness, consistency and transparency have, in our opinion, been maintained throughout procurement process. Furthermore, no issues emerged during the process, of which we were aware, that would impair the fairness of this initiative.

Yours truly,

A handwritten signature in blue ink, appearing to read 'Louise Panneton', is written over a faint circular watermark.

Louise Panneton  
Lead Fairness Commissioner

## Artist's Rendering of the South West Detention Centre



Courtesy of NORR Limited

### Highlights of the South West Detention Centre:

Size	<ul style="list-style-type: none"> <li>• Approximately 200,000 square feet</li> </ul>
Number of beds	<ul style="list-style-type: none"> <li>• Capacity for 315 inmates</li> </ul>
Security	<p>State-of-the-art integrated technology, safety and security standards enforced by expertly trained staff.</p> <p>Staff to implement current best-practices for inmate rehabilitation.</p>
Environmentally Sustainable Design	<p>Leadership in Energy and Environmental Design (LEED®) Silver certification. Highlights include:</p> <ul style="list-style-type: none"> <li>• more than 75 per cent of site construction waste will be diverted from landfill;</li> <li>• low-emitting volatile organic compound materials will be used for adhesives, paints, carpet and sealants;</li> <li>• landscaping with native, drought-resistant species will reduce outdoor water use by 50 per cent or more;</li> <li>• reduced indoor water use by more than 20 per cent;</li> <li>• space for secure bicycle storage, shower facilities for staff; and</li> <li>• minimizing solar heat gain through a PVC roof to reduce the heat island effect.</li> </ul>

# Table of Contents

Summary ..... 8  
Project description ..... 10  
Competitive selection process timeline ..... 11  
Project agreement..... 13  
Achieving value for money ..... 16

## Summary

The South West Detention Centre 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 South West Detention Centre is being delivered under the Province's Alternative Financing and Procurement (AFP) model.

The Ministry of Community Safety and Correctional Services (MCSCS) is building a new correctional facility in Windsor, Ontario. This new facility will be maximum security and will have capacity for 315 male and female offenders and will include general population, infirmary and segregation beds.

This new facility is part of MCSCS' strategy to address health and safety issues and inefficiencies in design, technology and space by replacing older facilities. Older facilities do not meet current operational requirements and are experiencing significant and growing remand pressures.

This new, state-of-the-art detention centre will replace the current Windsor and Sarnia Jails.

The South West Detention Centre project will target Leadership in Energy and Environmental Design (LEED®) Silver certification. LEED® buildings focus on healthy indoor environments, reduced greenhouse gas emissions and efficient use of energy, water and other resources.

### **The public sector retains ownership, control and accountability for the detention centre.**

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 South West Detention Centre 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.

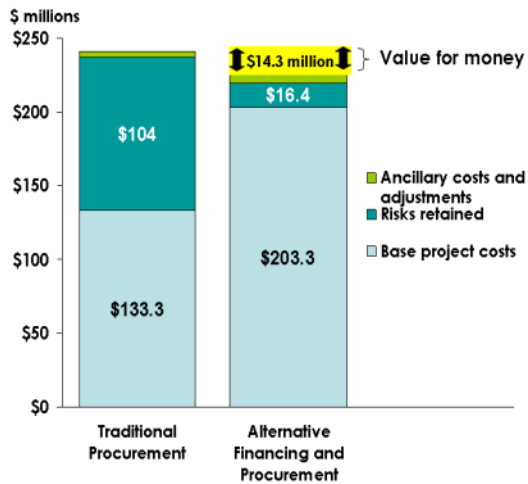
Value for money is determined by directly comparing the cost estimates for the following two delivery models:

<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 the South West Detention Centre project indicates estimated cost savings of 5.9 per cent or \$14.3 million, by using the AFP approach in comparison to traditional delivery.**





KPMG LLP completed the value for money assessment of the South West Detention Centre project. Their assessment demonstrates projected cost savings of 5.9 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 acted as the Fairness Monitor for the project. They reviewed and monitored the communications, evaluations and decision-making processes associated with the South West Detention Centre 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 (please see letter on page 4).

Infrastructure Ontario is working with the Ministry of Community Safety and Correctional Services to develop the detention centre, which will remain publicly owned, publicly controlled and publicly accountable.

## 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.

### Project Scope

The Ministry of Community Safety and Correctional Services (MCSCS) is building a new correctional facility in Windsor, Ontario.

This new facility will be maximum security and will have capacity for 315 male and female offenders and will include general population, infirmary and segregation beds.

This new, state-of-the-art detention centre will replace the current Windsor and Sarnia Jails.

The South West Detention Centre project will target Leadership in Energy and Environmental Design (LEED®) Silver certification. Forum Social Infrastructure will design, build, finance and for 30 years, maintain the detention centre to Leadership in Energy and Environmental Design (LEED®) Silver certification.

LEED® buildings focus on healthy indoor environments, reduced greenhouse gas emissions and efficient use of energy, water and other resources. The detention centre's LEED® highlights include:

- more than 75 per cent of site construction waste will be diverted from landfill;
- low-emitting volatile organic compound materials will be used for adhesives, paints, carpet and sealants;
- landscaping with native, drought-resistant species will reduce outdoor water use by 50 per cent or more;
- reduced indoor water use by more than 20 per cent;
- space for secure bicycle storage, shower facilities for staff; and
- minimizing solar heat gain through a PVC roof to reduce the heat island effect.

#### Job Creation

The project will help provide economic stimulus by creating and supporting hundreds of jobs. Labour will largely be drawn from the Windsor area. At the peak of construction, it is estimated that 150 workers will be on site daily.

## Competitive selection process timeline

The Province has entered into a project agreement with Forum Social Infrastructure to design, build, finance and maintain the South West Detention Centre. The procurement stages for the project were as follows:

### **August 6, 2009**

Request for Qualifications

In 2009, Infrastructure Ontario and the Ministry of Community Safety and Correctional Services issued a request for qualifications for the project. Three building teams were pre-qualified:

#### **Windsor Infrastructure Partnerships:**

- o Fengate Capital / LPF Infrastructure Fund
- o Walbridge Construction Canada, Inc.
- o Amico Design Build Inc.
- o PCR Contractors Inc.
- o Parkin Architects Limited
- o Architecturra Inc. Architects
- o DLR Group
- o Trow Associates
- o Dillon Consulting / ENVision
- o Morinson Hershfield Inc.
- o SNC Lavalin Operations & Maintenance Inc.
- o Metroplex Control Systems Inc.
- o AECOM Services, Inc.
- o H.H. Angus and Associates Limited
- o Comstock Canada Ltd.
- o Black & MacDonald Ltd.
- o National Bank Financial

#### **Justice Infrastructure South West:**

- o Bilfinger Berger Project Investments Inc
- o PCL Constructors Canada
- o Vollmer Inc
- o WZMH Architects
- o The Lichtman Associates P.C.
- o The Mitchell Partnership Inc.
- o Mulvey + Banani International Inc.
- o Halsall Associates Limited
- o Honeywell Limited
- o Vipond Inc.

#### **Forum Social Infrastructure:**

- o Forum Equity Partners Inc.
- o Bondfield Construction Company Limited
- o J.M.R. Electric Ltd.
- o NORR Limited
- o The Durrant Group, Inc.
- o Brookfield Financial
- o Lobo Consulting Services Inc.

### **March 4, 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 September 29, 2010. Three bids were received. The bids were evaluated using the criteria set out in the RFP.

### **February 4, 2011**

*Preferred proponent notification*

Forum Social Infrastructure was selected as the successful RFP proponent based on predetermined criteria, including construction schedule, technical requirements, price, operational and management plans and financial backing, in accordance with the evaluation criteria set out in the RFP.

The Forum Social Infrastructure consortium includes:

- Developer: Forum Equity Partners Inc.
- Design: NORR Limited
- Construction: Bondfield Construction Company Limited
- Facilities Management: Johnson Controls Inc.
- Financial Advisor: Brookfield Financial

### **April 11, 2011**

*Commercial and Financial Close*

A project agreement between Forum Social Infrastructure and Infrastructure Ontario on behalf of the province was announced.

### **July 2011 – summer 2013**

*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 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 Infrastructure Ontario and the

Ministry of Community Safety and Correctional Services.

*Completion and payment*

Forum Social Infrastructure will receive a payment from the Province when the project reaches substantial completion, which is expected in summer 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.

**Summer 2014- fall 2043**

*Maintenance*

Forum Social Infrastructure will maintain the new detention centre for 30 years and be responsible for building maintenance, repair and lifecycle replacement during that period.

# Project agreement

## *Legal and commercial structure*

The Province entered into a project agreement with Forum Social Infrastructure, comprising approximately 28 months of construction and a 30-year maintenance timeframe. Under the terms of the project agreement, Forum Social Infrastructure will:

- design and build the detention centre;
- finance the construction and capital costs of the new detention centre over the term of the project;
- obtain a third-party independent certification that the detention centre is built;
- provide facility management and lifecycle maintenance 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.

The Province will make monthly payments to Forum Social Infrastructure, based on performance requirements defined in the project agreement. The Province will not commence these payments until the new detention centre is substantially completed. Moreover, if Forum Social Infrastructure does not meet the standards set in the agreement, it will face financial deductions.

The province will make a substantial completion payment of \$45 million for the new detention centre once built. Forum Social Infrastructure will be paid an average of \$8 million each year for a 30-year period for the construction of the facility, building maintenance, lifecycle repair and renewal, as well as project financing.

**All Ontario detention centres will be publicly owned and publicly controlled. Correctional services 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 in order to provide the construction and facility maintenance services over the term of the agreement. However, as noted above, the new facility 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 Forum Social Infrastructure. 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

Forum Social Infrastructure will finance and construct the new detention centre. Forum Social Infrastructure will receive a payment from the government at substantial completion, which is expected in summer 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.

Forum Social Infrastructure'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

Forum Social Infrastructure has agreed to reach substantial completion of the detention centre by summer 2013.

The construction schedule can only be modified in very limited circumstances, in accordance with the project agreement. Forum Social Infrastructure's final payment will not commence until substantial completion (i.e., until it has completed building the new detention centre and it has been certified as complete by an independent consultant).

Costs associated with delays that are the responsibility of Bondfield Construction Company Ltd. must be paid by Forum Social Infrastructure.

#### Site conditions and contamination

Forum Social Infrastructure accepted the site and the site conditions and shall not be entitled to make claims against the Province on any grounds relating to the site. Furthermore, Forum Social Infrastructure is 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 Forum Social Infrastructure or any of its parties.

#### Development approvals

Forum Social Infrastructure is responsible for applying, obtaining, maintaining, renewing and complying with all development approvals.

#### Mechanical and electrical systems responsibility

Forum Social Infrastructure 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

Forum Social Infrastructure is required to finance the construction of the project until the new detention centre is substantially complete. Forum Social Infrastructure will be responsible for all increased financing costs should there be any delay in them reaching substantial completion. This shifts significant financial risk to Forum Social Infrastructure in the case of late delivery.

Commissioning and facility readiness

Forum Social Infrastructure must achieve a prescribed level of commissioning of the new detention centre at substantial completion and must co-ordinate the commissioning activity within the agreed-upon construction schedule. This ensures the Province will receive a functional building facility at the time payments to Forum Social Infrastructure commence. Forum Social Infrastructure will work closely with the Ministry to facilitate transition from the existing jails to the new detention centre.

Activity protocols

Forum Social Infrastructure 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 Forum Social Infrastructure 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 Ministry of Community Safety and Correctional Services;
- 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; and
- approval by Infrastructure Ontario for any change order.

**Facilities maintenance risk**

As part of the project agreement, key risks associated with the maintenance responsibility (including life-cycle renewal) of the detention

centre over the 30-year service period have been transferred to Forum Social Infrastructure. Forum Social Infrastructure'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, Forum Social Infrastructure 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 Forum Social Infrastructure under the project documents, the financing arrangement entered into between Forum Social Infrastructure 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 South West Detention Centre project, KPMG LLP's value for money assessment demonstrates a projected cost savings of 5.9 per cent, or \$14.3 million, by using the Alternative Financing and Procurement 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.

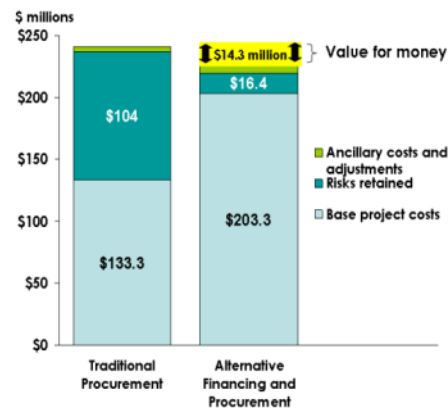
Model #1 Traditional project delivery (Public sector comparator)	Model #2 Alternative Financing and Procurement
Total project costs that would have been incurred by the public sector to deliver an infrastructure project under traditional procurement processes.	Total project costs incurred by the public 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 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 South West Detention Centre project indicates estimated cost savings of 5.9 per cent or \$14.3 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 Forum Social Infrastructure 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 detention centre project, these were \$203.3 million.

If the traditional model had been used for the detention centre project, base costs are estimated to be \$133.3 million.

### *Risks retained*

Historically, on traditional projects, the public sector had to bear costs that go beyond a project's base costs.

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 are 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 14-15, 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

Forum Social Infrastructure:

- 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 MCSCS 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 detention centre project.

Using the AFP model reduces these risks 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 Forum Social Infrastructure.

A detailed risk analysis of the project concluded that the average value of project risks retained by the public sector under traditional delivery is \$104 million. The analysis also concluded that the average value of project risks retained by the public sector under the AFP delivery model decreases to \$16.4 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 project under the traditional delivery method are estimated to be \$3.5 million as compared to \$8.1 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 this project, this adjustment is made by adding \$1.4 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](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 South West Detention Centre, the estimated traditional delivery cost (i.e. PSC) is \$242.2 million as compared to \$227.9 million under the AFP delivery approach.

The positive difference of \$14.3 million or 5.9 per cent represents the estimated value for money by using the AFP delivery approach in comparison to the traditional delivery model.