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VALUE FOR MONEY ASSESSMENT

THE NEW BRIDGEPOINT HOSPITAL

October 2, 2009

**Private and confidential**

Steven Richards  
Infrastructure Ontario  
777 Bay Street, Suite 900  
Toronto ON M5G 2C8

Dear Mr. Richards

**Subject: Re: Value for Money Assessment at Financial Close – Bridgepoint Health**

Deloitte & Touche LLP (“Deloitte” or “We”) has prepared the Value for Money (“VFM”) assessment for Bridgepoint Health (“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 24<sup>th</sup>, 2009, demonstrates that the AFP approach will provide an estimated value savings of 10.4% (in comparison to the traditional delivery approach), using a 3.74% 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

30 October 2009

Graham McLeod  
Vice President, Project Legal Services  
Infrastructure Ontario  
777 Bay Street, 6th Floor  
Toronto, ON M5G 2C8



**Re: Bridgepoint Hospital Redevelopment AFP Project**

Dear Graham,

Knowles Consultancy Services Inc. was retained to provide fairness advisory services for the above-mentioned project. Our role on the project was to provide advice pertaining to the fairness of the procurement processes. We were retained in November 2007 and provided these services for the initial Request for Qualifications and the Request for Proposals.

The Bridgepoint Hospital Redevelopment Project ("the Project") consists of the design, construction, financing and facilities management of a 472-bed (680,000 square feet) multi-storey tower for the Project at the existing 10-acre site in Toronto, Ontario. The public hospital space will include inpatient, ambulatory care facilities, administrative, parking, educational and research space. Space will also be provided for community and primary care services to support Bridgepoint Hospital's comprehensive and integrated approach to complex chronic disease management and service delivery. The Project also includes renovation of the historic Don Jail and link to the new hospital, as well as, construction of a park, civic court, roadways and associated site services.

Specifically, we provided advice to Infrastructure Ontario with regard to:

- Wording of the RFP document;
- Proponent Consultations;
- Adequacy of communications to Proponents;
- Adequacy of notification of changes in requirements;
- Confidentiality and security of Proposals and evaluations;
- Qualifications of the evaluation team;
- Compliance with the process;
- Objectivity and diligence respecting the evaluations;
- Proper use of assessment tools; and
- Conflict of Interest;

**KNOWLES CONSULTANCY SERVICES INC.**

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In our capacity as Fairness Monitor we undertook the following tasks:

- Attended meetings with Proponents;
- Monitored communications with Proponents;
- Provided advice on the drafting of the procurement documents with a view to ensuring a fair process; and,
- Monitored the evaluation process.

In conclusion, based on our findings, we are satisfied that the Bridgepoint Hospital procurement processes were conducted in a fair, open, and transparent manner. All Proposals received were evaluated against the evaluation criteria published in the procurement documents. We detected no bias either for or against any particular Proponent in the application of the evaluation criteria.

Yours truly,

**KNOWLES CONSULTANCY SERVICES INC.**

A handwritten signature in blue ink, appearing to read 'R. Bridges', with a long horizontal flourish extending to the right.

Roger Bridges, MBA, P.Eng., FCI Arb  
President

## ARTIST'S RENDERING OF THE NEW BRIDGEPOINT HOSPITAL



*Courtesy of Plenary Health*

### Highlights of the new Bridgepoint Hospital:

Square Footage	680,000
Number of Beds	472
Patient Rooms	<ul style="list-style-type: none"> <li>• A washroom in each patient room for enhanced infection prevention and control;</li> <li>• Larger rooms with modern technologies for more bedside procedures;</li> <li>• More natural light and spectacular views of the city; and</li> <li>• More room for specialized wheelchairs, letting patients regain their independence in their own space.</li> </ul>
Therapy Space	<ul style="list-style-type: none"> <li>• Double the amount of therapy space, with specialized therapy areas on each floor; and</li> <li>• A new in-ground therapy pool that triples the size of the existing above-ground pool.</li> </ul>
Environmentally Sustainable Design	<p>The building will be LEED Certified and in comparison to standard hospital designs, the new facility will:</p> <ul style="list-style-type: none"> <li>• Consume less energy;</li> <li>• Use 20 per cent less potable water;</li> <li>• Use storm-water runoff from the roof for landscape irrigation;</li> <li>• Support alternative transportation options by providing: <ul style="list-style-type: none"> <li>• Preferred parking for carpools</li> <li>• Amenities for cyclists (storage, showers, and expanded staff change rooms)</li> </ul> </li> <li>• Maximize the use of natural light; and,</li> <li>• Divert at least 75 per cent of construction waste away from landfill by recycling or salvaging construction materials.</li> </ul>
Don Jail	<p>The historic Don Jail will be preserved and restored into a vibrant centre for administrative and support services. The main entrance will be publicly accessible; the rotunda will be restored to its original beauty; and, some cells and the gallows will be preserved for historical purposes.</p>

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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 Bridgepoint Hospital is being delivered under the Province's Alternative Financing and Procurement (AFP) model.

The new 10-storey, 472 bed and 680,000 square foot facility will replace the existing aging hospital; it has been designed specially for people living with complex chronic disease (multiple lifelong illnesses) – the number one health care issue of the 21<sup>st</sup> century.

The new Bridgepoint Hospital will remain in Riverdale, at the corner of Broadview Avenue and Gerrard Street East, in the vibrant Riverdale community. It has been designed with environmentally responsible and sustainable features and will be certified 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 Bridgepoint Health project through the AFP process.

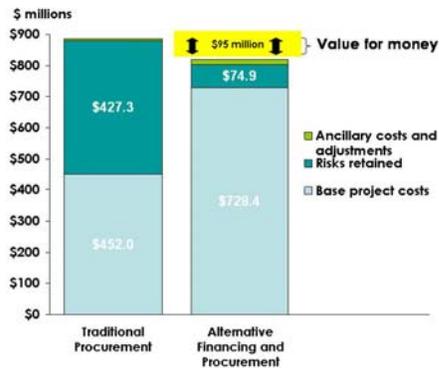
The value for money analysis refers to the process of developing and comparing the total project costs under two different delivery models expressed in dollar values measured at the same point in time.

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 Bridgepoint Health project indicates estimated cost savings of 10.4 per cent or \$95 million, by using the AFP approach in comparison to traditional delivery.



Deloitte & Touche LLP (Deloitte) completed the value for money assessment of the Bridgepoint Health project. Their assessment demonstrates projected cost savings of 10.4 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.

Knowles acted as the Fairness Monitor for the project. They reviewed and monitored the communications, evaluations and decision-making processes associated with the Bridgepoint Health project, ensuring the fairness, equity, objectivity, transparency and adequate documentation of the process. Knowles certified that these principles were maintained throughout the procurement process (please see letter on page 3).

Infrastructure Ontario will work with Bridgepoint Health to build the new hospital, which will remain publicly owned, publicly controlled and publicly accountable.

*"A staggering one-third of Ontarians are living with complex chronic disease. Together with the Ontario Government and Plenary Health, we will be creating a centre of excellence that will bring together top research, education and clinical talent in search of new ways of preventing and managing complex chronic disease."*

**Marian Walsh, President and CEO, Bridgepoint Health**

## 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:

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.

### **Bridgepoint Health**

Bridgepoint Health is Canada's leader in the prevention and management of complex chronic disease and disability. Affiliated with the University of Toronto, Bridgepoint Health is restoring lives through innovations in care, research and teaching.

The new facility will replace the existing aging hospital; it has been designed specially for patients with complex chronic disease (multiple lifelong illnesses) – the number one health care issue of the 21<sup>st</sup> century.

### **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, many of which will be in the Greater Toronto Area. At the peak of construction between 500 and 600 workers will be on site daily.

### **Project Scope**

The new Bridgepoint Hospital will remain in Riverdale at the corner of Broadview Avenue and Gerrard Street East. It has been designed with environmentally responsible and sustainable features and will be certified under the Leadership in Energy and Environmental Design (LEED) Green Building Rating System.

The new hospital will be 10 storeys high, have a capacity for 472 beds and be approximately 680,000 square feet in size. The historic Don Jail will be preserved and restored into a vibrant centre for administrative and support services. The main entrance will be publicly accessible; the rotunda will be restored to its original beauty; and, some cells and the gallows will be preserved for historical purposes.

## Competitive selection process timeline

Bridgepoint Health has entered into a project agreement with Plenary Health to design, build, finance and maintain the project. The procurement stages for the project were as follows:

### **November 26, 2007**

#### *Request for Qualifications*

In 2007, Bridgepoint Health and Infrastructure Ontario issued a request for qualifications (RFQ) for the project. Three building teams were short-listed:

- **Access Bridgepoint Health** - Babcock & Brown Canada ULC (later replaced by Meridiam), Farrow Partnership Architects, Barton Malow/McKay Cocker/Walbridge Aldinger, Dalkia Group;
- **Carillion Canada Inc.** - Carillion Canada Inc., HOK Architects Corporation/Montgomery Sisam Architects, Vanbots Construction, Carillion/Vanbots Services Bridgepoint Inc., CIT Group Securities (Canada) Inc. (Financial Advisor); and
- **Plenary Health** - Plenary Group, HDR Architects/Diamond Schmitt Architects Inc., PCL Constructors Inc., Johnston Controls Inc., and Innisfree.

### **July 29, 2008**

#### *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 March 13, 2009. Three bids were received by Infrastructure Ontario and Bridgepoint Health. The bids were evaluated using the criteria set out in the RFP.

### **June 10, 2009**

#### *Preferred proponent notification*

Plenary Health 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.

Plenary Health's team included Plenary Group, HDR Architects/Diamond Schmitt Architects Inc., PCL Constructors Inc., Johnston Controls Inc., Innisfree and RBC Capital Markets.

### **August 10 2009**

#### *Commercial close*

A project agreement was executed by Plenary Health and Bridgepoint Health.

### **August 11, 2009**

#### *Financial close*

Financing for the project is being provided by RBC Dominion Securities Inc. as bond underwriter, together with a banking group consisting of Calyon New York Branch, Dexia Credit Local and Royal Bank of Canada. Equity is being provided by Plenary and Innisfree.

### **October 2009 – March 2013**

#### *Construction*

Construction officially began after groundbreaking, held on October 19th, 2009. 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 PCL Constructors.

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 Bridgepoint Health and Infrastructure Ontario.

*Completion and payment*

Plenary Health will receive a payment from the hospital at substantial completion of the new Bridgepoint Hospital, which is expected in early 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.

***March 2013 – February 2043***

*Maintenance*

Plenary Health will maintain the new hospital for 30 years and be responsible for building maintenance, repair and lifecycle 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*

Bridgepoint Health entered into a project agreement with Plenary Health, comprising approximately 51-months of construction and a 30-year maintenance timeframe. Under the terms of the project agreement, Plenary will:

- design and build the Bridgepoint Health 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.

Bridgepoint Health will make monthly payments to Plenary Health, based on performance requirements defined in the project agreement. Bridgepoint Health will not commence these payments until the new hospital is substantially completed. Moreover, if Plenary Health does not meet the standards set in the agreement, it will face financial deductions.

Plenary Health will receive a payment from the hospital at substantial completion of the new hospital, which is expected in early 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.

**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 Plenary Health. 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

Plenary Health will finance and construct the new hospital. Plenary Health will receive a payment from the hospital at substantial completion of the new hospital, which is expected in early 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.

Plenary Health'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

Plenary Health has agreed to reach substantial completion of the facilities by early 2013.

The construction schedule can only be modified in very limited circumstances, in accordance with the project agreement. Plenary Health's final payment will not commence until substantial completion (i.e., until it has completed building the new hospital 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 in such close proximity to an operating hospital

and jail. Under these circumstances, construction activities must be carefully scheduled and phased to avoid any delays.

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

#### Site conditions and contamination

Plenary Health accepted the site and the site conditions and shall not be entitled to make claims against Bridgepoint Health on any grounds relating to the site. Furthermore, Plenary Health 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 Plenary Health or any of its parties.

#### Development approvals

Plenary Health is responsible for applying, obtaining, maintaining, renewing and complying with all development approvals. For example, because of the Don Jail's historic significance to the City of Toronto, heritage approvals must be obtained prior to work starting.

#### Mechanical and electrical systems responsibility

Plenary Health 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

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

Commissioning and facility readiness

Plenary Health must achieve a prescribed level of commissioning of the new hospital at substantial completion and must co-ordinate the commissioning activity within the agreed-upon construction schedule. This ensures that Bridgepoint Health will receive a functional building facility at the time payments to Plenary Health commence. Plenary Health will work closely with Bridgepoint Health to facilitate transition from the existing facilities to the new facility.

Activity protocols

Plenary Health 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 Plenary Health 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 Bridgepoint Health;
- 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 Plenary Health. Plenary Health’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, Plenary Health 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 Plenary Health under the project documents, the financing arrangement entered into between Plenary Health 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 Bridgepoint Health project, Deloitte's value for money assessment demonstrates a projected cost savings of 10.4 per cent, or \$95 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](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 Deloitte 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.

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.

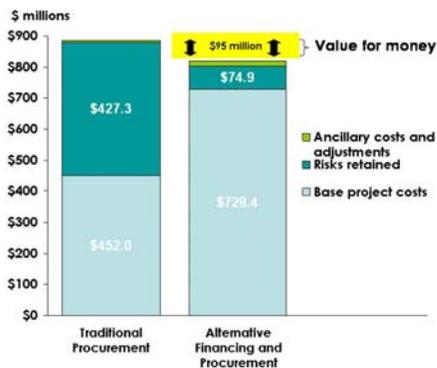
The cost components in the VFM analysis include only the portions of the project costs that are being delivered using AFP. Project costs that would be the same under both models, such as land acquisition costs, furniture, fixtures and equipment, are excluded from this VFM calculation.

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.

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

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

**The value for money assessment of the Bridgepoint Health project indicates estimated cost savings of 10.4 per cent or \$95 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](http://www.infrastructureontario.ca).

### *Base costs*

Base project costs are taken from the price of the contract signed with Plenary Health, 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 Bridgepoint project, these were \$728.4 million.

If the traditional model had been used for the Bridgepoint project, base costs are estimated to be \$452 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 12-13, 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 Plenary:

- 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. Because of the historic Don Jail, this project carries additional design risks for the builder in its obligation to restore and repurpose the jail. 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 Bridgepoint Health 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 Bridgepoint Health, 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 Bridgepoint Health 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 Plenary Health.

A detailed risk analysis of the Bridgepoint Health project concluded that the average value of project risks retained by the public sector under traditional delivery is \$427.3 million. The analysis also concluded that the average value of project risks retained by the public sector under the AFP delivery model decreases to \$74.9 million. This is a savings of \$352.4 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](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 Bridgepoint Health project under the traditional delivery method are estimated to be \$6.2 million as compared to \$16.9 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 Bridgepoint Health project, this adjustment is made by adding \$29.7 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 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 Bridgepoint Health project, the estimated traditional delivery cost (i.e. PSC) is \$915.2 million as

compared to \$820.2 million under the AFP delivery approach.

The positive difference of \$95 million or 10.4 per cent represents the estimated value for money by using the AFP delivery approach in comparison to the traditional delivery model.