



## VALUE FOR MONEY ASSESSMENT

# LAKERIDGE HEALTH'S OSHAWA HOSPITAL REDEVELOPMENT PROJECT



**KPMG LLP**  
Suite 3300 Commerce Court West  
PO Box 31 Stn Commerce Court  
Toronto ON M5L 1B2

Telephone (416) 777-8500  
Fax (416) 777-8818  
Internet www.kpmg.ca

Infrastructure Ontario  
777 Bay Street  
Toronto, Ontario  
M5G 2C8  
Attn: Robert Azzam

**Re: Final Value for Money Assessment – Lakeridge Health Corporation Redevelopment Project**

---

Dear Mr. Azzam:

KPMG LLP (“KPMG”) has prepared the Value for Money (“VFM”) assessment for the Lakeridge Health Corporation Redevelopment 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 substantial completion 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 Helyar 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 8.92% 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  
February 20, 2009

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



**Knowles**

A Hill International Company

11 March 2009

**Andres Duran, Legal Counsel**

**Infrastructure Ontario**

777 Bay Street, 6th Floor

Toronto, ON M5G 2C8

Dear Mr. Duran:

Re: **The Lakeridge Health Corporation Redevelopment Project**  
**Infrastructure Ontario RFP No. OIPC-08-26-1028**

Knowles Consultancy Services Inc. was retained to provide fairness monitoring services for the above-mentioned project. Our role was to review Infrastructure Ontario's procurement process from submission to the evaluation of proposals. This was done to ensure that the process was in accordance with the provisions of the RFP document.

Only parties that were pre-qualified through the project's Request for Qualifications process that preceded the RFP were eligible to participate.

Our conclusions are based on our first hand observations of the process, the documents used and information provided by the procurement project team.

In our capacity as fairness monitor, we:

- Took the process as outlined in the RFP as our point of reference;
- Attended the site visits and all meetings with proponents;
- Monitored communications with proponents; and,
- Monitored the evaluation process.

As Fairness Monitor we can attest that the overall process followed was consistent with the stipulations of the RFP. This includes the following:

---

The Lakeridge Health Corporation Redevelopment Project  
RFP No. OIPC-08-26-1028

11 March 2009  
Page 1 of 2

- Diligence applied to the overall evaluation process;
- Consistent application of the evaluation criteria among proponents as well as the use of only the published criteria in performing the evaluation;
- General consistency of treatment of proponents; and,
- Communications with proponents.

Evaluators employed were appropriately qualified. IO staff and external advisors adhered to conflict of interest and confidentiality requirements.

In conclusion, we can attest that, within the framework established by the RFP document, the evaluation process was conducted in a procedurally fair, open and transparent manner.

As a result of the procurement process:

- Two proposals were received from the pre-qualified proponents for this competition; and,
- The evaluation committee exercised its discretion to commence the negotiations process.

Yours truly,  
Knowles Consultancy Services Inc.



Don Solomon

cc. Michael Killeavy

## Lakeridge Health's Oshawa Hospital



### Highlights of the Redevelopment Project

	New (sq metres)	Renovated (sq metres)	Total redeveloped space (sq metres)
Adult mental health department	1,837	228	2,065
Rehabilitation department	1,129	693	1,821
Maternal newborn department	549	1,204	1,753

# Table of Contents

Summary ..... 8  
Project description ..... 10  
Competitive selection process timeline ..... 11  
Project agreements ..... 123  
Achieving value for money ..... 155

## 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 redevelopment and expansion project at Lakeridge Health's Oshawa hospital is being delivered under the Province's Alternative Financing and Procurement (AFP) model.

The project is the fifth phase of Lakeridge Health's redevelopment of its Oshawa hospital site by renovating and equipping the five floors above the Durham Regional Cancer Centre which are currently unoccupied.

The hospital's services will also increase in a number of inpatient areas including: medical/surgical, dialysis, birthing and paediatrics, rehabilitation and child, adolescent and adult mental health. As well, the hospital will be able to accommodate additional emergency and ambulatory visits and will have a capacity for up to 613 inpatient beds.

**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 Lakeridge Health project through the AFP process.

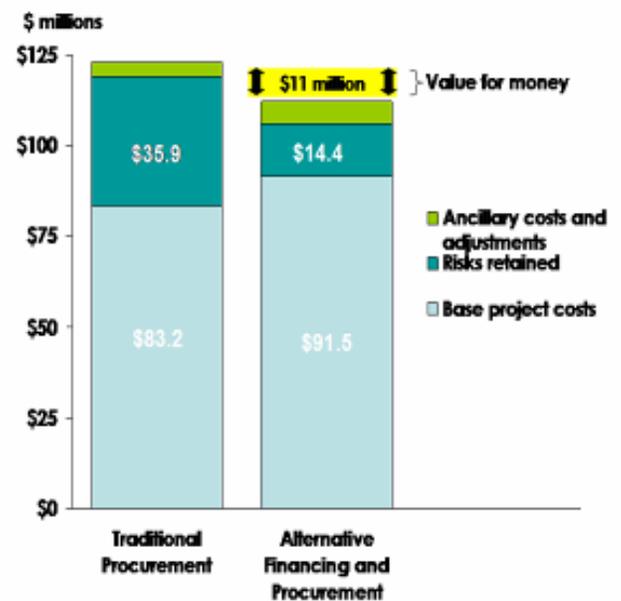
The value for money analysis refers to the process of developing and comparing the total project costs, expressed in dollars measured at the same point of time and related to two delivery models.

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

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 Lakeridge Health's Oshawa hospital project indicates estimated cost savings of 8.92 per cent or \$11 million, by using the AFP approach in comparison to traditional delivery.**



*"We appreciate the government's continued commitment and support of the redevelopment at Lakeridge Health Oshawa. Our patients, staff and community will benefit from having an expanded facility designed to meet the growing health care needs of Durham Region residents," says Kevin Empey, Lakeridge Health President and CEO.*

KPMG LLP completed the value for money assessment of the Lakeridge Health project. Their assessment demonstrates projected cost savings of 8.92 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 Lakeridge Health's Oshawa hospital 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 4).

Infrastructure Ontario will work with Lakeridge Health on the redevelopment the Oshawa hospital, which will remain publicly owned, publicly controlled and publicly accountable.

## Project description

### **Background**

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

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

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

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

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.

### **Lakeridge Health**

Lakeridge Health's Oshawa hospital provides community and regional health care to residents in Durham region and is home to the Durham Regional Cancer Centre.

The hospital has comprehensive services for cancer, laboratory, diagnostic imaging, rehabilitation and base hospital/advanced life support. At more than 330-beds, the Oshawa hospital site is one of the busiest acute care community hospitals in Ontario,

responding to more than 82,000 emergency visits and delivering more than 18,000 surgeries a year.

### **Job Creation**

The redevelopment project will create economic value as skilled tradespeople, subcontractors and their suppliers benefit from the capital investment. At the peak of construction more than 300 workers will be on site daily.

### **Project Scope**

The redevelopment project will include:

- Increased capacity to accommodate more surgical cases, emergency and ambulatory visits;
- Equipping five floors located above the Durham Regional Cancer Centre for paediatrics, oncology, general medical/surgical and rehabilitation inpatient services, as well as child, adolescent and adult mental health services and outpatient dialysis departments;
- Capacity of up to 216 new beds;
- Construction of two new floors – approximately 17,700 square feet – for paediatric support, child and adolescent mental health inpatient support and maternal program administration;
- Renovations of ambulatory maternal care, adult mental health support and administration, rehabilitation support, patient management services and the maternal newborn program; and
- Renovations to the central sterilization and reprocessing department, paediatric support and medical oncology support.

This redevelopment project will provide the residents of Oshawa and surrounding area with a wider range of health care services in a larger, modern, fully equipped facility.

## Competitive selection process timeline

Lakeridge Health has entered into a project agreement with Aecon Buildings and Concessions, a division of Aecon Group Inc. (Aecon), to build and finance their redevelopment project. The procurement stages for the project were as follows:

### **October 5, 2007**

#### *Request for Qualifications*

In 2007, Lakeridge Health and Infrastructure Ontario issued a request for qualifications (RFQ) for the redevelopment project. Five proponents were qualified:

- Aecon
- Bondfield Construction Company Limited
- Carillion Canada Inc.
- Pomerleau Inc.
- Vanbots Construction Corporation

### **May 30, 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 build and finance the project.

#### *Proposal submission*

The RFP period closed on November 17, 2008. Two bids were received by Infrastructure Ontario and Lakeridge Health. The bids were evaluated using the criteria set out in the RFP.

### **December 2008**

#### *Preferred proponent notification*

Aecon was selected as the successful RFP proponent on the basis of its proposed price and project schedule, in accordance with the evaluation criteria set out in the RFP.

### **February 11, 2009**

#### *Commercial and financial close*

A project agreement was executed by Aecon and Lakeridge Health.

Financing for Aecon to complete the project was arranged by Stonebridge Financial Corporation and includes the following financial partners:

- Canada Life;
- Industrial Alliance Insurance & Financial Services Inc.;
- Manufacturers Life Insurance Company; and
- The Equitable Life Insurance Company of Canada.

### **February 2009**

#### *Construction*

Construction began in February 2009. During the construction period, the builder's construction costs will be funded through financing, which will be paid in monthly instalments based on the construction program set out by Aecon.

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 Lakeridge Health and Infrastructure Ontario.

#### *Completion and payment*

The project is expected to reach substantial completion in spring 2011 at which time Lakeridge Health through funding from the Ministry of Health and Long-Term Care and the hospital's fundraising efforts, will pay for the project.

### **Hospital Capital Funding**

The local share is the portion of funding for which a hospital is responsible. Since the ministry's capital cost-sharing policy for hospital projects does not cover 100 per cent of all costs incurred, not all elements of a project are eligible for ministry cost-sharing.

The provincial portion of eligible construction costs is 90 per cent and 100 per cent of eligible costs for longer term mental health.

Hospitals are responsible for:

- 10 per cent of the eligible construction costs and associated ancillary costs
- 100 per cent of components of the project that are ineligible for ministry cost-sharing
- 100 per cent of the costs associated with the purchase of new and replacement furniture and equipment, excluding some radiation therapy equipment, longer-term mental health and chronic kidney disease equipment.

These costs for which the hospital is responsible are otherwise known as the local share. In the past, ministry capital cost share rates varied from 50 per cent to 70 per cent depending on the project.

## Project agreements

### *Legal and commercial structure*

Lakeridge Health entered into a project agreement with Aecon to carry out the construction and financing of the project. Under the terms of the project agreement, Aecon will:

- build the Lakeridge Health project, which will be completed in spring 2011;
- provide a financing package for project construction; and
- ensure that, at the end of construction, the building meets the requirements specified in the project agreement.

**Lakeridge Health's Oshawa hospital will remain publicly owned, publicly controlled and operated and publicly accountable, including the new facilities constructed as a result of the project.**

### *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, unforeseeable site conditions, changes in law, public sector initiated scope change, and force majeure (shared risk).

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

#### Construction price certainty

Aecon will construct the facilities at Lakeridge Health for a guaranteed maximum price of \$91.5 million, including financing costs. The builder's guaranteed maximum price for the hospital may only be adjusted in very specific circumstances, agreed to in advance, in accordance with the change order procedures set out in the project agreement.

#### Scheduling, project completion and delays

Aecon has signed a contract to reach substantial completion of the facilities construction by spring 2011. The construction schedule can only be modified in very limited circumstances, in accordance with the project documents. Lakeridge Health's payment for the project will not be made until substantial completion (i.e., until the facility has been certified as substantially complete by the hospital's consultant).

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

#### Design co-ordination

The project agreement provides that Aecon 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

Aecon is required to finance the construction of the project until the facility reaches substantial completion and is turned over to Lakeridge Health. The project agreement provides that the builder will be responsible for all increased financing costs resulting from any builder delay in reaching substantial completion. This shifts significant financial risk to the builder and is a strong incentive in preventing late delivery.

#### Schedule contingency

The project documents provide the hospital with a 30-day schedule contingency, also known as a schedule cushion, which shields Lakeridge Health for up to 30 days of delay costs for which Lakeridge Health is responsible. While delays caused by the hospital are expected to be minimal, the schedule cushion provides the hospital with some protection from the risk of delay claims by the builder.

#### Commissioning and facility readiness

Aecon must achieve a prescribed level of commissioning of the new facility at substantial completion and must co-ordinate the commissioning activity within the agreed upon construction schedule. This ensures that Lakeridge Health will receive a functional facility at the time payment is made.

#### Activity protocols

Aecon and the consultants from Lakeridge Health are required to establish a schedule for project submittals by the builder. This takes into account the timing for issuance of supplemental instructions by Lakeridge Health's consultants. This protocol mitigates against the builder alleging delay as a result of an inability to receive supplemental instructions in a timely manner in the course of the work.

In addition to the above key risks being transferred to the builder under the project documents, the financing arrangement entered into between Aecon and Stonebridge Financial Corporation 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;
- the requirement that change orders must be within the project contingency or funded by Lakeridge Health ; and
- the requirement that prior approval be secured for any changes made to the project budget in excess of a pre-determined threshold.

#### Change order protocol

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

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

## Achieving value for money

For Lakeridge Health’s Oshawa hospital project, KPMG LLP’s value for money assessment demonstrates a projected cost savings of 8.92 per cent, or \$11 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 future dollars and measured at the same point in time, of delivering the same infrastructure project under two delivery models - the traditional delivery model (public sector comparator or “PSC”) and the AFP model.

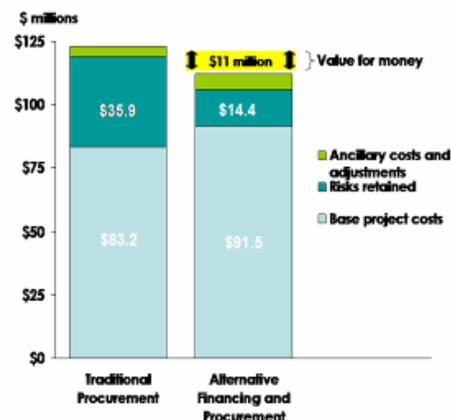
Model #1 Traditional project delivery (Public sector comparator)	Model #2 Alternative financing and procurement
Total project costs that would have been incurred by the public sector to deliver an infrastructure project under traditional procurement processes.	Total project costs incurred by the public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

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

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

The value for money assessment is developed by obtaining detailed project information and input from multiple stakeholders, including internal and external experts in hospital project management and construction project management. Components of the total project costs under each delivery model are illustrated below.

The value for money assessment of Lakeridge Health’s Oshawa hospital project indicates estimated cost savings of 8.92 per cent or \$11 million, by using the AFP approach in comparison to traditional delivery.



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

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

#### ***Value for money analysis***

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

#### ***Base costs***

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

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

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

In the case of the AFP model, the base costs are extracted from the price agreed among the parties under the project agreement. For Lakeridge Health, this is \$91.5 million.

If the traditional model had been used for this project, base costs for Lakeridge Health are estimated to have been \$83.2 million.

#### ***Risks retained***

The public sector has always had to bear costs that go beyond a project's base costs. Total project costs exceed base costs in large part due to contingencies for 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 ensure that the party best able to manage, mitigate and/or eliminate the project risks is allocated those risks under the project documents.

Under the traditional delivery method, the risks retained by the public sector are significant. As discussed on pages 12 to 13, the following are examples of risks retained by the public sector under the traditional delivery method. Below are risks transferred to the builder under the project agreement using the AFP model:

- construction price certainty;
- scheduling, project completion and potential delays;
- design co-ordination;
- construction financing;
- schedule contingency;
- 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 facilities are constructed in full accordance with the design in the project agreement. The builder is responsible for inconsistencies, conflicts, interferences or gaps in the contract documents particularly in the plans, drawings and specifications; and for design completion issues that are specified in the contract documents but erroneously left out in the drawings and specifications.
- *Scheduling, project completion and delays:* Under the AFP approach, the builder has agreed that it will provide the facility for use by the public sector by a fixed date and at a pre-determined price. Therefore, any extra cost (financing or otherwise) incurred as a result of a schedule overrun caused by the builder will not be paid by the public sector, thus providing the builder clear motivation to maintain the project's schedule. Further oversight includes increased upfront due diligence and project management controls imposed by the builder and the builder's lender.

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

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

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

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

A detailed risk analysis of the Lakeridge Health project concluded that the average value of project risks retained by the public sector under traditional delivery is \$35.9 million. The analysis also concluded that the average value of project risks retained by the public sector under the AFP delivery model decreases to \$14.4 million.

For more information about the risk assessment methodology used by Infrastructure Ontario, please refer to Altus Helyar's *Build-Finance Risk Analysis and Risk Matrix*, available at [www.infrastructureontario.ca](http://www.infrastructureontario.ca).

#### *Ancillary costs and adjustments*

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

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

- *Project management:* These are essentially fees to manage the entire project. Under the

AFP approach, these fees will also include Infrastructure Ontario costs.

- *Transaction costs:* These are costs associated with delivering a project and consist of legal, fairness and transaction advisory fees. Architectural and engineering advisory fees are also incurred to ensure the facility is being built according to specifications.

The ancillary costs are quantified and added to both models for the value for money comparison assessment. Both project management and transaction costs are likely to be higher under AFP given the greater degree of up-front due diligence.

The ancillary costs for the Lakeridge Health project, under the traditional delivery method are estimated to be \$4 million as compared to \$6.4 million under the AFP approach.

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

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

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

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

In the case of the Lakeridge Health project, the estimated traditional delivery cost (i.e. PSC) is \$123.3 million as compared to \$112.3 million under the AFP delivery approach.

The positive difference of \$11 million or 8.92 per cent represents the estimated value for money by using the AFP delivery approach in comparison to the traditional delivery model.