Not Relevant

| | | |
|---|---|---|
| 124 | TF07/094CS | Treasurer's and Minister for **H**ealth's Item (Kevin Foley and John **H**ill)<br>**APPROVED** |

Not Relevant

124

LOCKED

# CABINET COVER SHEET

1. **TITLE:** New Central Hospital – Marjorie Jackson Nelson Hospital

2. **MINISTERS:** Hon Kevin Foley MP
**DEPUTY PREMIER**
**TREASURER**

Hon John Hill MP
Minister for Health

3. **PURPOSE**

To inform Cabinet that the Outline Business Case for the Marjorie Jackson Nelson Hospital project identified that a Public Private Partnership is the preferred method for delivering the project,

To seek Cabinet approval for the Marjorie Jackson Nelson Hospital project to be delivered as a Public Private Partnership under Partnerships SA procurement policy,

To seek Cabinet approval for additional operating expenditure authority to the Department of Health of $5.3 million in 2007-08, $7.5 million in 2008-09, $6.5 million in 2009-10, $3.5 million in 2010-11 and $2.6 million in 2011-12; and

To seek Cabinet approval for the following net lending impacts:

| | 2007-08 $'000 | 2008-09 $'000 | 2009-10 $'000 | 2010-11 $'000 | 2011-12 $'000 |
|---|---|---|---|---|---|
| **Net Lending Impact** | **- 3,270** | **9,960** | **22,241** | **111,098** | **213,312** |

4. **RELEVANT GOVERNMENT POLICY AND/OR SA's STRATEGIC PLAN TARGET**

The construction of the new hospital will assist in implementing the State Strategic Plan across a number of areas including Growing Prosperity (Objective 1), Improving Wellbeing (Objective 2), Fostering Creativity and Innovation (Objective 4) and Building Communities (Objective 5).

5. **ICT COMPONENT**

Does the submission have a material ICT Component?
☐ Yes ☒ No

**The Office of the Chief Information Officer agrees with the basis of the assessment of the ICT Component contained in this submission.**

6. **RESOURCES REQUIRED FOR IMPLEMENTATION**

The project will be delivered by agency project teams supported by external consultants. The investing payments associated with the project development costs total $5.3 million in 2007-08, $7.5 million in 2008-09, $2.6 million in 2011-12 and $3 million per annum beyond the forward estimates till 2015-16.

The new hospital PPP service charge is estimated at approximately $122 million in 2016-17 (nominal dollars) and $249 million in 2017-19 (first full year of operation). Part of these costs will be offset by expenditures already incurred at the Royal Adelaide Hospital.

Treasury and Finance agrees with the basis of the assessment of costs contained in this submission.

7. **COMMUNITY AND ENVIRONMENTAL IMPACT**

The MJNH will support a modern model of health care service that will increase opportunities for the community to access primary and tertiary health care services in a "state of the art" health facility.

Potentially short to medium term economic benefits in the form of increased employment in the Adelaide metropolitan area. DH will require the MJNH to be designed, constructed and operated to current environmental standards.

8. **RISKS**

Risks have been identified during the OBC development and are being addressed.

A comprehensive risk management strategy will be developed as part of the PPP procurement process.

9. **CONSULTATION**

Due to the sensitivity of this project, consultation on this submission has been limited to the Department of Health, the Department for Transport, Energy and Infrastructure and the Department of Treasury and Finance.

Key stakeholders including Central Northern Adelaide Health Services and the Royal Adelaide Hospital were consulted in the development of the OBC.

10. **COMMUNICATION STRATEGY**

A communication strategy is in place to inform and engage health workers across the public system.

Communication strategies are being refined and developed for the health industry and broader community to ensure ongoing engagement and support for key decisions and project milestones.

11. **URGENCY**

For consideration on Monday 10 December 2007.

12. **RECOMMENDATIONS**

It is recommended that Cabinet:

12.1 notes that the Outline Business Case for the Marjorie Jackson Nelson Hospital project identified that a Public Private Partnership is the preferred method for delivering the project;

12.2 approves that the Marjorie Jackson Nelson Hospital be delivered as a Public Private Partnership under Partnerships SA procurement policy; and

12.3 **approves the following net lending impacts:**

| | 2007-08 $'000 | 2008-09 $'000 | 2009-10 $'000 | 2010-11 $'000 | 2011-12 $'000 |
|---|---|---|---|---|---|
| **Net Lending Impact** | **- 3,270** | **9,960** | **22,241** | **111,098** | **213,312** |

**I declare that I have no actual or potential conflict of interest in relation to the proposals contained in this submission.**

Kevin Foley MP
**DEPUTY PREMIER**
**TREASURER**

5 / 12 / 2007

John Hill MP
Minister for Health

5 / 12 / 2007

MINUTES forming ENCLOSURE to T&F07/094CS

To The Premier For Cabinet

RE NEW CENTRAL HOSPITAL – MARJORIE JACKSON NELSON HOSPITAL

## 1 PROPOSAL

**1.1** That Cabinet:

**1.1.1** notes that the Outline Business Case (OBC) for the Marjorie Jackson Nelson Hospital (MJNH) project identified that a Public Private Partnership (PPP) is the preferred method for delivering the project,

**1.1.2** approves that the MJNH be delivered as a PPP under Partnerships SA procurement policy, and

**1.1.3** approves the following net lending impacts:

| | 2007-08 $'000 | 2008-09 $'000 | 2009-10 $'000 | 2010-11 $'000 | 2011-12 $'000 |
|---|---|---|---|---|---|
| **Net Lending Impact** | **- 3,270** | **9,960** | **22,241** | **111,098** | **213,312** |

## 2 BACKGROUND

**2.1** Cabinet previously approved the implementation of health service strategies among which included the delivery of a new 800-bed state of the art tertiary teaching hospital to replace the Royal Adelaide Hospital and include complex services from the Queen Elizabeth Hospital (TQEH). The MJNH is to be constructed on the railway land to the west of Morphett Street Bridge.

**2.2** An OBC was commissioned by the Department of Health (DH) to investigate feasible procurement options for the MJNH and to recommend a preferred option to Cabinet.

**2.3** Ernst and Young and Turner Townsend, currently the lead advisers for the New Prison and Secure Facilities PPP, were appointed following competitive tender to advise DH in the development of the OBC.

**2.4** A key objective of the OBC is to identify a procurement model that:

**2.4.1** fully supports DH's model of care objectives;

**2.4.2** is best placed to deliver cost certainty within a competitive procurement process; and

**2.4.3** provides the most effective lifecycle risk management framework for the delivery of the infrastructure and associated services.

**2.5** The State objectives in the delivery of this project include:

**2.5.1** the achievement of a best value for money outcome;

**2.5.2** the efficient management of asset lifecycle risks; and

**2.5.3** maximising the capability of the facilities to deliver the best service from 2016, assuming an effective life of 30 years or longer.

**2.6** A range of procurement options were considered for the MJNH project, including Traditional Design and Construct, Alliance Contracting and PPPs.

**2.7** The Alliance procurement model was not considered in detail, as it is best suited to projects that have significant unidentified and unquantified risks. These risks are jointly managed in partnership within a risk-sharing procurement and delivery process.

**2.8** DH is able to define and quantify the MJNH's project scope and risks in considerable detail. Accordingly, the focus of the OBC is on the core objectives of cost certainty and the efficient management of lifecycle risks.

**2.9** The two options considered in detail in the OBC were therefore:

**2.9.1** traditional procurement in the form of a Managing Contractor arrangement, funded through State borrowing; and

**2.9.2** PPP delivery for the design, construction, maintenance and operation of the facilities through the provision of accommodation and support services, but excluding core clinical health services and funded by private sector borrowings.

**2.10** The OBC has been reviewed by the PPP Executive Steering Committee and that committee has endorsed the report's recommendations.

## 3 DISCUSSION

### Traditional Procurement – Managing Contractor Model

**3.1** The Managing Contractor procurement model involves the engagement of a contractor to manage the design, documentation and construction phases of the MJNH project for a management fee, with capital construction costs being managed to an agreed budget on an open book basis.

**3.2** The Managing Contractor model seeks to provide incentives for innovation and improved performances through financial bonuses.

**3.3** The Managing Contractor model is often utilised by DH in the delivery of complex capital projects on existing sites, such as the staged delivery of the Lyell McEwin projects, TQEH Stage 2 redevelopment and the Flinders Medical Centre redevelopment project.

**3.4** Under the Managing Contractor model the State retains concept design development risk, including innovation, financial risk associated with achieving all project requirements and whole of life asset risk.

**3.5** A key objective for the MJNH is that the facility be "fit for its intended purpose" for the duration of it's useful life. The Managing Contractor model was discounted as it is unable to provide the most efficient risk management framework over the longer term.

PPP Model

**3.6** The PPP option is a 'serviced infrastructure' PPP model, whereby the operator will design, finance, construction, maintain and operate the MJNH, and provide a range of ancillary services over a defined period (typically around 30 years). Core clinical health services will be retained in the public sector.

**3.7** A key benefit of the PPP model is that it integrates the design, construction and maintenance (including capital refurbishment) into a single performance-based contract. The PPP Contractor is paid for services delivered, not inputs provided or tasks completed.

**3.8** A further benefit is that the contractual structure clearly allocates the lifecycle risks of the project to the party best able to manage those risks. Because the Contractor's return on investment is dependent upon the efficient operation of the hospital over an extended period, the Contractor is best placed to manage the integrated design, construction and facilities management risks of the hospital, leaving the public sector to focus exclusively on the delivery of health services.

**3.9** A further feature of the model is that the State may withhold payment if services are not delivered or required quality standards are not satisfied. This encourages the Contractor to perform to the required standard.

**3.10** The PPP approach significantly reduces the State's exposure to cost over-runs. The Contractor bears the full design and construction risk of the project and there is no mechanism for the Contractor to claim variations, other than those expressly agreed to in the contract.

**3.11** Because the Contractor is fully exposed to the lifecycle risks of the facility, it is motivated to deliver a highly efficient design solution. Competitive pressure within the procurement process encourages innovation both in terms of design and service delivery.

**3.12** Delivery of hospitals via PPP is a well-established procurement model in Australia. Seven PPP hospital projects have recently been completed or are in progress in NSW and Victoria. The UK National Health Service has undertaken £17.695 billion of PPP hospital developments since May 1997.

Value for Money

**3.13** Value for money is achieved under a PPP when a project has a number of key characteristics that support an efficient transfer of risk to the private sector. These include:

**3.13.1** sufficient operational content that provides the incentive on the private sector to achieve whole-of-life cost savings;

**3.13.2** optimal risk allocation to the private sector, where it is better placed to manage risk allocated under a PPP contract; and

**3.13.3** an experienced pool of potential bidders to support a highly competitive and innovative bidding process.

**3.14** In entering into a PPP, the State will pay a financing premium to the Contractor to compensate for the risks that the Contractor has agreed to bear with no further recourse to the State. In order to ensure that the financing premium is not excessive, the Partnership SA Guidelines require that the PPP demonstrates value for money compared to traditional procurement.

**3.15** The Australian experience indicates that the PPP hospitals have achieved value for money of between 2 to 9 per cent with a median value of around 6 per cent. The OBC indicates that the expected value for money for the MJNH is in the order of 6 per cent (approximately $90 million in present value terms), however the report indicates that there is potentially further value for money that may be derived from the PPP procurement method.

**3.16** The financial analysis undertaken in the OBC indicates that in present value terms approximately $170 million in capital and lifecycle risks can be transferred to the Contractor compared to the Managing Contractor model. This analysis supports the qualitative assessment that risk allocation is likely to be a significant driver of value for money.

**3.17** DTF has reviewed the financial modelling for the project and is satisfied that the assumptions and cost inputs support the above estimates.

**Delivery Model**

**3.18** The PPP provider would be required to manage the major risks associated with the ongoing management of the facility. The range of services to be provided under the PPP contract is summarised below.

| Service | Description |
|---|---|
| Building Maintenance | General asset management including whole life (planned) and reactive maintenance activities |
| Bulk Stores | Central goods receiving and distribution |
| Catering | Central catering function |
| Cleaning | Total facility cleaning function |
| General Waste | Waste management and disposal, includes medical waste |
| Grounds Maintenance | Horticulture and external grounds |
| Housekeepers | Ward level facilities management and delivery |
| Linen | Procurement, distribution and laundry |
| Medical Gases | Cylinder, distribution and replacement |
| Pest Control | Internal and external pest management |
| Porterage | Movement of goods and patients around facility. Includes medical porterage |
| Security | Security staff and systems |

The following services may be market tested:

| Service | Description |
|---|---|
| Medical Equipment | Diagnostic through to loose |
| Sterile Services | Provision of sterile trays |

**3.19** The range of services that may be delivered under the PPP will be developed further during the project development and will be referred to Cabinet for consideration and approval.

Industrial Relations Management Strategy

**3.20** The State may have some redundant health services support staff that would need to be managed through a Targeted Voluntary Separation Package (TVSP) scheme. Any proposal for a TVSP scheme would be the subject of a separate Cabinet submission closer to the time of commissioning the MJNH.

Project Development

**3.21** The next stage in developing the PPP solution is to engage external advisors to assist the State in the preparation of the Project Brief and associated documentation. Based on precedent hospital PPP projects the external advisory team would include the following key advisers:

- Health planners
- Commercial and Financial
- Legal
- Probity
- Technical specialists
- Engineering
- Facilities Management

**3.22** The advisory team will assist the State in the development of project documentation for a competitive tender process, encompassing the expression of interest and the short-listing of bidders for the request for proposal. The Projects and Government Enterprises Branch, DTF, will work with DH in developing the project brief and associated tender documentation.

**3.23** It is estimated that the expression of interest and the short-listing of bidders for the request for proposal would be complete in the first quarter of 2009.

Economic, financial and budgetary implications

**3.24** The design, construction, maintenance and ancillary service costs associated with the MJNH project will be met by the private sector.

**3.25** DH will meet costs associated with project development and associated precinct works. These costs include the:

- engagement of external advisers;
- support of a project management team;
- redesign and construction of transport links;
- development of the North Terrace streetscape; and
- rehabilitation and utility augmentation of the railway site.

**3.26** Upon full commissioning of the MJNH, DH will pay a service charge for the range of services delivered under the PPP.

**3.27** The current forward estimates include investing payments of $445 million, and this submission will generate a negative impact on net lending in 2007-08 and positive impacts on net lending thereafter.

**Required Resources**

**3.28** DH will require investing expenditure authority under the PPP procurement model. However, there is sufficient expenditure authority in the budget to accommodate these payments, except in 2007-08 where additional investing expenditure authority of **$3.3** million will be required.

**3.29** Current budget allocations for this project are based on a traditional procurement model, with net lending impacts reflecting a staged construction program over the forward estimates. Under the PPP model, Accounting Standards require that the hospital infrastructure be recognised for reporting purposes when commissioned, which is current estimated over 2016-17. This requires an adjustment to the forward estimates to allow for the net lending impact arising from PPP delivery.

**3.30** The net lending impact from delivering the project as a PPP rather than as a traditional procurement is summarised in the table below:

**Marjorie Jackson-Nelson Hospital – PPP delivery method – budget impact**

| | 2007-08 $'000 | 2008-09 $'000 | 2009-10 $'000 | 2010-11 $'000 | 2011-12 $'000 |
|---|---|---|---|---|---|
| **Current Budget:** | | | | | |
| Investing Payments | - 3,000 | - 22,500 | - 58,700 | -128,600 | - 232,200 |
| **Proposed Budget:** | | | | | |
| Investing Payments: | | | | | |
| Consultancy fees | - 3,365 | - 5,100 | - 4,245 | - 1,105 | - 555 |
| Project management team | - 1,905 | - 2,440 | - 2,214 | - 2,347 | - 2,083 |
| Site services and other costs[1] | - 1,000 | - 5,000 | - 30,000 | - 14,050 | - 16,250 |
| **Net Operating Balance Impact** | - | - | - | - | - |
| **Net Lending Impact** | - 3,270 | 9,960 | 22,241 | 111,098 | 213,312 |

(1) includes site rehabilitation, site utility augmentation, train/tram link, alteration of road links and North Terrace street scape

**3.31** There are also costs beyond the forward estimates, for ongoing consulting and project management costs. These costs average around **$3** million per annum until project completion in 2015-16.

**3.32** Additional costs of $51.7 million will be incurred beyond the forward estimates for site utility augmentation, construction of the train/tram link, road alternations and the North Terrace street scape.

**3.33** Upon the MJNH being commissioned, DH will pay a service charge for services delivered under the PPP contract. The gross service charge is estimated to be approximately $122 million in 2016-17 (nominal dollars) and **$249** million in 2017-18 (the first full year of operation). A portion of these costs will be offset by expenditures already incurred at the **R**oyal Adelaide

Hospital, although an estimate of offsetting savings has not yet been determined.

**Staffing implications**

**3.34** There will be a short-term increase in DH staffing numbers as a result of establishing the project team to manage the development and implementation phases of the project. This will add to Health's FTE cap by 22 FTEs (30 June impact in 2008 to June 2011), with 19 FTEs in June 2012.

**South Australia's Strategic Plan**

**3.35** The construction of the MJNH will assist in implementing the South Australian Strategic Plan across a number of areas including growing prosperity, improving wellbeing, fostering creativity and innovation, building communities and reducing health inequity.

**Information and Communication Technology Requirements**

**3.36** Not applicable.

**Impact on the community and the environment**

**3.37** The MJNH will support a modern model of health care service that will increase opportunities for the community to access primary and tertiary health care services in a "state of the art" health facility.

**3.38** There are potentially short to medium term economic benefits in the form of increased employment in the Adelaide metropolitan area.

**3.39** DH will require the MJNH to be designed, constructed and operated to current environmental standards.

**Risk Management Strategy**

**3.40** The risks identified during the OBC development are being addressed as follows.

| Risk | Management Strategy |
|---|---|
| Urban Planning and Development Approvals<br><br>Rezoning approval must be in place prior to the market approach. | DH and Planning SA have an agreed approach to maximising timely delivery and working closely on its delivery. |
| Rail-yard Relocation<br><br>Rail devolution must be complete in December 2009 to enable construction of the MJNH in the first quarter of 2010. | DH is working with the Department for Transport, Energy and Infrastructure who are developing a detailed plan for the devolution. |
| Master Planning<br><br>The master plan must enable the project brief to be met whilst satisfying all of the agreed community and precinct requirements. | Planning to date has demonstrated that the site is able to meet the project brief requirements and provide for future growth. A master-planning forum has been established with the Adelaide City Council to work through the precinct planning issues and this is proceeding well at officer level. |

| Risk | Management Strategy |
|---|---|
| Site Issues<br><br>Rehabilitation plan must be resolved to enable construction to commence on eastern part of the site in the first quarter of 2010 and all rehabilitation to be complete by mid July 2010.<br><br>The risk of East Para Fault running through the site.<br><br>Ensuring compliance with flight path requirements. | A comprehensive environmental mapping process is nearing completion. Land Management Corporation is engaged to provide expert advice and support in developing the rehabilitation plan.<br><br>The site has been proven not to have a seismic fault.<br><br>Flight-path requirements can be accommodated without problem. |
| Consultation<br>The project brief will require a strong consultative base to drive change within the MJNH and within the broader health system. | DH working with the MJNH Clinical Steering Committee will manage a detailed user group consultation process. |
| Facilities Brief<br><br>The facilities brief will need to represent the models of health care and facilities for 2016 and the 30 years beyond. | Focus reference groups are being progressively established to detail new care models. International leading edge service modelling is being evaluated for inclusion where appropriate |
| Contracting<br><br>Achieving an optimally effective contracting outcome that will provide the facilities required and is robust over the 30-year term. | Precedent documentation is being obtained from Victoria and New South Wales as benchmark PPP project documentation. |
| Transition Planning<br><br>Management of progressive reform implementation so that operational change at the time of relocation is minimised. | A transition management process is established under SA Health Reform. |
| Health Reform<br><br>Ensuring that the reforms applicable to the entire health system are achieved so that the MJNH can operate as intended by 2016. | The SA Health Reform is being overviewed by a multi-agency steering committee. |
| Funding<br><br>Management of the project within the funding allocated. | All costing has been tested progressively and this process will continue as work progresses. The project is overviewed by a MJNH Project Steering Committee which will become an across agency committee. |

**3.41** A comprehensive risk management strategy will be developed as part of the PPP procurement process.

## Consultation

**3.42** Due to the sensitivity of this project, consultation on this submission has been limited to DH, the Department for Transport, Energy and Infrastructure and the Department of Treasury and Finance.

**3.43** Key stakeholders including the Department for Transport, Energy and Infrastructure, Central Northern Adelaide Health Services and the Royal Adelaide Hospital were consulted in the development of the OBC.

## Implementation Plan

**3.44** The proposal funds a project team to implement the decision.

**Communication Strategy**

**3.45** A communication strategy is in place to manage the process for informing and engaging health workers across the public system. Additionally, communication strategies are being refined and developed for the health industry and broader community to ensure ongoing engagement and support for key decisions and milestones moving forward.

**Executive Council**

**3.46** Not applicable.

## 4 RECOMMENDATIONS

It is recommended that Cabinet:

**4.1** notes that the OBC for the MJNH project identified that a PPP is the preferred method for delivering the project,

**4.2** approves that the MJNH be delivered as a PPP under Partnerships SA procurement policy, and

**4.3** approves the following net lending impacts:

| | 2007-08 $'000 | 2008-09 $'000 | 2009-10 $'000 | 2010-11 $'000 | 2011-12 $'000 |
|---|---|---|---|---|---|
| Net Lending Impact | - 3,270 | 9,960 | 22,241 | 111,098 | 213,312 |

Kevin Foley MP
**DEPUTY PREMIER**
**TREASURER**

5 / 12 / 2007

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06 DEC 2007
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In Cabinet

John Hill MP
Minister for Health

5 / 12 / 2007 10 DEC 2007

APPROVED
ACTING PREMIER