Government
of South Australia

Report

of the

Auditor-General

Supplementary Report

for the

year ended 30 June 2017

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9 March 2018

The Hon R P Wortley MLC
President
Legislative Council
Parliament House
ADELAIDE SA 5000

The Hon M J Atkinson MP
Speaker
House of Assembly
Parliament House
ADELAIDE SA 5000

Dear President and Speaker

Report of the Auditor-General: Supplementary Report for the year ended 30 June 2017 'New Royal Adelaide Hospital: March 2018'

As required by the *Public Finance and Audit Act 1987*, I present to each of you my Supplementary Report for the year ended 30 June 2017 'New Royal Adelaide Hospital: March 2018'.

Content of the Report

Part A of my Annual Report for the year ended 30 June 2017 referred to audit work that would be subject to supplementary reporting to Parliament.

This Supplementary Report provides an update on the status of the new Royal Adelaide Hospital project and outlines significant developments leading to the completion of works and hand-over of the facility to the State.

Acknowledgements

The audit team for this report was Salv Bianco, Philip Rossi, Stephen Gladigau and Vasso Gouros.

We appreciate the cooperation and assistance given by staff of the Department for Health and Ageing and the Department of Planning, Transport and Infrastructure during the review.

Yours sincerely

Andrew Richardson
Auditor-General

Contents

1 Executive summary

1.1 Introduction

The new Royal Adelaide Hospital (the new RAH or the facility) is one of Australia's most advanced hospitals providing a full range of complex clinical care.

Under a public private partnership (PPP) arrangement, SA Health Partnership Pty Ltd (Project Co, now known as Celsus) planned, designed, constructed and financed the facility to completion, with the exception of State funded works. The SA Government was responsible for State funded works including core clinical equipment and certain precinct and utilities infrastructure works.

During the State's use of the facility, Project Co will provide non-medical services and maintenance including infrastructure replacement throughout the operating term of the PPP.

The PPP operates under a Project Agreement between the State and Project Co over 35 years ending in June 2046, covering the design and construction and operating term phases.

Delays experienced in the design and construction phase have shortened the planned operating term phase of the agreement by one year to 29 years.

The facility was handed over to the State on 13 June 2017, signifying the start of the operating term phase.

Our review of the project is ongoing and has been undertaken in phases reflecting the extended time it has taken to deliver the project, key events impacting the project and the various project lifecycle stages and milestones.

In November 2015, I reported to the Parliament on a number of areas relating to program governance, assurance, management and reporting systems and processes that required improvement.

This Report provides an update on the status of the project and outlines significant developments leading to the completion of works and hand-over of the facility to the State. These include:

- executing a Deed of Settlement and Release (Settlement Deed) in September 2015 to settle a number of long outstanding issues including contamination remediation and project modifications, and extend the date for technical completion and commercial acceptance by 76 days
- entering into a Completion Deed and Cure Plan to achieve technical completion and commercial acceptance, resolve issues about safety and State access, and establish a process to resolve ongoing disputes

- the status of arbitration proceedings for major defects and other allegations and claims raised by the builder, and legal proceedings initiated by the builder against Project Co, the State and the Independent Certifier.

This Report also provides an update on the status of the project budget and expenditure to date.

1.2 Conclusion

This was a complex project to establish a new facility providing 800 beds, standardised single inpatient rooms, 40 technical suites and leading technology. Key aspects of the facility were delivered through a Project Agreement for a PPP. The design and construction phase was expected to conclude in April 2016.

In response to delays and difficulties with the project the State entered into the following agreements:

- Settlement Deed – September 2015
- Completion Deed and Cure Plan – March 2017.

The Settlement Deed settled a number of outstanding issues, particularly for contamination remediation, and extended the technical completion and commercial acceptance dates by 76 days. Under the Settlement Deed the State agreed to pay Project Co $69 million, including $35 million in financing delay costs. However, the project experienced further difficulties and the extended dates for technical completion and commercial acceptance agreed in the Settlement Deed – 18 April 2016 and 3 July 2016 respectively – were not achieved.

The State issued a number of default and major default notices using its rights under the Project Agreement, including for the failure to achieve technical completion by the due date and failure to adopt best construction practices.

Project Co's financiers stepped in, as provided for in the Project Agreement, and worked with Project Co and the State to determine a way forward to complete the facility. In March 2017 the three parties entered into the Completion Deed and Cure Plan which fixed dates and agreed a process for reaching technical completion and commercial acceptance. This included changing the Independent Certifier's responsibility for assessing the achievement of technical completion and commercial acceptance by requiring him to exclude:

- outstanding defects and other disputes and agreeing to resolve them through arbitration
- certain outstanding works, technical completion and commercial acceptance criteria, and action items, and agreeing to complete these at later dates.

The adjusted technical completion was achieved on 15 March 2017 with accepted exclusions and outstanding items. Consequently, not all State operational commissioning activities were fully completed by the Department for Health and Ageing (SA Health) at commercial acceptance.

The Completion Deed and Cure Plan helped to resolve completing the facility, addressed emerging financial risks and enabled the SA Government to progress delivering its health reform agenda and broader health objectives.

Commercial acceptance of the facility was achieved on 13 June 2017, around 14 months later than the Project Agreement date for commercial acceptance. From this date the State became liable to pay Project Co quarterly service payments.

The new RAH opened in September 2017. At that time there were a number of outstanding matters including:

- outstanding defects and other disputes
- works and action items not completed at technical completion and/or commercial acceptance which remained outstanding
- modifications that had not be completed and/or closed out including determining the final cost to the State
- legal proceedings initiated by the builder (currently subject to arbitration processes)
- receipt of certificates for certain electrical and mechanical safety works that were recommended as the result of a safety review completed prior to commercial acceptance.

The State and Project Co have worked together to progressively finalise outstanding works, action items and modifications.

SA Health must ensure robust governance and reporting arrangements are in place so the risks arising from these outstanding matters can be monitored, managed and closed out in acceptable terms. This includes managing risks arising from outstanding disputes, defects and the legal action initiated by the builder.

Project delays and additional costs for transition, modifications and contamination remediation resulted in the project budget increasing by $346.8 million from $2.094 billion at financial close in June 2011 to $2.441 billion at 30 September 2017.

Additionally, financing delay costs of $35.19 paid to Project Co in August 2016 were not included in the project budget and were not recorded as a cost of the new RAH project. In my view they should be recorded against the project.

1.3 Audit observations

Project delays and summary of key events (section 4)

The new RAH project has been subject to delays. Under the Project Agreement the date for technical completion was 18 January 2016 and the date for commercial acceptance was 18 April 2016.

In September 2015 the Minister for Health executed a Settlement Deed which extended the dates for technical completion and commercial acceptance by 76 days. The revised dates for technical completion (4 April 2016) and commercial acceptance (3 July 2016) were not achieved.

The State issued Project Co a major default notice under the Project Agreement for failure to achieve technical completion by the contractual date. The State has issued Project Co with further default notices.

In response to Project Co's failure to cure the major defaults the State, Project Co and financiers established a Completion Deed and Cure Plan to put into effect a cure plan to:

- fix the dates for technical completion and commercial acceptance
- resolve safety issues and State access, and agree a process to resolve disputes.

The State has issued Project Co a number of defect notices as was provided for under the Project Agreement. Arbitration proceedings are currently underway to determine the existence and extent of one defect and the compensation payable for various others defects.

In November 2016 the builder issued a Notice of Claimed Entitlements (builder notice) making claims against Project Co, the State and the Independent Certifier.

The State disputes all of these allegations and issued a notice of dispute in September 2017 and commenced arbitration proceedings in October 2017 to obtain relief from the claims.

In August 2017 the builder initiated legal proceedings in the Federal Court of Australia against Project Co, the State and the Independent Certifier for alleged breaches of contract and other matters relating to the construction of the new RAH.

In December 2017 the respondents to the builder's Federal Court proceedings successfully obtained a stay of the proceedings pending the outcome of the builder notice arbitration process.

At the time of this Report the arbitration processes were still in progress.

Project delivery status (section 5)

Technical completion was achieved on 15 March 2017 and commercial acceptance on 13 June 2017. On achieving commercial acceptance, the State became liable to pay Project Co quarterly service payments.

Clinical services progressively commenced at the new RAH from 14 August 2017. Patients were moved from the old RAH to the new RAH in early September 2017 and the Emergency Department opened on 5 September 2017.

We noted that:

- State operational commissioning activities were not fully completed at commercial acceptance as the facility was not completed with all functionality at technical completion
- the State did not receive a certificate confirming that certain safety works, identified in a report by an independent engineering safety expert (Jacobs), were complete until 8 November 2017, which was after clinical services commenced at the new RAH
- not all items on the commercial acceptance outstanding list have been completed and closed out
- Project Co has issued a dispute notice disputing the failure event abatements valued at $1.422 million that were applied by the State to reduce the first quarterly service payment
- the State has raised concerns that Project Co is not reporting all quality failures that are subject to abatement. Project Co has been requested to provide details of its processes to identify and report quality failures.

SA Health advised that formal receipt of Jacobs' certification after clinical services had been provided was an administrative matter that posed no safety risk (refer section 7.3.4 for details).

Project financial status and management (section 6)

The approved project budget for the new RAH project is $2.441 billion. It comprises the nominal construction cost by Project Co and State funded works, as shown in figure 1.1.

Figure 1.1: New RAH project budget at 30 September 2017

	$'million
Construction cost by Project Co (nominal)[1]	1 849.8
State funded works (nominal)	591.5
Total budget	2 441.3

The approved project budget has increased by $346.8 million from the approved budget at Project Agreement financial close in June 2011 ($2.094 billion). This is due to increases in the State funded works budget, principally for:

- transition funding – $176.6 million
- Settlement Deed funding – $56.3 million
- project delay funding – $82.9 million
- contingency funding for modifications – $15 million
- dual running costs funding – $11.8 million.

[1] As described in my November 2015 Report Project Co subcontracted a builder to design, construct and commission the new RAH. In line with the contractual arrangement with Project Co, the nominal capital cost for the design and construction of the facility is $1.85 billion. This amount does not represent the actual cost incurred by the builder to build the facility.

SA Health's forecast at 30 September 2017 for State funded works, after including identified program risks valued at $9.6 million, was $9 million less than the approved revised budget. Figure 1.2 summarises the status of the State funded works budget at 30 September 2017. Figure 6.2 provides further details of the this budget.

Figure 1.2: Status of State funded works budget at 30 September 2017

	Approved State funded works budget $'million	Forecast expenditure $'million	Variance $'million
Total budget	591.5	572.9	18.6
Program risks	-	9.6	(9.6)
Total budget (including program risks)	591.5	582.5	9.0

The most recent financial reports to the new RAH Finance Sub-Committee (as at 31 December 2017) indicate that the State funded works budget was reduced as part of the mid-year budget process by $5.3 million to $586.2 million. The reports also indicate that SA Health's total forecast expenditure for State funded works is within this revised budget.

We found that not all costs of delivering the new RAH project were recorded as project costs. Financing delay costs of $35.19 million paid in August 2016 are not included in the project budget and were not recorded as a project cost.

We also identified areas where budgetary and financial management process could be improved. Our key findings included the following:

- Since January 2017, financial reporting to the new RAH Steering Committee (the Steering Committee) to monitor the delivery of the new RAH project against the approved budget could have been improved.
- Some costs directly related to delivering the new RAH project were not included in the new RAH budget, and there was no consolidated record of all project costs.
- An approved consolidated budget for whole of life (operating) costs was not established and details of whole of life costs were not reported to the Steering Committee.
- The Steering Committee was not provided with reports detailing the status of the project contingency after January 2017.

Completion Deed and Cure Plan (section 7)

In March 2017 the State, Project Co and financiers established a Completion Deed and Cure Plan. It helped achieve technical completion and commercial acceptance by excluding:

- outstanding defects and other disputes, and agreeing to resolve these through a single arbitration process
- certain outstanding works and action items, and agreeing to complete these works at a later date.

This is a departure from the Project Agreement which does not allow technical completion and commercial acceptance to be achieved until defaults and major defects are remedied and outstanding works completed.

We found:

- the technical completion certificate, issued by the Independent Certifier on 15 March 2017, included a number of works and outstanding items to be completed after technical completion. This included some technical completion criteria included in the Project Agreement that was not achieved before the date of technical completion

- the commercial acceptance certificate, issued by the Project Director on 13 June 2017, included a number of works and outstanding items to be completed after commercial acceptance. This included commercial acceptance criteria included in the Project Agreement that was not achieved before the date of commercial acceptance.

An engineering/safety expert (Jacobs) was engaged to undertake a safety review of the facility. Jacobs' concluded on the date of commercial acceptance, based on safety risk assessments for seven critical aspects of the facility and a desktop review of the builder's safety in design process, that the facility complies with the *Work Health and Safety Act 2012* and best industry construction practices with respect to safety.

Jacobs' recommended some electrical and mechanical safety works to be completed after commercial acceptance. As noted, the State only received a certificate confirming that these works were complete on 8 November 2017, which is after clinical services had commenced at the new RAH.

SA Health advised that formal receipt of Jacobs' certification after clinical services had been provided was an administrative matter that posed no safety risk (refer section 7.3.4 for details).

Project modifications (section 8)

Modifications with a forecast capital cost of $44 million as at 30 September 2017 have been implemented or proposed in delivering the new RAH.

Our review of project modifications found:

- the State's approach to verifying that modifications implemented after commercial acceptance were completed to appropriate standards was not supported by documented risk assessment and approval

- certification and/or confirmation from the Independent Certifier and/or Project Co that modifications were completed to appropriate standards was not obtained for all modifications implemented after commercial acceptance

- the financial model, which contains the input for the quarterly service payment, has yet to be varied to reflect all modification lifecycle and service costs

- the State has issued modification orders where it has reserved its rights to recover the cost of these works from Project Co. The State is of the opinion these works, or part of them, may constitute rectification works under the Project Agreement.

SA Health indicated that it is their view that there was no contractual obligation on the State to verify modifications and that completing its own verifications and/or costly independent certifications are unwarranted (refer section 8.2.3 for further details of SA Health's response to this matter).

1.4 What we recommended

We made a number of recommendations to SA Health to address issues raised, including that it should:

- record the $35.19 million financing delay costs paid in August 2016 as a cost of the new RAH project
- review project reporting to ensure the total cost of delivering the new RAH project and the status of the project contingency is reported and monitored by management
- review financial reporting to the Steering Committee to ensure information is sufficient to manage the project budget
- establish budgets for whole of life (operating) costs for all furniture, fixtures and equipment procurements, and whole of life costs should be reported and monitored by the Steering Committee
- review modification orders issued with reserved rights to determine whether the works constitute rectification works under the Project Agreement. Recover from Project Co costs paid for works assessed to be rectification works
- work with Project Co to vary the financial model to reflect costs/savings from the implementation of modifications, and ensure the financial model is varied as soon as practical for future model variation events, including modifications
- obtain outstanding certifications/confirmations from the Independent Certifier/Project Co.

1.5 Response to our recommendations

We gave draft copies of this Report to responsible SA Heath officers and asked for their comments on the matters raised and recommendations made. Their responses are summarised in sections 6, 7 and 8.

We also gave a draft copy of this Report to the Chief Executive, Department for Health and Ageing for review and comment. The feedback provided was considered in finalising this Report.

2 Background

2.1 Project background

The new RAH is the largest social infrastructure project ever undertaken by the State, with a total nominal budget of approximately $2.4 billion.[2] This comprises a nominal estimated cost of $1.85 billion for design and construction costs by Project Co and State funded works of $591.5 million (at 30 September 2017).

The new RAH is part of a reform program developed to ensure the State has a responsive and sustainable health system for the future. It replaced the old RAH and provides an extensive range of complex medical, surgical, diagnostic, support services and a number of State-wide services.

The new RAH was constructed in the former rail yard located at the corner of Port Road and North Terrace in the CBD. The site is close to the South Australian Health and Medical Research Institute and university teaching and research facilities.

Further background information on the reform program, project objectives and strategic drivers for the project was provided in my Supplementary Report for the year ended 30 June 2015 'New Royal Adelaide Hospital report: November 2015' (November 2015 Report).

2.2 Project delivery arrangements

2.2.1 Overview of project delivery arrangements

The new RAH project is substantially being delivered using a serviced infrastructure model. A Project Agreement between the State and Project Co, executed in May 2011, provides rights and obligations for Project Co to finance most of the facility from design to construction, and provide a range of facility management and ICT support services during the State's use of the facility for a defined period.

The State is responsible for completing State funded works and providing clinical services and core clinical furniture, fittings and equipment for the new RAH.

The term of the Project Agreement is 35 years, ending on 6 June 2046 when Project Co must return the facility and site back to the State.

Construction of the new RAH commenced in late 2011 and commercial acceptance was achieved on 13 June 2017.

[2] This excludes $35 million paid to Project Co for the State's share of delay costs paid under a Deed of Settlement and Release entered into in September 2015. Further details are provided in section 6.2.1.

The operating term phase of the project began on 14 June 2017. Clinical services progressively commenced at the new RAH from 14 August 2017 and patients were moved from the old RAH to the new RAH between 4 September 2017 and 6 September 2017. The Emergency Department opened on 5 September 2017.

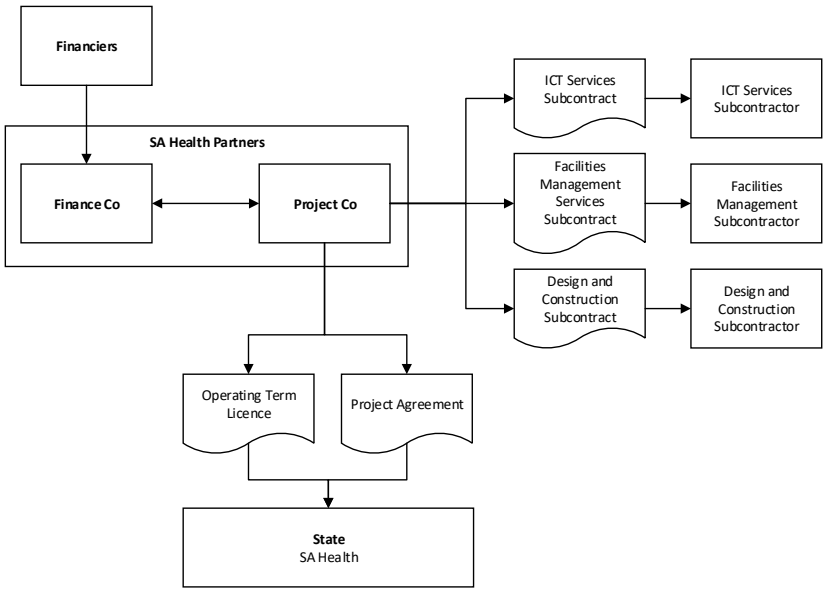
2.2.2 Key parties to the relationship and their interrelationships

The key parties to the arrangement include:

- the Minister for Health representing a body corporate acting for and on behalf of the State
- SA Health constituted as an administrative unit under the *Public Sector Act 2009* and nominated by the State as the organisation responsible for delivering the hospital services and functions
- Project Co representing the main entity contracted with the State to deliver the project
- financiers arranged by Project Co to raise funds to pay for the construction of the hospital and other associated costs
- the builder subcontracted by Project Co to design, construct and commission the new RAH
- other subcontractors engaged by Project Co, including the facility management subcontractor and the ICT services subcontractor.

The interrelationships of the parties are summarised in figure 2.1.

Figure 2.1: **New RAH PPP interrelationships**



2.2.3 Responsibilities and services provided by Project Co

Under the Project Agreement, Project Co was required to build a facility that meets the purposes and specifications detailed in the State's output specifications.

Project Co is also responsible for providing a range of facility management services during the operating term. These services include:

- maintaining the hospital
- cleaning and general housekeeping
- porterage services and medical orderlies
- general waste management
- pest control
- security
- catering
- waste management
- bulk stores
- linen distribution
- internal distribution logistics.

Project Co was responsible for designing and constructing the ICT network during the design and construction phase of the project.

Further, Project Co is required to procure debt and equity to finance the delivery of the project, and take out a range of insurances for the operating term of the project.

2.2.4 Responsibilities and services provided by the State

In return for receiving services from Project Co, the State is required to pay Project Co service payments during the operating term.

The service payments, which are paid quarterly, include:

- finance charges (comprising principal repayments, interest payments and equity distributions)
- Project Co's fees for providing non-clinical services.

The estimated average annual service payment is $390 million, comprising $318 million to repay design, construction and financing costs and $72 million for providing non-clinical services.

The value of service payments will vary over the operating term as they are adjusted for changes in services delivered, energy costs, and asset maintenance and replacement works.

The State is responsible for providing clinical services and equipment.

2.2.5 Project steering committee

The Steering Committee was the peak decision-making body for the new RAH project.

The role and function of the Steering Committee was to provide strategic leadership and accountability for the project within the overall agreed program of delivery for the new RAH.

The Steering Committee operated from 13 August 2013 and met formally at least monthly. It last met on 13 September 2017 and was disbanded on 18 September 2017.

2.3 Project Agreement

The Project Agreement establishes contractual arrangements for project delivery and requires key tasks to be completed by both the State and Project Co within specified dates. Its key terms and milestones are summarised below.

2.3.1 Technical completion

Technical completion is defined as the stage of works where technical completion criteria specified in the Project Agreement have been met to the satisfaction of the Independent Certifier. Project Co must undertake a series of technical completion tests that are detailed in the technical completion plan.

Under the Project Agreement the date for technical completion was originally 18 January 2016. In September 2015, under a Deed of Settlement and Release, the Minister for Health agreed to extend the date for technical completion by 76 days to 4 April 2016.

The project experienced delays and technical completion was ultimately achieved on 15 March 2017.

2.3.2 State operational commissioning

State operational commissioning is defined as the operational commissioning to be conducted by the State during the facility transition period (ie 90 days from the date of technical completion). During this period the State was able to test the functionality of the facility and commission State works.

2.3.3 Joint operational commissioning

Joint operational commissioning is defined as the operational commissioning to be conducted by Project Co during the facility transition period. The commercial acceptance plan set out the activities to be undertaken by Project Co and the State as part of the joint operational commissioning. In carrying out joint operational commissioning Project Co must not compromise, hinder, disrupt or otherwise adversely affect the State carrying out the State operational commissioning.

2.3.4 Commercial acceptance

Commercial acceptance is defined as the stage of works where commercial acceptance criteria specified in the Project Agreement have been met to the satisfaction of the Project Director.

Under the Project Agreement the date for commercial acceptance was originally 18 April 2016. In September 2015, under a Deed of Settlement and Release, the Minister for Health agreed to extend the date for commercial acceptance by 76 days to 3 July 2016.

Commercial acceptance was achieved on 13 June 2017.

2.3.5 Role of the Independent Certifier

The Project Agreement provides for the joint engagement (and sharing of costs) of an Independent Certifier until 12 months after the date of commercial acceptance. The role of the Independent Certifier includes:

- reviewing the progress of the works against the programs
- certifying that the works have achieved technical completion
- assessing whether the works have achieved commercial acceptance and notifying the Project Director that a commercial acceptance certificate should be issued
- determining extension of time claims and, where an extension of time has been granted for a compensable extension event, the delay costs payable.

The Independent Certifier can also act as an independent expert for the purposes of accelerated dispute resolution.

2.3.6 Project Director

The Project Agreement requires the State to appoint, until the date of commercial acceptance, a Project Director responsible for administering the Project Agreement as the State's delegate.

In November 2016 the Project Director (engaged by the Department of Planning, Transport and Infrastructure) assumed responsibility, from the new RAH Work Streams, for managing and coordinating all of the State's facility and site based activities through until the end of the facility transition period. Shortly after, in December 2016, the Project Director became the single point of accountability for delivery of the project.

The Project Director provided regular reports to the Steering Committee until it was disbanded in September 2017.

3 Audit mandate, objective and scope

3.1 Our mandate

The Auditor-General has authority to conduct this review under section 36(1)(a)(iii) of the *Public Finance and Audit Act 1987.*

3.2 Our objective

Our aim in conducting the review was to provide an update on the status of the new RAH project and review the reasonableness of certain processes and arrangements established by the State to deliver the project.

3.3 What we reviewed and how

We sought to understand developments, risks and issues impacting the new RAH project since my November 2015 Report and identified the following areas for review:

- project delays and key events that impacted the delivery of the new RAH project, including:
  - execution of the Settlement Deed
  - failure to achieve technical completion by contractual date
  - the State issuing major default notices
  - establishment of the Completion Deed and Cure Plan
  - arbitration proceedings in respect of defects and disputes
- the status of the project, including achievement of technical completion, State operational commissioning, commercial acceptance, hospital opening and outstanding works
- the financial status of the project including an update of the current status of the project budget and expenditure to date, and the assessment of key budgetary and financial management controls
- the Completion Deed and Cure Plan, including understanding the implications for the project
- management of project modifications, including understanding the nature, value and status of modifications required for the project, and the controls implemented to manage them.

In assessing these areas, we related with representatives of SA Health from the new RAH Project Office and officers from the Crown Solicitor's Office.

3.4 What we did not review

Our review was limited to the areas outlined in section 3.3. It did not include:

- project governance, management and reporting
- how the hospital was functioning and how it was being used since the operating term commenced in June 2017
- the arrangements with, and management of, the facilities management and ICT services providers.

3.5 Other matters

All amounts in this Report exclude GST.

4 Project delays and summary of key events

Key observations

In September 2015 the Minister for Health executed a Settlement Deed to settle a number of long outstanding issues and extend the date for technical completion and commercial acceptance by 76 days. The Settlement Deed required the State to make payments to Project Co of $68.6 million.

The Settlement Deed did not apply to the facility management subcontractor's claims for specific modifications included in the Settlement Deed. Since September 2015 the State and Project Co have agreed the amount payable to settle most of these claims. The amount agreed, over the operating term, is:

- $2 million for lifecycle costs
- $6.2 million for service costs.

At the time of this Report the facility management subcontractor's claim for one modification included in the Settlement Deed remains unresolved. Consistent with the Project Agreement the State issued a modification order on 27 October 2017 for the amount the State has determined as fair and reasonable.

In February 2016 the State issued Project Co with five defect notices. Project Co referred these defects to an independent expert for determination consistent with the dispute resolution process in the Project Agreement. The independent expert determined that four of the matters were defects. He further determined that he did not have jurisdiction to determine the compensation payable to the State for the defects.

The State considered that certain aspects of the independent expert's determination were outside his jurisdiction and initiated arbitration and legal proceedings. The legal proceedings in the Supreme Court of South Australia found the independent expert had exceeded his jurisdiction on occasions and certain determinations were null and void.

Arbitration proceedings to determine the compensation payable to the State for the five defects are underway. These proceedings also require the arbitrator to determine whether or not the defect the independent expert determined was not a defect is actually a defect. Further, additional arbitration proceedings are underway to determine the extent of one of the defects.

In November 2016 the builder issued a Notice of Claim Entitlements (builder notice) to Project Co making claims against Project Co, the State and the Independent Certifier. Project Co passed these claims on to the State.

The State disputes a number of allegations made in the builder notice, and issued a notice of dispute in September 2017 and commenced arbitration proceedings in October 2017.

Project Co did not achieve the revised date for technical completion (4 April 2016) included in the Settlement Deed. As a result, on 5 April 2016, the State issued a major default notice under the Project Agreement. The State subsequently issued Project Co with further major default notices for further breaches of the Project Agreement.

In response to Project Co's failure to cure the major default, in March 2017 Project Co, the State and financiers established a Completion Deed and Cure Plan to:

- achieve technical completion and commercial acceptance
- resolve safety issues and State access
- agree a process for resolving disputes.

Under the arrangements:

- the outstanding defects and other disputes are to be resolved through a single arbitration process
- the State waived the various major default/default notices that had been issued.

In August 2017 the builder initiated legal proceedings in the Federal Court of Australia against Project Co, the State and the Independent Certifier for alleged breaches of contract and other matters relating to the construction of the new RAH.

In December 2017 the respondents to the builder's Federal Court proceedings were successful in obtaining a stay of the proceedings pending the resolution of the various arbitration proceedings.

4.1 Deed of settlement and release

4.1.1 Background

In September 2015 the Minister for Health executed a Settlement Deed with Project Co to settle a number of long outstanding issues including contamination remediation cost and time, project modifications cost and time, and other disputed matters.[3]

The key elements of the settlement reflected in the Settlement Deed were:

- the State agreeing to extend the date for technical completion by 76 days from 18 January 2016 to 4 April 2016 and the date for commercial acceptance by 76 days from 18 April 2016 to 3 July 2016
- Project Co releasing the State from all claims (including extension of time/delay costs) for:
  - remediation of not known pre-existing contamination activities before 31 December 2012

[3] For details of the events that lead to the State and Project Co's decision to execute the Settlement Deed refer to my November 2015 Report.

- modifications required for State selected fixed clinical equipment identified in the Settlement Deed
- the extension of completion dates (ie technical completion and commercial acceptance)
- other specific modifications identified in the Settlement Deed and agreed matters

- the State agreeing to pay $68.6 million to Project Co in exchange for Project Co releasing the State from claims detailed in the Settlement Deed comprising:
  - $20 million for remediation of not known pre-existing contamination
  - $10 million for clinical equipment modifications
  - $36.5 million for delay costs
  - $2.1 million (net of credits owed to the State) to settle other specific modifications and matters.

The Settlement Deed explicitly stated that it did not apply to claims raised or to be raised by the facility management subcontractor for specific modifications included in the Settlement Deed. Further it did not resolve all modifications under the Project Agreement. Certain known future modifications were not included in the Settlement Deed due to insufficient information being available at the time.

4.1.2 Extended dates for technical completion and commercial acceptance not achieved

As indicated in section 4.1.1, under the Settlement Deed the State agreed to pay Project Co $36.5 million in delay costs based on the State and Project Co agreeing to share the costs resulting from moving the dates for technical completion and commercial acceptance by 76 days. As I mentioned in my November 2015 Report, SA Health, in agreeing to the commercial settlement reflected in the Settlement Deed and related payments, accepted shared responsibility for project delays at that point in time and the financial consequences.

We noted, however, that the extended dates for technical completion (4 April 2016) and commercial acceptance (3 July 2016) included in the Settlement Deed were not achieved. Technical completion and commercial acceptance were achieved on 15 March 2017 and 13 June 2017 respectively.

4.1.3 Amounts paid under the Settlement Deed

Consistent with the terms of the Settlement Deed the State paid Project Co:

- $30 million in October 2015 for remediation ($20 million) and clinical equipment modifications ($10 million)
- $36.5 million in August 2016 for delay costs
- $2.9 million in July 2017 for other modifications identified in the Settlement Deed.

In addition, a credit of $185 000 for a minor modification identified in the Settlement Deed, was applied to the payment made to Project Co in October 2017 for minor modifications implemented for the project.

The Settlement Deed also included credits to the State of $609 000 for lifecycle costs. These credits will be applied over the operating term to the lifecycle costs included in the quarterly service payments.

We found $35.19 million of the delay costs payment was not recorded as part of the cost of the new RAH project. Further details are provided in section 6.2.1.

4.1.4 Settlement of the outstanding facility management subcontractor claims included in the Settlement Deed

Since September 2015 the State and Project Co have agreed the amount payable to settle most of the outstanding facility management subcontractor claims for modifications included in the Settlement Deed.

The amount agreed to settle the facility management subcontractor claims included in the Settlement Deed is:

- $2 million (net of credits owed to the State) for facility management subcontractor lifecycle costs (replacement cost) over the operating term
- $217 000 (net of credits owed to the State) for Facility Management Subcontractors services costs (planned preventative maintenance cost) per annum over the operating term.

We found, however, that at the time of this Report the amount payable to settle the facility management subcontractor claim for one modification included in the Settlement Deed remains unresolved. This modification involves a reduction in the number of content servers from 10 to four.

The State's cost consultant (Aquenta) recommended that a fair and reasonable credit for this modification is $4.101 million over the operating term. The credit offered by Project Co is $1.612 million over the operating term.

Consistent with the Project Agreement the State issued a modification order to Project Co in October 2017 with a credit of $4.101 million over the operating term. Project Co can dispute the terms of the modification order and refer the matter for resolution by an independent expert under the Project Agreement.

Unless successfully disputed, the $4.101 million credit will be applied to the facility management costs included in future quarterly service payments.

4.1.5 Settlement of the future modifications included in the Deed

The Settlement Deed identified four future modifications and indicated that the State may issue modification orders requiring Project Co to undertake them. As previously noted, the

costs associated with these future modifications were not included in the Settlement Deed due to insufficient information.

The State has now issued modification orders for all four modifications.

At the time of this Report the State and Project Co had agreed a capital cost of $427 000 for three of the four future modifications. There were no facility management (lifecycle or service) costs associated with them.

The works for these modifications were completed progressively between April 2016 and June 2017.

For the remaining modification the State issued two modification orders with costs to be confirmed at a later date on a time and materials basis. The estimated capital cost, included in the Project Director's Decision, for the modification was $6.138 million.

At the time of our review (October 2017) Project Co invoiced the State $7.513 million for the capital cost of the modification. The amount invoiced by Project Co exceeds the Project Director's Decision as:

- the Project Director's Decision did not include acceleration costs
- the State added scope changes during construction which were not reflected in the Project Director's Decision
- some invoices issued by Project Co may contain a disproportionate amount of management fees allocated to the modification, and need to be reviewed and reallocated.

The physical works for these two modification orders were completed in June 2017 and August 2017. However, final costs had not been determined and modification close out procedures were still to be completed.

At the time of this Report, Project Co was to submit updated change notices detailing the final capital cost and facility management savings for the modification, for review by the State.

4.2 Extension of time claims

The Project Agreement established contractual arrangements for project delivery, and required Project Co to achieve:

- technical completion by the date for technical completion (revised to 4 April 2016)
- commercial acceptance by the date for commercial acceptance (revised to 3 July 2016).

Under the Project Agreement, Project Co is entitled to claim an extension of time where, due to an extension event, it is delayed or likely to be delayed in achieving technical completion or commercial acceptance. Further, where an extension of time has been granted for a compensable extension event, Project Co is entitled to be paid delay costs (financing and prolongation).

The Project Agreement defines a compensable extension event as including:

- a breach of any project agreement by the State
- any act or omission by the State
- a State modification (excluding minor modifications)
- a suspension or cessation of any part of the works required by law, court order or direction by the State
- remediation of contamination the State is liable to pay
- failure by the State to undertake State works.

The Independent Certifier determines extension of time requests by Project Co, including the amount of delay costs. The determination considers relevant notices submitted, the cause of the delay being an extension event, and the cause of the delay being beyond the reasonable control of Project Co.

Project Co submitted numerous extension of time claims totalling 2289 days with delay costs of $2.515 billion. The Independent Certifier's determination for each of these claims was zero days and $0 delay costs.

4.3 Major default notices issued including not achieving technical completion by the due date

The Project Agreement allows the State to issue Project Co a default notice where there has been a default or breach of any obligation by Project Co. It also identifies that certain events constitute a major default. In essence, a default is deemed to be major where it has not been cured (ie remedied) within the extended cure period or where insufficient notice is given that the default cannot be cured within the required period. Where a major default occurs the State can issue a major default notice.

Under the Project Agreement, Project Co is required to cure any default or major default within a set period. Failure to do this can result in a default termination event which gives the State the right to terminate the Project Agreement.

The State issued numerous default notices and major default notices under the Project Agreement including:

- the failure of Project Co to notify the State of certain defaults, major defaults and default termination events alleged to have occurred by the State
- the failure to adopt best construction practices
- the failure to achieve technical completion by the due date
- State works defaults
- updated works program default
- a default relating to the Chiller and Condenser Water System.

Under the Completion Deed and Cure Plan, the State agreed to waive these default notices.

Appendix 2 details all alleged existing defaults waived by the State.

4.4 Defect notices issued

The Project Agreement provides for the State to issue defect notices for material defects that impact safety, clinical care or long-term operating costs.

The State has issued numerous defect notices. Five defects were referred to arbitration to determine the compensation payable to the State and the extent of one of the defects. Section 4.6.1 details these defects.

The contract register, which records details of defect notices, indicates the following defects remained open at 15 November 2017:

- level 1 western plant primary chilled water pump failure
- level 4 technical suites – non-conforming works
- technical suites compliance testing
- imaging room vibrations.

4.5 Completion Deed and Cure Plan

The extended dates for technical completion (4 April 2016) and commercial acceptance (3 July 2016) included in the Settlement Deed were not achieved.

The State, Project Co and financiers entered into a Completion Deed and Cure Plan to put into effect a cure plan to:

- achieve technical completion and commercial acceptance
- resolve issues about safety, State access, and agree a process to resolve ongoing disputes.

Section 7 details the background to establishing the Completion Deed and Cure Plan and summarises its key elements.

4.6 Legal action

4.6.1 Matters being arbitrated

The Project Agreement provides for a multi-tiered dispute resolution process, with final determination by private arbitration.

Defects and defects compensation arbitration

In February 2016 the State issued Project Co with five defect notices. Project Co passed

these defect notices on to the builder. The notices relate to:

- the size of the hospital's floor distribution rooms, which were contractually required to be at least 40 m^2 in size with spare capacity for future flexibility, but which, in certain cases, are significantly smaller, reducing (or complicating) the potential to accommodate future ICT-dependent services (floor distribution room defect)
- the absence of at least 200 mm of clear space above the recessed light fittings in the ceiling cavity above the hospital's clinical areas as required by the contract, thereby reducing or eliminating the ability for further services to be installed in these ceiling spaces over the life of the hospital (ceiling space defect)
- the ceiling height in the hospital's loading dock area, which was required to be at least 3.5 metres to facilitate the movement and storage of cargo pallets and other equipment (loading dock area defect)
- the installation of a vertical sewer pipe directly through the hospital's primary data equipment room, a sensitive communications area that the contract requires to meet standards, including the room being free from the risk of water infiltration (primary data equipment room defect)
- the installation of air handling units in such a manner that single units service both inpatient and outpatient areas, when the contract required different functional areas to be serviced separately. As a result, the systems servicing the less-used outpatient areas cannot be shut off after hours to enhance energy efficiency and minimise operating costs (air handling unit defect).

In July 2016 Project Co referred these defects, together with a number of others, to an independent expert for a determination consistent with the dispute resolution process. The independent expert determined in September 2016 that four of the defects identified by the State were defects, but the floor distribution room defect was not a defect because the State agreed to an informal variation. He also determined that he did not have jurisdiction to determine the question of compensation.

The State considered that a number of the findings in the independent expert's determination were outside the scope of his jurisdiction and initiated legal proceedings in the Supreme Court of South Australia to challenge his jurisdiction. In the proceedings the Hon. Justice Malcolm Blue held that the independent expert had exceeded his jurisdiction on a number of occasions and that some of his determinations were null and void.[4]

Separate arbitration proceedings were also issued by the State in October 2016, seeking to challenge some of the other determinations of the independent expert made. As a result of the Supreme Court's decision, this dispute was significantly narrowed to the ceiling space defect only.

In February 2017, the State commenced a further set of arbitration proceedings seeking compensation for each of the defects notified by the State in February 2016. The amount of that claim will be the subject of expert evidence. In addition, these proceedings require a determination by the arbitrator as to whether the floor distribution room defect is a defect.

[4] See Blue J, *State of South Australia v Goldstein* [2016] SASC 202.

By agreement between the parties, the various arbitration proceedings have progressed in parallel before the Hon. Kevin Lindgren AM QC who was appointed as arbitrator.

At the time of this Report arbitration was in progress. The State's legal advisers expect that a hearing will take place in the second half of 2018.

SA Health has advised that:

- none of the defects impacted on the hospital's ability to function from its scheduled opening date of 5 September 2017
- for the primary data equipment room defect, a risk mitigation measure was put in place before the hospital opened which included isolating the sewer pipe.

Builder notice arbitration

In November 2016 the builder issued a builder notice to Project Co making various claims against Project Co, the State and the Independent Certifier. Project Co passed these claims on to the State in line with the Project Agreement.

The allegations substantially mirror the claims made by the builder in the Federal Court proceedings it initiated in August 2017 (refer section 4.6.2).

The State disputes all of the allegations made in the builder notice, and issued a notice of dispute in September 2017.

In October 2017 the State commenced the builder notice arbitration process in which the State seeks relief as:

- Project Co and/or the builder do not have any valid entitlements or claims against the State in respect of the allegations
- the State has no liability to Project Co and/or the builder in respect of the allegations.

At the time of this Report the arbitration process was in progress. In December 2017 the arbitration hearing was adjourned to February 2018.

4.6.2 Recent court action

In August 2017 the builder initiated legal proceedings in the Federal Court against Project Co, the State and the Independent Certifier.

The builder updated their Statement of Case in September 2017.

The builder is seeking the repayment of $185 million of liquidated damages and other unspecified damages.

The respondents to the builder's court proceedings, Project Co, the State and the Independent Certifier filed their response to the builder's claims on 25 September 2017.

We noted that there was an overlap between the claims in the builder's Federal Court proceedings and the arbitration proceedings currently before the Hon. Kevin Lindgren AM QC and the builder notice arbitrations.

SA Health advised us that each of the respondents to the builder's Federal Court proceedings issued applications to stay those proceedings on the basis that they relate to disputes that are contractually required to be resolved by private arbitration. Those applications were heard before the Hon. Justice Michael Lee on 11-12 December 2017.

On 12 December 2017 Justice Lee issued a stay of the proceedings. The arbitration hearings are expected to be heard before the Hon. Kevin Lindgren AM QC in 2018. As a consequence the Federal Court proceedings have been suspended until the arbitration processes have been completed.

5 Project delivery status

Key observations

Technical completion of the new RAH was achieved on 15 March 2017.

Commercial acceptance of the new RAH was achieved on 13 June 2017.

At commercial acceptance, not all State operational commissioning activities were fully completed as the facility was not completed with all functionality at technical completion.

On achieving commercial acceptance, the State became liable to pay quarterly service payments to Project Co.

Some clinical services progressively commenced at the new RAH from 14 August 2017. Patients were moved from the old RAH to the new RAH between 4 and 6 September 2017, and the Emergency Department opened on 5 September 2017.

The new RAH has a capacity of 803 beds (703 multi-day beds and 100 same-day beds). A total of 663 multi-day beds and 100 same-day beds were commissioned at Day 1.

Not all items included in the list of commercial acceptance outstanding items were completed and closed out as at 2 November 2017.

The first quarterly service payment was not reduced to reflect that, as the new RAH was not operational, Project Co was not required to provide the full suite of facility management services during the first quarter.

While the Project Agreement allows the quarterly service payment to be adjusted to reflect the volume of catering services provided, it does not permit the payment to be discounted for other services not provided by Project Co during the quarter due to the new RAH not being operational.

Failure event abatements of $1.422 million were applied by the State to the first quarterly service payment (for quarter ending 30 June 2017). Project Co disputed the application of the abatements and issued a dispute notice under the Project Agreement seeking to have the matter referred to an independent expert for resolution.

The State has raised concerns that Project Co is not reporting all quality failures and requested Project Co provide details of its process to identify and report on quality failures.

5.1 Project status

5.1.1 Technical completion achieved

Technical completion is the stage of the works where the technical completion criteria are satisfied to the reasonable satisfaction of the Independent Certifier.

On 15 March 2017 the Independent Certifier issued the technical completion certificate indicating that the works had achieved technical completion.

5.1.2 State operational commissioning outcome

State operational commissioning (SOC) is the commissioning activities the State was required to undertake during the facility transition period.

We sought to gain an understanding of the outcome of SOC testing.

The State has completed a SOC Plan which sets out the methodology and timetable for conducting SOC activities during the facility transition period.

The SOC Plan was not fully delivered. We were advised that the SOC Plan was based upon a technical completion which was not achieved as defined in the Project Agreement as certain items still remained outstanding at that time. This impacted the State's ability to achieve SOC activities.

A report prepared by SA Health, dated June 2017, summarised the State's operational commissioning activities against the SOC plan. Also, the purpose of the report was to inform the decision of commercial acceptance. The report concluded that:

- the SOC scenarios provided significant insight on the degree to which the facility is fit for purpose
- in terms of quantifying the outcome it was difficult to be definitive as to the weighting that should be applied to scenarios as an assessment measure
- the data in the report is designed to assist with decisions regarding the feasibility of moving through each project milestone.

5.1.3 Commercial acceptance achieved

Commercial acceptance is the stage of the works where the commercial acceptance criteria have been met to the reasonable satisfaction of the Project Director.

The Independent Certifier is required to notify the Project Director its opinion on whether the works have achieved commercial acceptance.

On 13 June 2017 the Independent Certifier notified the Project Director that, in his opinion, the works had reached commercial acceptance and the commercial acceptance certificate should be issued.

The Project Director issued the commercial acceptance certificate on 13 June 2017.

5.1.4 Operating term phase of the project

The operating term phase of the project commenced on 14 June 2017 and will conclude on 6 June 2046.

From 14 June 2017 Project Co's facility management subcontractor (Spotless) commenced providing a range of facility management services. The State is responsible for providing clinical services.

5.1.5 Quarterly service payments

Under the Project Agreement the State is required to pay quarterly service payments to Project Co. These payments comprise finance charges and Project Co's costs of providing non-clinical services.

The State is only required to make quarterly service payments during the operating term of the project (ie once commercial acceptance is achieved).

Abatement regime

The Project Agreement includes an abatement regime for reducing the quarterly service payments for any failure by Project Co to deliver services in line with the defined services specification. These service failures may be in the form of a quality failure or a failure event.

A quality failure is a failure by Project Co to comply with a provision of the services specification.

A failure event occurs when a quality failure or other event:

- impacts on the availability, proper use, functions or enjoyment of one or more functional units
- prevents safe and convenient access to and from a functional unit.

A failure event also includes system failures. A system failure occurs where an event has a substantial adverse effect on the operation of certain systems.

First quarterly service payment made in August 2017

In August 2017 the State paid Project Co the first quarterly service payment of $13.896 million for the quarter ending 30 June 2017.

The State applied abatements totalling $1.422 million to this first payment. The abatements were for failure events, because in SA Health's opinion Project Co did not respond to Building Management System alarms within required time frames.

5.1.6 Other payments

The Project Agreement also provides for the State to make a number of other payments including a special one-off payment as part of the first quarterly service payment. The purpose of the special payment is to ensure Project Co is able to service its scheduled debt repayments for the facility as and when they fall due.

Delays in achieving commercial acceptance mean that in certain circumstances Project Co's first scheduled debt repayment after commercial acceptance may be due prior to the first quarterly service payment.

The Settlement Deed executed between the State and Project Co in September 2015 provided for amending the Project Agreement to change the timing of the special payment.

The State and Project Co amended the Project Agreement in November 2016 to ensure that Project Co received the special payment before its first scheduled debt repayment after commercial acceptance. The amendment did not change the amount of the special payment.

The State paid Project Co the special payment of $31.624 million in August 2017.

5.1.7 Opening of the hospital

With the achievement of commercial acceptance, control of the new RAH passed to the State. Clinical services did not commence at the facility until August 2017.

Some outpatient, radiation oncology and day surgery services progressively commenced from 14 August 2017.

Patients were moved from the old RAH to the new RAH from 4 September 2017 to 6 September 2017, with the Emergency Department opening at 7 am on 5 September 2017.

Number of beds commissioned at opening

The new RAH was built with a capacity of 803 beds, comprising 703 multi-day beds and 100 same-day beds.

On Day 1, 663 multi-day beds and 100 same day beds were fully commissioned.

SA Health expects average occupancy of 609 multi-day beds.

5.1.8 Outstanding works

Some items on the list of commercial acceptance outstanding items not completed and closed

Commercial acceptance was achieved with 59 items included on the list of commercial acceptance outstanding items (CA OIL items). The CA OIL items can be categorised as:

- administrative/documentary in nature

- minor defects (snags)
- minor training/testing
- minor physical works.

To be closed, items must be completed to the reasonable satisfaction of the Project Director. The Project Director with the assistance of the Independent Certifier determines when a CA OIL item is complete and can be closed out.

As at the end of October 2017 not all CA OIL items had been completed and closed out. Project Co's CA OIL Tracker, used to monitor the status and close out of CA OIL items, details that there were 16 CA OIL items remaining. SA Health advised us that:

- most of the outstanding CA OIL items are administrative in nature
- the more significant CA OIL items relate to fit for intended purposes warranty matters and ICT readiness.

Small number of modification works not completed

In early November 2017 the State Modifications Tracker indicated that there were a small number of modification works not completed including:

- patient tagging workaround for the new RAH
- nuclear medicine reception desk
- secure location for medical emergency response trolleys.

In addition, not all modifications had been closed out. The State was in the process of obtaining and/or reviewing close out documentation. Refer to section 8.1.7 for details on the close out of modifications.

5.1.9 Status of disputes

Due to the size and complexity of works, there remain a number of disputes between the State and Project Co about aspects of the build. The disputes fall into two categories:

- matters which, in the State's view, may amount to quality or service failures, and which may entitle the State to levy abatements against Project Co
- disputes about whether certain works constitute modifications or defects. For example, as discussed in section 8.1.6, the State issued modification orders for certain works needed to be performed urgently, but expressly reserved its right to recover the costs of those works from Project Co. In these instances, the State is of the opinion that the works (or part of the works) included in these modification orders may constitute rectification of a defect. Under the Project Agreement Project Co is liable for the cost of defect rectification works.

5.1.10 Status of legal proceedings

There are a number of defects currently subject to an arbitration process.

SA Health has advised us that none of the defects impacted upon the ability of the hospital to perform clinical functions from its scheduled opening date of 5 September 2017.

In addition, in November 2016 the builder issued a Notice of Claimed Entitlements to Project Co which made a number of allegations and claims that Project Co passed on to the State in line with the Project Agreement.

In August 2017 the builder initiated legal proceedings in the Federal Court (New South Wales registry) against Project Co, the State and the Independent Certifier. The claims made by Builder in the proceedings substantially mirrored the Builder's claims made in November 2016.

The State disputes a number of the allegations in the Builder's notice and issued a notice of dispute in September 2017.

In October 2017 the State commenced an arbitration process in accordance with the Project Agreement to seek relief from the claims and any resulting liability.

Details of these matters and their status is discussed in section 4.6.

5.2 Audit observations

5.2.1 Project Co issued dispute notice for first quarterly service payment

In August 2017 Project Co issued a dispute notice to the State disputing the application of the abatement regime to the first quarterly service payment. Project Co believed the Building Management System alarm events that generated the failure event do not accurately reflect the service provided by Project Co and Spotless during June 2017. Project Co therefore requested relief for the abatements applied to the first quarterly service payment.

The State rejected the explanations provided by Project Co and refused to provide relief for the abatements.

In October 2017 Project Co issued a further dispute notice notifying the State that it will refer the dispute for resolution by an independent expert in line with the accelerated dispute resolution process in the Project Agreement.

5.2.2 Quarterly service payment not adjusted for all services not required prior to hospital opening

While the operating term commenced on 14 June 2017, clinical services did not commence at the new RAH until August 2017.

The first quarterly service payment was not reduced to reflect that certain services included in the payment were not provided by Project Co in the first quarter as the new RAH was not yet operational.

The Project Agreement permits the State to adjust the quarterly service payment to reflect the volume of catering services actually provided. However, it does not permit any discounting for other services not provided by Project Co during the quarter due to the new RAH not being operational.

5.2.3 Concerns about Project Co's reporting of quality failures

The first quarterly service payment did not include any abatements due to quality failures.

The State requested Project Co to provide additional details on its process for tracking and recording quality failures.

Our review of comments provided to Project Co on its monthly performance reports (July 2017 and August 2017) indicate that SA Health raised concerns that Project Co was not reporting all quality failures. In October 2017 SA Health again requested Project Co to provide details of its process to identify and report on quality failures.

6 Project financial status and management

Key observations

The approved project budget (at 30 September 2017) is $2.441 billion comprising:

- estimated capital cost for the hospital build ($1.85 billion)[5]
- associated State funded works ($592 million).

The approved project budget has increased by $347 million from the budget of $2.094 billion at financial close (June 2011).

The increase in the project budget of $347 million is due to an increase in State funded works.

The approved State funded works budget at financial close was $245 million. By 30 September 2017 the approved State funded works budget had increased to $592 million. The increase comprised:

- $177 million for transition and other costs[6]
- $20 million for remediation of not known pre-existing contamination
- $30 million for modifications
- $120 million for delay costs.

Not all costs directly related to delivering the new RAH project were recorded as a cost of the project.

Financing delay costs of $35 million, included in the second Settlement Deed payment, are not included in the project budget and have not been recorded as a cost of the new RAH project.

There was no consolidated record of all costs incurred in delivering the project.

SA Health's forecast (at 30 September 2017) for State funded works after allowing for identified program risks was $9 million favourable to the approved revised budget.

The new RAH ICT Program budget, a component of the State funded works budget, has increased by $81 million from $46 million at 30 June 2015 to $127 million as at 30 September 2017. At 30 September 2017 SA Health's forecast expenditure for the new RAH ICT Program is $124 million.

[5] As described in my November 2015 Report Project Co subcontracted a builder to design, construct and commission the new RAH. In line with the contractual arrangement with Project Co, the nominal capital cost for the design and construction of the facility is $1.85 billion. This amount does not represent the actual cost incurred by the builder to build the facility.

[6] For details of the items comprising this funding increase refer to my November 2015 Report.

In 2015 the new RAH ICT Program budget was subject to costs pressures and/or other expenditure risk items. A review of the program and scope of new RAH ICT works by specialist ICT advisors found:

- there was a lack of approved and locked down ICT Baseline for Day 1
- instances of activity being approved without approval of funding
- FTEs in the new RAH ICT Team and critical ICT program deliverables for Day 1 were unfunded.

SA Health implemented actions recommended by the ICT advisors including obtaining approval for a locked down ICT scope for Day 1, reviewing the new RAH ICT program budget and resolving unfunded work required for Day 1.

We identified areas where budgetary and financial management processes could be improved, including:

- reporting all costs incurred to deliver the project
- establishing and monitoring budgets for whole of life (operating) costs
- information provided to governance committees and management.

What we recommended

SA Health should:

- record the $35.19 million financing delay costs included in the second Settlement Deed payment as a cost of the new RAH project
- review project reporting to ensure the total cost of delivering the new RAH project, including project costs funded from a non-new RAH budget, and the status of the project contingency, is reported and monitored by management
- establish budgets for whole of life costs for all furniture, fixtures and equipment procurements and whole of life costs should be reported and monitored by the Steering Committee
- review the financial reporting provided to the Steering Committee to ensure information provided is sufficient to manage the project budget.

6.1 Introduction

6.1.1 Total project budget

The total budget for the new RAH project as at 30 September 2017 exceeds $2.4 billion. It comprises the nominal construction cost by Project Co and State funded works as shown in figure 6.1.

Figure 6.1: New RAH project budget at 30 September 2017

	$'million
Construction cost by Project Co (nominal)	1 849.8
State funded works (nominal)[7]	591.5
Total budget	2 441.3

The construction cost by Project Co represents the design and construction costs as estimated at financial close of the Project Agreement (June 2011) and has not been revised since then. The estimate excludes financing costs and the costs of operating services provided by Project Co during the operating term.

The State funded works are delivered and funded by the State. These works include:

- clinical equipment (core clinical furniture, fixtures and fittings)
- ICT
- precinct infrastructure works
- modifications
- project management.

Figure 6.2 summarises the status of the State funded works budget as at 30 September 2017.

Figure 6.2: Status of State funded works budget at 30 September 2017

	Current approved State funded works budget $'million	Forecast expenditure $'million	Variance $'million
New RAH program office	208.6	203.7	4.9
Capital works	320.8	321.0	(0.2)
Other	55.6	48.2	7.4
Contingencies	6.5	-	6.5
Total budget	591.5	572.9	18.6
Program risks	-	9.6	(9.6)
Total budget (including program risks)	591.5	582.5	9.0

Figure 6.2 shows that as at 30 September 2017 the forecast expenditure for State funded works, before allowing for program risks, has a favourable variance of $18.6 million compared to the approved budget. However, after including identified program risks, the forecast expenditure for State funded works is favourable to the approved budget by $9 million.

The program risks of $9.6 million are comprised of assessed project risks ($9.2 million) and modifications required after the hospital opening ($354 000).

[7] Excludes $35.19 million financing delay costs paid to Project Co and other costs associated with the delivery of the new RAH (refer section 6.2.1).

The most recent financial reports to the new RAH Finance Sub-Committee (ie at 31 December 2017) indicate that the State funded works budget was reduced as part of the mid-year budget review process by $5.3 million to $586.2 million. The reports also indicate that SA Health's total forecast expenditure for State funded works is within the approved budget.

The balance of the unused component of the contingency as at 30 September 2017 was $6.5 million. The total contingency established for State funded works was $73 million, of which $55.7 million has been spent and $10.8 million was transferred to operating expenditure (to fund the program office) as approved by the SA Government in September 2015. At 30 September 2017 the unused contingency was unreserved or yet to be allocated.

6.1.2 Changes to the approved project budget

As reported in my November 2015 Report, the budget for the new RAH evolved since the original business case for procuring the facility using a PPP delivery model was approved by the SA Government in December 2007. The indicative nominal capital cost estimate for the project at that time was $1.677 billion.

There were a number of revisions to the nominal capital cost estimate for the project until financial close of the Project Agreement.

In May 2011, the SA Government approved the Minister for Health entering into a Project Agreement with Project Co. The submission to the SA Government noted that the nominal estimated construction cost for the new RAH project at financial close was $2.094 billion comprising:

- Project Co's nominal capital cost for the design and construction cost of $1.85 billion
- State works costs of $244.7 million.

By 30 September 2017 the project budget was $2.441 billion, an increase of $346.8 million from the budget approved at financial close. The increase reflects increases to the State funded works budget.

Figure 6.3 summarises the revisions made to the total project budget (nominal) as approved by the SA Government from the project inception in May 2011.

Figure 6.3: Revisions to the new RAH project budget

	Approved budget at Project Agreement financial close May 2011 $'million	Project budget as at 30.06.2015 $'million	Project budget as at 30.06.2016 $'million	Project budget as at 30.06.2017 $'million	Project budget as at 30.09.2017 $'million
PPP works (nominal)	1 849.8	1 849.8	1 849.8	1 849.8	1 849.8
State funded works	244.7	417.4	476.6	588.0	591.5
Total	2 094.5	2 267.2	2 326.4	2 437.8	2 441.3

Revisions made to the State funded works budget

Figure 6.4 summarises the revisions to the State funded works budget since 30 June 2015. Details of the revisions made prior to 30 June 2015 are included in my November 2015 Report.

Figure 6.4: Summary of revisions to the State funded works budget since 30 June 2015

	Date	Amount $'million	Total approved budget $'million
Balance as at 30 June 2015			417.4
Deed of Settlement and Release	September 2015	56.31	473.7
EPAS – Implementation of Stage 2 Change of Scope	December 2015	2.87	476.6
Balance as at 30 June 2016			476.6
PPP additional funding	October 2016	0.09	476.7
Project delay funding	December 2016	51.25	527.9
Additional contingency funding for modifications	March 2017	15.00	542.9
ICT related funding	March 2017	1.50	544.4
Project Control Centre	March 2017	0.10	544.5
Project delay funding	April 2017	17.95	562.4
PPP additional funding	April 2017	0.09	562.5
Project delay funding	May 2017	13.70	576.2
Additional dual running costs	May 2017	11.80	588.0
Balance as at 30 June 2017			588.0
Clinical trial modifications	August 2017	3.50	591.5
Balance as at 30 September 2017			591.5

Appendix 3 summarises by expenditure category the revisions to the approved State funded works budget since 30 June 2015.

Figure 6.4 and Appendix 3 show that the increase in the State funded works budget is due predominantly to:

- $56.3 million funding approved for the Settlement Deed
- $82.9 million increase for delay costs
- $15 million in contingency funding for modifications
- $11.8 million funding for dual running costs.

Deed of Settlement and Release

In September 2015 the Minister for Health executed the Settlement Deed. It required the State to make payments to Project Co of $68.6 million and extended the dates for technical completion and commercial acceptance by 76 days. Section 4.1.1 discusses the commercial context in which the Settlement Deed was negotiated.

The funding received for the Settlement Deed, totalling $56.314 million, is summarised in figure 6.5.

Figure 6.5: Settlement Deed funding

	$'000	$'000
Settlement Deed payments:		
Remediation	20 000	
Modifications	11 150	
Prolongation costs	1 345	
		32 495
Additional operating costs:		
Project office costs[8]	14 198	
Dual running costs	7 621	
Procurement holding costs	2000	
		23 819
Total funding approved		56 314

While the payments paid and/or payable to Project Co under the Settlement Deed were $68.6 million, the funding received and applied to the project for the Settlement Deed was only $32.495 million. The payment of $35.19 million for the State's share of financing delay costs, was not funded from the new RAH project budget. In addition, modifications with a capital cost of $1.528 million and lifecycle savings of $609 423 included in the settlement were not included in the budget funding request.

Additional funding was also provided to cover operating costs due to the delay in technical completion and commercial acceptance by 76 days. This included funding for additional procurement holding costs and dual running costs for the planned delay to November 2016 in moving to the new RAH.

Project delay funding

The project experienced a delay of 345 days in achieving technical completion and commercial acceptance from the revised, and funded, contractual dates (4 April 2016 and 3 July 2016).

This delay created cost pressures for the project that included running the program office, procurement holding costs and the continued engagement of contractors.

In December 2016 the SA Government approved $51.247 million in delay funding. According to project financial reports the additional project delay funding was provided to align the project delivery with the following revised key dates:

- technical completion on 15 January 2017
- commercial acceptance on 15 April 2017
- moving patients to the new RAH on 20 May 2017.

As highlighted in Appendix 3, the delay funding received was primarily allocated to fund the ICT program of works ($37.947 million) and the program office ($22.727 million).

[8] This amount represents the additional program office costs of $25.063 million less funding of $10.865 million allocated from the existing project contingency established for project delays.

Technical completion was not achieved until 15 March 2017. In April 2017 the SA Government approved additional delay funding of $17.95 million for the delay of 59 days in achieving technical completion. This funding was primarily used to fund the program office.

Documentation provided to us to support the funding approval indicates that the delay funding received in April 2017 was provided on the assumption that patients would be moved in July 2017. In May 2017 the SA Government announced that the move to the new RAH would occur on 5 September 2017.

Additional delay funding of $13.7 million was received in May 2017 to fund the project for delaying the move to September 2017. This funding was also primarily used to fund the program office.

Contingency funding for modifications

In March 2017 funding of $15 million was received to manage risks associated with modification works.

Certain modification works were delayed to the facility transition period. To move into the hospital as soon as possible after commercial acceptance, there was a need to accelerate works, which incurred additional costs.

The additional funding was allocated to address the significance of the works, the shortness of time frames and the need for the flexibility to make critical decisions quickly.

Dual running costs

In May 2017 additional funding of $11.8 million was received to fund additional costs of running both the existing RAH and the new RAH until the move date of 5 September 2017.

6.1.3 Costs relating to the project not included in the project budget

My November 2015 Report noted that the new RAH project budget did not include all costs directly related to delivering the new RAH project.

Our follow-up of this matter identified additional costs that we consider should be reported as costs of the new RAH project. We also found that there was no consolidated record of all project costs. This matter was raised with SA Health in August 2017 (refer section 6.2.1 for details).

In my opinion, all significant costs associated with delivering the new RAH project should be captured and reported. This includes costs associated with the project that are funded from other program budgets.

6.1.4 State funded project expenditure incurred from inception to 30 September 2017

Budget information and details of expenditure incurred for State funded works are reported to project governance committees on a monthly basis. Figure 6.6 details the State funded works budget and the expenditure incurred as at 30 September 2017 as reported in the September 2017 new RAH Finance Sub-Committee report.

Figure 6.6: State funded project expenditure

	Current approved total program budget $'million	Inception to date budget $'million	Inception to date actual expenditure $'million	Inception to date variation $'million
Integrated Program Management Office	42.7	40.3	39.0	1.3
Procurement and supply	36.1	34.3	33.1	1.2
ICT	22.0	11.7	3.6	8.1
PPP contract administration	38.0	35.0	33.1	1.9
Operational commissioning	23.3	22.3	21.1	1.2
Readiness and exercising	10.3	7.1	6.1	1.0
Workforce	14.7	11.5	12.6	(1.1)
Other	21.5	23.6	13.8	9.8
Total new RAH program office	208.6	185.8	162.4	23.4
Capital works:				
Modifications	40.2	36.6	27.3	9.3
Infrastructure works	39.2	38.9	39.5	(0.6)
Furniture, fixtures and equipment	128.9	128.9	85.6	43.3
ICT advisors and works	105.4	105.4	91.2	14.2
Other	7.1	7.1	6.3	0.8
Other costs:				
Dual running costs	20.1	20.5	0.6	19.9
Remediation	20.0	20.0	20.0	-
Other	15.5	13.3	3.3	10.0
Total capital and other costs	376.4	370.7	273.8	96.9
Contingencies	6.5	6.5	-	6.5
Total program	591.5	563.0	436.2	126.8

Figure 6.6 shows that as at 30 September 2017, actual expenditure was $126.8 million below the inception to date budget. This variance is predominantly due to:

- furniture, fixtures and equipment
- dual running costs
- the ICT Program.

Furniture, fixtures and equipment (FF&E)

The payment arrangements for the State funded FF&E procurements provide for significant contract payments occurring after the FF&E has been commissioned and clinically accepted.

Figure 6.6 shows that the inception to date expenditure for FF&E is $43.3 million below the inception to date budget.

We were advised that for a number of FF&E procurements clinical acceptance had not occurred by 30 September 2017. Therefore, not all contract payments for FF&E have been made by the State. The inception to date budget was developed on the assumption that all contract payments for FF&E would be made before 30 September 2017.

Dual running costs

Upon commercial acceptance the State is liable to pay service payments to Project Co. However, as full clinical services did not commence at the new RAH until September 2017 additional costs were incurred by the State in running the old RAH until the move date.

Dual running costs represent the service payments payable by the State to Project Co during the period between commercial acceptance and the move date.

Figure 6.6 shows that the inception to date expenditure for dual running costs was $19.9 million below the inception to date budget.

We were advised that no service payments were paid to Project Co for the September 2017 quarter due to the State's application of abatements to that quarterly service payment. The inception to date budget included budget amounts for service payments up to the move date.

ICT Program

Figure 6.6 shows that the inception to date expenditure for the ICT Program is $22.3 million below the inception to date budget.

We were advised that to mitigate risks with the transition of services to the new RAH in early September 2017 a number of ICT Program deliverables were deferred until after patients were moved.

The inception to date budget was developed on the assumption that the capital works element of the ICT Program would be fully delivered by 30 September 2017.

We were advised that due to the partial implementation of ICT functionality, contingencies were put in place to support the transition of services. Systems affected by the contingencies included:

- Anaesthetic Information Management System
- Identity and Access Management System
- Patient Queue and Wait Management System
- T-Doc (instrument tracking system)
- Clinical Digital Integration.

Further, to achieve successful transition and a fully operational hospital, additional expenditure was required to support staff, complete testing and refine newly designed models of care and systems.

6.1.5 Project cost pressures – ICT budget

Budget as at 30 June 2015 and previous findings

The SA Government approved a budget for State funded works in May 2011 which included an allocation of $17.21 million for the new RAH ICT Program. In October 2014, the SA Government approved an increase to the State funded works budget providing an additional:

- $29.206 million to deliver the ICT Program
- $7.299 million for the transition of the Enterprise Patient Administration System (EPAS) from the old RAH to the new RAH, which was subsequently removed in May 2015[9]
- $13 million project contingency for an ICT request for proposal.

The budget allocation for the ICT Program at 30 June 2015 was $46.416 million excluding contingency as shown in figure 6.7.

Figure 6.7: New RAH ICT Program budget at 30 June 2015

	New RAH ICT Program budget – May 2011 $'million	Additional transitional funding – October 2014 $'million	Adjustment to new RAH ICT Program budget – May 2015 $'million	New RAH ICT Program budget – June 2015 $'million
ICT	17 210	29 206	-	46 416
Enterprise roll-out:				
EPAS	-	7 299	(7 299)	-
Total	17 210	36 505	(7 299)	46 416
Contingency:				
ICT request for proposal	-	13 000	-	13 000
Total	17 210	49 505	(7 299)	59 416

My November 2015 Report highlighted that the budget for the ICT Program was subject to cost pressures and/or other expenditure risk items. Reports to the Steering Committee from the Program Director identified cost pressures in known in-scope areas such as biomedical ICT and ICT infrastructure requirements. Further, review of the ICT scope and budget identified a number of items required that were not previously considered in scope or presented risk to the budget.

At the time of my November 2015 Report SA Health was in the process of reviewing the ICT Program budget including a review of the ICT works.

We recommended that SA Health finalise that review and report the outcome to the Steering Committee as soon as practical.

[9] For further details on the funding of the transition of EPAS from the old RAH to the new RAH refer to my November 2015 Report.

Actions implemented to address matters raised

In July 2015 SA Health engaged specialist ICT advisors (Accenture) to review the new RAH ICT Program budget and the scope of ICT works.

Accenture finalised their review in October 2015. The key findings:

- there was a lack of an approved and locked down ICT baseline for Day 1
- business requirements were not adequately defined and the new RAH ICT Program was attempting to fill this gap
- budget approval was sought before detailed estimates and resource plans were created
- there were instances of activity being approved without approval of the funding
- a number of FTEs in the new RAH ICT Team were unfunded as well as critical deliverables for Day 1 including service transition, patient queuing, Oracle procurement and additional biomedical equipment.

Accenture's report identified a number of priority actions required to address the findings, including the need to:

- determine and obtain approval for a locked down ICT scope for Day 1
- review the ICT budget based on the locked down ICT scope for Day 1 and resolve the unfunded work required for Day 1.

In December 2015 the Program Director presented a paper to the Steering Committee outlining the Day 1 ICT scope. It sought approval for works that were considered previously out of scope but were critical for Day 1, along with the reservation of $13 million from the centrally held project contingency to fund:

- additional biomedical equipment connections – $1.8 million
- a patient queue and wait management system – $4.5 million
- implementation of the Oracle Corporate System – $2.1 million
- costs incurred against the 'closed' Service Transition stream, which were unfunded – $2.8 million
- implementation of a strategy to mitigate the risk that the configuration of Project Co's systems does not meet business requirements – $1.8 million.

Budget as at 30 September 2017

The approved budget allocation, excluding contingencies, for the new RAH ICT Program has increased by $81 million from $46.416 million as at 30 June 2015 to $127.435 million as at 30 September 2017.

The budget increase is predominately due to:

- delay funding allocated to ICT Program
- transfers from the SA Health held project contingency and the centrally held project contingency.

Delay funding of $53.372 million was received as follows:

- September 2015 – $11.877 million
- December 2016 – $25.715 million
- April 2017 – $10.384 million
- May 2017 – $5.396 million.

The transfers (totalling $11.537 million) from the SA Health held project contingency were for the following:

- installing and commissioning a phone and paging 'In-Building Coverage System' – $5.5 million
- acquiring and installing fitting mounts for bedside devices – $700 000
- funding work completed on the Acute Patient Management System (APMS) project as a contingency in the event that EPAS is not delivered for Day 1 – $785 000
- additional funding to implement the ESMI medical imaging system at the new RAH – $1.831 million
- procuring and installing T-Doc software – $2 million
- procuring an identity and access management system – $722 000.

In addition to the $13 million that was transferred to the ICT Program budget from the review of the Day 1 ICT scope, the Treasurer approved the transfer of $4 million from the centrally held project contingency for:

- up-front capital costs for providing bedside devices at the new RAH – $3.3 million
- additional funding to procure and install T-Doc software – $700 000.

The SA Government also approved funding of $2.87 million for costs incurred to configure the legacy APMS system as a backup patient administration system should EPAS not be ready for the opening of the new RAH.[10] Further, additional funding of $1.1 million was received for the Anaesthetic Information Management System.

Figure 6.8 summarises the revisions to the ICT Program budget since June 2015.

[10] For further details on the EPAS implementation and impacts should the APMS contingency option require activation refer to my Supplementary Report for the year ended 30 June 2015 'Enterprise Patient Administration System: June 2016'.

Figure 6.8: Revisions to the New RAH ICT Program budget

	$'000
New RAH ICT Program budget (June 2015)	46 416
Transfer to SA Health held project contingency	(1 627)
Transfers from the SA Health held project contingency	11 537
Transfers from the centrally held project contingency	17 000
Delay funding	53 372
EPAS funding	2 870
ICT modifications – transfer to modifications budget	(2 435)
Anaesthetic Information Management System funding	1 100
Other ICT Program budget adjustments	(800)
New RAH ICT Program budget (September 2017)	127 435

6.1.6 Internal audit review of new Royal Adelaide Hospital procurement and recruitment

My November 2015 Report identified a number of areas requiring improvement and attention for the procurement of ICT services for the new RAH project. These included:

- concerns about whether executed contracts were in place for all professional services contractors engaged to deliver ICT services
- no consolidated record of the nature, value and status of procurements for the ICT Program
- lack of robust process to manage and track ICT procurements through the various stages of the procurement lifecycle
- no reporting to the Steering Committee or senior management on the progress of procurement arrangements for the ICT Program.

In 2016-17 SA Health's Internal Audit undertook a review of procurement and recruitment transactions for the new RAH project. This review was initiated as investigations undertaken at the new RAH highlighted concerns about the design and effectiveness of the control environment, and the governance arrangements for procurement and recruitment at the new RAH.

Summary of Internal Audit's findings and recommendations

The key procurement findings from Internal Audit's review were:

- a number of contractors continued providing services and were paid while they had no current documented contract in place
- contractors were being awarded pay rates well above the maximum rates recorded in the panel contract.

To address the findings Internal Audit made the following recommendations:

- establish a process whereby the last date of all contracts is monitored and steps are taken in a timely manner to ensure nobody is working on the project while outside of their contracts

- implement processes to ensure maximum rates included in panel contracts are applied, and any deviations are approved by the relevant authority.

Management's response to Internal Audit's findings and recommendations

Management responded to Internal Audit's findings and recommendation advising that:

- the cause of the lapsed contracts was the instruction, by the Chief Executive, SA Health in early 2016, to place a temporary hold on all ICT contract renewals pending an immediate review of:
  - existing ICT contract arrangements and ongoing requirements
  - financial management and procurement administration processes within the new RAH ICT Program
  - reconciliation of contract engagements with the new RAH ICT Program budget.

  This review, completed in April 2016, identified no major issues or remedial actions
- regular reviews of contract end dates were initiated to ensure the contract renewal process is commenced in a timely manner. However, contract documentation is unlikely to be finalised in a timely manner due to limited resourcing and lengthy approval processes.
- the approval of the SA Health Chief Information Officer is required before any orders are issued with pay rates that exceed the maximum rates recorded in the panel contract
- management will ensure clarity is established about the engagement instrument for the different panel contracts used by the new RAH ICT Program.

Internal Audit follow up review: September 2017

In September 2017 Internal Audit followed up the status of key findings from their review of procurement and recruitment transactions for the new RAH project.

Internal Audit's follow-up found some positive steps had been taken to address some key recommendations. In summary, Internal Audit found:

- all but 10 professional services contractors had current contracts in place. The 10 contractors were inadvertently missed when the Project Team sought approvals to finalise contracts
- approved exemption forms were readily available for all but three sampled contractors who exceeded maximum rates
- SA Health had changed its procurement processes for engaging contractors. The Executive Director: eHealth Systems approves orders engaging ICT contractors consistent with the approval given by the Chief Executive SA Health for the Executive Director: eHealth Systems to execute such contracts.

6.2 Audit observations

6.2.1 New Royal Adelaide Hospital finance reports do not clearly report the total project costs

We found certain costs directly related to delivering the new RAH were not included in the budget. Further, we found there was no consolidated record of all costs associated with the new RAH project.

Delay costs not recorded as a cost of the new RAH project

The Settlement Deed required the State to pay Project Co $68.6 million in exchange for Project Co releasing the State from claims detailed in the Settlement Deed. This included a payment of $36.5 million to Project Co on or before 8 August 2016, comprising:

- $35.19 million financing delay costs
- $1.345 million prolongation costs.

The financing delay costs represented the State's share of the delay costs as agreed by both parties under the Settlement Deed.

The financing delay cost of $35.19 million was not reflected as a cost of the new RAH. Instead this delay costs was recorded in the Central Adelaide Local Health Network Incorporated ledger and reported in the 2015-16 financial statements under other expenses.

As the payment of financing delay costs is directly related to delivering the new RAH project these costs should be recorded as a project cost.

Recommendation

SA Health should record the State's share of the financing delay cost of $35.19 million paid to Project Co as a cost to the project.

SA Health response

The payment of the financing delay costs was captured in line with budget allocations and treated consistent with the SA Government approval. The finance budget is part of the operating budget which does not form part of the new RAH project budget.

Audit comment

It is our view that all delay costs should be recorded as costs of the new RAH project as they were incurred in delivering the project and before the hospital was operational.

New RAH related costs funded from other budgets were not recorded as a cost of the new RAH project

Some costs directly related to delivering the new RAH project were not recorded as costs of the project as they were not funded from the new RAH project budget (ie the State funded

works budget). Only costs funded from the new RAH project budget were recorded against the project.

We noted the following costs were not recorded against the project:

- equipment for the pathology facility at the new RAH, estimated at $8.2 million
- costs associated with implementing various ICT enterprise systems at the new RAH
- costs associated with recruiting and training staff to operate the distributed medical imaging service at the new RAH.

Recommendation

SA Health should develop reporting to capture all costs associated with delivering the new RAH project, including costs funded from other program budgets.

SA Health response

SA Health considers that all costs within the defined scope of the new RAH project were captured in line with the SA Government approved budget. Further, it would potentially be misleading to incorporate the costs and budget of other defined projects that are not within the defined scope of the new RAH works.

Audit comment

We recognise the need to capture and monitor costs incurred for the project against the approved budget. However, it is our view that all costs associated with delivering the new RAH project, including costs funded from other program/project budgets, should be reported to and overseen by the Steering Committee.

6.2.2 Financial reporting to the Steering Committee

From January 2017 financial reporting to the Steering Committee changed to a one-page Master Financial Plan report, which reported:

- the inception to date spend for the project
- the current approved project budget
- a forecast of the total project spend
- the variance between the current approved budget and the forecast of the total project spend.

The Master Financial Plan formed a section of the new RAH Master Project Report tabled by the Project Director at each Steering Committee meeting.

Further, the Master Financial Plan provided a summary of ‘key messages’ rather than a detailed analysis of significant variations between actual spend and the project budget/forecast.

We found the Steering Committee did not receive financial reports that included:

- details of the current year to date spend, budget and forecast
- the inception to date budget to enable comparison with the inception to date actual spend
- detailed commentary on significant variations between actual spend, the project budget and forecast.

We considered that reporting the current year to date spend, budget and forecast, and inception to date budget along with commentary on significant variations, would allow the Steering Committee to more closely monitor expenditure against the approved budget and respond to cost pressures as they arose.

Recommendation

SA Health should review the financial reporting provided to the Steering Committee to ensure information provided is sufficient to manage the project budget.

SA Health response

SA Health noted our recommendation and advised that the new RAH Program/Project Director reports to the Steering Committee on the financial status of the new RAH project inclusive of forecast and commentary. SA Health also noted that the Steering Committee included senior executives of the Department of Treasury and Finance and SA Health who provided further oversight.

SA Health indicated that:

- the Steering Committee consisted of a number of very experienced agency Chief Executives who considered the level of financial reporting sufficient to provide meaningful strategic direction to the program, in line with its Charter.
- the new RAH Finance Sub-Committee, which reported to the Steering Committee, was regularly reviewed by the Department of Treasury and Finance, which provided adequate assurance to the Committee.
- it is the view of the Steering Committee that it could self-determine the level of reporting it received to ultimately discharge its responsibilities.

In addition, SA Health advised that:

- the change in reporting arose as a result of discussions between the Steering Committee and the Project Director on the project strategic information that the Steering Committee needed to have at this critical stage of the project
- the new RAH Finance Sub-Committee (which the Project Director was a member of at the relevant time and continued to be until hospital operations commenced in September 2017) met on a monthly basis. This committee considered the detailed financial information for the project including:
    - the current year to date spend
    - budget and forecast

- inception to date budget
- analysis of significant variations.

This information was then used to prepare the Master Financial Plan used by the Project Director to report to the Steering Committee

- members of new RAH Finance Sub-Committee ensured that key stakeholders were informed of the financial position of the project
- members of the new RAH Finance Sub-Committee included key financial officers of various stakeholder organisations (including SA Health and the Department of Treasury and Finance)
- at all times the Steering Committee requested detailed assessments of financial changes from the new RAH Finance Sub-Committee. Evidence provided by the new RAH Finance Sub-Committee to the Steering Committee was considered sufficient for the Steering Committee to make decisions on a proper basis.
- the Steering Committee considered that the financial reporting provided to it from January 2017 was adequate and appropriate for it to effectively manage the project.

Audit comment

We noted that the evidence maintained for the operations of the new RAH Finance Sub-Committee was a table called the 'Finance Sub Committee – Actions and Minutes'. This table was a summary of action items for each meeting, details of who attended and brief comments/notes.

SA Health advised that this table clearly demonstrates that the new RAH Finance Sub-Committee met monthly (including during the period of December 2016 – January 2017) and that these meetings followed a standard agenda, which included noting any previous actions, reviewing the monthly financial report and noting the various actions that were agreed at each new RAH Finance Sub-Committee meeting (which were recorded in minute form by the Sub-Committee).

We accept the Steering Committee received what it decided it required for its operational purposes.

We note detailed minutes were not kept for each meeting. As a consequence, we as reviewers, could not determine from these records the level of review, matters discussed and the specific information to be reported to the Steering Committee.

A matter for ongoing attention is the extent to which minutes and records satisfy immediate operational requirements for regular attendees and also provide a sufficient historic record to evidence the functioning and discussions of the committee, and public sector committees generally.

We will seek to further consider this issue in future audits where relevant.

6.2.3 Reporting to the Steering Committee on the project contingency requires improvement

The Steering Committee was not provided with reports detailing the status of the project contingency, including the amount and items:

- allocated against the project contingency
- committed or being evaluated.

Specifically, since January 2017, only the unused balance of the project contingency was reported to the Steering Committee.

Reporting the status of the project contingency would enable the Steering Committee to better manage actual and/or committed spend against the approved budget.

Recommendation

SA Health should report the status of the project contingency to the Steering Committee monthly.

SA Health response

The details of contingency balances were incorporated into the new RAH Finance Sub-Committee chaired by the Project Director.

Details on project contingency will be included in future reports to the Steering Committee.

Audit comment

We were subsequently advised that the Steering Committee was disbanded and last met on 13 September 2017.

6.2.4 Inadequate monitoring and reporting of whole of life (operating) costs

An approved consolidated budget for whole of life (operating) costs for all FF&E procurements has not been established and details of whole of life costs were not reported to the Steering Committee.

My November 2015 Report recommended that SA Health establish a formal approved budget for the whole of life costs and implement a process for reporting and monitoring them. In response, SA Health advised that whole of life costs are monitored as part of the overall monitoring of the business case and a budget for whole of life costs is developed annually through the budget process.

In following up this response we found:

- the business case did not report all whole of life costs for FF&E procurements
- there was no consolidated budget for whole of life costs for FF&E procurements.

We were advised whole of life costs are determined and approved as part of the approval process required by Treasurer's Instruction 8 'Financial Authorisations' (TI 8) for each individual procurement.

It is our view that to effectively monitor whole of life costs, the Steering Committee should receive regular reports detailing the actual/anticipated whole of life costs against an approved budget.

Recommendation

We recommended SA Health establish a budget for the whole of life costs for all new RAH FF&E procurements.

Further, we recommended SA Health develop and implement a process for reporting and monitoring whole of life costs by the Steering Committee. Whole of life actual/anticipated costs should be monitored against an approved budget/estimate.

SA Health response

While whole of life costs are captured as part of the procurement process, it is difficult to establish a budget for them as the useful life of FF&E extends beyond the current forward estimates period.

SA Health advised it would:

- ensure Central Adelaide Local Health Network Incorporated understands whole of life costs as result of the new RAH project
- look at improved ways to report on whole of life costs against the approved budget for future capital programs.

6.2.5 Incomplete furniture, fixtures and equipment contract management register

The FF&E contract management register, established to record and monitor the capital and whole of life costs for all FF&E procurements for the new RAH, was incomplete as it did not include:

- the approved budget for each FF&E procurement
- FF&E procurements that did not have approval to incur expenditure (under TI 8) or were funded from a non-new RAH budget.

To support effective monitoring and management of FF&E procurements, the FF&E contract management register should include all FF&E procurements and their approved budget.

Recommendation

SA Health should revise the FF&E contract management register to include:

- all FF&E procurements

- the approved total budget for each FF&E procurement.

Where a TI 8 approval has yet to be obtained, an estimate of the anticipated contract value should be recorded in the FF&E contract management register.

SA Health response

The FF&E contract management register will be revised for our recommendations.

6.2.6 Inadequate documentation to support the program risk items reported to the Steering Committee

The 31 July 2017 finance report forecasts a deficit of $17.056 million for the new RAH project. A key element of the deficit was the assessed risk adjustment forecast of $20.475 million.

SA Health could not provide us with evidence to support:

- how risks were identified and the how the likelihood and value of the risks was determined
- the review and approval process before the risks were updated to the risk register
- the basis for calculating the assessed risk adjustment (capital cost) which is reported in the monthly finance report presented to the Steering Committee.

SA Health uses an externally developed risk program to record and assess risks. The risk program performs a risk analysis based on the data entered.

Recommendation

SA Health should implement a process to ensure only appropriately identified and adequately supported risks are entered into the risk program.

SA Health response

The new RAH Program will be reviewing all risks associated with the new RAH project to ensure that reporting is complete and accurate.

SA Health also advised that the financial quantification of risk is driven by over risk reporting across the new RAH project.

7 Completion Deed and Cure Plan

Key observations

Project Co's the State and financiers executed a Cure Plan Completion Deed (effective 9 March 2017) to finalise a cure plan to remedy major defaults on the project, so as to:

- enable technical completion and commercial acceptance to be achieved expeditiously
- resolve issues around safety and State access to the facility
- agree a process to resolve ongoing disputes.

The Cure Plan Completion Deed and supporting Financier's Cure Plan (Completion Deed and Cure Plan) facilitated the achievement of technical completion and commercial acceptance, by excluding:

- outstanding defects and other disputes, and agreeing to resolve these through a single arbitration process
- certain outstanding works and action items, and agreeing to complete these works and items at a later date.

The Project Agreement does not allow technical completion or commercial acceptance to be achieved until defaults and major defects are remedied and outstanding works completed.

The Independent Certifier issued the technical completion certificate on 15 March 2017. Technical completion was achieved despite Project Co not having submitted a final technical completion report, required by the Project Agreement to be submitted to help the Independent Certifier and Project Director determine the extent to which Project Co met the technical completion criteria. A draft technical completion report was provided by Project Co in February 2017.

The technical completion certificate included a number of works and outstanding items to be completed after technical completion. There were 71 items included in the list of technical completion outstanding items including:

- four defects
- certain technical completion criteria that was not achieved before the date of technical completion

- other works/issues not completed/resolved before the date of technical completion.

The Project Director, on advice from the Independent Certifier, issued the commercial acceptance certificate on 13 June 2017. It included a number of works and outstanding items to be completed after commercial acceptance. There were 59 items included in the list of commercial acceptance outstanding items. These included:

- 34 technical completion outstanding items that were not completed, or not required to be completed before commercial acceptance
- commercial acceptance criteria that was not achieved before the date of commercial acceptance

Sixteen items in the list of commercial acceptance outstanding items were still to be completed and closed out at the time of our review (October 2017).

An engineering/safety expert (Jacobs) concluded that on commercial acceptance, based on safety risk assessments for seven critical aspects of the facility and a desktop review of the Builder's safety in design process, the facility complied with:

- the *Work Health and Safety Act 2012*
- industry best construction practices with respect to safety.

Jacobs' review recommended some electrical and mechanical safety works. The State did not receive Jacobs' certification that the works had been completed until 8 November 2017.

SA Health advised that formal receipt of Jacobs' certification after clinical services had been provided was an administrative matter that posed no safety risk (refer section 7.3.4 for details).

7.1 Introduction

7.1.1 Background

Project Co failed to achieve technical completion on 4 April 2016, the revised contractual date for technical completion. As a result, on 5 April 2016 the State issued a major default notice to Project Co.

In response to the major default notice, on 27 April 2016 Project Co submitted a cure plan. The State noted deficiencies in the cure plan and on 4 May 2016 invited Project Co to provide a revised cure plan that demonstrated how Project Co proposed to cure or redress the major default.

Project Co submitted a revised cure plan on 26 August 2016, which the State determined was also deficient in remedying the consequences and detrimental effects of the major default. On 11 November 2016 the State rejected the revised cure plan and declined to grant the extension of time to the initial cure period sought by Project Co.

The Project Agreement provides the financiers with certain rights and obligations, including 'stepping-in' and submitting a cure plan and requesting an extension to the cure period to resolve major defaults and defects.

In exercising this right, on 21 November 2016 the Security Trustee submitted the Financier's Extension Request and Cure Plan. The Financier's Extension Request and Cure Plan was subject to ongoing meetings and discussions between the State and financiers.

Subsequently, the State, Project Co, financiers and the builder sought to address the major defaults and defects through mediation. The mediation was held before John Sulan QC between December 2016 and January 2017.

In January 2017 the State, Project Co and financiers resolved to enter into a completion agreement to:

- enable technical completion and commercial acceptance to be achieved expeditiously
- resolve issues about safety and State access, and agree a process to resolve ongoing disputes.

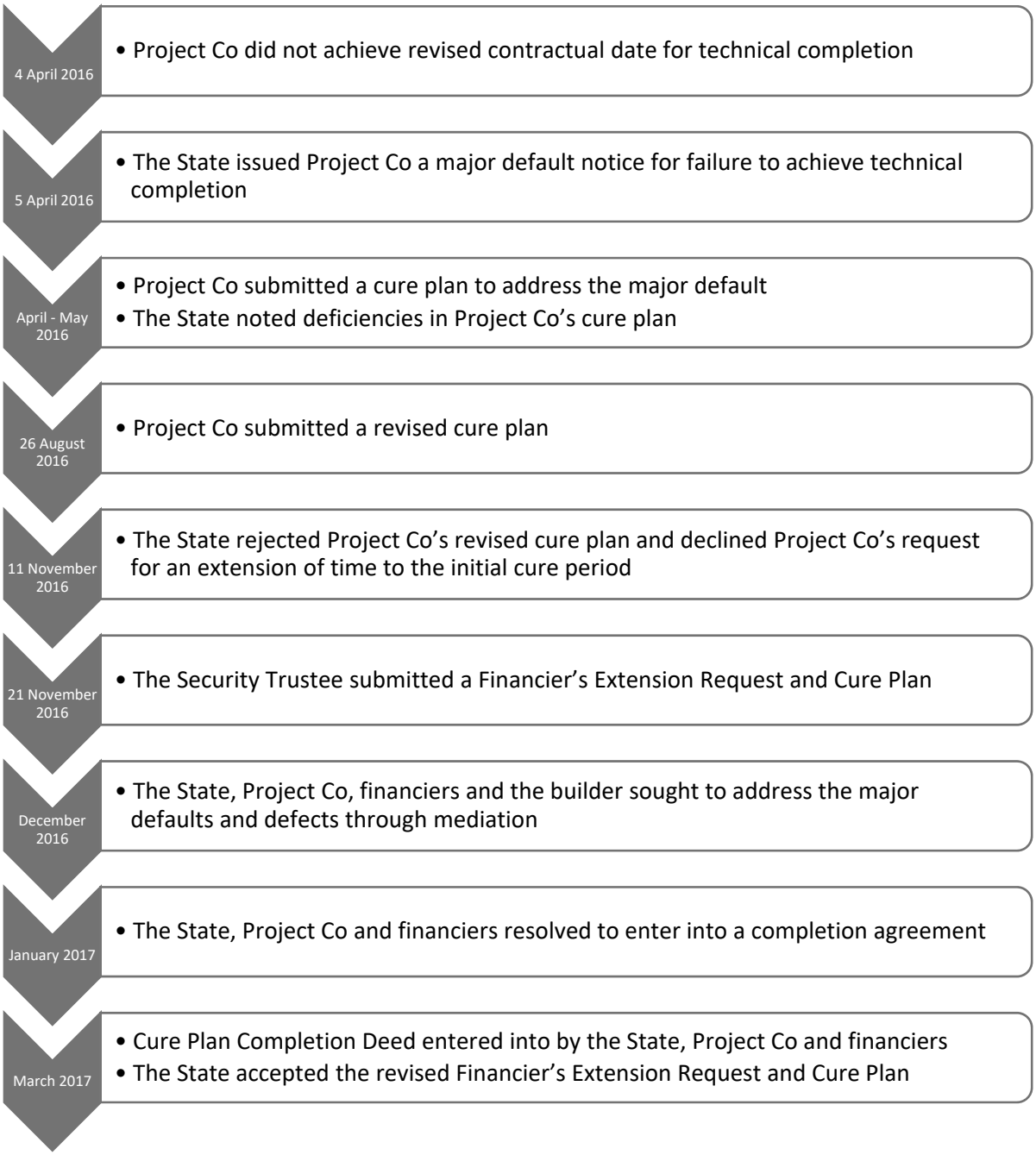
Following negotiations in early February 2017 the State, Project Co and financiers executed the Cure Plan Completion Deed (effective 9 March 2017).

As required by the Cure Plan Completion Deed, on 10 March 2017 the financiers submitted a revised Financier's Extension Request and Cure Plan. The State accepted it on 15 March 2017.

The Cure Plan Completion Deed and the revised Financier's Extension Request and Cure Plan (Completion Deed and Cure Plan) worked together to provide a way forward to complete the facility.

Figure 7.1 shows the timeline of the events from the contractual date of technical completion (4 April 2016) until the State's acceptance of the Financier's Extension Request and Cure Plan.

Figure 7.1: Timeline of key events



7.1.2 Purpose of the Completion Deed and Cure Plan

The Completion Deed and Cure Plan was established to put into effect a cure plan to address and resolve major defaults and defects, agree a process for reaching technical completion and commercial acceptance under the Project Agreement, and finalise outstanding works and actions by the State and Project Co.

In summary the Completion Deed and Cure Plan achieved these aims by:

- fixing dates for technical completion and commercial acceptance

- changing the responsibility of the Independent Certifier for assessing the achievement of technical completion and commercial acceptance, by excluding:
  - outstanding defects and other disputes, and agreeing to resolve these through private arbitration, as provided for in the Project Agreement
  - certain outstanding works and action items, and agreeing to complete these works and items at later dates
- establishing rules and procedures to compensate the State for loss of amenity if works and action items or criteria were not completed on time
- identifying and resolving safety issues
- setting out a process for the State to be granted site access to complete State modifications and other works (which were running late due to delays in the project)
- waiving the existing default notices issued by the State.

7.1.3 Fixing dates for technical completion and commercial acceptance

The Completion Deed and Cure Plan provided 15 March 2017 as the date for technical completion and 13 June 2017 as the date for commercial acceptance. It outlined the process for achieving these milestones, including processes to finalise any works that were outstanding at technical completion and commercial acceptance.

7.1.4 Change in the responsibility of the Independent Certifier

The Completion Deed and Cure Plan required the Independent Certifier to exclude major defaults, defects and disputes, and certain outstanding works from its assessment of whether the works had achieved technical completion and commercial acceptance.

The excluded items will be either resolved through arbitration or completed at later dates, and are discussed in sections 7.1.5 and 7.1.6 respectively.

Under the Project Agreement the Independent Certifier could not certify technical completion or recommend commercial acceptance until the various defaults and major defects were remedied and outstanding works completed. This provision was varied by the effect of the agreed Completion Deed and Cure Plan.

7.1.5 Resolving outstanding major defects, defaults and disputes

The major defects that were the subject of Supreme Court proceedings and arbitration, and any disputes that arise after the commencement of the Completion Deed and Cure Plan, are excluded from the Independent Certifier's assessment of whether the works have achieved technical completion and commercial acceptance. Appendix 1 lists the major defects that were excluded.

The State also waived all alleged existing defaults, and agreed that matters and circumstances giving rise to the alleged existing defaults will not be the subject of any future default notice, other than a failure to comply with the cure plan itself. Appendix 2 lists the alleged existing defaults waived by the State.

The Completion Deed and Cure Plan also provided for all outstanding disputes, including the compensation payable for the major defects, and any new disputes to be resolved through private arbitration (as provided for in the Project Agreement).

Figure 7.2 summarises the treatment of major defects, defaults and disputes under the Completion Deed and Cure Plan.

Figure 7.2: Treatment of major defects, existing defaults and disputes

Item	Description	Treatment
Excluded defects	Items or works subject to Supreme Court proceedings and Australian Centre for International Commercial Arbitration (prior to 10 March 2017) Refer Appendix 1	Compensation through determination in arbitration
Irremediable post deed defects	Defects or alleged defects in the works occurring on or after 10 March 2017, which cannot be rectified, remedied, addressed or completed	Compensation by agreement or through determination in arbitration
Alleged existing defaults	Default notices issued by the State (prior to 10 March 2017) Refer Appendix 2	Waived by the State as a condition of the Completion Deed and Cure Plan

Section 4.6.1 provides a status of the major defects arbitration.

7.1.6 Certain works and items excluded in assessing technical completion and commercial acceptance

The Completion Deed and Cure Plan provided that certain works, technical completion and commercial acceptance criteria and action items are excluded from assessing of technical completion and commercial acceptance. These were listed as outstanding items or works in schedules to the technical completion and commercial acceptance certificates.

By contrast, the Project Agreement only provides for technical completion and commercial acceptance with minor outstanding items to be resolved or completed within a reasonable time.

Figure 7.3 summarises the treatment of the various categories of outstanding works excluded by the Completion Deed and Cure Plan in assessing technical completion and/or commercial acceptance.

Figure 7.3: Treatment of works and action items excluded in assessing technical completion and/or commercial acceptance

Item	Description	Treatment
Current modifications	Works modification orders issued by the State as at 10 March 2017	Completed by commercial acceptance date (unless otherwise agreed)
Future modifications	Works modification orders issued by the State after 10 March 2017	Completion date per the modification order
Outstanding items	Technical completion: • Specific outstanding items listed in the Completion Deed and Cure Plan • Post deed defects outstanding at the date of technical completion • Other technical completion criteria not remedied, addressed or completed within 10 business days prior to technical completion date Commercial acceptance: • Items where the date by which they must be completed is after commercial acceptance • Post deed defects outstanding at the date of commercial acceptance • Items the State and Project Co agree can be completed after commercial acceptance	Outstanding items at technical completion are to be completed or remedied between technical completion and commercial acceptance (for all but two items) Outstanding items at commercial acceptance are to be completed in line with a program submitted by Project Co The Project Agreement requires the program to be submitted to the Project Director within five business days of commercial acceptance
Builder identified works	Works identified by an independent safety report to be completed by the builder	Completed by commercial acceptance
Additional works	Works identified by an independent safety report which are required by the State	Completed by commercial acceptance (unless agreed otherwise by the State)

Sections 7.2 and 7.3 summarise the outstanding items and works at technical completion and commercial acceptance.

7.1.7 Compensation for loss of amenity for outstanding items not completed on time

The Completion Deed and Cure Plan recognises that, should the State experience any loss of amenity and related consequences resulting from an outstanding item not being completed on or before its scheduled completion date, the State is compensable in the first instance through the Project Agreement abatement regime.

The abatement regime is applied to reduce quarterly service payments for failure by Project Co to meet service standards during the operating term phase of the project, which commences after commercial acceptance.

Where the abatement regime does not otherwise respond, compensation occurs in the following manner:

- the total aggregate liability to the State in respect of claims shall not exceed:
  - $990 000 in respect of any outstanding items for loss of amenity arising between the date of technical completion and commercial acceptance
  - $5 million in respect of any outstanding items for loss of amenity arising on or after commercial acceptance
- the liability is uncapped where an outstanding item is not remedied, addressed or completed by Project Co on or before 30 September 2017
- to the extent of any dispute, the entitlement and amount of compensation to be paid by Project Co to the State will be subject to private arbitration.

SA Health advised us that, at the time of our review (November 2017), no loss of amenity due to non-completion of an outstanding item by its scheduled completion date had been identified. Therefore, no specific compensation had been sought from Project Co.

7.1.8 Identifying and resolving safety issues

During the design and construction phase, in line with its rights under the Project Agreement, the State requested that Project Co evidence the facility's compliance with the *Work Health and Safety Act 2012* (WHS Act). To ensure compliance, the State requested various safety risk assessments be made of the project and required Project Co to undertake safety workshops.

Project Co engaged a safety risk management consultant (Greencap) to assist with the development of a Work Health Safety Assurance Plan and to conduct regular audits of safety systems used by the builder, the facility management subcontractor and the ICT services subcontractor.

In addition to these initiatives, and in response to various issues relating to loss of pressure in the chilled water and condenser water system, the Completion Deed and Cure Plan included specific provisions to address the State's safety concerns by appointing an independent engineering/safety expert (Jacobs) to review the safety compliance of the facility.

Under a tripartite agreement between Project Co, the State, and the builder, Jacobs was engaged to assess whether the facility complies with the WHS Act and industry best construction practices with respect to safety based on:

- safety risk assessments performed on seven aspects of the facility
- a desktop review of the builder's safety in design process.

Jacobs was also required to identify any works necessary to achieve compliance.

Jacobs' terms of reference covered the following seven aspects of the facility:

- chilled water and condenser water system
- uninterrupted power supply
- emergency generators
- electrical distribution boards
- high voltage ring mains
- security (access control system)
- legionella management and design of the hot water system.

Jacobs' review recommended certain electrical and mechanical and safety works, comprising:

- builder identified works – works that form part of the works required under the Project Agreement (ie rectification works)
- additional works – works that are not required under the Project Agreement or construction contract.

The additional works are warrantied for quality of workmanship but not for any other warranties (such as fit for purpose, service life) that would have been available if the work was performed under the Project Agreement or construction contract between the Project Co and the builder.

Payment of identified safety works

The Completion Deed and Cure Plan requires the State to put $30 million in an independent escrow account to meet the cost of works identified from the Jacobs' safety review. Project Co is not entitled to financing delay or prolongation costs for these works.

SA Health advised us that the amount in escrow was to:

- fund the urgent enhancements to safety additional to the original design and construction documents
- ensure the builder was funded for all the required safety works, noting that funds would be returned to the State where safety works were deemed to be defects under the Project Agreement (ie builder identified works).

We were further advised that the $30 million escrow amount was estimated as a result of the mediation process (described in section 7.1.1) that took place in January 2017 involving, Project Co, the State and the builder.

However, in May 2017 the builder declined to accept the terms of the escrow, and after receiving Jacobs' initial safety reports, a much smaller amount was determined necessary to complete the works. Therefore, the $30 million escrow account was not established.

The costs (excluding the cost of the Jacobs review) of the electrical and mechanical safety works identified from the Jacobs' safety review totalled $2.227 million, and were assigned by agreement with each party on 1 June 2017 as follows:

- builder – $371 000
- Project Co – $468 000
- facility management subcontractor – $127 500 (underwritten by Project Co)
- the State – $1.261 million.

In addition, the chilled water and condenser water system rectification works were guaranteed by Project Co under a separate Escrow Deed entered into on the date of commercial acceptance.

In line with the Escrow Deed, Project Co deposited the estimated cost of rectification works ($1 million) into an independent escrow account as security to ensure the timely rectification of the water system. These works were certified as completed by Jacobs on 21 July 2017, with the deposit returned to Project Co on 27 July 2017.

7.1.9 Granting State access

The Project Agreement allowed the State limited access to new RAH to complete State works prior to technical completion.

As part of Project Co's original cure plan (to address the major default of not achieving technical completion), the State was given increased access to the new RAH to conduct various activities including State works and other commissioning works. On 16 August 2016, the State's access to the new RAH was withdrawn by the builder.

Under the Project Agreement, the State is given priority access to the new RAH site during the facility transition period to undertake State operational commissioning.

The Completion Deed and Cure Plan set out new arrangements between the parties for granting the State access to the new RAH to complete State action items including outstanding State works and modifications where the State is required to access the site, although this access remained subject to the builder's agreement to any such arrangement.

7.2 Achievement of technical completion

7.2.1 Instructions to the Independent Certifier

The Project Agreement requires the Independent Certifier to certify that the works have achieved technical completion.

Under the Completion Deed and Cure Plan, on 14 March 2017 the State and Project Co instructed the Independent Certifier that certain works, defects and outstanding items did not prevent technical completion criteria being satisfied in line with the Project Agreement. They were not to be taken into account in the Independent Certifier's assessment of whether the works had achieved technical completion.

7.2.2 Independent Certifier certifies technical completion

The Independent Certifier certified technical completion on 15 March 2017.

The technical completion certificate was issued with a number of works (ie modifications and State works) and outstanding items to be completed after technical completion.

7.2.3 Technical completion outstanding items

The Completion Deed and Cure Plan allowed for technical completion to be achieved with certain works and items included in a list of technical completion outstanding items (TC OIL items), to be completed/remedied at a later date.

In summary the TC OIL items are:

- outstanding items included in the Completion Deed and Cure Plan that were not remedied, addressed or completed on or before the date of technical completion
- defects post the Completion Deed and Cure Plan, which are not irremediable and will not be rectified, remedied, addressed or completed before the date of technical completion
- other technical completion criteria, not included as an outstanding item in the Completion Deed and Cure Plan, that was not completed or addressed 10 days before the date of technical completion.

Technical acceptance achieved with TC OIL items

There were 71 TC OIL items, including:

- four defects
- certain technical completion criteria that was not achieved before the date of technical completion
- other works and issues not completed/resolved before the date of technical completion.

TC OIL items not completed and closed out in time frames required by the Completion Deed and Cure Plan

We noted that 32 TC OIL items were not completed and closed out before commercial acceptance as required by the Completion Deed and Cure Plan.

7.2.4 Modifications excluded from the assessment of whether the works had achieved technical completion

Twenty modifications were excluded from the assessment of whether the works had achieved technical completion. The Completion Deed and Cure Plan required these modifications to be completed by commercial acceptance.

We noted that all of these modifications were also excluded from the assessment of whether the works had achieved commercial acceptance.

7.2.5 Draft but not final technical completion report provided

We noted that a final technical completion report was not provided to help the Independent Certifier and Project Director determine the extent to which Project Co had met the technical completion criteria. However, a draft technical completion report was provided by Project Co in February 2017.

The Project Agreement requires Project Co to submit a technical completion report to the Independent Certifier and Project Director. Its purpose is to:

- outline when and how each technical completion criteria was satisfied
- identify outstanding technical completion criteria and detail Project Co's strategy for satisfying this criteria, including timing
- help the Independent Certifier to determine whether the technical completion criteria have been satisfied.

We note the technical completion report was included as an outstanding item at both technical completion and commercial acceptance. We were advised that the technical completion report will be finalised once all outstanding items have been completed.

7.3 Achievement of commercial acceptance

7.3.1 Instructions to the Independent Certifier

The Project Agreement requires the Independent Certifier to provide an opinion to the Project Director on whether the works have achieved commercial acceptance.

Under the Completion Deed and Cure Plan, on 13 June 2017 the State and Project Co instructed the Independent Certifier that certain works, defects and outstanding items did not prevent commercial acceptance criteria being satisfied in line with the Project Agreement. They were not to be taken into account by the Independent Certifier in assessing whether the works had achieved commercial acceptance.

7.3.2 Independent Certifier notifies Project Director that commercial acceptance certificate should be issued

On 13 June 2017 the Independent Certifier notified the Project Director that in his opinion the works had achieved commercial acceptance and that the commercial acceptance certificate should be issued.

The Project Director issued the commercial acceptance certificate on 13 June 2017.

The commercial acceptance certificate was issued with a number of works (ie modifications) and outstanding items to be completed after commercial acceptance.

7.3.3 Commercial acceptance outstanding items

The Completion Deed and Cure Plan sets out a process by which commercial acceptance could occur, including the State and Project Co agreeing to CA OIL items.

In summary the CA OIL items are:

- TC OIL items where the date by which they must be completed is after commercial acceptance
- defects post the Completion Deed and Cure Plan that are not irremediable and will not be rectified, remedied, addressed or completed before commercial acceptance
- items the State and Project Co agree can and will be completed after commercial acceptance.

Commercial acceptance achieved with CA OIL items

There were 59 CA OIL items, including:

- 34 items that were not completed, or not required to be completed, before commercial acceptance
- commercial acceptance criteria that was not achieved before the date of commercial acceptance
- open State notices, fit for intended purposes warranty matters and State requests for specific information.

The Project Agreement required Project Co to prepare, and submit to the Project Director for review, a program for completing the CA OIL items to meet the Project Director's requirements.

We were advised that Project Co submitted a program to the Project Director.

CA OIL items still to be completed and closed out

As at the end of October 2017 Project Co's CA OIL tracker, used to monitor the status and close out of CA OIL items, indicates that there were 16 items still to be completed and closed

out. SA Health advised us that:

- most of the outstanding CA OIL items are administrative in nature
- the more significant CA OIL items relate to fit for intended purposes warranty matters and ICT readiness.

7.3.4 Jacobs safety risk assessments and recommended safety works

Jacobs was engaged to assess whether the facility complies with the WHS Act and industry best construction practice with respect to safety based on:

- safety risk assessments performed for seven aspects of the facility
- desktop review of the Builder's safety in design process.

Jacobs was also required to identify any works necessary to achieve compliance.

The Completion Deed and Cure Plan required Jacobs to report on the outcome of its safety review on or before the date for commercial acceptance.

Outcome of Jacobs' review

Jacobs provided the State, on the date of commercial acceptance, a report detailing the results of its safety review.

Jacobs concluded, based on its safety risk assessments and desktop review of the builder's safety in design process, that the facility complies with the WHS Act and industry best construction practices with respect to safety.

Safety works recommended from Jacobs' review

Jacobs' report recommended certain electrical and mechanical safety works (as agreed by Project Co, the State, the builder and the facility management subcontractor) be undertaken. These safety works were not completed at commercial acceptance and were included as CA OIL items.

On 8 November 2017 the State received Jacobs' certification confirming the works had been completed.

SA Health advised that Jacobs' certification indicated site visits were completed by Jacobs before clinical services commenced and that the formal receipt of the certificates after clinical services had commenced was an administrative matter which posed no safety risk to patients, staff or other third parties.

Safety risk assessments for aspects of facility reviewed

The Jacobs' report did not include the detailed safety risk assessments for the seven aspects of the facility. While not specifically required by the Completion Deed and Cure Plan, the State required further assurances on the scope of the assessments and their express mapping to the finding of a safe facility (as far as reasonably practical).

The safety risk assessments were included as a CA OIL item to be provided within 14 days after commercial acceptance. They were provided on 23 June 2017.

7.3.5 Modifications excluded from the assessment of whether the works had achieved commercial acceptance

Forty-nine modifications were excluded from the assessment of whether the works had achieved commercial acceptance. Some of them including the modifications listed below, involved significant works:

- works for the emergency resuscitation bays
- clinical digital integration and pendants and lights within technical suites
- works for the nuclear medicine hot lab
- patient queuing system infrastructure.

Modification works not completed at move date

We were advised that the works for most of the modifications excluded from the assessment of commercial acceptance were completed prior to the move date (5 September 2017). However, works for the following modifications were not fully completed until after the move date:

- patient queuing system infrastructure
- works for the pathology room within technical suites
- works for the nuclear medicine hot lab
- telephone headsets in ICU bedrooms
- consultancy service design for mental health duress system.

We were advised that the impact of the outstanding works for the first four of these modifications was negligible in that they had minimal or no impact on patient care.

The consultancy service design for mental health duress system modification was issued to Project Co to undertake design work to expand the functionality of the duress system it provided under the Project Agreement. Specifically, the State requested Project Co to undertake design work so that the duress system will allow for clinical led responses to duress events in the Mental Health Unit. The State has issued further modification orders for the physical works and configuration of the system.

SA Health advised that the physical works for this modification have been completed and that the works required to configure the duress system to meet the requirements of the Mental Health Unit are currently underway.

We were further advised that contingency plans were implemented prior to the move date to ensure that patient care was not compromised pending finalisation of the modification.

8 Modifications

Key observations

Modifications with a forecasted capital cost of $44 million have been implemented or proposed in delivering the new RAH.

Not all modifications implemented after commercial acceptance were certified by the Independent Certifier as complete and ready for use. For modifications not reviewed by the Independent Certifier the State relied on a self-certification process.

The approach to verifying that modifications implemented after commercial acceptance were completed to an appropriate standard was not supported by documented risk assessments and approvals.

Certification and/or confirmation from the Independent Certifier and/or Project Co that modifications were completed to appropriate standards had, at the time of our review (6 November 2017), not yet been obtained for all modifications implemented after commercial acceptance.

The State issued modification orders totalling $7.959 million where it has reserved its rights to recover the cost of these works from Project Co. The State is of the opinion that the works, or part of the works, may constitute defect rectification works. Project Co is liable for the costs of defect rectification works.

The financial model, which contains the inputs, including lifecycle and services costs, for the quarterly service payment, had yet to be varied to reflect modification lifecycle and service costs.

What we recommended

SA Health should:

- review the works for modification orders issued with reserved rights to determine whether they constitute rectification works under the Project Agreement. Costs paid for works assessed to be rectification works should be recovered from Project Co
- vary the financial model to reflect costs/savings from modifications
- ensure the financial model is varied as soon as practical for future model variation events, including modifications
- obtain outstanding certifications/confirmations from the Independent Certifier/Project Co.

8.1 Introduction

8.1.1 Overview of process for implementing modifications

Modifications initiated by the State

The Project Agreement included fixed cost contractual arrangements for implementing State modifications.

If the State identifies the need for a modification or FF&E modification, it will issue a modification price request to Project Co. This outlines the proposed modification or FF&E modification, and requests that Project Co prepare a change notice.[11]

On receiving the change notice the State may:

- issue a modification order requesting Project Co carry out the State modification or FF&E modification
- inform Project Co that the State no longer wishes to proceed with the proposed modification or FF&E modification.

The modification order sets out the amount payable to or by the State for that modification, along with the terms and conditions for the modification to be undertaken.

The State also issued a number of modification orders where the amount payable to or by the State is to be agreed once works have been completed based on actual time and materials. This had the effect of changing the contractual arrangements for implementing modifications from a fixed price basis.

The State implemented this time and materials basis arrangement for some modifications as the modification price request process outlined in the Project Agreement can take up to three months. The State needed some modifications to be implemented quickly to avoid delays in opening the facility.

Minor modifications

To streamline reaching agreement on modifications that cost less than $100 000, the Project Agreement includes a minor modification regime. The regime only applied during the design and construction phase of the project and up to the time specified in the Project Agreement for each particular construction element.

Project Co is required to prepare and maintain a minor modification running schedule containing all proposed and approved minor modifications.

[11] A change notice is a notice issued by Project Co to the State that documents the change compensation event (ie modification), actions taken by Project Co to mitigate the adverse effects and costs of the event and to take advantage of any positive or beneficial effects of it, the effects of the event and the estimated costs and/or savings.

Project Co are not to implement a proposed minor modification unless it is approved by the Project Director through a minor modification written approval.

Modifications initiated by Project Co

If Project Co wishes to implement a Project Co modification it must issue a change notice to the State requesting that the State agree to the proposed modification. If the State agrees to it the State will issue a modification order consenting to the proposed modification either conditionally or unconditionally.

Under the Project Agreement, for a Project Co modification:

- the State is not liable to pay for the costs incurred by Project Co in preparing a change notice
- Project Co is required to carry out the modification at its own cost
- any actual net cost savings resulting from it are shared equally between the State and Project Co.

8.1.2 Role of the Independent Certifier in certifying modifications

Modifications implemented prior to commercial acceptance form part of the works.

The Project Agreement requires Project Co to execute works in line with the construction documentation, best construction practices and all quality standards. Further, Project Co is required to execute the works so that it can satisfy the fit for intended purposes warranty.

The Independent Certifier, in certifying commercial acceptance, must be satisfied that the works, including any modifications, are in line with the construction documentation, the design requirements and other requirements of the Project Agreement.

The Project Agreement also provides a role, if required by the State, for the Independent Certifier to certify that modifications implemented after commercial acceptance are ready for occupation. The State engaged the Independent Certifier to review four significant modifications implemented after commercial acceptance. The other modifications implemented after commercial acceptance were not reviewed by the Independent Certifier.

8.1.3 Process for verifying modifications

Verification prior to commercial acceptance

To provide assurance that modifications implemented by Project Co have been completed to appropriate standards the State has relied on the Independent Certifier's certification that the works have achieved commercial acceptance.

On 13 June 2017 the Independent Certifier notified the Project Director that in his opinion the works had reached commercial acceptance.

Verification after commercial acceptance

A number of modifications were not completed at the time of the new RAH project achieving commercial acceptance.

The State engaged the Independent Certifier to certify that four modifications implemented after commercial acceptance were complete and ready for occupation. The four modifications were:

- works for the emergency resuscitation bays
- clinical digital integration system and pendant and lights within technical suites
- level 4 scope cleaning
- works for the nuclear medicine hot lab.

The State relied on a self-certification process for the other modifications implemented after commercial acceptance. This involved the State obtaining confirmation from Project Co that the modification had been completed.

We were advised that inherent in the confirmation received from Project Co is that the works have been completed in line with the requirements of the Project Agreement including:

- works undertaken and completed in line with best construction practices
- commissioning tests carried out successfully
- Project Co being able to satisfy the fit for intended purposes warranty.

8.1.4 Compensation for modifications

The Project Agreement provides for Project Co to receive compensation from the State for implementing modifications. The exception to this is Project Co initiated modifications. In the event that a modification results in Project Co's costs being avoided or reduced the State is entitled to compensation from Project Co.

The Project Agreement requires modifications to be priced on an open book basis with the following overriding considerations:

- the State is receiving value for money
- Project Co is to use all endeavours to minimise the costs incurred
- the amount payable is fair and reasonable, and calculated in a transparent way.

Figure 8.1 summarises the components of compensation payable for the various types of modifications.

Figure 8.1: Summary of compensation payable for modifications

Modification type	Compensation payable
Modifications initiated by the State	• Third party costs incurred by Project Co in responding to a modification price request issued by the State • Capital cost (includes margins) • Recurrent costs[12] (includes margins) • If the modification includes the procurement of FF&E: — FF&E capital cost — FF&E maintenance costs — FF&E lifecycle costs
FF&E modifications	• Third party costs incurred by Project Co in responding to a modification price request issued by the State • FF&E capital costs • FF&E maintenance costs • FF&E lifecycle costs
Minor modifications	• Capital costs (no margins) • Recurrent costs[12] (no margins)

For Project Co modifications the Project Agreement requires Project Co to carry out the modifications at its own cost, with any net actual cost savings shared equally between Project Co and the State.

8.1.5 Verification of modification costs submitted by Project Co

The State engaged Aquenta Consulting (provider of cost management and quantity surveyor services) to review and provide advice to the State on what constitutes a fair and reasonable price for each modification.

8.1.6 Modification costs incurred at 30 September 2017

Modifications with a forecasted capital cost of $44 million have been implemented or proposed in delivering the new RAH project. Further, SA Health's register to record and monitor modifications noted the following estimated net impact of modifications on the contract value of the Project Agreement:

- a reduction of $18.605 million in lifecycle costs over the operating term[13]
- an increase of $511 000 in service costs per annum.

[12] Recurrent costs comprise lifecycle costs (replacement costs including parts/components) and service costs (costs of planned preventative maintenance).

[13] The reduction in lifecycle costs of $18.605 million over the operating term includes $18.621 million in lifecycle credits due to the State accepting responsibility to maintain and replace AV equipment in technical suites. While this modification has reduced the contract value of the Project Agreement the State will continue to incur costs to maintain and replace this equipment.

Figure 8.2 summarises the estimated net impact of modifications on the contract value of the Project Agreement as at 30 September 2017.

Figure 8.2: Modification costs at 30 September 2017

	Capital cost $'000	Lifecycle costs over term $'000	Service costs p.a. over term $'000
Modification order issued, costs agreed	17 681	(3 289)	369
Modification order issued, costs still to be agreed	16 966	2 128	233
Modification order issued, rights reserved	7 959	(16 822)	-
Modification order issued, costs in dispute	-	(1 451)	(91)
Pending modifications, change approved	1 394	829	-
Total	44 000	(18 605)	511

Figure 8.2 identifies that the State and Project Co are yet to agree on the compensation payable for modifications with an estimated capital cost of $16.966 million and recurrent costs of $8.885 million ($2.128 million in lifecycle costs and $6.757 million in service costs) over the operating term.

Modification orders issued with rights reserved

The State has issued modification orders with an estimated capital cost of $7.959 million where it has reserved its rights to recover the costs from Project Co. The State is of the opinion that the works, or part of the works, included in the modification orders may constitute rectification of a defect. Under the Project Agreement, Project Co is liable for the cost of defect rectification works.

We were advised that once these modifications are completed and closed out and all costs are submitted, the State will consider its position, including collating evidence to confirm whether the works included in the modification orders constitute rectification of a defect under the Project Agreement.

Payments made for modifications

As at 30 September 2017 the State had paid $27 million for the capital cost of modifications implemented in delivering the new RAH project.

Lifecycle and service costs for modifications are payable over the operating term as part of the quarterly service payment.

The financial model contains the financial inputs, including lifecycle and service costs, used to calculate the quarterly service payment. The Project Agreement requires the financial model to be varied to reflect any lifecycle and service costs when a modification is implemented.

At the time of this Report the financial model had yet to be updated to reflect the lifecycle and service costs for modifications.

8.1.7 Status of modifications

Physical status

The physical works for most modifications have been completed. At the time of our review, the State Modifications Tracker indicated there were a small number of modifications not completed including:

- patient tagging workaround for the new RAH
- nuclear medicine reception desk
- secure location for medical emergency response trolleys.

We were advised that these modifications do not affect the ability of the hospital to operate.

Close out of modifications

Modifications carried out prior to commercial acceptance formed part of the works and were closed out as part of achieving commercial acceptance for the facility.

Modifications carried out after commercial acceptance are subject to the State's close out process which includes obtaining from Project Co:

- confirmation that the modification works have been completed
- as-built documentation
- certifications and compliance statements
- operating documentation (ie manuals).

For a number of modifications, the State was in the process of obtaining and/or reviewing close out documentation prepared by Project Co.

8.2 Audit observations

8.2.1 Modification orders issued with reserved rights as works may constitute rectification works

The State issued a number of modification orders where it has reserved its rights to recover the costs, or part of the cost, from Project Co. In these instances, while the State issued a modification order, it believes the works or part of the works may constitute defect rectification works. Under the Project Agreement Project Co is liable for the cost of any rectification works.

Recommendation

For modification orders issued with reserved rights SA Health should review the works to determine whether they constitute defect rectification works under the Project Agreement. It should also resolve with Project Co the recovery of costs paid for works assessed to be defect rectification works under the Project Agreement.

SA Health response

SA Health will implement the recommendation.

8.2.2 Financial model not varied to reflect lifecycle and service costs of modifications

The financial model, which includes the financial inputs for the quarterly service payments, had yet to be varied by Project Co to reflect the lifecycle and service costs of modifications implemented in delivering the new RAH project.

The Project Agreement outlines that the financial model will be varied where a model variation event occurs. The implementation of modifications constitutes a model variation event under the Project Agreement.

Failing to vary the financial model timely increases the risk that the quarterly service payments do not reflect the lifecycle and service costs/savings from modifications.

Recommendation

SA Health should work with Project Co to vary the financial model to reflect costs/savings from the implementation of modifications.

SA Health should also ensure the financial model is varied as soon as practical for future model variation events, including modifications.

SA Health response

Due to the time and costs associated with this task, the State agreed with Project Co that the financial model would not be updated in 2017 and from 2018 would be updated biannually or quarterly. To update it more regularly would be cost prohibitive.

8.2.3 Approach to verifying modifications implemented after commercial acceptance not supported by documented risk assessments and approvals

The State implemented the following processes to obtain assurance that modifications implemented after commercial acceptance were completed to appropriate standards:

- certification by the Independent Certifier for four significant modifications
- self-certification/confirmation by Project Co for all other modifications.

We found the State's approach to obtaining this assurance was not supported by:

- a documented risk assessment/rationale for this approach, including consideration of the implications of obtaining self-certification instead of independent certification
- documentation to support who approved the approach adopted.

Self-certification provides an inherently weaker level of assurance than independent certification/confirmation. Therefore, the decision to rely on self-certification by Project Co should be supported by a documented risk assessment that considers risks and costs, and management approval.

Recommendation

For future modifications SA Health should ensure the State's approach to obtaining assurance that modifications are completed to appropriate standards is supported by risk assessments and approvals.

SA Health response

Project Co is contractually obligated to ensure that all Project Co modifications are carried out in line with the Project Agreement. This extends to ensuring that all modifications are completed in line with:

- best construction practices
- all quality standards (including Australian Standards)
- all requirements at law and requirements of government agencies
- nationally accepted best practice in engineering, construction and management procedures for hospitals and other major projects.

Any compliance risk is carried by Project Co and if there is a deficiency that leads to further works being required, those works must be undertaken by Project Co at its cost.

Further SA Health advised that following commercial acceptance, the Independent Certifier is only engaged where the State requires it. Given the stringent and explicit contractual obligations imposed on Project Co and the ability of the State to pursue rectification of any defects through processes set out in the Project Agreement, SA Health is of the view that completing its own verification and/or costly independent certifications are unwarranted.

SA Health considered the issue of self-certification as opposed to sign off by an Independent Certifier. Considering that, after commercial acceptance, the State bears 100% of the cost of the Independent Certifier engaging them would need to demonstrate value over the existing contractual provisions.

8.2.4 Outstanding certifications for modifications implemented after commercial acceptance

The State has yet to obtain, for all modifications implemented after commercial acceptance, the Independent Certifier/Project Co certification/confirmation that the modification has been completed to appropriate standards (complete and ready for occupation).

We were advised that modifications implemented after commercial acceptance are subject to the State's close out process for modifications, which is currently in progress. This includes ensuring the receipt of any certification required from Project Co.

For modification subject to certification by the Independent Certifier, the Independent Certifier will review the close out documentation and provide formal sign-off of the modification.

Recommendation

SA Health should obtain outstanding certifications from the Independent Certifier/Project Co.

SA Health response

SA Health has been and is continuing to request and obtain all outstanding certifications and documentation.

Appendix 1: Major defects excluded from the Independent Certifier's assessment of technical completion and commercial acceptance

Date of notification	Defect
29 January 2016	Room temperature and fresh air controls[14]
5 February 2016	Loading dock ceiling height
5 February 2016	Air handling units serving multiple functional areas
8 February 2016	Floor distribution room size
10 February 2016	Clinical areas ceiling space
16 February 2016	Primary data equipment room

[14] The technical specification required that all patient rooms be capable of individualised temperature control. The design report for stage 3 indicated that variable air volume (VAV) boxes would be installed in each room to achieve this requirement. Rather than installing VAV boxes in all rooms the builder installed VAV boxes in some rooms and VAV therma-fusers in others.

In January 2016 the State issued a defect notice due to concerns that the VAV therma-fusers would not enable the room-by-room temperature control required by the technical specification.

The defect was referred for independent expert determination in August 2016. Project Co and the builder asserted in the expert determination that, amongst other things, testing required by the Project Agreement, which would determine the existence of the defect, had not yet been performed.

On the basis of tests subsequently performed, and relying on Project Co and builder representations that there was no defect, the State closed out the defect notice in May 2017.

Appendix 2: Alleged existing defaults waived by the State

Date of notification	Defaults alleged by the State to have occurred by Project Co
18 February 2016	Failure to notify the State default
5 April 2016	Failure to notify the State major default
11 November 2016	Failure to notify the State default termination event
6 May 2016	Failure to adopt best construction practices default
30 June 2016	Failure to adopt best construction practices major default
14 November 2016	Failure to adopt best construction practices default termination event
5 April 2016	Failure to achieve technical completion by the date for technical completion major default
11 November 2016	Failure to achieve technical completion by the date for technical completion default termination event
17 March 2016	State works default
18 February 2016	State works default
18 February 2016	Updated programs default
20 April 2016	Updated programs major default
15 March 2016	Review of progress of the work default
14 June 2016	Chilled and condenser water system default
17 November 2016	Media communication default

Appendix 3: Summary of revisions to State funded works budget since 30 June 2015

	State funded works budget 30.06.15	Deed of Settlement and release	EPAS – Stage 2	Project delay funding (Dec 2016)[15]	Modifictns funding	Project delay funding (April 2017)[16]	Project delay funding (May 2017)	Additnl dual running costs	Clinical trial modifictns	Internal budget transfers	Contingency allocation	State funded works budget 30.09.17
Integrated Program Management Office	33 058	2 638	-	4 691	-	2 036	1 871	-	-	(1 618)	-	42 676
Procurement and supply	21 735	1 187	-	12 522		1 373	1 395	-	-	(2 135)	-	36 077
ICT	8 850	11 877	-	(12 232)	-	9 737	5 396	-	-	(1 599)	-	22 029
PPP contract administration	14 592	678	-	13 097	-	3 082	822	-	-	5 734	-	38 005
Operational commissioning	16 461	2 854	-	3 382	-	1 228	1 142	-	-	(1 776)	-	23 291
Readiness and exercising	10 859	372	-	838	-	50	226	-	-	(2 086)	-	10 259
Workforce	11 538	528	-	1 448	-	141	294	-	-	760	-	14 709
Other	8 187	4 929	-	(1 019)	-	3 938	2 339	-	-	2 680	488	21 542
Total new RAH program office	125 280	25 063	-	22 727	-	21 585	13 485	-	-	(40)	488	208 588
Capital works:												
Modifications	-	11 150	-	-	-	(102)	87	-	3 500	7 230	18 300	40 165
Infrastructure works	38 963	-	-	-	-	750	128	-	-	(644)	-	39 197
FF&E	148 005	-	-	-	-	(6 745)	-	-	-	(18 784)	6 468	128 944
ICT advisors and works	37 282	-	2 870	37 947	-	2 147	-	-	-	(3 377)	28 537	105 406
Other	6 282	-	-	-	-	-	-	-	-	-	785	7 067
Total capital works	230 532	11 150	2 870	37 947	-	(3 950)	215	-	3 500	(15 575)	54 090	320 779
Other costs:												
Dual running costs	14 836	7 621	-	(14 121)	-	-	-	11 800	-	-	-	20 136
Remediation	-	20 000	-	-	-	-	-	-	-	-	-	20 000
Other	4 287	3 345	-	4 779	-	2 000	-	-	-	-	1 085	15 496
Total other costs	19 123	30 966	-	(9 342)	-	2 000	-	11 800	-	-	1 085	55 632
Contingencies:												
SA Health contingency	7 082	-	-	-	15 000	-	-	-	-	21 615	(37 181)	6 516
Central contingency	35 347	(10 865)	-	-	-	-	-	-	-	(6 000)	(18 482)	-
Total program budget	417 364	56 314	2 870	51 332	15 000	19 635	13 700	11 800	3 500	-	-	591 515

[15] Includes $85 000 PPP funding received in October 2016 for external review of the Project Agreement and financial model.

[16] Includes funding received in March 2017 for the Project Control Centre ($100 000) and the ICT Program ($1.5 million), and PPP funding received in April 2017 for advice regarding refinancing options and extension of the external review of the Project Agreement and financial model.